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 Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION III: MISCELLANEOUS—Tax Exemption" herein for further information.

$160,900,000

The City of New York

General Obligation Bonds, Fiscal 2008 Series C
Subseries C-3 and C-4

AUCTION RATE BONDS

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

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

The Auction Rate Bonds will be issued initially in Authorized Denominations of $25,000 or any integral multiple thereof. Other terms of the Bonds including interest rates, interest payment dates, mandatory and optional redemption provisions and authorized denominations are described herein.

The scheduled payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Assured Guaranty Corp. concurrently with the delivery of the Bonds.

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters, 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 Edwards Angell Palmer & Dodge LLP, New York, New York, Special Disclosure Counsel to the City. 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 October 4, 2007.

Fiscal 2008 Subseries C-3
Bear, Stearns, & Co.
JPMorgan

Fiscal 2008 Subseries C-4
Citi
Goldman, Sachs & Co.
JPMorgan

September 19, 2007

$160,900,000 General Obligation Bonds, Fiscal 2008 Series C Subseries C-3 and C-4

Price: 100%

Auction Rate Bonds

Subseries of Bonds	Principal Amount	Due October 1	Last Day of Initial Interest Period	Initial Interest Payment Date	Initial Auction Date	Auction Generally Held On	Interest Payment Date Generally
Subseries C-3	$ 60,900,000	2021	October 14, 2007	October 15, 2007	October 12, 2007	Friday	Monday
Subseries C-4	100,000,000	2027	October 11, 2007	October 12, 2007	October 11, 2007	Thursday	Friday

Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. will act as Broker-Dealers with respect to the Subseries C-3 Bonds (the "Subseries C-3 Bonds"). Citigroup Global Markets Inc., Goldman, Sachs & Co. and J.P. Morgan Securities Inc. will act as Broker-Dealers with respect to the Subseries C-4 Bonds (the "Subseries C-4 Bonds" and, together with the Subseries C-3 Bonds, the "Bonds"). Deutsche Bank Trust Company Americas will act as the Auction Agent with respect to the Bonds. Each Subseries of Bonds will bear interest from October 4, 2007 until the last day of the respective Initial Period set forth above at the Initial Rate. Thereafter, the Bonds will bear interest at respective Auction Period Rates for successive seven-day Auction Periods, until a conversion to another Auction Period or Rate Period, as described herein. Interest accruing on the Bonds during the Initial Periods will be payable on the respective initial Interest Payment Dates set forth above. Thereafter, interest accruing on the Bonds during each seven-day Auction Period will be payable on the Business Day immediately following such Auction Period.

The length of an Auction Period may be changed in accordance with the Certificate. The Bonds will not be subject to mandatory tender for purchase upon a change in the length of the Auction Period; however, notice of such change will be given as described herein, and, in the case of changes to a longer Auction Period, any Bonds that are not the subject of a specific Order shall be deemed to be subject to a Sell Order.

Prospective purchasers of the Bonds should carefully review the information relating to Auctions and the Auction Procedures set forth in "APPENDIX A—DEFINITIONS" and "APPENDIX B—AUCTION RATE BONDS" and should note that such procedures provide that: (i) a Bid (as defined herein) or Sell Order (as defined herein) constitutes a commitment to purchase or sell the Bonds based upon the results of an Auction; (ii) Auctions will be conducted through electronic means of communications or otherwise; and (iii) settlement for purchases and sales will be made on the Business Day (as defined herein) following an Auction, except with respect to Bonds in a daily Auction Period in which case the settlement is the same day. See "APPENDIX A—DEFINITIONS" and "APPENDIX B—AUCTION RATE BONDS."

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

The factors affecting the City's financial condition are complex. This Official Statement should be considered in its entirety (including the information referred to in "SECTION I: INCLUSION BY SPECIFIC REFERENCE") 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 includes by specific reference 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 by specific reference 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 by specific reference 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 included herein by specific reference 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 by specific reference 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.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty makes no representation regarding, nor does it accept any responsibility for, the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and included in "APPENDIX C—BOND INSURANCE" and "APPENDIX D—SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

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 the variable rate portion of the City's General Obligation Bonds, Fiscal 2008 Series C, Subseries C-3 and C-4, consisting of $160,900,000 multi-modal bonds issued as auction rate bonds (the "Auction Rate Bonds" or the "Bonds"). In addition to the $160,900,000 Auction Rate Bonds, $889,100,000 of the City's General Obligation Bonds, Fiscal 2008 Series C, Subseries C-1 and Subseries C-2, will be issued as fixed rate bonds (the "Fixed Rate Bonds"), which are described in a separate official statement and are not offered hereby.

While the Auction Rate Bonds may in the future be converted to a Rate Mode other than the Auction Rate Mode, this Official Statement only describes the Bonds while they bear interest at an Auction Rate and does not describe any Rate Mode other than an Auction Rate Mode or other terms specifically applicable to the Bonds bearing interest at a rate other than the Initial Rate or an Auction Period Rate. Investors should not rely on this Official Statement in connection with the remarketing of the Bonds upon a conversion of the Rate Mode from an Auction Rate Mode to a different Rate Mode.

SECTION I: INCLUSION BY SPECIFIC REFERENCE

Portions of the City's Official Statement dated September 19, 2007, delivered herewith and relating to the Fixed Rate Bonds, subject to the information contained elsewhere herein, are included herein by specific reference, namely the information under the captions:

INTRODUCTORY STATEMENT (excluding the first paragraph thereof)
SECTION I: RECENT FINANCIAL DEVELOPMENTS
SECTION III: GOVERNMENT AND FINANCIAL CONTROLS
SECTION IV: SOURCES OF CITY REVENUES
SECTION V: CITY SERVICES AND EXPENDITURES
SECTION VI: FINANCIAL OPERATIONS
SECTION VII: FINANCIAL PLAN
SECTION VIII: INDEBTEDNESS
SECTION IX: OTHER INFORMATION
  Pension Systems
  Litigation
  Continuing Disclosure Undertaking
  Financial Advisors
  Further Information
APPENDIX A—ECONOMIC AND DEMOGRAPHIC INFORMATION
APPENDIX B—FINANCIAL STATEMENTS

The Fixed Rate Bonds described in such Official Statement are not offered by this Official Statement.

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 New York City Charter (the "City Charter") and in accordance with bond resolutions of the Mayor and a certificate of the Deputy Comptroller for Public Finance (as defined herein, the "Certificate"). The Bonds will mature as described on the inside cover page of this Official Statement and will contain a pledge of the City's faith and credit for the payment of the principal of 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 and interest on the Bonds.

Auction Rate Bonds

General

The Bonds of each Subseries will be issued initially as bonds in an Auction Rate Mode but may be converted, subject to certain restrictions, to bonds in a mode that provides for the accrual of interest at a rate other than the Auction Period Rate (each such mode, including the Auction Rate Mode, a "Rate Mode"). The Auction Rate Bonds of each Subseries will be dated their date of delivery. Each Subseries of the Auction Rate Bonds will bear interest from the date of delivery for the applicable Initial Period set forth on the inside front cover of this Official Statement at the Initial Rate stated in the Certificate, and thereafter at the applicable Auction Period Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the applicable Initial Period, each Subseries of the Auction Rate Bonds will bear interest for the Auction Period set forth on the inside front cover of the Official Statement but can be converted, at the option of the City, to a daily, seven-day, 28-day, 35-day, three-month or six-month or a Flexible Auction Period. For a description of the Flexible Auction Period see "APPENDIX A—DEFINITIONS."

Interest on each Subseries of the Auction Rate Bonds shall be computed on the basis of a 360-day year for the actual number of days elapsed except that interest on Auction Rate Bonds in an Auction Period of more than 180 days shall be computed on the basis of a 360-day year consisting of twelve 30-day months. See "—Auction Procedures" herein and "APPENDIX B—AUCTION RATE BONDS."

Auction Procedures

The Auction Procedures are included as Appendix B to this Official Statement and should be read in their entirety. Definitions are included as Appendix A to this Official Statement. The following is a brief summary of the terms of the Auction Rate Bonds.

On each Auction Date the Auction Agent will calculate the Auction Period Rate for the next Auction Period in accordance with the Auction Procedures.

"Auction Period Rate" means the rate of interest to be borne by each subseries of the Auction Rate Bonds during each Auction Period determined in accordance with Appendix B hereto; but, in no event may the Auction Period Rate exceed the Maximum Rate.

"Maximum Rate" has the meaning set forth in Schedule I to Appendix B to this Official Statement.

"Interest Payment Date" means, with respect to each Subseries of the Auction Rate Bonds, for the applicable Initial Period the date set forth on the inside front cover of this Official Statement, and thereafter: (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of each month immediately succeeding the first day of such Auction Period; (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 days or more days, each date specified in Schedule I and the Business Day immediately following such Flexible Auction Period; and (d) the date when the principal of an Auction Rate Bond becomes due and payable (whether at mandatory tender, redemption, maturity or otherwise).

"Auction Date" means, with respect to each subseries of the Auction Rate Bonds, the first Auction Date which will be the date shown on the inside front cover of this Official Statement and thereafter will generally be, for Auction Rate Bonds in a seven-day Auction Period, the Business Day next preceding each Interest Payment Date for each such subseries of Auction Rate Bonds (whether or not an Auction shall be conducted on such date).

"Auction Period" means with respect to a subseries of Auction Rate Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A) When Auctions Occur on this Day	(B) Auction Periods Generally Begin this Day	(C) Auction Periods Generally End this Day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

Auction Agent. The City will enter into the Auction Agreement initially with Deutsche Bank Trust Company Americas, pursuant to which Deutsche Bank Trust Company Americas, will perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Period Rate for each Auction in accordance with the Auction Procedures. The Auction Agent will enter into Broker-Dealer Agreements with Bear, Stearns & Co. Inc. and J.P. Morgan Securities, Inc. with respect to the Subseries C-3 Bonds and Citigroup Global Markets Inc., Goldman, Sachs & Co. and J.P. Morgan Securities Inc. with respect to the Subseries C-4 Bonds as the initial Broker-Dealers for the applicable Subseries of Auction Rate Bonds.

Orders by Existing Owners and Potential Owners. The procedure for submitting orders prior to the Broker-Dealer Deadline on each Auction Date is described in Appendix B, as are the particulars with regard to the determination of the Auction Period Rate and the allocation of the Auction Rate Bonds bearing interest at Auction Rates.

Amendment of Auction Procedures. The Auction Procedures including without limitation the definitions of All Hold Rate, Maximum Rate, Index, Interest Payment Date, Auction Period Rate, Auction Rate, Broker-Dealer Deadline, Submission Deadline and Error Correction Deadline, may be amended by obtaining the consent of the owners and the Bond Insurer of any subseries of Auction Rate Bonds affected by the amendment. All owners will be deemed to have consented if, on the first Auction Date occurring at least 20 days after the Fiscal Agent mailed notice to such owners, the Auction Period Rate of the affected Auction Rate Bonds determined for such date is the Winning Bid Rate or the All Hold Rate and there is delivered to the City and the Fiscal Agent an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Auction Rate Bonds or any exemption from federal income tax to which the interest on the Auction Rate Bonds would otherwise be entitled.

Conversion of Auction Rate Bonds to Another Rate Mode; Mandatory Tender. The Rate Mode on each subseries of the Auction Rate Bonds may be converted from the Auction Rate Mode to another Rate Mode on the Interest Payment Date following an Auction Period. On the Conversion Date for a subseries of the Auction Rate Bonds, such Auction Rate Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any. The purchase price of Auction Rate Bonds so tendered will be payable solely from the proceeds of the remarketing of such subseries. If any of the conditions to a conversion from an Auction Rate Mode to a different Rate Mode is not met, including the failure to remarket such subseries of Auction Rate Bonds on the Conversion Date, such Auction Rate Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate. It is currently anticipated that, should any of the Auction Rate Bonds be converted to a Rate Mode other than the Auction Rate Mode, a remarketing memorandum or remarketing circular will be distributed describing the new Rate Mode.

Conversion from One Auction Period to Another. On the conversion date for a subseries of Auction Rate Bonds selected for conversion from one Auction Period to a different Auction Period, except to the extent any Existing Owner submits an Order with respect to such Auction Rate Bonds of such subseries, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Rate

Bonds of such subseries if the change is to a longer Auction Period and Hold Order if the change is to a shorter Auction Period. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, such Auction Rate Bonds will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures; however, the Auction Rate Bonds to be converted will not be subject to mandatory tender on such conversion date.

Certain Considerations Relating to the Auction Rate Bonds

Role of Broker-Dealers. Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. each will be appointed by the City in a Broker-Dealer Agreement to serve as Broker-Dealers in the Auctions for the Subseries C-3 Bonds and Citigroup Global Markets Inc., Goldman, Sachs & Co. and J.P. Morgan Securities Inc. each will be appointed by the City in a Broker-Dealer Agreement to serve as Broker-Dealers in the Auctions for the Subseries C-4 Bonds. Each of the Broker-Dealers has agreed to contact Existing Owners and Potential Owners and solicit Bids for the Subseries C-3 Bonds and Subseries C-4 Bonds, respectively. The Broker-Dealers are paid by the City for their respective services.

Each of the Broker-Dealers has been appointed by the issuers of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by those issuers for its services. The Broker-Dealers receive broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through the Broker-Dealers in auctions.

Each of the Broker-Dealers will receive a Broker-Dealer fee from the City with respect to the Subseries C-3 Bonds or the Subseries C-4 respectively sold or successfully placed through it in Auctions for such subseries of Auction Rate Bonds. The Broker-Dealers may share a portion of such fees with other dealers that submit Orders through them that are filled in the Auction for such Auction Rate Bonds.

Bidding by Broker-Dealers. The Broker-Dealers are permitted, but not obligated, to submit Orders in Auctions for the Auction Rate Bonds for their own accounts either as buyers or sellers and routinely do so in the auction rate securities market in their sole discretion. If a Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because such Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Auction Rate Bonds and thus, could determine the rate and size of its Orders so as to increase the likelihood that (i) its Orders will be accepted in the Auction for the Auction Rate Bonds and (ii) the Auction for the Auction Rate Bonds will clear at a particular rate. For this reason, and because the Broker-Dealers are appointed and paid by the City to serve as Broker-Dealers in the Auctions for the Auction Rate Bonds, the Broker-Dealers' interests in serving as Broker-Dealers in Auctions for the Auction Rate Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Auction Rate Bonds. *See "Role of Broker-Dealers."* No Broker-Dealer would have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to submit Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealers routinely place bids in auctions including auctions for securities other than the Auction Rate Bonds for their own accounts to acquire securities for their inventories, to prevent an "Auction Failure" (which occurs if there are insufficient clearing bids and results in the auction rate being set at the Maximum Rate) or to prevent auctions from clearing at a rate that the Broker-Dealers believe does not reflect the market for such securities. Each Broker-Dealer may place one or more Bids in an Auction for the Auction Rate Bonds for its own account to acquire the Auction Rate Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Auction Rate Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Auction Rate Bonds. Each Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Auction Rate Bonds for its own account, a Broker-Dealer also may Bid inside or outside the range of rates that they post in their Price Talk. *See "Price Talk."*

The Broker-Dealers routinely encourage bidding by others in auctions generally for which they serve as broker-dealers, including auctions for securities other than Auction Rate Bonds. The Broker-Dealers also may encourage Bidding by others in Auctions for the Auction Rate Bonds, including to prevent an Auction Failure or to prevent an Auction for the Auction Rate Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Auction Rate Bonds. Each Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealers or by those they may encourage to place Bids are likely to affect (i) the Auction Rate including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealers not Bid or not encouraged others to Bid and (ii) the allocation of the Auction Rate Bonds being auctioned including displacing some Bidders who may have their Bids rejected or receive fewer Auction Rate Bonds than they would have received if the Broker-Dealers had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction for the Auction Rate Bonds clears successfully does not mean that an investment in the Auction Rate Bonds involves no significant liquidity or credit risk. None of the Broker-Dealers is obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Auction Rate Bonds to prevent an Auction Failure or an Auction for the Auction Rate Bonds from clearing at a rate such Broker-Dealer believes does not reflect the market for the Auction Rate Bonds. Investors should not assume that the Broker-Dealers will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealers or by those they may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding bidding by a Broker-Dealer apply only to a Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Auction Rate Bonds, if all outstanding Auction Rate Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If the Broker-Dealers hold any Auction Rate Bonds for their own accounts on an Auction Date, it is the Broker-Dealers' practice to submit Sell Orders into the Auction for the Auction Rate Bonds with respect to such Auction Rate Bonds, which would prevent that Auction for the Auction Rate Bonds from being an All Hold Auction. Each Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Auction Rate Bonds, as set forth above.

Price Talk. Before the start of an Auction for the Auction Rate Bonds, a Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners such Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the Auction Rate Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the Auction Rate Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. Such Broker-Dealer occasionally may update and change the Price Talk based on changes in the City's or Bond Insurer's credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. The Broker-Dealer will use its best efforts to communicate this information in a manner reasonably designed to make it available to all Existing Owners and Potential Owners that were given the original Price Talk. Existing Owners and Potential Owners should confirm with their Broker-Dealer the manner by which their Broker-Dealer will communicate Price Talk and any changes to Price Talk.

"All-or-Nothing" Bids. The Broker-Dealers will not accept "all-or-nothing" Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Auction Rate Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealers provide no assurance as to the outcome of any Auction. The Broker-Dealers also do not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Auction Rate Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Auction Rate Bonds purchased or retained in the Auction for the Auction Rate Bonds may be lower than the market rate for similar investments.

The Broker-Dealers will not agree before an Auction to buy Auction Rate Bonds from or sell Auction Rate Bonds to a customer after the Auction.

Deadlines. Each particular Auction for the Auction Rate Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealers impose an earlier deadline for all customers—called the "Broker-Dealers Deadline"—by which Bidders must submit Bids to the Broker-Dealers. The Broker-Dealer Deadline is subject to change by the Broker-Dealers. The Broker-Dealers will use their best efforts to make this information available by means reasonably expected to reach Existing Owners and Potential Owners. Existing Owners and Potential Owners should consult with their Broker-Dealer as to their Broker-Dealer Deadline. The Broker-Dealers may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. A Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition, until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw Orders submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Orders contained clerical errors. In the event of such a submission, modification or withdrawal, the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner's Ability to Resell Auction Rate Securities May Be Limited. An Existing Owner may sell, transfer or dispose of Auction Rate Bonds (i) in an Auction for the Auction Rate Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Auction Rate Bonds, only to or through Broker-Dealers.

Existing Owners will be able to sell all of the Auction Rate Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Auction Rate Bonds in the Auction for the Auction Rate Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Auction Rate Bonds all, and may not be able to sell any, of the Auction Rate Bonds subject to such Submitted Sell Orders. As discussed above *(see* "Bidding by Broker-Dealers"), the Broker-Dealers may submit Bids in an Auction for the Auction Rate Bonds to avoid an Auction Failure, but they are not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealers Bidding in the Auction for the Auction Rate Bonds for their own accounts or, encouraging others to Bid. Therefore, Auction Failures are possible, especially if the City's or the credit of a Bond Insurer were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealers were unable or unwilling to Bid.

Between Auctions for the Auction Rate Bonds, there can be no assurance that a secondary market for the Auction Rate Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Auction Rate Bonds on the terms or at the times desired by an Existing Owner. A Broker-Dealer, in its own discretion, may decide to buy or sell the Auction Rate Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Auction Rate Bolds. However, the Broker-Dealer is not obligated to make a market in the Auction Rate Bonds and may discontinue trading in the Auction Rate Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the Auction Rate Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased Auction Rate Bonds through a dealer which is not one of the Broker-Dealers for the Auction Rate Bonds. such Existing Owner's ability to sell its Auction Rate Bonds may be affected by the continued ability of its dealer to transact trades for the Auction Rate Bonds through the Broker-Dealer.

The ability to resell the Auction Rate Bonds will depend on various factors affecting the market for the Auction Rate Bonds, including news relating to the City or the Bond Insurer, the attractiveness of alternative investments, investor demand for short term Auction Rate Bonds, the perceived risk of owning the Auction Rate Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Auction Rate Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate bonds), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Settlements" *below)* or press reports, financial reporting cycles and market conditions generally. Demand for the Auction Rate Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealers Could Impact the Ability to Hold Auctions. The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice to the City and the Trustee provided a replacement Auction Agent has been appointed and does not require, as a condition to the effectiveness of resignation, that a replacement Auction Agent be in place if its fee has not been paid in which case only 30 days' notice of such resignation is required. The Broker-Dealer Agreements provide that the Broker-Dealers thereunder may resign upon 30 days' notice provided that at least one Broker-Dealer Agreement is in effect with respect to the Auction Rate Bonds immediately following such resignation. In addition, a Broker-Dealer may suspend Auctions under certain circumstances. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Auction Rate Bonds, with the result that the interest rate on the Auction Rate Bonds will be determined as described in the Certificate. See "Auction Procedures" below.

See the Auction Procedures in this Appendix B for a more extensive discussion of the provisions applicable to the Bonds while bearing interest at the Auction Rate.

The information in this caption ("*Certain Considerations Relating to the Auction Rate Bonds*") was provided by the Broker-Dealers and is not the responsibility of the City.

The preceding and the related appendices summarize provisions expected to be included in the proceedings under which the Bonds are to be issued as Auction Rate Bonds registered to DTC, and are subject in all respects to the underlying documents, copies of which will be available for inspection during business hours at the office of the Fiscal Agent.

Securities and Exchange Commission Settlements

On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation of fifteen firms, including the Broker Dealers (the "Settling Broker-Dealers"), that participate in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Settling Broker-Dealers agreed to pay civil penalties. In addition, each Settling Broker-Dealer, without admitting or denying the SEC's allegations, agreed to provide to customers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Broker-Dealer to conduct the auction process in accordance with disclosed procedures.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including the Auction Agent, (the "Settling Auction Agents") that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition. each Settling Auction Agent, without admitting or denying the SEC's allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Auction Rate Bonds.

Payment Mechanism

Pursuant to the New York State Financial Emergency Act For The City of New York (the "Financial Emergency Act" or the "Act"), a general debt service fund (the "General Debt Service Fund" or the "Fund") has been established for City bonds and certain City notes. Pursuant to the Act, payments of the City real estate tax must be deposited upon receipt in the Fund, and retained under a statutory formula, for the payment of debt service (with exceptions for debt service, such as principal of seasonal borrowings, that is set aside under other procedures). The statutory formula in recent years has resulted in retention of sufficient real estate taxes to comply with the City Covenants (as defined in "Certain Covenants and Agreements below"). If the statutory formula does not result in retention of sufficient real estate taxes to comply with the City Covenants, the City will comply with the City Covenants either by providing for early retention of real estate taxes or by making cash payments into the Fund. The principal of and interest on the Bonds will be paid from the Fund until the Act expires not earlier than July 1, 2008, and thereafter from a separate fund maintained in accordance with the City Covenants. Since its inception in 1978, the Fund has been fully funded at the beginning of each payment period.

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

Enforceability of City Obligations

As required by the State Constitution and applicable law, the City pledges its faith and credit for the payment of the principal of and interest on all City indebtedness. Holders of City debt obligations have a contractual right to full payment of principal and interest at maturity. If the City fails to pay principal or interest, the holder has the right to sue and is entitled to the full amount due, including interest to maturity at the stated rate and at the rate authorized by law thereafter until payment. Under the General Municipal Law, if the City fails to pay any money judgment, it is the duty of the City to assess, levy and cause to be collected amounts sufficient to pay the judgment. Decisions indicate that judicial enforcement of statutes such as this provision in the General Municipal Law is within the discretion of a court. Other judicial decisions also indicate that a money judgment against a municipality may not be enforceable against municipal property devoted to public use.

The rights of the owners of Bonds to receive interest, principal and redemption premium, if any, from the City could be affected adversely by a restructuring of the City's debt under Chapter 9 of the Federal Bankruptcy Code. No assurance can be given that any priority of holders of City securities (including the Bonds) to payment from money retained in the Fund or from other sources would be recognized if a petition were filed by or on behalf of the City under the Federal Bankruptcy Code or pursuant to other subsequently enacted laws relating to creditors' rights; such money might then be available for the payment of all City creditors generally. Judicial enforcement of the City's obligation to make payments into the Fund, of the obligation to retain money in the Fund, of the rights of holders of bonds and notes of the City to money in the Fund, of the obligations of the City under the City Covenants and of the State under the State Pledge and Agreement (in each case, as defined in "—Certain Covenants and Agreements") may be within the discretion of a court. For further information concerning rights of owners of Bonds against the City, see "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities" included herein by specific reference.

Certain Covenants and Agreements

The City will covenant that: (i) a separate fund or funds for the purpose of paying principal of and interest on bonds and interest on notes of the City (including required payments into, but not from, City sinking funds) shall be maintained by an officer or agency of the State or by a bank or trust company; and (ii) not later than the last day of each month, there shall be on deposit in a separate fund or funds an amount sufficient to pay principal of and interest on bonds and interest on notes of the City due and payable in the next succeeding month. The City currently uses the debt service payment mechanism described above to perform these covenants. The City will further covenant in the Bonds to provide a general reserve for each fiscal year to cover potential reductions in its projected revenues or increases in its projected expenditures during each such fiscal year, to comply with the financial reporting requirements of the Act, as in effect from time to time, to limit its issuance of bond anticipation notes as required by the Act, as in effect from time to time, to include as terms of the Auction Rate Bonds the provisions applicable thereto, and to comply therewith and with the statutory restrictions.

The State pledges and agrees in the Financial Emergency Act that the State will not take any action that will impair the power of the City to comply with the covenants described in the preceding paragraph (the "City Covenants") or any right or remedy of any owner of the Bonds to enforce the City Covenants (the "State Pledge and Agreement"). The City will covenant to make continuing disclosure with respect to the Bonds (the "Undertaking") to the extent summarized in "SECTION III: MISCELLANEOUS—Continuing Disclosure Undertaking." In the opinion of Bond Counsel, the enforceability of the City Covenants, the Undertaking and the State Pledge and Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases. The City Covenants, the Undertaking and the State Pledge and Agreement shall be of no force and effect with respect to any Bond if there is a deposit in trust with a bank or trust company of sufficient cash or cash equivalents to pay when due all principal of, applicable redemption premium, if any, and interest on such Bond.

Use of Proceeds

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

Optional Redemption

The Bonds are subject to redemption on 30 days' notice (or purchase in lieu thereof) prior to maturity at the option of the City, in whole or in part, on each date specified in the Certificate (which is, for Auction Rate Bonds in a seven-day Auction Period, each Interest Payment Date). On and after any redemption date, interest will cease to accrue on the Bonds called for redemption.

The City may select Subseries, Rate Modes and amounts of Bonds for optional redemption in its sole discretion. If less than all the Bonds of a Rate Mode, Subseries and maturity subject to redemption are to be redeemed, the Bonds shall be selected for redemption pursuant to the Certificate; that is, among Auction Rate Bonds, by lot.

Mandatory Redemption

The Subseries C-4 Bonds are Term Bonds subject to mandatory redemption, by lot within each stated maturity, on each Mandatory Redemption Date specified in the Certificate (which is, for Auction Rate Bonds in a seven-day Auction Period, the first Interest Payment Date on or after October 1) at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, in the amounts and in the years set forth below:

October 1	Amount
2026	$31,025,000
2027	68,975,000*

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* October 1, 2027 is the maturity date of the Subseries C-4 Bonds even if such date is not otherwise an Interest Payment Date.

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

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

Bond Insurance

The scheduled payment of principal of and interest on the Bonds is insured by Assured Guaranty Corp. ("Assured Guaranty"). Information about Assured Guaranty is set forth in Appendix C. A specimen Assured Guaranty financial guaranty insurance policy is set forth in Appendix D.

Bond Certificates

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. Reference to the Bonds under the caption "Bond Certificates" shall mean all Bonds that are deposited with DTC from time to time. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Securities 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 both U.S. and non-U.S. securities brokers and dealers, bank, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (under this caption, "*Book-Entry Only System,*" a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

Payment of redemption proceeds and principal and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Fiscal Agent, The Bank of New York, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Liquidity Enhanced Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

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: MISCELLANEOUS

Supplemental Certificates

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

(a) to cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision relating to the Auction Rate Bonds;

(b) to identify particular Auction Rate Bonds for purposes not inconsistent with the Certificate, including credit or liquidity support, remarketing, serialization and defeasance; or

(c) to insert such provisions with respect to the Auction Rate Bonds as are necessary or desirable and are not to the prejudice of the Bondholders.

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

The provisions of the Certificate relating to Auction Rate Bonds may also be changed as described in Appendix B.

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 Bonds will not be includable in the gross income of the owners of the Bonds for purposes of federal income taxation under existing law. Interest on the Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds in the event of a failure by the City to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to the Bonds, and 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 Bonds for federal income tax purposes on or after the date on which any action is taken under the bond proceedings upon the approval of counsel other than such firm.

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

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

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

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.

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. On May 21, 2007, the United States Supreme Court agreed to review a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States Constitution prohibits Kentucky from exempting interest on bonds issued by Kentucky and its localities and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State to eliminate the disparity between the tax treatment of out-of-state bonds and tax treatment of in-state bonds including bonds issued by the City. The impact of this decision may also affect the market price for, or the marketability of, the Bonds.

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

Ratings

The Auction Rate Bonds are expected to be rated "AAA" by Fitch, Inc. ("Fitch"), "Aaa" by Moody's Investors Service ("Moody's") and "AAA" by Standard & Poor's Ratings Services ("Standard & Poor's"). The ratings on the Auction Rate Bonds will be based on the insurance policy to be issued by Assured Guaranty. The Auction Rate Bonds have received an unenhanced rating of "Aa3" from Moody's, "AA–" from Fitch and "AA" from Standard & Poor's. Such ratings reflect only the views of Moody's, Standard & Poor's and Fitch from which an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of such bonds.

Legal Opinions

The legality of the authorization and issuance of the Bonds will be covered by the approving legal opinion of Sidley Austin LLP, New York, New York, Bond Counsel to the City. Reference should be made to the form of such opinion set forth in Appendix E hereto for the matters covered by such opinion and the scope of Bond Counsel's engagement in relation to the issuance of the Bonds. Such firm is also acting as counsel for and against the City in certain other unrelated matters.

Certain legal matters will be passed upon for the City by its Corporation Counsel.

Edwards Angell Palmer & Dodge LLP, New York, New York, Special Disclosure 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.

Underwriting

The Subseries C-3 Bonds are being purchased for reoffering by Bear, Stearns & Co. Inc. on behalf of itself and as representative of J.P. Morgan Securities Inc. (the "C-3 Underwriters"). The C-3 Underwriters have agreed, subject to certain conditions, to purchase such Bonds from the City at an aggregate underwriter's discount of $155,771.34 and to make an initial public offering of such Bonds at prices that are not in excess of the initial public offering price set forth on the inside cover page of this Official Statement. The C-3 Underwriters will be obligated to purchase all such Bonds if any such Bonds are purchased.

The Subseries C-4 Bonds are being purchased for reoffering by Citigroup Global Markets Inc. on behalf of itself and as representative of Goldman, Sachs & Co. and J.P. Morgan Securities Inc. (the "C-4 Underwriters"). The C-4 Underwriters have agreed, subject to certain conditions, to purchase such Bonds from the City at an aggregate underwriter's discount of $255,897.67 and to make an initial public offering of such Bonds at prices that are not in excess of the initial public offering price set forth on the inside cover page of this Official Statement. The C-4 Underwriters will be obligated to purchase all such Bonds if any such Bonds are purchased.

The purchase of the Bonds by the C-3 and C-4 Underwriters is conditioned upon the issuance and delivery by the City of its General Obligation Bonds Fiscal 2008 Series C, Subseries C-1, and Subseries C-2.

THE CITY OF NEW YORK

APPENDIX A

DEFINITIONS

Both the Definitions in this Appendix A and the Auction Procedures set forth in Appendix B are subject to modification or amendment pursuant to Schedule I to Appendix B. In the event of any conflict between the provisions of Appendix A or B and Schedule I, Schedule I shall prevail.

In addition to the words and terms defined in Schedule I and elsewhere in this Official Statement and in the Certificate, the following words and terms as used herein and in Appendix B and elsewhere in this Official Statement have the following meanings with respect to Auction Rate Bonds unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

"*Agent Member*" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"*All Hold Rate*" has the meaning set forth in Schedule I.

"*ARS Conversion Date*" means the date on which the Bonds of a Subseries Convert from a Rate Mode other than the Auction Rate Mode and begin to bear interest at the Auction Period Rate.

"*Auction*" means each periodic implementation of the Auction Procedures.

"*Auction Agent*" means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

"*Auction Agreement*" means an agreement among the City, the Auction Agent and the Fiscal Agent pursuant to which the Auction Agent agrees to follow the procedures with respect to the Auction Rate Bonds, as such agreement may from time to time be amended or supplemented.

"*Auction Date*" means with respect to any Subseries:

(a) *Daily Auction Period*. If a Subseries of Bonds is in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period;

(b) *Flexible Auction Period*. If a Subseries of Bonds is in a Flexible Auction Period, the last Business Day of the Flexible Auction Period;

(c) *Other Auction Periods*. If a Subseries of Bonds is in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); except that the last Auction Date with respect to a Subseries of Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding such Conversion Date for such Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for such Bonds; and

(d) *Miscellaneous*. If a Subseries of Bonds is in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for such Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Subseries of the Bonds is set forth on the inside cover page.

"*Auction Desk*" means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

"*Auction Period*" means with respect to each Subseries:

(a) *Flexible Auction Period*. A Flexible Auction Period;

(b) *Daily Auction Period*. With respect to a Subseries in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven-day Auction Period*. With respect to a Subseries in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A) When Auctions Occur on this Day	(B) Auction Periods Generally Begin this Day	(C) Auction Periods Generally End this Day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-Day Auction Period*. With respect to a Subseries in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) *35-Day Auction Period*. With respect to a Subseries in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) *Three-month Auction Period*. With respect to a Subseries in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period or Conversion Date and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period;

(g) *Six-month Auction Period*. With respect to a Subseries in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period or ARS Conversion Date and ending on the date set forth in Schedule I;

(h) *Conversions*. If there is a conversion of a Subseries with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(i) *Automatic Conversion*. Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

"*Auction Period Rate*" means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined as described herein under "Determination of Auction Period Rate"; but in no event may the Auction Period Rate exceed the Maximum Rate.

"*Auction Procedures*" means the procedures for conducting Auctions for Bonds during an Auction Rate Mode set forth in Appendix B.

"*Auction Rate*" means for each Subseries for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, but if all of the Bonds are the subject of Submitted Hold Orders, then the All Hold Rate for such Subseries and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate.

"*Auction Rate Bonds*" has the meaning set forth in Schedule I.

"*Auction Rate Mode*" means the mode in which the Bonds bear interest at an Auction Period Rate or an Initial Rate preceding an Auction Period Rate.

"*Authorized Denominations*" means during the Auction Rate Mode, except as otherwise may be specified in the Certificate, $25,000 and any integral multiple thereof.

"*Authorized Officer*" means the Deputy Comptroller for Public Finance of the City, and, when used with reference to the performance of any act, the discharge of any duty or the execution of any certificate or other document, any officer, employee or other person authorized to perform such act, discharge such duty or execute such certificate or other document.

"*Available Bonds*" means, for each Subseries on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

"*Beneficial Owner*" means each beneficial owner of Multi-Modal Bonds, as defined in the City's Continuing Disclosure Undertaking with respect to the Bonds.

"*Bid*" has the meaning specified herein under "Orders by Existing Owners and Potential Owners".

"*Bidder*" means each Existing Owner and Potential Owner who places an Order.

"*Bondholder*" or "*Holder*" or "*Owner*" means any person who shall be the registered owner of any Multi-Modal Bonds.

"*Book Entry Form*" or "*Book Entry System*" means a form or system under which physical Multi-Modal Bond certificates in fully registered form are registered only in the name of the Securities Depository, with the physical certificates "immobilized" in the custody of the Securities Depository.

"*Broker-Dealer*" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Official Statement, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the City and that is a party to a Broker-Dealer Agreement with the Auction Agent and the City. The "Broker-Dealer of record" with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

"*Broker-Dealer Agreement*" means an agreement among the Auction Agent, the City and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in the Certificate.

"*Broker-Dealer Deadline"* means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; but nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

"*Business Day*" means "Business Day" as defined in the Certificate, but excluding, while Bonds bear interest at the Auction Period Rate, Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

"*Certificate*" means the Certificate of the Deputy Comptroller for Public Finance of the City, establishing the terms of the Fiscal 2008 Series C Bonds, with all Exhibits, Schedules and Appendices, and related proceedings, including any supplemental certificates.

"*Clerical Error*" means a clerical error in the processing of an Order, and includes the following: (i) a transmission error, including an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a "Clerical Error" is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

"*Conversion Date*" with respect to Bonds bearing interest at a rate determined by means of the Auction Procedures means the date on which any Subseries begins to bear interest at a rate which is determined other than by means of the Auction Procedures.

"*Conversion Notice*" means a notice of a change in the Rate Mode.

"*Direct Participant*" means a participant in the book-entry system of recording ownership interests in the Multi-Modal Bonds.

"*DTC*" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as Depository for the Multi-Modal Bonds, or any successor Depository for any Multi-Modal Bonds; and includes each nominee thereof.

"*Electronic Means*" means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"*Error Correction Deadline*" means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; but in no event shall the Error Correction Deadline extend past 4:00 p.m., unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m.

"*Existing Owner*" means a Person who is the beneficial owner of Bonds; and for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

"*Existing Holder Registry*" or "*Register*" means the registry of Persons who are Existing Owners of Auction Rate Bonds, maintained by the Auction Agent as provided in the Auction Agreement.

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

"*Fiduciary*" means each Fiscal Agent, Paying Agent, Tender Agent or Auction Agent.

"*Fiscal Agent*" means The Bank of New York and its successors as the City's fiscal agent.

"*Fitch*" means Fitch, Inc., and its successors and assigns; references to Fitch are effective so long as Fitch is a Rating Agency.

"*Flexible Auction Period*" means with respect to a Subseries,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Subseries with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Subseries with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Subseries with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Subseries with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Subseries with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Subseries.

"*Hold Order*" has the meaning specified herein under "Orders by Existing Owners and Potential Owners".

"*Index*" has the meaning set forth in Schedule I.

"*Initial Rate*" means (a) for an Initial Period commencing on the date of initial delivery of the Bonds, the Initial Rate stated in the Certificate and (b) for an Initial Period commencing on an ARS Conversion Date the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the ARS Conversion Date. Such determination shall be conclusive and binding upon the City, the Auction Agent, the Insurer and the Bondholders. Not later than 5:00 p.m., New York City time, on the date of determination of the Initial Rate, the Broker-Dealer shall notify the City and the Auction Agent of the Initial Period Rate by Electronic Means.

"*Initial Period*" has the meaning set forth in Schedule I.

"*Insurer*" or "*Bond Insurer*" has the meaning set forth in Schedule I.

"*Interest Payment Date*" has the meaning set forth in Schedule I.

"*Issue Date*" means October 4, 2007.

"*LFL*" means the Local Finance Law of the State, as in effect from time to time.

"*Mandatory Redemption Date*" means, in each year so specified in the Multi-Modal Bonds, (i) for Stepped Coupon Bonds or Bonds in the Term Rate Mode or the Fixed Rate Mode, October 1, (ii) for Bonds in the Daily Rate Mode, the Weekly Rate Mode or the Commercial Paper Mode, the first Business Day in October (which will be an Interest Payment Date), (iii) for Bonds in a Special Auction Period, the first Business Day in October (whether or not an Interest Payment Date), and (iv) for Bonds in any other Auction Period, the first regularly scheduled Interest Payment Date on or after October 1.

"*Mandatory Tender Date*" means any date on which a Multi-Modal Bond is subject to mandatory tender in accordance with the Certificate.

"*Maximum Rate*" has the meaning set forth in Schedule I.

"*Mode*" or "*Rate Mode*" means Stepped-Coupon Bonds or the Daily Rate Mode, Commercial Paper Rate Mode, Weekly Rate Mode, Term Rate Mode, Fixed Rate Mode or Auction Rate Mode.

"*Moody's*" means Moody's Investors Service, and its successors and assigns; references to Moody's are effective so long as Moody's is a Rating Agency.

"*Multi-Modal Bonds*" means $160,900,000 of the City's General Obligation Bonds, Fiscal 2008 Series C, consisting of Subseries C-3 and C-4.

"*Optional Redemption Date*" means for Auction Rate Bonds, each Interest Payment Date.

"*Order*" means a Hold Order, Bid or Sell Order.

"Paying Agent" means the Fiscal Agent and any additional paying agent for the Multi-Modal Bonds designated by the City.

"*Potential Owner*" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; and that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

"*Principal Office*" means, with respect to the Auction Agent, the office thereof designated in the Auction Agreement as the office of the Auction Agent to which notices, requests or communications should be sent.

"*Rate*" means the rate of interest payable on Stepped-Coupon Bonds and each Daily Rate, Commercial Paper Rate, Weekly Rate, Term Rate, Purchased Bond Rate, the Fixed Rate or the Auction Rate.

"*Rate Mode*" has the same meaning as "Mode."

"*Rate Period*" means a period in which Multi-Modal Bonds are Stepped Coupon Bonds or any Daily Rate Period, any Commercial Paper Rate Period, any Weekly Rate Period, any Term Rate Period, the Fixed Rate Period or any Auction Period.

"*Rating Agency*" means each nationally recognized statistical rating organization that has, at the request of the City, a rating in effect for the Multi-Modal Bonds.

"*Rating Category*" means one of the generic rating categories of any Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

"*Rating Confirmation*" means a written notice from each Rating Agency that its rating on the Multi-Modal Bonds will not be suspended, withdrawn or reduced (by Moody's) or reduced in Rating Category (by other Rating Agencies) as a result of action proposed to be taken under the Certificate.

"*Record Date*" means, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

"*S&P*" means Standard & Poor's Ratings Services and its successors and assigns; references to S&P are effective so long as S&P is a Rating Agency.

"*Schedule I*" means Schedule I to Appendix B.

"*Securities Depository*" or "*Depository*" or "*DTC*" means The Depository Trust Company and its nominees, successors and assigns or any other securities depository selected by the City which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"*Sell Order*" has the meaning specified herein under "Orders by Existing Owners and Potential Owners."

"*Series 2008 C Bonds,*" "*Series C Bonds*" or "*Fiscal 2008 Series C Bonds*" means the City's General Obligation Bonds, Fiscal 2008 Series C, expected to be issued October 4, 2007.

"*SIFMA Municipal Index*" means the Securities Industry and Financial Markets Association Municipal Swap Index disseminated by Municipal Market Data, a Thomson Financial Services Company, or its successor; or, if at the time a Weekly Rate is to be determined Municipal Market Data has not provided the relevant information on the SIFMA Municipal Index for the most recent Wednesday, then the rate determined by Municipal Market Data on the Tuesday next preceding the beginning of the Weekly Rate Period for which such Weekly Rate is to be determined.

"*Submission Deadline*" means, unless changed in the Certificate, 1:00 p.m. on each Auction Date not in a daily Auction Period and 11:00 a.m. on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Fiscal Agent or the City pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the bond markets (the "SIFMA Recommendation") unless the Auction Agent is instructed otherwise in writing by the Fiscal Agent or the City. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m.

"*Submitted Bid*" has the meaning specified in paragraph (b) under the heading "Determination of Auction Rate".

"*Submitted Hold Order*" has the meaning specified in paragraph (b) under the heading "Determination of Auction Rate".

"*Submitted Order*" has the meaning specified in paragraph (b) under the heading "Determination of Auction Rate".

"*Submitted Sell Order*" has the meaning specified in paragraph (b) under the heading "Determination of Auction Rate".

"*Subseries*" shall mean the Multi-Modal Bonds of Subseries C-3 and Subseries C-4 or such other Subseries of Multi-Modal Bonds as may be identified from time to time.

"*Substitute Auction Agent*" means a person acceptable to the Insurer with whom the City enters into a Substitute Auction Agent Agreement.

"*Substitute Auction Agreement*" means an auction agent agreement containing terms substantially similar to the terms of the initial Auction Agreement.

"*Sufficient Clearing Bids*" means for each Subseries, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

"*Unit*" means a principal amount of Bonds equal to the minimum Authorized Denomination.

"*Winning Bid Rate*" means for each Subseries, the lowest rate specified in any Submitted Bid of such Subseries which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Subseries.

"*Written Notice*," "*written notice*" or "*notice in writing*" means notice in writing which may be delivered by hand or first class mail and includes Electronic Means.

AUCTION RATE BONDS

General

Capitalized terms not otherwise defined in this Appendix B have the meanings set forth in Schedule I or Appendix A to this Official Statement. Each reference to the purchase, sale or holding of "Bonds" shall refer to beneficial interests in Auction Rate Bonds, unless the context clearly requires otherwise.

Auction Period and Auction Period Rate

$160,900,000 aggregate principal amount of the City's General Obligation Bonds, Fiscal 2008 Series C, are to be issued as Multi-Modal Bonds, designated as Subseries C-3 and Subseries C-4 which will bear interest at an Initial Rate for the Initial Rate Period as indicated on the inside cover page and thereafter at an Auction Period Rate and are to be in the Auction Rate Mode until converted to a different Rate Mode. The Auction Period for the Bonds will be an Auction Period of generally seven days, unless such Auction Period is changed to another Auction Period in accordance with the Auction Procedures described below. For any Auction Period, each Bond will bear interest at an Auction Period Rate determined on each Auction Date for each Auction Period with the Auction Procedures described below.

During the Initial Rate Period for the Auction Rate Bonds and during an Auction Rate Mode with an Auction Period of less than six months, interest will be computed on the basis of a 360-day year for the actual number of days elapsed, and during an Auction Rate Mode with a six month Auction Period or a Special Auction Period of six months or more, interest will be computed on the basis of a 360-day year composed of twelve 30-day months.

Interest Payment Dates

Interest will be payable initially as indicated on the inside cover page for the Auction Rate Bonds and succeeding Interest Payment Dates will occur as there indicated and at maturity, redemption or Conversion. During Auction Periods other than the seven-day Auction Period, interest on the Bonds will be payable on an Interest Payment Date as described herein. The record date for the Bonds is the Business Day preceding each Interest Payment Date.

Conversion of Auction Rate Bonds

Subject to the conditions in the Certificate the City may convert all or a portion of the Auction Rate Bonds to a different Mode by delivering a Conversion Notice to the Fiscal Agent, DTC, the Insurer, the Broker-Dealer and the Auction Agent specifying the Bonds to be converted, the Conversion Date and the Mode or Modes that will be effective on the Conversion Date. The Conversion Date for Auction Rate Bonds shall be an Interest Payment Date following an Auction Period. Not less than 20 days prior to the Conversion Date, the Fiscal Agent shall mail a written notice of the Conversion (which may be rescinded prior to 10 a.m. on the Business Day preceding the Conversion Date) to the registered owners of all Bonds to be Converted, specifying the Conversion Date. Such notice shall state (i) that such Multi-Modal Bonds will be converted, subject to receipt of a Favorable Opinion of Bond Counsel; (ii) the effective date of such new Mode; (iii) that on the first day of the new Mode all such Multi-Modal Bonds being converted shall be purchased or deemed purchased at a purchase price equal to the principal amount thereof, plus accrued interest, if any; and (iv) the procedures for such purchase.

If less than all of the Auction Rate Bonds of a Subseries and maturity then subject to a particular Mode are to be converted to a new Mode or Modes, the particular Auction Rate Bonds which are to be converted to a new Mode or Modes will be selected by the Fiscal Agent (or, if the City so elects, the City) in such manner as the Fiscal Agent deems appropriate subject to the authorized denominations of the Bonds subject to such Mode.

If the new Mode for any Auction Rate Bonds being so converted is not able to begin by reason of the failure by the City to satisfy any condition thereto, including purchase and remarketing of the Auction

Rate Bonds, then the Auction Rate Bonds shall continue to be in the Auction Rate Mode subject to the terms of the Certificate which provides that the Auction Rate Bonds will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate.

Changes in Auction Procedures

The Auction Definitions and Procedures may be amended by obtaining the consent of the owners of the Auction Rate Bonds and the Insurer for such Bonds. All owners will be deemed to have consented if on the first Auction Date occurring at least 20 days after the Fiscal Agent mailed notice to such owners (i) the Auction Rate determined for such date is the Winning Bid Rate and (ii) there has been delivered to the City and the Fiscal Agent a Favorable Opinion of Bond Counsel.

Changes in Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or the consent of Bondholders. See the description of the Auction Procedures below.

Auction Agent

The Auction Agent shall serve as the Beneficial Owners' agent under the Certificate and the Auction Agreement. Any Substitute Auction Agent shall be (i) subject to the written approval of the Broker-Dealer, (ii) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, New York, or such other location as approved by the City in writing and having a combined capital stock or surplus of at least $30,000,000, or (iii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least $30,000,000, and, in either case, authorized by law to perform all the duties imposed upon it under the Certificate and the Auction Agreement. The Auction Agent may at any time resign and be discharged of its duties by giving at least 90 days' notice to the Fiscal Agent, the Insurer and the City. The Auction Agent may be removed at any time by the City upon at least 15 days notice to the Auction Agent, the Fiscal Agent, the Insurer and the Broker-Dealer. Neither resignation nor removal of the Auction Agent pursuant to the preceding two sentences shall be effective until and unless a Substitute Auction Agent has been appointed and has signed a Substitute Auction Agreement. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agreement if, within 30 days after notifying the Fiscal Agent, the City and the Insurer in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agreement, the Auction Agent does not receive such payment, even if a successor Auction Agent has not been appointed. The Fiscal Agent shall not be liable for any action taken, suffered or omitted by the Auction Agent.

If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any court or administrative body, the City shall use its best efforts to appoint a Substitute Auction Agent.

Broker-Dealer

The City and the Auction Agent will enter into Broker-Dealer Agreements with Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. with respect to the Subseries C-3 Bonds and Citigroup Global Markets Inc., Goldman Sachs & Co. and J.P. Morgan Securities Inc. with respect to the Subseries C-4 Bonds (the "Broker-Dealers"). Such firms are the initial Broker-Dealers specified by the City as the beneficial owners' agent. The City may, from time to time, approve one or more additional Broker-Dealers. Any Broker-Dealer may be removed on one day's notice, at the request of the City. Any Broker-Dealer may resign upon 30 days' notice if at least one Broker-Dealer Agreement is in effect with respect to each Subseries of the Bonds. In addition, any Broker-Dealer may resign immediately if its fees remain unpaid following notice to the City. In addition, a Broker-Dealer may suspend Auctions under certain circumstances.

Auction Procedures

During an Auction Rate Mode, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, except that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

For purposes of this section, the term "Bonds" refers to the Auction Rate Bonds.

Orders by Existing Owners and Potential Owners

(a) Prior to the Broker-Dealer Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) below), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b)(i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in paragraph (a)(v) under the heading "Allocation of Bonds" if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in paragraph (b)(iv) under the heading "Allocation of Bonds" if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as described in paragraph (b)(iv) under the heading "Allocation of Bonds" if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in paragraph (a)(vi) under the heading "Allocation of Bonds" if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Bonds of a Subseries held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; but if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a Subseries to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided under "Submission of Orders by Broker-Dealers to Auction Agent;

(iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; and (iv) for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Submission of Orders by Broker-Dealers to Auction Agent

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for a Subseries, all Orders with respect to such Subseries accepted by such Broker-Dealer in accordance with "Orders by Existing Owners and Potential Owners" above and specifying with respect to each Order or aggregation of Orders pursuant to paragraph (b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; in each case if the interest rates on the Bids are the same.

(c) None of the City, the Fiscal Agent or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error on the part of the Broker-Dealer in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this paragraph (f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this paragraph (f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. on the Auction Date (or 2:00 p.m. in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising all (but not less than all) Broker-Dealers prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; but if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Treatment of Orders by the Auction Agent

Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) below and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a Subseries are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units for which such Broker-Dealer is the Broker-Dealer of record;

(ii)(A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the number of Units subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the number of Units for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the number of Units for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units equal to the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Fiscal Agent, or the City that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Fiscal Agent or the City has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If Orders covering all of the Bonds of a Subseries are not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; except that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a Subseries to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Determination of Auction Period Rate

(a) If requested by the Fiscal Agent or a Broker-Dealer, not later than 10:30 a.m. (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Subseries, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Fiscal Agent, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Series of Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth below if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Fiscal Agent, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth below if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Fiscal Agent, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

The percentage of the Index referred to above is specified below under the heading "Index".

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

Allocation of Bonds

(a) In the event of Sufficient Clearing Bids for a Subseries, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such Subseries shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Subseries, Submitted Orders for such Subseries shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the undertakings described in paragraphs (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Bonds that is not an integral multiple of an Authorized Denomination on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the undertakings described in paragraph (a) above, any Potential Owner would be required to purchase less than an Authorized Denomination in principal amount of the Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Bonds for purchase among Potential Owners so that the principal amount of the Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing the Bonds on such Auction Date.

Notice of Auction Period Rate

(a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Subseries for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the amount of interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and

(vii) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Subseries for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the City and Fiscal Agent by mutually acceptable Electronic Means and the Fiscal Agent shall promptly give notice of such Auction Rate to the Securities Depository.

Miscellaneous Provisions Regarding Auctions

(a) In this Appendix, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Mode with respect to each Subseries, the provisions relating to the Auction Rate Bonds, including this Appendix, may be amended by obtaining the consent of the Insurer and the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Fiscal Agent mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the City and the Fiscal Agent an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the City that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the City shall execute and the Fiscal Agent shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the City and the Fiscal Agent.

During an Auction Rate Mode, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Changes in Auction Period or Auction Date

(a) Changes in Auction Period.

(i) During any Auction Rate Mode, the City, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to a Subseries among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The City shall initiate the change in the length of the Auction Period by giving written notice to the Fiscal Agent, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Subseries.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any Subseries, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Subseries if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any Auction Rate Mode, the Auction Agent, at the direction of the City, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the City's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Fiscal Agent, the City and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which an Auction Period ends and the Interest Payment Date relating to such Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealer for a majority of the outstanding Units (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date which will permit the efficient implementation of the Auction Procedures, and the Interest Payment Date and the Auction Period shall be adjusted accordingly. This paragraph may be modified by an Authorized Officer of the City in his or her discretion.

Index

(a) "Index" means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBORO1 Page (or such other page as may replace that page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits for one month) at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market. The Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the City and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the City and the Insurer. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

The percentage of the Index referred to herein under "Determination of Auction Period Rate" is 75% for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 110% for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

(b) If for any reason on any Auction Date the Index shall not be determined as above described, the Index shall be the Index for the Auction Period ending on such Auction Date.

(c) The determination of the Index as described herein shall be conclusive and binding upon the City, the Broker-Dealers, the Fiduciaries and the Owners of the Bonds.

SCHEDULE I

Definitions

"All Hold Rate" means, as of any Auction Date, 55% of the Index in effect on such Auction Date for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 90% of the Index in effect on such Auction Date for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

"Auction Agent" shall initially be Deutsche Bank Trust Company Americas.

"Auction Date" shall include as part of the definition the first Auction Date which shall be October 12, 2007 for the Subseries C-3 Bonds and October 11, 2007 for the Subseries C-4 Bonds.

"Auction Period" shall include in the Six-month Auction Period either March 31 or September 30 or the last day of such Auction Period.

"Auction Rate Bonds" means the City's General Obligation Bonds, Fiscal 2008 Series C, Subseries C-3 and Subseries C-4.

"Authorized Denomination" means $25,000 unless another amount is specified herein.

"Authorizing Document" means the Certificate of City, establishing the terms of the Fiscal 2008 Series C Bonds, with all Exhibits, Schedules, Appendices, and related proceedings, including any supplemental certificates.

"Broker-Dealers" means Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. with respect to the Subseries C-3 Bonds and Citigroup Global Markers Inc., Goldman, Sachs & Co. and J.P. Morgan Securities Inc. with respect to the Subseries C-4 Bonds.

"Index" means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBORO1 Page (or such other page as may replace that page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits for one month) at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market. The Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the City and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the City and the Insurer. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

"Initial Period" means the period from the Closing Date to and including October 14, 2007 with respect to the Subseries C-3 Bonds and to and including October 11, 2007 with respect to the Subseries C-4 Bonds.

"Insurer" or **"Bond Insurer"** means Assured Guaranty Corp. or any successor thereto.

"Interest Payment Date" means, with respect to each Subseries of the Auction Rate Bonds, for the applicable Initial Period the date set forth on the inside front cover of this Official Statement, and thereafter: (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of each month immediately succeeding the first day of such Auction Period; (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 days or more days, each April 1 and October 1 and the Business Day immediately following such Flexible Auction Period; and (d) the date when the principal of an Auction Rate Bond becomes due and payable (whether at mandatory tender, redemption, maturity or otherwise).

"Maximum Rate" means for any Auction Rate Bond the lesser of (i) 12% if the interest on such Bond is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes or (ii) such Maximum Rate not exceeding 25% as fixed by an authorized Officer of the City if the interest on such Bond is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

Auction Procedures

Determination of Auction Rate. The percentage of the Index in subparagraph (c) of the heading "Determination of Auction Rate Period" is 75% for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 110% for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

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APPENDIX C

BOND INSURANCE

The following information pertaining to Assured Guaranty Corp. ("Assured Guaranty" or the "Insurer") has been supplied by Assured Guaranty. The City makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the dates indicated. Summaries of or references to the financial guaranty insurance policy (the "Policy") to be issued by Assured Guaranty are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all such provisions. See "APPENDIX D—SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

The Insurance Policy

Assured Guaranty has made a commitment to issue the Policy relating to the Bonds, effective as of the date of issuance of such Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment by the City (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the City solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Bonds, the stated maturity date thereof, or the date on which such Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the City to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on the Bonds. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the holder of such Bond in respect of any Insured Payment by or on behalf of the City, which amount has been recovered from such holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or the Paying Agent, to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the date on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the holders of the Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

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

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in forty-nine states, the

District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc., "AAA" by Fitch, Inc. and "Aaa" by Moody's Investors Service, Inc. Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of Assured Guaranty Corp.

As of December 31, 2006, Assured Guaranty had total admitted assets of $1,248,270,663 (audited), total liabilities of $962,316,898 (audited), total surplus of $285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of $916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, Assured Guaranty had total admitted assets of $1,274,707,293 (unaudited), total liabilities of $1,032,077,892 (unaudited), total surplus of $242,629,401 (unaudited) and total statutory capital (surplus plus contingency reserves) of $933,783,902 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") in making such determinations.

The following documents are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The consolidated balance sheets of Assured Guaranty as of December 31, 2006 and December 31, 2005 and the related consolidated statements of operations and comprehensive income, of shareholder's equity and of cash flows for each of the three years in the period ended December 31, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2006 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 28, 2007), as amended by the Form 10-K/A filed by AGL on March 1, 2007;

- The unaudited consolidated balance sheet and statement of shareholder's equity of Assured Guaranty as of and for the period ended March 31, 2007, respectively, and the related consolidated statements of operations and comprehensive income and cash flows for the three months ended March 31, 2007 and March 31, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 (which was filed by AGL with the SEC on May 7, 2007);

- The unaudited consolidated balance sheet and statement of shareholder's equity of Assured Guaranty as of and for the period ended June 30, 2007, respectively, and the related consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2007 and June 30, 2006, and the statements of cash flows for the six months ended June 30, 2007 and June 30, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (which was filed by AGL with the SEC on August 9, 2007); and

- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "Bond Insurance—The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

All consolidated financial statements of Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty makes no representation regarding, nor does it accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance".

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SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

ASSURED GUARANTY®

Assured Guaranty Corp.
1325 Avenue of the Americas
New York, NY 10019
t. 212.974.0100
www.assuredguaranty.com

Financial Guaranty Insurance Policy

Issuer: **Policy No.:**

Obligations: **Premium:**

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "**Term**" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By:______________________________
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

____
Counsel

SIDLEY AUSTIN LLP
SIDLEY

SIDLEY AUSTIN LLP
787 SEVENTH AVENUE
NEW YORK, NY 10019
(212) 839 5300
(212) 839 5599 FAX

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FOUNDED 1866

October 4, 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 2008 Series C (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, C-3 and C-4 Bonds (the "Tax-Exempt Bonds") is not includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of federal income taxation under existing law. Interest on the Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the 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 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.

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 Tax-Exempt 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,

NEW ISSUE

In the opinion of Bond Counsel, interest on the Bonds will be exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City, and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, with respect to the Tax-Exempt Bonds, 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.

$889,100,000

The City of New York

General Obligation Bonds, Fiscal 2008 Series C
$639,100,000 Tax-Exempt Bonds, Subseries C-1
$250,000,000 Taxable Bonds, Subseries C-2

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

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

Interest on the Bonds will be payable on each April 1 and October 1, commencing April 1, 2008. The Bonds can be purchased in principal amounts of $5,000 or any integral multiple thereof. Other terms of the Bonds including redemption provisions are described herein. *A detailed schedule of the Bonds is set forth on the inside cover page.*

The Tax-Exempt Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters. The Taxable Bonds are being sold by public letting on the basis of electronic, competitive bids in accordance with the Notice of Sale dated September 10, 2007, as supplemented. 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 Edwards Angell Palmer & Dodge LLP, New York, New York, Special Disclosure Counsel to the City. 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 October 4, 2007.

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

September 19, 2007

$1,050,000,000[1] General Obligation Bonds, Fiscal 2008 Series C

	Subseries C-1 $639,100,000 Tax-Exempt Bonds			Subseries C-2 $250,000,000 Taxable Bonds		
October 1	Principal Amount	Interest Rate	Yield	Principal Amount	Interest Rate	Price or Yield
2009	$33,250,000	4¼%	3.50%	—	—	—
2010	13,125,000	4	3.54	—	—	—
2010	21,530,000	3½	3.54	—	—	—
2011	12,810,000	4	3.60	—	—	—
2011	26,870,000	5	3.60	—	—	—
2012	18,400,000	4	3.64	—	—	—
2012	11,490,000	5	3.64	$11,570,000	4¾%	4.916%
2013	—	—	—	43,070,000	5	5.011
2014	—	—	—	45,235,000	5	5.089
2015	—	—	—	47,545,000	5⅛	5.177
2016	—	—	—	49,990,000	5.26	100
2017	—	—	—	52,590,000	5.29	100
2018	17,745,000	4	4.06			
2018 (2)	37,060,000	5	4.06			
2019	12,425,000	4	4.16			
2019 (2)	45,450,000	5	4.16			
2020	2,350,000	4⅛	4.25			
2020 (2)	58,315,000	5	4.25			
2021	2,775,000	4⅛	4.31			
2022	7,565,000	4¼	4.35			
2022 (2)	59,270,000	5	4.35			
2023 (2)	25,000,000	5	4.39			
2023	45,120,000	4½	4.57			
2024 (2)(3)	73,625,000	5	4.32			
2025 (2)	40,930,000	5	4.47			
2025 (2)(3)	36,375,000	5	4.356			
2026 (2)	37,620,000	5	4.49			

(1) In addition to the $889,100,000 aggregate principal amount of Subseries C-1 Bonds and Subseries C-2 Bonds, the City expects to issue $160,900,000 aggregate principal amount of its tax-exempt multi-modal General Obligation Bonds, Fiscal 2008 Series C, 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.

(2) Priced to first call on October 1, 2017.

(3) Insured by Financial Security Assurance Inc.

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.

Other than with respect to information concerning Financial Security Assurance Inc. ("FSA") contained in Appendices C and D herein, none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax-exempt status of the interest on the Bonds.

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 $889,100,000 aggregate principal amount of the City's General Obligation Bonds, Fiscal 2008 Series C, Subseries C-1 and C-2 (the "Bonds") The Bonds consist of $639,100,000 tax-exempt bonds, Subseries C-1, (the "Tax-Exempt Bonds") and $250,000,000 taxable bonds, Subseries C-2 (the "Taxable Bonds"). The Taxable Bonds are to be issued to the original purchaser thereof in accordance with the City's Notice of Sale, dated September 10, 2007, as supplemented. Reference is made to the Notice of Sale for the terms and conditions of sale and delivery of the Taxable Bonds to be issued to the original purchaser thereof. Concurrently with the delivery of the Bonds, the City will deliver $160,900,000 aggregate principal amount of its tax-exempt multi-modal General Obligation Bonds, Fiscal 2008 Series C, Subseries C-3 and C-4, 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 and 2008 fiscal years and budget gaps for each of the 2009 through 2011 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"), Modification No. 07-4 to the July Financial Plan and the financial plan for the 2008 through 2011 fiscal years submitted to the Control Board June 20, 2007 (as so modified the "2007-2011 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

2007-2011 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 June 20, 2007 the City submitted to the Control Board the Financial Plan for the 2007 through 2011 fiscal years which relates to the City and certain entities that receive funds from the City and which reflects changes as a result of the City's expense and capital budgets for the 2008 fiscal year which were adopted on June 15, 2007. The Financial Plan is a modification to the July Financial Plan, as subsequently modified by the financial plans submitted to the Control Board on November 1, 2006, January 26, 2007 and April 27, 2007 (the "April Financial Plan"). The Financial Plan projects revenues and expenses for the 2007 and 2008 fiscal years balanced in accordance with GAAP, and projects gaps of $1.6 billion, $3.4 billion and $4.4 billion in fiscal years 2009 through 2011, respectively.

The Financial Plan reflects, since the July Financial Plan, increases in projected net revenues totaling $5.5 billion, $4.8 billion, $3.6 billion and $3.9 billion in fiscal years 2007 through 2010, respectively. Changes in projected revenues include (i) increases in projected net tax revenues of $5.4 billion, $4.2 billion, $3.5 billion and $3.9 billion in fiscal years 2007 through 2010, respectively, resulting primarily from increases in projected real estate transaction, personal income and business tax revenues and (ii) increases in other revenues of $424 million, $575 million, $97 million and $83 million in fiscal years 2007 through 2010, respectively, offset by a decrease of $307 million in State per capita aid in fiscal year 2007.

The Financial Plan also reflects, since the July Financial Plan, a decrease in projected net expenditures totaling $128 million in fiscal year 2007 and increases in projected net expenditures totaling $2.3 billion, $2.3 billion and $3.1 billion in fiscal years 2008 through 2010, respectively. Changes in projected expenditures since the July Financial Plan include: (i) increases in labor costs totaling $314 million, $627 million, $990 million and $1.2 billion in fiscal years 2007 through 2010, respectively, reflecting settlements of labor negotiations and the provision for similar increases for collective bargaining units not yet settled; (ii) increases in education spending of $103 million, $297 million, $330 million and $668 million in fiscal years 2007 through 2010, respectively; (iii) decreases in 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; (iv) decreases in fringe benefit costs of $108 million, $19 million, $24 million and $28 million in fiscal years 2007 through 2010, respectively; (v) a decrease in pension contributions of $18 million in fiscal year 2007 and increases in pension contributions of $120 million, $415 million and $450 million in fiscal years 2008 through 2010, respectively; (vi) a decrease in agency spending of $26 million in fiscal year 2007 and increases in agency spending of $711 million, $518 million and $514 million in fiscal years 2008 through 2010, respectively; (vii) City Council initiatives and restorations of $233 million in fiscal year 2008 and $43 million in each of fiscal years 2009 and 2010; (viii) decreases of $79 million and $11 million in fiscal years 2007 and 2008, respectively, and increases of $19 million and $17 million in fiscal years 2009 and 2010, respectively, in energy expenditures; (ix) poverty initiative funding of $13 million, $67 million, $65 million and $65 million in fiscal years 2007 through 2010, respectively; (x) increases in medical assistance costs, due in part to an increase in the City share of additional Medicaid claims, of $201 million, $452 million, $50 million and $144 million in fiscal years 2007 through 2010, respectively; (xi) decreases in debt service costs of $410 million, $462 million, $453 million and $437 million in fiscal years 2007 through 2010, respectively; (xii) decreases of $400 million and $260 million, respectively, in prior year payables and the general reserve in fiscal year 2007; (xiii) PlaNYC 2030 environment and infrastructure initiatives involving various tax credits and program funding with a net cost of $1 million, $199 million, $341 million and $377 million in fiscal years 2007 through 2010, respectively; and (xiv) an increase of $500 million in fiscal year 2007 in contributions to the trust fund for the future cost of retiree health benefits.

The Financial Plan also reflects, since the July Financial Plan, an agency program to reduce expenditures or increase revenues for a net savings of $258 million, $473 million, $346 million and $304 million in fiscal years 2007 through 2010, respectively. The Financial Plan also reflects, since the July Financial Plan, a $1.3 billion increased expense in fiscal year 2007 for the early retirement of debt including (i) the payment in fiscal year 2007 of $718 million to the TFA for the early retirement of TFA debt due in fiscal years 2009 and 2010, which results in increased personal income tax revenues of $33 million, $363 million and $382 million in fiscal years 2008 through 2010, respectively; and (ii) an increase of $536 million in debt service funding in fiscal year 2007 for the early retirement of general obligation debt due in fiscal years 2009 and 2010, which results in debt service savings of $27 million, $278 million and $277 million in fiscal years 2008 through 2010, respectively.

The Financial Plan also reflects, since the July Financial Plan, tax programs including (i) a 7% reduction in the real estate tax rate effective July 1, 2007 which has been enacted and results in lower real estate tax collections of $1.05 billion, $1.14 billion and $1.2 billion in fiscal years 2008 through 2010, respectively; and (ii) credits or increases to other taxes including a childcare tax credit, various small business tax credits and reductions, the City sales tax exemption for clothing and footwear purchases and a cigarette tax increase, with an estimated impact of $238 million, $284 million and $311 million in fiscal years 2008 through 2010, respectively, which require both State and local legislation, some of which has been enacted.

The Financial Plan also reflects the $256 million cost in each of fiscal years 2008, 2009 and 2010 of the extension of the $400 property tax rebate for homeowners, which has been approved by the State and the City.

On July 1, 2008, the local sales tax, which is currently imposed by the State at the rate of 4%, will expire and, absent legislative action, a 3% local sales tax imposed by the City would be in effect. The Financial Plan assumes that the City will receive the legislative authorization to continue to impose the local sales tax at the rate of 4%. If the City did not receive such authorization, sales tax revenues would be reduced by approximately $1.19 billion, $1.25 billion and $1.31 billion in fiscal years 2009 through 2011, respectively.

The Financial Plan does not reflect the impact of recent developments in the financial markets that are expected to adversely affect securities industry profitability and the number of real estate transactions that are consummated. Such developments could have a significant adverse impact on City revenues including, in particular, taxes resulting from real estate transfers and personal and business income taxes. The City expects to reflect any changes to its revenue projections in the next quarterly modification to the Financial Plan, which is expected to be released in late October or early November. On September 6, 2007, the Mayor directed that, in view of such recent developments, only critically necessary hires be made and non-critical additional spending commitments be avoided.

The Financial Plan does not include the full cost of the recent settlements with the Sergeants Benevolent Association (the "SBA"), the Uniformed Fire Officers Association (the "UFOA"), the Captains Endowment Association (the "CEA") and the Uniformed Sanitationmen's Association (the "USA"). If settlements with other uniformed forces employees and with civilian and pedagogical employees follow the pattern set by the SBA, the UFOA, the CEA and the USA, this would result in expenditures beyond those assumed in the Financial Plan of approximately $73 million in fiscal year 2008, $418 million in fiscal year 2009, $1.055 billion in fiscal year 2010 and $1.591 billion in fiscal year 2011. The added cost of these conforming settlements will continue to rise and reach $1.925 billion by fiscal year 2013. For additional information, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs.

The Financial Plan also does not reflect additional costs that would be incurred, unless there is a change in applicable law, as a result of Statement No. 49 of the Governmental Accounting Standards Board ("GASB 49"), which becomes effective on July 1, 2008 relating to the accounting treatment of pollution remediation costs. Such additional costs are expected to be substantial. See "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Reporting and Control Systems*."

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

The State

The State ended its 2006-2007 fiscal year on March 31, 2007 in balance on a cash basis, with a reported closing balance in the General Fund of $3.0 billion. The Governor's Executive Budget for the 2007-2008 fiscal year projected ending the 2007-2008 fiscal year in balance on a cash basis, with a closing balance in the General Fund of $3.0 billion, and projected gaps of $2.3 billion in fiscal year 2008-2009, $4.5 billion in fiscal year 2009-2010, and $6.3 billion in fiscal year 2010-2011, assuming that all of the Governor's Executive Budget savings proposals were implemented. The State Legislature completed action on the budget for the 2007-2008 fiscal year on April 1, 2007 (the "Enacted Budget").

The State released its Annual Information Statement on May 8, 2007 (the "Annual Information Statement"), which is expected to be updated quarterly, and which reflects the State Legislature's modifications to the Governor's Executive Budget for the 2007-2008 fiscal year, and revisions to spending estimates in the Enacted Budget through April 19, 2007, the date of the State financial plan. In the Annual Information Statement, the State Division of the Budget notes that the Enacted Budget, similar to the Governor's Executive Budget, also projects ending the 2007-2008 fiscal year in balance on a cash basis, but that the Enacted Budget projects a closing fund balance in the General Fund of $3.0 billion and projected gaps of approximately $3.1 billion in fiscal year 2008-2009, $4.8 billion in fiscal year 2009-2010 and $6.6 billion in fiscal year 2010-2011.

The State released an update to its Annual Information Statement on August 3, 2007 (the "August Update"). The August Update contains information regarding changes to the Enacted Budget approved through the end of the 2007 State legislative session, revisions to the State financial plan projections for fiscal years 2007 through 2011 reflected in the first quarterly update to the State financial plan, operating results for the first quarter of fiscal year 2007-2008, GAAP basis projections for fiscal year 2007-2008, a summary on debt and capital management, State retirement system information and the status of certain litigation with the potential to adversely affect the State's finances. The State financial plan, as updated in the August Update, projects ending fiscal year 2007-2008 in balance on a cash basis, with a closing balance in the General Fund of $3.0 billion, and projected gaps of $3.6 billion in fiscal year 2008-2009, $5.3 billion in fiscal year 2009-2010 and $6.7 billion in fiscal year 2010-2011.

The Annual Information Statement and the August Update 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, federal rule changes 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 salary increases to the judiciary and other elected officials; potential lower lottery revenue estimates and risks relating to the national and local economies that can increase the demand for mean-tested programs like Medicaid and welfare, including large increases in energy prices, national security concerns and financial sector performances.

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 (with related proceedings, the "Certificate"). The Bonds will mature and bear interest as described on the inside cover page of this Official Statement and will contain a pledge of the City's faith and credit for the payment of the principal of, redemption premium, if any, and interest on the Bonds. All real property subject to taxation by the City will be subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, to pay the principal of, redemption premium, if any, and interest on the Bonds. Interest on the Bonds, calculated on a 30/360 day basis, will be payable to the registered owners thereof as shown on the registration books of the City on the Record Date (the fifteenth day of the calendar month immediately preceding the applicable interest payment date).

Payment Mechanism

Pursuant to the Financial Emergency Act, a general debt service fund (the "General Debt Service Fund" or the "Fund") has been established for City bonds and certain City notes. Pursuant to the Act, payments of the City real estate tax must be deposited upon receipt in the Fund, and retained under a statutory formula, for the payment of debt service (with exceptions for debt service, such as principal of seasonal borrowings, that is set aside under other procedures). The statutory formula has in recent years resulted in retention of sufficient real estate taxes to comply with the City Covenants (as defined in

"—Certain Covenants and Agreements"). If the statutory formula does not result in retention of sufficient real estate taxes to comply with the City Covenants, the City will comply with the City Covenants either by providing for early retention of real estate taxes or by making cash payments into the Fund. The principal of and interest on the Bonds will be paid from the Fund until the Act expires not earlier than July 1, 2008, and thereafter from a separate fund maintained in accordance with the City Covenants. Since its inception in 1978, the Fund has been fully funded at the beginning of each payment period.

If the Control Board determines that retentions in the Fund are likely to be insufficient to provide for the debt service payable therefrom, it must require that additional real estate tax revenues be retained or other cash resources of the City be paid into the Fund. In addition, the Control Board is required to take such action as it determines to be necessary so that the money in the Fund is adequate to meet debt service requirements. For information regarding the termination date of the Act, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Emergency Act and City Charter*".

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".

Certain Covenants and Agreements

The City will covenant that: (i) a separate fund or funds for the purpose of paying principal of and interest on bonds and interest on notes of the City (including required payments into, but not from, City sinking funds) shall be maintained by an officer or agency of the State or by a bank or trust company; and (ii) not later than the last day of each month, there shall be on deposit in a separate fund or funds an amount sufficient to pay principal of and interest on bonds and interest on notes of the City due and payable in the next succeeding month. The City currently uses the debt service payment mechanism described above to perform these covenants. The City will further covenant in the Bonds to provide a general reserve for each fiscal year to cover potential reductions in its projected revenues or increases in its projected expenditures during each such fiscal year, to comply with the financial reporting requirements of the Act, as in effect from time to time, to limit its issuance of bond anticipation notes as required by the Act, as in effect from time to time, to include as terms of the multi-modal Bonds the provisions applicable thereto, and to comply therewith and with the statutory restrictions.

The State pledges and agrees in the Financial Emergency Act that the State will not take any action that will impair the power of the City to comply with the covenants described in the preceding paragraph (the "City Covenants") or any right or remedy of any owner of the Bonds to enforce the City Covenants (the "State Pledge and Agreement"). The City will covenant to make continuing disclosure with respect to the Bonds (the "Undertaking") to the extent summarized in "SECTION IX: OTHER INFORMATION—Continuing Disclosure Undertaking." In the opinion of Bond Counsel, the enforceability of the City Covenants, the Undertaking and the State Pledge and Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases. The City Covenants, the Undertaking and the State Pledge and Agreement shall be of no force and effect with respect to any Bond if there is a deposit in trust with a bank or trust company of sufficient cash or cash equivalents to pay when due all principal of, applicable redemption premium, if any, and interest on such Bond.

Use of Proceeds

The proceeds of the Tax-Exempt Bonds will be used for capital purposes 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 Bonds maturing after October 1, 2017 will be subject to redemption at the option of the City, on or after October 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 City may select amounts, interest rates 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.

Bond Insurance

Financial Security Assurance Inc. ("FSA") is expected to insure the principal of and interest on the Bonds maturing in 2024 and 2025 (4.356% yield)(the "Insured Bonds"). Information about FSA is set forth in Appendix C. A specimen FSA insurance policy is set forth in Appendix D.

Bond Certificates

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. Reference to the Bonds under the caption "Bond Certificates" shall mean all Bonds that are deposited with DTC from time to time. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (under this caption, "*Book-Entry Only System,*" a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

Payment of redemption proceeds and principal and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Fiscal Agent, The Bank of New York, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The services of DTC as securities depository with respect to the Bonds may be discontinued at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

No assurance can be given by the City that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The City is not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or Participants.

For every transfer and exchange of the Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

Unless otherwise noted, certain of the information contained in this subsection *"Book-Entry Only System"* has been extracted from information furnished by DTC. Neither the City nor the underwriters of the Bonds make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

SECTION III: GOVERNMENT AND FINANCIAL CONTROLS

Structure of City Government

The City of New York is divided into five counties, which correspond to its five boroughs. The City, however, is the only unit of local government within its territorial jurisdiction with authority to levy and collect taxes, and is the unit of local government primarily responsible for service delivery. Responsibility for governing the City is currently vested by the City Charter in the Mayor, the City Comptroller, the City Council, the Public Advocate and the Borough Presidents.

— *The Mayor.* Michael R. Bloomberg, the Mayor of the City, took office on January 1, 2002 and was elected to a second term which commenced on January 1, 2006. The Mayor is elected in a general election for a four-year term and is the chief executive officer of the City. The Mayor has the power to appoint the commissioners of the City's various departments. The Mayor is responsible for preparing and administering the City's annual Expense and Capital Budgets (as defined below) and financial plan. The Mayor has the power to veto local laws enacted by the City Council, but such a veto may be overridden by a two-thirds vote of the City Council. The Mayor has powers and responsibilities relating to land use and City contracts and all residual powers of the City government not otherwise delegated by law to some other public official or body. The Mayor is also a member of the Control Board.

— *The City Comptroller.* William C. Thompson, Jr., the Comptroller of the City, took office on January 1, 2002 and was elected to a second term which commenced on January 1, 2006. The City Comptroller is elected in a general election for a four-year term and is the chief fiscal officer of the City. The City Comptroller has extensive investigative and audit powers and responsibilities which include keeping the financial books and records of the City. The City Comptroller's audit responsibilities include a program of performance audits of City agencies in connection with the City's management, planning and control of operations. In addition, the City Comptroller is required to evaluate the Mayor's budget, including the assumptions and methodology used in the budget. The Office of the City Comptroller is responsible under the City Charter and pursuant to State law and City investment guidelines for managing and investing City funds for operating and capital purposes. The City Comptroller is also a member of the Control Board and is a trustee, the custodian and the delegated investment manager of the City's five pension systems. The investments of those pension system assets, aggregating approximately $112 billion as of June 30, 2007, 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."

In November 2006 the Governmental Accounting Standards Board ("GASB") issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 sets standards for the accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution through activities such as site assessments and cleanups. The standard will become effective for the City's fiscal year 2009, which begins on July 1, 2008.

Under GASB 49, costs incurred for remediation obligations must generally be reported as expenses rather than as capital expenditures. As a result, under current law, the City will generally be precluded from including any pollution remediation costs, including those incurred in conjunction with the acquisition, construction, or reconstruction of assets, in its capital program after June 30, 2008; all such costs will need to be paid from the City's expense budget.

The City is in the process of assessing the impact of GASB 49 on the Financial Plan, its capital and expense budgets and its reported liabilities. Unless there is a change in applicable law, the City will have to incur costs payable through its expense budget which are not reflected in the Financial Plan to pay for pollution remediation. Such costs are expected to be substantial.

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 operating 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 94% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of trustees. As of June 30, 2007 aggregate pension assets were allocated approximately as follows: 49% U.S. equities; 26% U.S. fixed income; 19% international equities; 5% 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 2007, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 72.1% of total revenues in the 2008 fiscal year while federal aid, including categorical grants, will provide 9.0%, and State aid, including unrestricted aid and categorical grants, will provide 18.9%. 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 35.6% of its total tax revenues and 22.0% of its total revenues for the 2008 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

Fiscal Year	Total Levy(1)	Levy Within Operating Limit	Debt Service Levy(2)	Debt Service Levy as a Percentage of Total Levy	Operating Limit	Levy Within Operating Limit as a Percentage of Operating Limit	Rate Per $100 of Full Valuation(3)	Average Tax Rate Per $100 of Assessed Valuation(4)
			(Dollars in Millions, except for Tax Rates)					
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
2008	14,356.2	10,462.4	2,952.1	20.6	14,949.0	70.0	2.02	11.42

(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 years 2002 and 2003 reflects an 18.49% 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 fiscal years 2003 through 2007, respectively. The decrease in the rate between fiscal years 2007 and 2008 reflects the 7% decrease effective July 1, 2007.

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 2008 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 2006 market value survey.

BILLABLE ASSESSED AND FULL VALUE OF TAXABLE REAL ESTATE(1)

Fiscal Year	Billable Assessed Valuation of Taxable Real Estate(2)	÷	Special Equalization Ratio	=	Full Valuation(2)
2004.	$ 99,854,097,559		0.2056		$485,671,680,734
2005.	103,676,971,611		0.1855		558,905,507,337
2006.	111,397,956,330		0.1818		612,750,034,818
2007.	116,477,764,261		0.1828		637,186,894,207
2008.	125,777,268,853		0.1770		710,606,038,718
				Average:	$601,024,031,163

(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 2007 fiscal year, the billable assessed value of all real estate (taxable and exempt) was $201.4 billion comprised of $74.0 billion of fully exempt real estate, $45.9 billion of partially taxable real estate and $81.5 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 2008, 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 2008 tax rates were set on June 15, 2007 and reflect a 2% limitation on the market value adjustment for 2007 while the average tax rate was reduced to $11.42 per $100 of assessed value, and the individual class tax rates were lower than 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. 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" are determined for each class by the State Board by calculating the ratio of assessed value to market value. 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."

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 billable assessed valuation for the 2007 fiscal year as determined by the Department of Finance was $115.1 billion, a growth of 4.6% over fiscal year 2006. The Department of Finance released the final assessment roll for fiscal year 2008 on June 9, 2007. The billable assessed value rose by $9.4 billion over the 2007 assessment roll to $124.5 billion, a growth of 8.1%. Billable assessed valuations are forecast to grow by 8.4%, 7.4% and 6.2% in fiscal years 2009 through 2011, 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 August 31, 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 2007, 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, $93.8 million and $37 million, respectively. The Financial Plan reflects receipt of $60 million in fiscal year 2008 from tax lien sales. As noted above, the authorization to sell tax liens expired on August 31, 2006. The Mayor intends to seek City Council authorization to sell tax liens in fiscal year 2008.

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	12,975.8	90.8	151.0	(231.0)	(1,028.7)	(286.7)	2.01	37.0
2008(6) . . .	14,356.2	13,007.1	90.6	153.0	(236.0)	(1,002.4)	(346.7)	2.41	60.0

(1) As approved by the City Council through fiscal year 2007.

(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, $0.2 million and $3.0 million in the 2002, 2003, 2004, 2005, 2006 and 2007 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 64.4% of its total tax revenues for the 2008 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4% sales and compensating use tax, in addition to the

4½% sales and use tax imposed by the State upon receipts from retail sales of tangible personal property and certain services in the City; (ii) the personal income tax on City residents; (iii) a general corporation tax levied on the income of corporations doing business in the City; and (iv) a banking corporation tax imposed on the income of banking corporations doing business in the City.

For local taxes other than the real estate tax, the City may adopt and amend local laws for the levy of local taxes to the extent authorized by the State. This authority can be withdrawn, amended or expanded by State legislation. Without State authorization, the City may impose real estate taxes to fund general operations in an amount not to exceed 2.5% of property values in the City as determined under a State mandated formula. In addition, the State cannot restrict the City's authority to levy and collect real estate taxes in excess of the 2.5% limitation in the amount necessary to pay principal of and interest on City indebtedness. For further information concerning the City's authority to impose real estate taxes, see "Real Estate Tax" above. Payments by the State to the City of sales tax and stock transfer tax revenues are subject to appropriation by the State. Until the defeasance of all of MAC's outstanding bonds with the proceeds of Sales Tax Asset Receivable Corporation ("STAR Corp.") bonds and MAC funds in fiscal year 2005, such sales tax and stock transfer tax revenues were made available first to MAC for payment of MAC debt service, reserve fund requirements, operating expenses, and State oversight costs with the balance payable to the City. Sales tax and stock transfer tax revenues are currently made available first to MAC for payment of MAC operating expenses and State oversight costs with the balance payable to the City. Such costs are expected to total approximately $10 million in fiscal years 2007 and 2008. 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.

	2002	2003	2004	2005	2006
			(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
Total	$12,957	$13,297	$16,583	$19,250	$21,575

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.

	2002	2003	2004	2005	2006
			(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	1,383	2,244	684	1,327	548
Total	$3,739	$4,648	$3,370	$5,073	$3,862

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.

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

(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.

	2002	2003	2004 (In Millions)	2005	2006
Federal					
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	$6,097	$5,618	$5,415	$6,654	$5,243
State					
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	$8,030	$8,317	$8,455	$8,823	$9,586

(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 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 2011 fiscal years. Actual enrollment in fiscal years 2002 through 2006 has been 1,068,849, 1,065,363, 1,060,413, 1,048,662 and 1,033,608, 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 40.6% 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.

	2002	2003	2004	2005	2006
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	54,062	49,982	50,903	52,645	53,186
Total	306,368	294,564	296,557	299,671	303,038

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.

	2002	2003	2004	2005	2006
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	35,377	35,956	35,833	36,227	36,727
Total(1)	98,025	98,323	97,074	96,061	96,592

(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 April 26, 2007, the City published the Ten-Year Capital Strategy for fiscal years 2008 through 2017. The Ten-Year Capital Strategy totals $83.7 billion, of which approximately 78% 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) $28.2 billion to construct new schools and improve existing educational facilities; (ii) $19.5 billion for improvements to the water and sewer system; (iii) $4.4 billion for expanding and upgrading the City's housing stock; (iv) $4.0 billion for reconstruction or resurfacing of City streets; (v) $767 million for continued City-funded investment in mass transit; (vi) $5.8 billion for the continued reconstruction and rehabilitation of all four East River bridges and 132 other bridge structures; (vii) $1.8 billion to expand current jail capacity; and (viii) $1.2 billion for construction and improvement of court facilities.

Those programs in the Ten-Year Capital Strategy financed with City funds are currently expected to be funded primarily from the issuance of general obligation bonds by the City and bonds issued by the Water Authority and, if the TFA's statutory bonding capacity is increased, the TFA. 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 $27.4 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.

	2002	2003	2004	2005	2006	Total
			(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)	1,976	1,451	1,402	2,207	1,404	8,440
Total Expenditures(3)	$6,320	$5,734	$5,755	$6,655	$6,595	$31,059
City-funded Expenditures(4)	$5,436	$5,376	$5,133	$5,274	$6,211	$27,430

(1) Excludes the Transit Authority's non-City portion of the Metropolitan Transportation Authority ("MTA") capital program.

(2) All Other includes, among other things, parks, correction facilities, public structures and equipment.

(3) Total Expenditures for the 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				
	2002	2003	2004	2005	2006
	(In Millions)				
Revenues and Transfers					
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	0	(47)	(27)	(87)	(542)
Total Revenues and Transfers(5)	$40,865	$44,345	$47,297	$52,795	$54,004

	Fiscal Year(1)				
	Actual				
	2002	2003	2004	2005	2006
	(In Millions)				
Expenditures and Transfers					
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)	8,264	9,292	9,263	11,819	10,656
Total Expenditures and Transfers(5)	$40,860	$44,340	$47,292	$52,790	$53,999
Surplus(7)	$ 5	$ 5	$ 5	$ 5	$ 5

(1) The City's results of operations refer to the City's General Fund revenues and transfers reduced by expenditures and transfers. The revenues and assets of PBCs included in the City's audited financial statements do not constitute revenues and assets of the City's General Fund, and, accordingly, the revenues of such PBCs 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. Other Taxes excludes $451 million, $537 million, $109 million, $497 million and $350 million of personal income taxes 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.

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 on June 20, 2007 (the "June 2007 Forecast"). Each forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	July 2006 Forecast	June 2007 Forecast	Increase/(Decrease) from July 2006 Forecast	
		(In Millions)		
REVENUES				
Taxes				
General Property Tax	$12,972	$12,933	$ (39)	
Other Taxes	19,040	23,843	4,803	(1)
Tax Audit Revenue	509	1,159	650	(2)
Miscellaneous Revenues	5,155	5,675	520	(3)
Unrestricted Intergovernmental Aid	340	33	(307)	(4)
Less: Intra-City Revenues	(1,355)	(1,418)	(63)	
Disallowances Against Categorical Grants	(15)	(15)	—	
Subtotal – City Funds	$36,646	$42,210	$ 5,564	
Other Categorical Grants	967	1,113	146	(5)
Inter-Fund Revenues	395	412	17	
Total City Funds & Inter-Fund Revenues	$38,008	$43,735	$ 5,727	
Federal Categorical Grants	5,063	5,899	836	(6)
State Categorical Grants	9,869	10,259	390	(7)
Total Revenues	$52,940	$59,893	$ 6,953	
EXPENDITURES				
Personal Services				
Salaries and Wages	$19,248	$19,556	$ 308	(8)
Pensions	4,891	4,861	(30)	
Fringe Benefits	6,920	7,478	558	(9)
Total – Personal Services	$31,059	$31,895	$ 836	
Other Than Personal Services				
Medical Assistance	4,935	5,222	287	(10)
Public Assistance	2,199	1,196	(1,003)	(11)
Pay-As-You-Go Capital	200	300	100	
All Other	15,410	17,619	2,209	(12)
Total – Other Than Personal Services	$22,744	$24,337	$ 1,593	
Debt Service & MAC Administrative Expenses	3,943	4,127	184	(13)
FY 2006 Budget Stabilization & Discretionary Transfers	(3,751)	(3,751)	—	(14)
FY 2007 Budget Stabilization & Discretionary Transfers	—	4,663	4,663	(15)
General Reserve	300	40	(260)	
Total Expenditures	$54,295	$61,311	$ 7,016	
Less: Intra-City Expenses	(1,355)	(1,418)	(63)	
Net Total Expenditures	$52,940	$59,893	$ 6,953	

(1) The increase in Other Taxes is due to increases in personal income taxes of $858 million, sales and use taxes of $14 million, banking corporation tax of $727 million, general corporation tax of $890 million, unincorporated business tax of $445 million, mortgage recording tax of $683 million, real property transfer tax of $816 million, commercial rent tax of $5 million, hotel occupancy tax of $23 million, cigarette tax revenue of $4 million, all other taxes of $89 million and the State's STAR Program aid of $257 million offset by a decrease in utility tax of $8 million.

(2) The increase in Tax Audit Revenue reflects increases of $578 million in general corporation tax as a result of the resolution of eight years of open audits, $51 million in banking corporation tax, $14 million in unincorporated business tax, $10 million in commercial rent tax and $2 million in personal income tax offset by a decline of $5 million in sales tax.

(3) The increase in Miscellaneous Revenues is due to increases of $164 million in interest income, $63 million in intra-City revenues, $71 million in licenses, permits and franchises, $15 million in water and sewer charges, $110 million in miscellaneous revenue, $44 million in charges for services, $35 million in rental income and $18 million in fines and forfeitures.

(4) The decrease in Unrestricted Intergovernmental Aid is due to a reduction of State per capita aid.

(5) The increase in Other Categorical Grants is due to increases of $161.4 million in categorical grants which offset categorical expenditures, offset by decreases of approximately $15.4 million in various agencies grants.

(6) The increase in Federal Categorical Grants is due to increases of $663.4 million in categorical grants which offset categorical expenditures, $127.5 million in social services funding, $36.8 million in education funding and $8.3 million in other grants.

(7) The increase in State Categorical Grants is due to increases of $344.4 million in categorical grants which offset categorical expenditures, $23.7 million in social services funding and $21.9 million in other grants.

(8) The increase in Personal Services—Salaries and Wages is due to increases of $169 million for recent collective bargaining settlements, $189 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, offset by a decrease of $50 million in net agency expenditures.

(9) The increase in Personal Services—Fringe Benefits is due to the increase of $500 million in contributions to a trust fund for the future cost of retiree health benefits and a net increase of $58 million in all other fringe benefits.

(10) The increase in Other Than Personal Services—Medical Assistance is primarily due to the increase in the City share of additional Medicaid claims.

(11) The decrease in Other Than Personal Services—Public Assistance is due to decreases of $844 million reflecting the reclassification of certain social service expenditures from Public Assistance to All Other and $159 million as a result of a declining caseload.

(12) The increase in Other Than Personal Services — All Other is due to increases of $1,123 billion in categorical expenditures which are offset by categorical grants and $844 million reflecting the reclassification of certain social services expenditures from Public Assistance to All Other, and the payment of $718 million to the TFA for the early retirement of TFA debt due in fiscal years 2009 and 2010, offset by decreases of $400 million in prior years' expense and $76 million in net agency spending.

(13) The increase in Debt Service & MAC Administrative Expenses is primarily due to the use of $536 million for the early retirement of debt due in fiscal years 2009 and 2010 offset by the elimination of short-term borrowing, the reduced level of general obligation debt issuance and decreases in other debt service costs.

(14) 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.

(15) FY 2007 Budget Stabilization & Discretionary Transfers reflects a $546 million grant to the TFA in fiscal year 2007, the discretionary transfer of $3.313 billion into the General Debt Service Fund in fiscal year 2007 for debt service due in fiscal year 2008, the payment in fiscal year 2007 of $100 million in lease debt service and $639 million in subsidies, respectively, otherwise due in fiscal year 2008 and the payment of $65 million for the early retirement of lease debt due in fiscal years 2009 and 2010.

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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 2011 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	2011
		(In Millions)			
REVENUES					
Taxes					
General Property Tax(3)	$12,933	$12,984	$14,100	$15,186	$16,171
Other Taxes(4)(5)	23,843	22,676	22,300	23,151	23,882
FY 2007 Discretionary Transfer (6)	—	546	—	—	—
Tax Audit Revenue	1,159	559	559	560	560
Tax Reduction Program(7)	—	(290)	(507)	(575)	(634)
Miscellaneous Revenues(8)	5,675	5,997	5,080	5,097	5,131
Unrestricted Intergovernmental Aid	33	340	340	340	340
Less: Intra-City Revenues	(1,418)	(1,393)	(1,364)	(1,365)	(1,365)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$42,210	$41,404	$40,493	$42,379	$44,070
Other Categorical Grants	1,113	1,006	1,007	1,012	1,014
Inter-Fund Revenues(9)	412	436	411	403	398
Total City Funds and Inter-Fund Revenues	$43,735	$42,846	$41,911	$43,794	$45,482
Federal Categorical Grants	5,899	5,295	5,380	5,364	5,351
State Categorical Grants	10,259	10,824	11,410	12,275	12,718
Total Revenues	$59,893	$58,965	$58,701	$61,433	$63,551
EXPENDITURES					
Personal Services					
Salaries and Wages	$19,556	$20,979	$21,978	$23,332	$24,443
Pension	4,861	5,728	6,390	6,509	6,519
Fringe Benefits(10)	7,478	6,374	6,681	6,965	7,288
Subtotal-Personal Services	$31,895	$33,081	$35,049	$36,806	$38,250
Other Than Personal Services					
Medical Assistance	5,222	5,714	5,603	5,756	6,076
Public Assistance	1,196	1,187	1,187	1,187	1,187
Pay-As-You-Go Capital	300	100	200	200	200
All Other(11)	17,619	17,641	17,549	17,974	18,219
Subtotal-Other Than Personal Services	$24,337	$24,642	$24,539	$25,117	$25,682
Debt Service & MAC Administrative Expenses(12)	4,127	3,835	3,963	4,353	5,053
FY 2006 Budget Stabilization & Discretionary Transfers(13)	(3,751)	—	—	—	—
FY 2007 Budget Stabilization & Discretionary Transfers (6)(14)	4,663	(4,052)	(34)	(31)	—
FY 2008 Budget Stabilization	—	2,552	(2,552)	—	—
FY 2009 Budget Stabilization			350	(350)	
General Reserve	40	300	300	300	300
	$61,311	$60,358	$61,615	$66,195	$69,285
Less: Intra-City Expenses	(1,418)	(1,393)	(1,364)	(1,365)	(1,365)
Total Expenditures	$59,893	$58,965	$60,251	$64,830	$67,920
GAP TO BE CLOSED	$ —	$ —	$(1,550)	$(3,397)	$(4,369)

(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.

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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 7% reduction in the average real estate tax rate effective July 1, 2007, the State's STAR Program, the real estate tax rebates to owner-occupants of houses, co-ops and condominiums, and other real estate tax 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) FY 2007 Discretionary Transfer reflects the impact of a grant to the TFA of $546 million in fiscal year 2007 which will be used by the TFA to pay debt service in fiscal year 2008 and result in increased personal income tax revenues in fiscal year 2008.

(7) Tax Reduction Program reflects the proposed child care credit against the City personal income tax with an estimated impact of $42 million, $43 million, $44 million and $45 million in fiscal years 2008 through 2011, respectively, tax reductions for small businesses with an estimated impact of $105 million, $143 million, $166 million and $205 million in fiscal years 2008 through 2011, respectively, a City sales tax exemption on clothing and footwear purchases with an estimated impact of $110 million, $117 million, $119 million and $122 million in fiscal years 2008 through 2011, respectively, and the PlaNYC 2030 tax initiatives with an estimated impact of $53 million, $224 million, $265 million and $281 million in fiscal years 2008 through 2011, respectively, offset by a cigarette tax increase with an estimated value of $20 million, $20 million, $19 million and $19 million in fiscal years 2008 through 2011, respectively. These proposals require both State and local approval.

(8) 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."

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

(10) Personal Services—Fringe Benefits includes contributions of $1.5 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."

(11) For a discussion of the categories of expenditures in Other Than Personal Services—All Other, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Services Costs."

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

(13) FY 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.

(14) FY 2007 Budget Stabilization & Discretionary Transfers reflects a $546 million grant to the TFA in fiscal year 2007, the discretionary transfer of $3.313 billion into the General Debt Service Fund in fiscal year 2007 for debt service due in fiscal year 2008, the payment in fiscal year 2007 of $100 million in lease debt service and $639 million in subsidies, respectively, otherwise due in fiscal year 2008 and the payment in fiscal year 2007 of $65 million for the early retirement of lease debt due in fiscal years 2009 and 2010.

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 and 2008 fiscal years, there can be no assurance that the Financial Plan or future actions to close projected outyear gaps can be successfully implemented or that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

Assumptions

The Financial Plan is based on numerous assumptions, including the condition of the City's and the region's economies and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for City employees exceed the annual wage costs assumed for the 2007 through 2011 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 through 2006. The economic projections contained therein assume that growth will moderate in calendar year 2007.

The following table presents a forecast of the key economic indicators for the calendar years 2006 through 2011. This forecast is based upon information available in May 2007.

Forecast of Key Economic Indicators

U.S. ECONOMY	2006	2007	2008	2009	2010	2011
	Calendar Years					
Economic Activity and Income						
Real GDP (billions of 2000 dollars)	11,414	11,680	12,004	12,380	12,768	13,118
Percent Change	3.3	2.3	2.8	3.1	3.1	2.7
Non-Agricultural Employment (millions)	136.2	137.8	139.5	141.4	143.3	144.8
Change from Prior Year	2.5	1.7	1.6	1.9	1.9	1.4
Percent Change	1.9	1.2	1.2	1.4	1.4	1.0
CPI-All Urban (1982-84=100)	201.6	205.7	210.3	214.9	219.4	224.0
Percent Change	3.2	2.1	2.2	2.2	2.1	2.1
Wage Rate ($ per year)	44,228	45,881	47,481	49,266	51,203	53,203
Percent Change	4.4	3.7	3.5	3.8	3.9	3.9
Personal Income ($ billions)	10,884	11,482	12,098	12,791	13,535	14,264
Percent Change	6.3	5.5	5.4	5.7	5.8	5.4
Pre-Tax Corp Profits ($ billions)	1,792	1,852	1,861	1,873	1,860	1,864
Percent Change	18.0	3.3	0.5	0.6	(0.7)	0.2
Unemployment Rate (Percent)	4.6	4.8	4.9	4.7	4.5	4.4
10-Year Treasury Bond Rate	4.8	4.9	5.3	5.5	5.6	5.6
Federal Funds Rate	5.0	5.3	5.3	5.3	5.3	5.3
NEW YORK CITY ECONOMY						
Real Gross City Product (billions of dollars)	476	478	477	489	503	517
Percent Change	5.1	0.4	(0.2)	2.5	2.9	2.8
Non-Agricultural Employment (thousands)	3,664	3,711	3,742	3,780	3,817	3,844
Change from Prior Year	62.2	47.0	30.6	37.6	37.2	27.5
Percent Change	1.7	1.3	0.8	1.0	1.0	0.7
CPI-All Urban NY-NJ Area (1982-84=100)	220.8	227.4	232.9	238.4	243.9	249.4
Percent Change	3.8	3.0	2.4	2.4	2.3	2.3
Wage Rate ($ per year)	72,060	75,958	76,734	78,658	81,992	85,636
Percent Change	6.1	5.4	1.0	2.5	4.2	4.4
Personal Income ($ billions)	370	388	402	421	443	466
Percent Change	6.6	5.1	3.7	4.5	5.3	5.2
NEW YORK REAL ESTATE MARKET						
Manhattan Primary Office Market						
Asking Rental Rate ($ per square foot)	53.93	65.32	71.88	75.79	87.13	93.26
Percent Change	12.9	21.1	10.0	5.4	15.0	7.0
Vacancy Rate – Percent	7.3	5.2	5.2	5.2	4.7	5.0

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 decrease in the average tax rate to $11.42 per $100 of assessed value for fiscal year 2008 is projected to remain in effect for the forecast period through 2011. Projections of real estate tax revenues reflect this 7% rate reduction with estimated costs of $1.05 billion, $1.14 billion, $1.22 billion and $1.3 billion in fiscal years 2008 through 2011, respectively.

Projections of real estate tax revenues include $37 million net revenue in fiscal year 2007 and net revenues of $60 million, $38 million, $34 million and $31 million in fiscal years 2008, 2009, 2010 and 2011, respectively, from the sale of real property tax liens. Although the authorization to sell such real estate tax liens expired on August 31, 2006, the Financial Plan assumes the enactment of local legislation to reauthorize such sales. 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 fiscal year 2007 and $160 million in each of fiscal years 2008 through 2011. 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 $311 million, $311 million, $321 million, $342 million and $360 million in fiscal years 2007 through 2011, respectively. Projections of real estate tax revenues reflect the real estate tax rebate of $400 to owner-occupants of houses, co-ops and condominiums which has an estimated cost of $256 million in each of fiscal years 2007 through 2011.

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 2.0%, 2.4%, 2.5%, 2.5% and 2.5% in fiscal years 2007 through 2011, 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.

	2007	2008	2009	2010	2011
			(In Millions)		
Personal Income(1)	$ 7,002	$ 6,953	$ 7,000	$ 7,358	$ 7,403
General Corporation	3,268	3,163	3,111	3,204	3,380
Banking Corporation	1,252	813	658	693	729
Unincorporated Business Income	1,684	1,586	1,573	1,606	1,693
Sales(2)	4,522	4,644	4,765	4,995	5,247
Commercial Rent	507	550	566	583	601
Real Property Transfer	1,679	1,381	1,163	1,178	1,207
Mortgage Recording	1,565	1,249	1,118	1,132	1,159
Utility	351	355	370	385	401
Cigarette	122	117	113	111	109
Hotel	332	337	353	367	381
All Other(3)	1,559	1,528	1,510	1,539	1,572
Total	$23,843	$22,676	$22,300	$23,151	$23,882

Note: Totals may not add due to rounding.

(1) Personal Income does not include $732 million, $167 million, $775 million, $767 million and $1.154 billion of personal income tax revenues projected to be retained by the TFA for debt service and other expenses in the 2007, 2008, 2009, 2010 and 2011 fiscal years, respectively. Personal Income includes $229 million, $399 million, $363 million and $382 million of additional personal income tax revenues in fiscal years 2007 through 2010, respectively, reflecting the early provision for TFA debt service payments otherwise expected to be made in those fiscal years. Personal Income does not reflect the impact of the grant to the TFA of $546 million in fiscal year 2007, which is reflected in the Financial Plan under FY 2007 Discretionary Transfer and will be used by the TFA to pay debt service in fiscal year 2008, thereby increasing personal income tax revenue by that amount in fiscal year 2008. These projections include the effects of the State's STAR Program, which will reduce personal income tax revenues by an estimated $928 million, $988 million, $961 million, $984 million and $1.017 billion in the 2007 through 2011 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 $73 million, $75 million, $78 million, $80 million and $82 million in fiscal years 2007 through 2011, respectively. These projections include the effects of the increase in the personal income tax rates for three years commencing January 1, 2003 which will generate $10 million in fiscal year 2007.

(2) These projections assume that the City will receive legislative authorization to continue to impose the local sales tax at the rate of 4%. Without such legislative authorization, the local sales tax would decline effective July 1, 2008 to the rate of 3%, which would result in a reduction in sales tax revenues of approximately $1.19 billion, $1.25 billion and $1.31 billion in fiscal years 2009 through 2011, respectively.

(3) All Other includes, among others, OTB surtax revenues, beer and liquor taxes, and the automobile use tax. All Other also includes $1.093 billion, $1.148 billion, $1.121 billion, $1.144 billion and $1.177 billion in fiscal years 2007 through 2011, 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 residential real estate transaction activity and securities price appreciation in calendar year 2006, near zero growth in fiscal year 2008 reflecting lower bonuses and lower capital gains in calendar year 2007 and moderate growth in fiscal years 2009 through 2011 reflecting moderate growth in wage income and renewed strength in Wall Street profitability; (ii) with respect to the general corporation tax, strong growth in fiscal year 2007, reflecting robust Wall Street revenue growth and strong 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, a decline in growth in fiscal year 2009 reflecting a steep decline in NYSE member-firm profits in calendar year 2008 and modest growth in fiscal years 2010 and 2011 reflecting a rebound in Wall Street profitability; (iii) with respect to the banking corporation tax, strong growth in fiscal year 2007 due to strength in investment banking related earnings, a decline in growth in fiscal years 2008 and 2009 due to declining Wall Street activity and large commercial real estate transactions and a return to moderate growth in fiscal years 2010 and 2011 reflecting a rebound in Wall Street related activity; (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 job growth in professional services and information employment sectors, 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, a decline in fiscal year 2009 reflecting declining Wall Street profits and moderate growth in fiscal years 2010 and 2011 reflecting a rebound in NYSE member-firm profits; (v) with respect to sales tax revenues, near zero 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 reflecting dampened consumption as a result of a decline in Wall Street bonuses in calendar year 2007 and a real estate market slowdown, near zero growth in fiscal year 2009 due to a decline in Wall Street profits, and moderate growth in fiscal years 2010 and 2011 paralleling wage income growth; (vi) with respect to the real property transfer tax, strong, but slowing, growth in fiscal year 2007 as the number of transactions and the average sales price in the residential market slows, offset by the stronger commercial property market, 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, slower growth 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 years 2007 and 2008 reflecting lower vacancy rates and increases in asking rents paralleling growth in the local economy and with growth slowing in fiscal years 2009 through 2011.

On July 1, 2008, the local sales tax, which is currently imposed by the State at the rate of 4%, will expire and, absent legislative action, a 3% local sales tax imposed by the City would be in effect. The Financial Plan assumes that the City will receive the legislative authorization to continue to impose the local sales tax at the rate of 4%. If the City did not receive such authorization, sales tax revenues would be reduced by approximately $1.19 billion, $1.25 billion and $1.31 billion in fiscal years 2009 through 2011, respectively.

4. Miscellaneous Revenues

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

	2007	2008	2009	2010	2011
			(In Millions)		
Licenses, Permits and Franchises	$ 465	$ 419	$ 420	$ 423	$ 427
Interest Income	477	387	137	144	144
Charges for Services	595	563	549	547	548
Water and Sewer Payments(1)	1,103	1,194	1,192	1,196	1,224
Rental Income	216	194	193	192	192
Fines and Forfeitures	746	724	723	724	724
Other	655	1,123	502	506	507
Intra-City Revenues	1,418	1,393	1,364	1,365	1,365
Total	$5,675	$5,997	$5,080	$5,097	$5,131

(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, 2010 and 2011 respectively, for lease payments for the City's airports.

Miscellaneous Revenues—Other reflects $549 million, $142 million, $143 million and $145 million of projected resources in fiscal years 2008 through 2011, 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.

	2007	2008	2009	2010	2011
			(In Millions)		
State Revenue Sharing	$20	$327	$327	$327	$327
Other Aid	13	13	13	13	13
Total	$33	$340	$340	$340	$340

The Other Aid category consists of $13 million in prior year claims settlements in fiscal years 2007 through 2011.

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.

	2007	2008	2009	2010	2011
			(In Millions)		
Federal					
Community Development	$ 277	$ 269	$ 277	$ 262	$ 259
Welfare	2,542	2,291	2,400	2,393	2,393
Education	1,812	1,851	1,898	1,899	1,900
Other	1,268	884	805	810	799
Total	$ 5,899	$ 5,295	$ 5,380	$ 5,364	$ 5,351
State					
Welfare	$ 1,866	$ 1,927	$ 1,804	$ 1,804	$ 1,803
Education	7,179	7,872	8,628	9,494	9,932
Higher Education	195	195	195	195	195
Health and Mental Hygiene	456	457	430	429	435
Other	563	373	353	353	353
Total	$10,259	$10,824	$11,410	$12,275	$12,718

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 May 31, 2007, approximately 14.0% 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.

	2007	2008	2009	2010	2011
			(In Millions)		
Wages and Salaries	$19,274	$20,348	$21,009	$21,912	$22,662
Pensions	4,861	5,728	6,390	6,509	6,519
Other Fringe Benefits	7,478	6,374	6,681	6,965	7,288
Reserve for Collective Bargaining					
Department of Education	17	20	21	21	21
Other	265	611	948	1,399	1,760
Reserve Subtotal	282	631	969	1,420	1,781
Total	$31,895	$33,081	$35,049	$36,806	$38,250

The Financial Plan projects that the authorized number of City-funded full-time and full-time equivalent employees whose salaries are paid directly from City funds, as opposed to federal or State funds or water and sewer funds, will increase from an estimated level of 264,069 on June 30, 2007 to an estimated level of 270,532 by June 30, 2011.

Other Fringe Benefits includes $1.4 billion, $1.5 billion, $1.6 billion, $1.7 billion and $1.9 billion in fiscal years 2007 through 2011, 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 $1.5 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 contracts for the current round of collective bargaining settled as of the date of the Financial Plan. The Reserve for Collective Bargaining contains funds for the cost of collective bargaining increases for this and all prior bargaining rounds, for labor contracts not yet settled, consistent with the settled contract patterns. For civilian employees the contract pattern is that of the District Council 37 of the American Federation of State, County and Municipal Employees ("DC 37") settlement which provided for a 2% increase on the first day, and a 4% increase on the first day of the seventh month of the agreement with additional small amounts provided for the welfare fund and for salary increases to specific titles. For uniformed employees the contract pattern is that of the recent settlement with the Uniformed Firefighters Association of Greater New York (the "UFA") which provides for a 4% wage increase August 1, 2006, a 4% wage increase on August 1, 2007 and additional benefit increases which bring the total value of the settlement to 9.75% over two years. Contracts covering the majority of City employees expire in the period from March 2008 to October 2009. After the expiration of each contract, the Financial Plan assumes annual increases of 1.25%.

In August 2007, the SBA, the USA, the CEA and the UFOA ratified contracts with the City. The SBA agreement covers the period from June 1, 2005 through July 31, 2011. This agreement calls for a wage increase of 3% effective June 1, 2005, a wage increase of 3.15% effective June 1, 2006 and a wage increase of 4% effective on each of June 1, 2007, June 1, 2008, August 1, 2009 and August 1, 2010. The proposed agreement also provides, beginning in fiscal years 2009 and 2011, additional monies to enhance the starting salaries, increase longevity payments, increase City contributions to annuity funds, and increase City welfare fund contributions, all of which equate to a wage increase of 1.47%, effective July 1, 2008 and a wage increase of 1.59%, effective September 1, 2010. The wage increases effective through July 31, 2009 are based on the patterns already established and are reflected in the Financial Plan. The last two years of the contract set a pattern expected to be followed by the other municipal unions in collective bargaining for this time period. The USA, the CEA and the UFOA agreements followed the pattern described above. Assuming that eventual labor settlements with other uniformed forces' employees follow this pattern and that the settlements with civilian and pedagogical employees match those in these agreements, but without the 1.59% wage increase equivalent for uniformed forces' employees, this would result in expenditures beyond those assumed in the Financial Plan of approximately $73 million in fiscal year 2008, $418 million in fiscal year 2009, $1.055 billion in fiscal year 2010 and $1,591 in fiscal year 2011. The added cost of these conforming settlements will continue to rise and reach $1.925 billion by fiscal year 2013. For additional information, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

The City and the Patrolmen's Benevolent Association ("PBA") will be entering arbitration before a PERB appointed arbitration panel. Hearings are scheduled to commence on November 6, 2007 and continue through December 2007. The City anticipates that a settlement will be awarded in the spring of 2008. 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.

	2007	2008	2009	2010	2011
			(In Millions)		
Administrative OTPS	$14,419	$14,892	$14,808	$15,181	$15,476
Public Assistance	1,196	1,187	1,187	1,187	1,187
Medical Assistance	5,222	5,714	5,603	5,756	5,916
HHC Support	218	229	164	168	168
Pay-As-You-Go Capital	200	100	200	200	200
Other	2,982	2,520	2,577	2,625	2,735
Total	$24,237	$24,642	$24,539	$25,117	$25,682

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 and 2008 fiscal years. Thereafter, to account for inflation, OTPS expenditures are projected to rise by 2.5% annually in fiscal years 2009 through 2011, respectively. Energy costs for each of the 2007 through 2011 fiscal years are assumed to vary annually, with total energy expenditures projected at $826 million in fiscal year 2007 and increasing to $940 million by fiscal year 2011.

Public Assistance

The number of persons receiving benefits under public assistance programs is projected to average 377,511 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 $447 million and is projected to remain at that level for each of fiscal years 2008 through 2011.

Medical Assistance

Medical assistance payments projected in the Financial Plan consist of payments to voluntary hospitals, skilled nursing facilities, intermediate care facilities, home care, pharmacy, managed care and physicians and other medical practitioners. The City-funded portion of medical assistance payments is estimated at $4.460 billion for the 2007 fiscal year and is expected to increase to $5.784 billion in fiscal year 2011. Such payments include, among other things, City-funded Medicaid payments, including City-funded

Medicaid payments to HHC beginning in fiscal year 2008, 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 $885 million in fiscal year 2007 decreasing to $160 million in fiscal year 2011. This decrease reflects the consolidation of Medicaid payments under Medical Assistance within Social Services. In the 2007 fiscal year City-funded expenditures include $52.6 million for the care of prisoners and uniformed personnel, $130 million of intra-City payments and grants, and $582 million for the City's share of HHC Medicaid payments.

HHC is projected to achieve balanced budgets in fiscal years 2007 through 2011 on an accrual basis. Total receipts before implementation of the HHC gap-closing program are projected to be $6.3 billion in fiscal year 2007 decreasing to $5.3 billion in fiscal year 2011. Total disbursements before implementation of the HHC gap-closing program are projected to be $5.4 billion, in fiscal year 2007 increasing to $6.1 billion in fiscal year 2011. These projections assume increases in other than personal services costs and fringe benefits in fiscal years 2007 through 2011. 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 2007 through 2010 fiscal years was prepared in April 2007. The NYCT fiscal year coincides with the calendar year. The NYCT financial plan projects City assistance to the NYCT operating budget of $262.7 million in 2007 increasing to $288.0 million in 2010, in addition to real estate tax revenue dedicated for NYCT use of $494.7 million in 2007 increasing to $620.5 million in 2010.

For 2007, the NYCT financial plan projects $6.3 billion in revenues and $7.9 billion in expenses, leaving a budget gap of $1.6 billion. This gap will be offset by a $1.1 billion depreciation adjustment, approximately $41.2 million in anticipated cash flow adjustments including reserve funds and additional receipts, $34.1 million in an MTA gap-closing program, and funds made available from a $496.4 million cash basis surplus in 2006, leaving a net surplus of $89.2 million in 2007. It is expected that the NYCT cash basis budget will be balanced for 2007. The NYCT financial plan forecasts operating budget gaps of $691.2 million, $1.8 billion and $3.1 billion in 2008 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 2008 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 which 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 which reflects minor program changes and no change in funding levels, was approved by the MTA Board on January 25, 2006 and 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 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.

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 $591.2 million, $634.8 million, $687.7 million, $738.2 million and $795.3 million for the 2007 through 2011 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 2011. 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 $231 million, $236 million, $244 million, $261 million and $276 million for the 2007 through 2011 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 & MAC Administrative Expenses

Debt service estimates for the 2007 through 2011 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. MAC administrative expenses for the 2007 and 2008 fiscal years are certified by MAC and include State oversight costs and MAC operating expenses.

Certain Reports

From time to time, the Control Board staff, OSDC, the City Comptroller, the IBO and others issue reports and make public statements regarding the City's financial condition, commenting on, among other matters, the City's financial plans, projected revenues and expenditures and actions by the City to eliminate projected operating deficits. Some of these reports and statements have warned that the City may have underestimated certain expenditures and overestimated certain revenues and have suggested that the City may not have adequately provided for future contingencies. Certain of these reports have analyzed the City's future economic and social conditions and have questioned whether the City has the capacity to generate sufficient revenues in the future to meet the costs of its expenditure increases and to provide necessary services. It is reasonable to expect that reports and statements will continue to be issued and to engender public comment.

On July 23, 2007, the City Comptroller released a report on the City's Adopted Budget and Financial Plan. The report notes that the City expected to end fiscal year 2007 with a record budget surplus of $4.663 billion primarily due to increased revenue collections and economic growth. The report noted that the City is using the accumulated operating surplus to reduce expenditures in fiscal years 2008 through 2010 and to narrow projected budget gaps during the Financial Plan period.

In his report, the City Comptroller identified net resources and risks for fiscal years 2007 through 2011, which, when added to the projected results in the Financial Plan, would result in surpluses of $40 million and $257 million in fiscal years 2007 and 2008, respectively, and gaps of $850 million, $3.09 billion and $4.46 billion in fiscal years 2009, 2010 and 2011, respectively. Overall, the City Comptroller's report identified additional net resources exceeding Financial Plan projections by $40 million, $257 million, $700 million and $305 million in fiscal years 2007 through 2010, respectively, and lower net resources of $90 million in fiscal year 2011. The difference from the Financial Plan projections results primarily from City Comptroller tax revenue projections which exceed those in the Financial Plan by $40 million, $430 million, $965 million, $705 million and $480 million in fiscal years 2007 through 2011, respectively, primarily due to higher forecasts of business, personal income, sales and real estate transaction tax revenues through the Financial Plan period. The report identified net risks which offset the higher revenue projections by $173 million, $265 million, $400 million and $570 million in fiscal years 2008 through 2011, respectively, resulting from: (i) increased overtime expenditures of $123 million in fiscal year 2008 and $100 million in each of fiscal years 2009 through 2011; (ii) the shortfall in assumed federal education aid of $50 million in fiscal year 2008 and $100 million in each of fiscal years 2009 through 2011; and (iii) increased costs of collective bargaining of $65 million in fiscal year 2009, $200 million in fiscal year 2010 and $370 million in fiscal year 2011.

The City Comptroller's report also projected significantly higher growth rates in the Gross City Product and higher City job growth than that assumed in the Financial Plan in calendar years 2007 through 2011.

On July 19, 2007, the staff of the OSDC issued a report on the Financial Plan. The OSDC report found that the City has realized $9.4 billion in unanticipated resources for fiscal years 2007 and 2008, even after addressing funding needs that were not contemplated at the start of the fiscal year. For fiscal year 2007 alone, the City realized a net benefit of $6.5 billion of which $1.3 billion was used to retire outstanding debt due in fiscal years 2009 and 2010, and the remainder was used to prepay future expenses in order to narrow projected budget gaps in subsequent fiscal years.

The OSDC report identified net overall resources exceeding Financial Plan projections by $395 million, $478 million, $265 million and $355 million in fiscal years 2008 through 2011, respectively, which, when added to the projected results in the Financial Plan, would result in a surplus of $395 million in fiscal year 2008 and gaps of $1.07 billion, $3.13 billion and $4.01 billion in fiscal years 2009 through 2011, respectively. The OSDC report identified risks to the Financial Plan of: (i) increased spending for uniformed agency overtime of $100 million in each of fiscal years 2008 through 2011; and (ii) increased public assistance costs of $5 million, $13 million, $17 million and $18 million in each of fiscal years 2008 through 2011, respectively, due to legislation that, if approved by the Governor, would increase the shelter allowance for residents of public housing. The risks are offset by: (i) higher forecast tax revenues of $500 million, $500 million, $200 million and $200 million in fiscal years 2008 through 2011, respectively; and (ii) pension earnings which could reduce the City's pension fund contributions by $91, $182 million and $273 million in fiscal years 2009 through 2011, respectively.

In addition to the adjustments to the Financial Plan projections, the OSDC report identified additional risks and offsets that could have a significant impact on the City. The risks include: (i) the elimination of revenue sharing payments from the State which would produce a net loss of $327 million in each of fiscal years 2008 through 2011; and (ii) the possibility that after the expiration of current or tentative collective bargaining agreements, wage increases are negotiated at the projected rate of inflation rather than the 1.25 percent per annum provided for in the Financial Plan, which would increase costs by $169 million, $446 million and $787 million in fiscal years 2009 through 2011, respectively. The report noted that future labor costs could be even higher if the tentative labor agreement with the Sergeants Benevolent Association sets the pattern for the next round of collective bargaining. In addition to these risks, the OSDC report noted the potential offsets if the remaining elements of the Mayor's tax reduction proposals are not approved by the State which would result in additional tax revenues of $180 million, $400 million, $456 million and $512 million in fiscal years 2008 through 2011, respectively.

The OSDC report also noted that certain City-related public entities which face significant financial challenges could draw on City resources. In addition, the OSDC report noted that although the City's forecasts are appropriately conservative given the potential volatility of the financial markets and the City's heavy reliance on Wall Street, the budget gaps projected for fiscal years 2010 and 2011 are substantial, and debt service is projected to reach $6.2 billion in fiscal year 2011, which is 60 percent higher than the fiscal year 2006 level.

On July 19, 2007 the staff of the Control Board issued a report on the Financial Plan. The report quantified possible additional resources, partially offset by certain risks, to the Financial Plan. The report identified possible net additional resources of $227 million, $250 million, $240 million and $240 million in fiscal years 2008 through 2011, respectively. When combined with the results projected in the Financial Plan, these net additional resources would result in an estimated surplus of $227 million in fiscal year 2008 and estimated gaps of $1.3 billion in fiscal year 2009, $3.16 billion in fiscal year 2010 and $4.13 billion in fiscal year 2011. The possible additional resources identified in the report result from: (i) increased tax revenues of $250 million in each of fiscal years 2008 through 2011; and (ii) increased miscellaneous revenues of $125 million in fiscal year 2008 and $150 million in fiscal years 2009 through 2011. The risks identified in the report are increased uniformed services overtime expenses of $148 million, $150 million, $160 million and $160 million in fiscal years 2008 through 2011, respectively.

On May 15, 2007, the IBO released a report analyzing the April Financial Plan. The IBO report projected that fiscal year 2007 would end with a surplus of approximately $119 million below the $4.15 billion surplus in the April Financial Plan, that revenues would be lower than in the April Financial Plan by $59 million and $17 million in fiscal years 2007 and 2008, respectively, and higher by $279 million, $465 million and $546 million in fiscal years 2009 through 2011, respectively. The IBO report also projected that expenditures would be higher than in the April Financial Plan by $60 million, $121 million, $166 million, $193 million and $168 million in fiscal years 2007 through 2011, respectively. The IBO report differences in revenue projections from the April Financial Plan results are primarily due to higher IBO forecast personal income and business taxes and lower forecast real property transaction and commercial rent taxes. After giving effect to the use of the fiscal year 2007 surplus for budget relief in future years, the report projected balanced budgets in fiscal years 2007 and 2008, and projected budget gaps of $1.7 billion, $3.0 billion and $3.9 billion in fiscal years 2009 through 2011, respectively.

Long-Term Capital Program

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

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

City-funded commitments, which were $344 million in fiscal year 1979, are projected to reach $8.0 billion in fiscal year 2007. City-funded expenditures are forecast at $5.2 billion in fiscal year 2007; total expenditures are forecast at $7.6 billion in fiscal year 2007. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2008 through 2017, 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 2011 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.*"

2007-2011 CAPITAL COMMITMENT PLAN

	2007		2008		2009		2010		2011		Total	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
	(In Millions)											
Mass Transit(1)	$ 60	$ 109	$ 81	$ 81	$ 89	$ 89	$ 90	$ 90	$ 75	$ 75	$ 395	$ 444
Roadway, Bridges	710	798	1,507	2,012	1,207	1,817	534	692	507	571	4,465	5,889
Environmental Protection(2)	3,734	3,779	3,425	3,536	3,083	3,086	2,120	2,120	2,588	2,588	14,950	15,109
Education(3)	1,023	3,097	1,032	3,064	1,222	3,227	1,212	2,424	1,254	2,508	5,744	14,319
Housing	602	757	352	492	337	438	282	383	332	428	1,905	2,497
Sanitation	197	197	395	401	701	701	267	267	356	356	1,915	1,922
City Operations/ Facilities	4,842	5,101	4,154	4,456	3,913	4,003	1,576	1,606	2,009	2,052	16,494	17,217
Economic and Port Development	1,131	1,428	439	446	219	219	76	76	158	158	2,023	2,328
Reserve for Unattained Commitments	(4,305)	(4,305)	(1,187)	(1,187)	(201)	(201)	1,545	1,545	148	148	(4,000)	(4,000)
Total Commitments(4)	$ 7,994	$10,960	$10,198	$13,301	$10,571	$13,379	$7,702	$ 9,203	$7,426	$ 8,883	$43,891	$55,726
Total Expenditures(5)	$ 5,228	$ 7,637	$ 6,038	$ 8,823	$ 7,375	$ 9,629	$8,796	$10,153	$8,548	$10,403	$35,985	$46,645

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 2008 through 2011, 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 June 2007, 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 December 2006. Capital investment allocated in the Ten-Year Capital Strategy published in April 2007 will fund an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 45% 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 2008 through 2011 fiscal years to implement the Four-Year Capital Program. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

2008-2011 FINANCING PROGRAM

	2008	2009	2010	2011	TOTAL
			(IN MILLIONS)		
CITY GENERAL OBLIGATION BONDS	$4,200	$4,850	$6,300	$6,030	$21,380
WATER AUTHORITY BONDS (1)(2)	2,099	2,342	2,385	2,394	9,219
TOTAL	$6,299	$7,192	$8,685	$8,424	$30,599

Note: Totals may not add due to rounding.

(1) Figures include notes and exclude refunding bonds.

(2) 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 2008 through 2017, projects City-funded water and sewer investment (which is expected to be financed with proceeds of

Water Authority debt) at approximately $19.3 billion. The City's Capital Commitment Plan for fiscal years 2007 through 2011 reflects total anticipated City-funded water and sewer commitments of $14.9 billion which are expected to be financed with the proceeds of Water Authority debt.

The City's financing program does not currently include the issuance of bonds by the TFA. The TFA is authorized to issue $13.5 billion of obligations for general City capital purposes, all of which have been issued. 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. The City is seeking 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 $1.3 billion of Building Aid Revenue Bonds and expects to issue $1.394 billion, $1.394 billion and $698 million of such bonds in fiscal years 2008 through 2010, respectively.

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 2008 through 2017 totals $83.7 billion, of which approximately 78% 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.

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 June 30, 2007, the total marked-to-market value of the City's interest rate exchange agreements was $14,326,339.

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 June 30, 2007, the total marked-to-market value of the DASNY agreements was $8,152,995.

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 June 30, 2007, the total marked-to-market value of these IDA interest rate exchange agreements was $1,419,589.

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, 2006 and 2007. 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 2008. The Financial Plan reflects the issuance of short term obligations in the amount of $2.4 billion in each of fiscal years 2009 through 2011.

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 June 30, 2007. “City indebtedness” refers to general obligation debt of the City, net of reserves. “PBC indebtedness” refers to obligations of the City, net of reserves, to the following public benefit corporations (“PBCs”): the Housing Authority, the New York City Educational Construction Fund (“ECF”), New York State Housing Finance Agency (“HFA”), DASNY, CUCF, and the New York State Urban Development Corporation (“UDC”). PBC indebtedness is not debt of the City. However, the City has entered into agreements to make payments, subject to appropriation, to PBCs to be used for debt service on certain obligations constituting PBC indebtedness. Neither City indebtedness nor PBC indebtedness includes outstanding debt of the TFA, TSASC, Fiscal Year 2005 Securitization Corp., STAR Corp., or MAC, which are not obligations of, and are not paid by, the City.

(In Thousands)

Gross City Long-Term Indebtedness(1)	$34,396,074	
Less: Assets Held for Debt Service(2)	—	
Net City Long-Term Indebtedness		$34,396,074
PBC Indebtedness		
Bonds Payable	366,770	
Capital Lease Obligations	1,529,707	
Gross PBC Indebtedness	1,896,477	
Less: Assets Held for Debt Service	(259,937)	
Net PBC Indebtedness		1,636,540
Combined Net City and PBC Indebtedness		$36,032,614

(1) Reflects capital appreciation bonds at accreted values as of June 30, 2007.

(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 1996 through 2006 and at June 30, 2007.

	City Indebtedness		PBC	
	Long-Term	Short-Term	Indebtedness	Total
	(In Millions)			
1996	$25,052	$—	$1,155	$26,207
1997	26,180	—	1,182	27,362
1998	25,917	—	1,129	27,046
1999	26,287	—	1,403	27,690
2000	25,543	—	1,575	27,118
2001	25,609	—	1,533	27,142
2002	27,312	—	1,537	28,849
2003	29,043	—	2,059	31,102
2004	30,498	—	1,766	32,264
2005	33,688	—	1,941	35,629
2006	34,076	—	1,751	35,827
June 30, 2007	34,396	—	1,637	36,033

Rapidity of Principal Retirement

The following table details, as of June 30, 2007, the cumulative percentage of total City indebtedness that is scheduled to be retired in accordance with its terms in each prospective five-year period.

Period	Cumulative Percentage of Debt Scheduled for Retirement
5 years	14.37%
10 years	40.30
15 years	63.91
20 years	83.59
25 years	94.44
30 years	99.62

City and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of June 30, 2007, on City and PBC indebtedness.

	City Long-Term Indebtedness		PBC	
Fiscal Years	Principal	Interest	Indebtedness	Total
	(In Thousands)			
2008	$ 1,763,847	$ 1,595,653	$ 91,039	$ 3,450,539
2009	1,583,295	1,532,004	58,630	3,173,929
2010	1,590,219	1,463,951	71,955	3,126,125
2011 through 2147	29,458,713	13,263,899	1,414,916	44,137,528
Total	$34,396,074	$17,855,507	$1,636,540	$53,888,121

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.

Fiscal Year	City Long-Term Indebtedness (In Millions)	Percentage of Actual Taxable Value of Property(1)	Per Capita
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.

Fiscal Year	General Obligation Bonds(1)	ECF	MAC	TFA	TSASC	STAR	SFC(2)	PBC Indebtedness and Other(3)	IDA Stock Exchange
				(In Millions)					
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 has issued its statutory maximum of $13.5 billion of obligations for general City capital purposes and expects annually to seek legislation to increase the statutory cap on the TFA's indebtedness 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 August 31, 2007.

(In Thousands)

Total City Debt-Incurring Power under General Debt Limit		$60,102,403
Gross Debt-Funded	$32,939,857	
Less: Excluded Debt	(324,747)	
	32,615,110	
Less: Appropriations for Payment of Principal	(534,911)	
	32,080,199	
Contracts and Other Liabilities, Net of Prior Financings Thereof	8,601,232	
Total Indebtedness		40,681,431
City Debt-Incurring Power		$19,420,972

Note: Numbers may not add due to rounding.

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 June 30, 2007, $123.2 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF's leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

New York State Housing Finance Agency

As of June 30, 2007, $46.38 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 June 30, 2007, $615.2 million principal amount and $827.9 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 June 30, 2007, approximately $487.1 million principal amount of DASNY bonds, relating to Community College facilities, subject to capital lease arrangements was outstanding. The City and the State are each responsible for approximately one-half of the CUCF's annual rental payments to DASNY for Community College facilities which are applied to the payment of debt service on the DASNY's bonds issued to finance the leased projects plus related overhead and administrative expenses of DASNY.

New York State Urban Development Corporation

As of June 30, 2007, $37.6 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, 2006 consisted of approximately 359,000 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 269,000 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 $4.015 billion. Expense projections for fiscal years 2007 through 2011 are estimated at $4.861 billion, $5.528 billion, $6.390 billion, $6.509 billion and $6.519 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 issued a report on its statutory audit of the actuarial assumptions and methods governing City pension contributions. 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. Although the report is advisory and not binding, it calls for changing certain actuarial assumptions such as life expectancy which, with other recommendations, could result in net increased annual pension contributions of up to $500 million. The Financial Plan includes increased pension funding of $200 million in each of fiscal years 2009 through 2011 to address this issue.

The City funds its pensions consistent with the requirements of 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 $42 billion as of June 30, 2004. 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 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").

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, 2005. 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.

June 30	Unfunded Pension Liability Amount(1) (In Billions)
1995	$4.03
1996	4.29
1997	4.28
1998	4.64
1999	.15
2000	.17
2001	.21
2002	.19
2003	.33
2004	.27
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. The appeal is presently scheduled to be heard during the October term of the Appellate Division, First Department. 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. Several summonses with notices 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 approximately 4,400 of these plaintiffs have to date 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 on immunity grounds was denied on October 17, 2006. The City is appealing the denial of its immunity motion. Oral argument is currently scheduled before the United States Court of Appeals for the Second Circuit on October 1, 2007. Plaintiffs' motion to dismiss the appeal will be heard at the same time. 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 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. On February 26, 2007, the City's limitation complaint was decided against the City and an appeal by the City 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.

Interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Tax-Exempt Bonds 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.

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. See "Future Tax Developments" below.

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 a 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.

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Future Tax Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, to federal income taxation or interest on any of the Bonds to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. On May 21, 2007, the United States Supreme Court agreed to review a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States Constitution prohibits Kentucky from exempting interest on bonds issued by Kentucky and its localities and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State to eliminate the disparity between the tax treatment of out-of-state bonds and tax treatment of in-state bonds including bonds issued by the City. The impact of this decision may also affect the market price for, or the marketability of, the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or State tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

Ratings

The Bonds have been rated "Aa3" by Moody's Investors Service ("Moody's"), "AA" by Standard & Poor's Ratings Services ("Standard & Poor's") and "AA–" by Fitch, Inc. ("Fitch"), respectively. The ratings on the Insured Bonds will be based on an insurance policy to be issued by FSA. The City expects the Insured Bonds to be rated "Aaa," "AAA" and "AAA" by Moody's, Standard & Poor's and Fitch, respectively. Such ratings reflect only the views of Moody's, Standard & Poor's and Fitch from which an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of such bonds.

Legal Opinions

The legality of the authorization and issuance of the Bonds will be covered by the approving legal opinion of Sidley Austin LLP, New York, New York, Bond Counsel to the City. Reference should be made to the form of such opinion set forth in Appendix E hereto for the matters covered by such opinion and the scope of Bond Counsel's engagement in relation to the issuance of the Bonds. Such firm is also acting as counsel for and against the City in certain other unrelated matters.

Certain legal matters will be passed upon for the City by its Corporation Counsel.

Edwards Angell Palmer & Dodge LLP, New York, New York, Special Disclosure 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.

Underwriting

The Bonds are being purchased for reoffering by the Underwriters for whom Bear, Stearns & Co. Inc., Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Bonds shall be $3,596,385.21.

The Taxable Bonds will be purchased for reoffering by Merrill Lynch, Pierce, Fenner & Smith Incorporated. The compensation for services rendered in connection with the Taxable Bonds shall be $379,405.

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

APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION

This section presents information regarding certain economic and demographic information about the City. All information is presented on a calendar year basis unless otherwise indicated. The data set forth are the latest available. Sources of information are indicated in the text or immediately following the tables. Although the City considers the sources to be reliable, the City has made no independent verification of the information provided by non-City sources and does not warrant its accuracy.

New York City Economy

The City has a highly diversified economic base, with a substantial volume of business activity in the service, wholesale and retail trade and manufacturing industries and is the location of many securities, banking, law, accounting, new media and advertising firms.

The City is a major seaport and focal point for international business. Many of the major corporations headquartered in the City are multinational in scope and have extensive foreign operations. Numerous foreign-owned companies in the United States are also headquartered in the City. These firms, which have increased in number substantially over the past decade, are found in all sectors of the City's economy, but are concentrated in trade, professional and business services, tourism and finance. The City is the location of the headquarters of the United Nations, and several affiliated organizations maintain their principal offices in the City. A large diplomatic community exists in the City to staff the missions to the United Nations and the foreign consulates.

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s which was followed by an expansion that lasted until 2001. The 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 slower growth in calendar year 2007, corresponding to a weakening economy.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1995 to 2005 (the most recent year for which City personal income data are available). From 1995 to 2005, personal income in the City averaged 4.5% growth compared to 5.3% for the nation. After increasing by 7.7% in 2004, total personal income increased by 4.2% in 2005. The following table sets forth information regarding personal income in the City from 1995 to 2005.

PERSONAL INCOME(1)

Year	Total NYC Personal Income ($ billions)	Per Capita Personal Income NYC	Per Capita Personal Income U.S.	NYC as a Percent of U.S.
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	36,910	29,844	123.7
2001	302.7	37,481	30,558	122.7
2002	299.8	36,987	30,792	120.1
2003	306.1	37,592	31,456	119.5
2004	329.6	40,300	33,075	121.8
2005	343.4	41,803	34,687	120.5

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census.

(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 1992 through 2000, the City experienced significant private sector job growth with the addition of approximately 452,700 new private sector jobs (an average annual growth rate of approximately 2.0%). Between 2000 and 2003 the City lost 174,300 private sector jobs. The City recovered 134,500 private sector jobs by the end of 2006.

As of July 2007, total employment in the City was 3,718,400 compared to 3,665,900 in July 2006, an increase of approximately 1.4%.

The table below shows the distribution of employment from 1996 to 2006.

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Goods Producing Sectors											
Construction	91	94	101	113	121	122	116	113	112	113	118
Manufacturing	201	201	196	187	177	156	139	127	121	114	106
Service Producing Sectors											
Trade Transportation and Utilities	533	538	542	556	570	557	537	534	539	547	557
Information	159	163	167	173	187	200	177	164	160	163	165
Financial Activities	464	468	477	481	489	474	445	434	435	445	458
Professional and Business Services	468	494	525	553	587	582	550	537	541	555	571
Education and Health Services	566	576	589	604	615	627	646	658	665	679	695
Leisure and Hospitality	217	228	236	244	257	260	255	260	270	277	283
Other Services	125	129	134	142	147	149	150	149	151	153	154
Total Private	2,822	2,889	2,967	3,052	3,149	3,127	3,015	2,975	2,995	3,047	3,109
Government	545	551	560	567	569	562	566	557	554	556	555
Total	3,367	3,440	3,527	3,619	3,718	3,689	3,581	3,531	3,549	3,602	3,664

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 2005, the City's service producing sectors provided approximately 2.8 million jobs and accounted for approximately 79% 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 2005, 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 2005. 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 2005 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2005(1)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.5%	0.3%	1.2%
Construction	3.1	5.5	2.9	6.5
Manufacturing	3.2	10.6	2.7	12.8
Total Goods Producing	6.3	16.6	5.9	20.4
Service Producing Sectors				
Trade, Transportation and Utilities	15.2	19.4	9.1	16.0
Information	4.5	2.3	7.5	3.6
Financial Activities	12.4	6.1	28.7	10.1
Professional and Business Services	15.4	12.6	20.0	15.4
Education and Health Services	18.8	13.0	10.5	10.7
Leisure & Hospitality	7.7	9.6	3.8	3.8
Other Services	4.3	4.0	2.5	2.9
Total Service Producing	78.3	67.0	82.0	62.6
Total Private Sector	84.6	83.7	89.2	83.4
Government(3)	15.4	16.3	10.8	16.6

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 2005 data.

(3) Excludes military establishments.

The comparison of employment and earnings in 1980 and 2000 set forth below is presented using the industry classification system which was in use until the adoption of NAICS in the late 1990's. Though NAICS has been implemented for most government industry statistical reporting, most historical earnings data have not been converted. Furthermore, it is not possible to compare data from the two classification systems except in the general categorization of government, private and total employment. The table below reflects the overall increase in the service producing sectors and the declining manufacturing base in the City from 1980 to 2000.

The City's and the nation's employment and earnings by industry are set forth in the following table.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

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

Note: Totals may not add due to rounding. Data are presented using the Standard Industrial Classification System ("SICS").
Sources: The two primary sources of employment and earnings information are U.S. Dept. of Labor, Bureau of Labor Statistics, and U.S. Department of Commerce, Bureau of Economic Analysis.

(1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.

(2) Includes the sum of wage and salary disbursements, other labor income, and proprietors' income. The latest information available for the City is 2000 data.

(3) Excludes military establishments.

Unemployment

As of July 2007, the total unemployment rate in the City was 6.1% compared to 5.6% in July 2006. The annual unemployment rate of the City's resident labor force is shown in the following table.

ANNUAL UNEMPLOYMENT RATE(1)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
New York City	8.8%	9.4%	7.9%	6.9%	5.8%	6.1%	8.0%	8.3%	7.0%	5.7%	4.9%
United States	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%

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 July 2007, the number of persons receiving public assistance in the City was 359,285 compared to 388,692 in July 2006. The following table sets forth the number of persons receiving public assistance in the City.

PUBLIC ASSISTANCE

(Annual Averages in Thousands)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1,109.5	1,003.3	873.6	760.1	668.2	573.0	492.8	434.0	424.7	434.8	416.9	393.1

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 1995 with a growth rate averaging over 4%. 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 1995 to 2005.

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

Year(1)	Retail(2)	Utility & Communication Sales(3)	Services(4)	Manufacturing	Other(5)	All Total
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)	26.1	11.4	21.0	1.9	14.8	75.2
2004(6)	32.3	11.6	21.7	1.9	14.8	82.3
2005(6)	36.5	12.0	24.1	2.1	16.2	90.9

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

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

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

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

DISTRIBUTION OF POPULATION BY AGE

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

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

Housing

In 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 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 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)

Ownership/Occupancy Status	1981	1984	1987	1991	1993	1996	1999	2002	2005
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 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 2008 fiscal year, the billable assessed valuation of real estate of utility corporations is $11.1 billion. The following table presents the 40 non-utility properties having the greatest assessed valuation in the 2008 fiscal year as indicated in the tax rolls.

Property	2008 Fiscal Year Assessed Valuation	Property	2008 Fiscal Year Assessed Valuation
Met Life Building	$304,556,000	Equitable Tower	$178,542,000
General Motors Building	295,470,000	Chase World Headquarters	175,580,000
McGraw-Hill Building	289,230,000	Simon & Schuster Building	169,020,000
Solow Building	274,960,000	Waldorf-Astoria	157,543,000
International Building	272,406,814	One Astor Plaza	157,319,007
Credit Lyonnais Building	252,529,998	617 Lexington Avenue	157,157,100
Sperry Rand Building	244,662,710	Carpet Center	157,080,000
Stuyvesant Town	239,850,000	Morgan Stanley Building	155,770,000
Celanese Building	238,660,000	Kalikow Building	155,420,000
Time & Life Building	237,240,000	595 Lexington Avenue	154,060,000
Bear Stearns Bldg (Park Ave.)	233,119,997	Morgan Guaranty	152,110,000
One Penn Plaza	223,020,000	One Liberty Plaza	150,298,369
Paramount Plaza	212,030,000	1 Chase Manhattan Plaza	149,090,000
Empire State Building	210,870,000	IBM Tower	146,850,000
Alliance Capital Building	208,040,000	Continental Illinois	145,780,000
UBS Financial Services Bldg.	203,079,993	The Port of New York	142,740,000
666 Fifth Avenue	200,013,200	Time Warner Center	138,403,907
Worldwide Plaza	197,950,000	W.R. Grace Building	135,010,000
399 Park Avenue	190,097,910	1335 Sixth Avenue	134,985,000
Bristol Meyers Building	186,350,000	CIBC Building	133,740,000

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

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APPENDIX B

FINANCIAL STATEMENTS

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

Index

Deloitte.

Deloitte & Touche LLP

Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

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 Then 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.

Deloitte & Touche LLP

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:

	Governmental Activities for the fiscal years ended June 30,		
	2006	2005	2004
		(in thousands)	
Revenues:			
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	56,080,806	54,227,469	48,417,906
Expenses:			
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	109,782,080	54,898,596	48,334,800
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	$ (80,893,815)	$(27,192,541)	$(26,521,414)

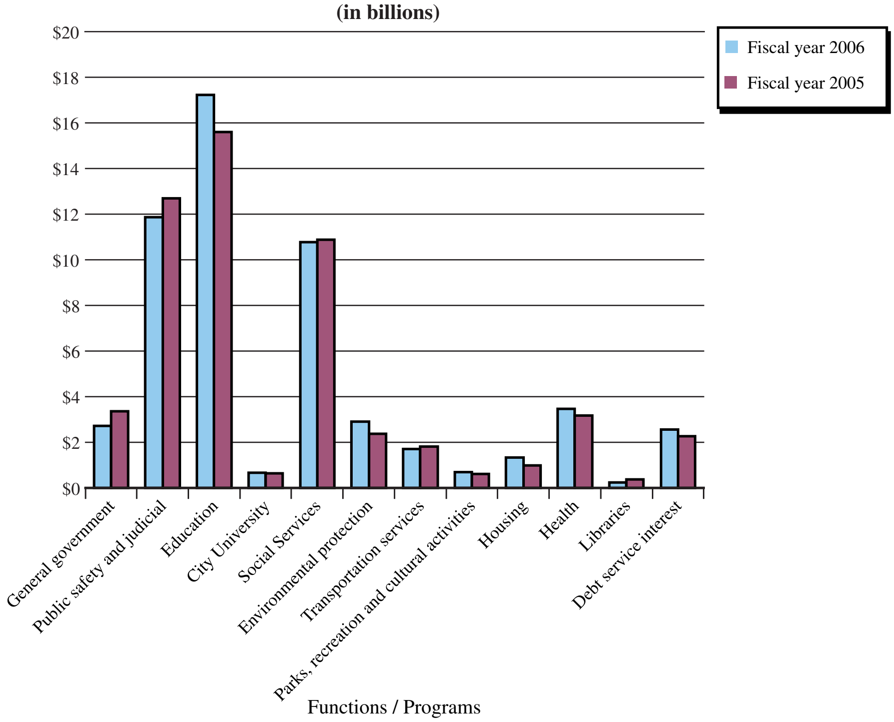
In fiscal year 2006, the government-wide revenues increased from fiscal year 2005 levels by approximately $1.9 billion, while government-wide expenses grew by approximately $54.9 billion.

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:

	Fiscal Year 2006 (in thousands)			
Functions/Programs	**Expenses per Statement of Activities**	**GASB 45 Expenses**	**Expenses excluding GASB 45**	**Fiscal Year 2005 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
Total expenses	$109,782,080	$53,507,451	$56,274,629	$54,898,596

Expenses — Governmental Activities(1)
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:

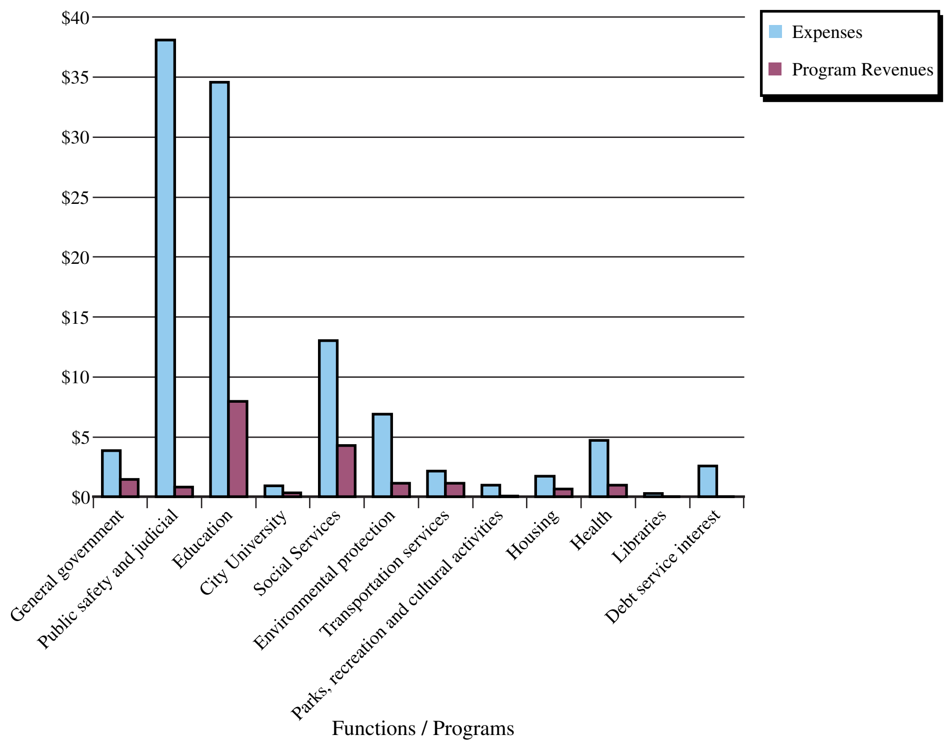
- An increase in the real estate tax resulting primarily from the continuing increase in billable assessed value.
- An increase in the sales tax from the boom in construction based taxable sales related to the new housing construction boom, the home refinancing boom and the sale of durable goods related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

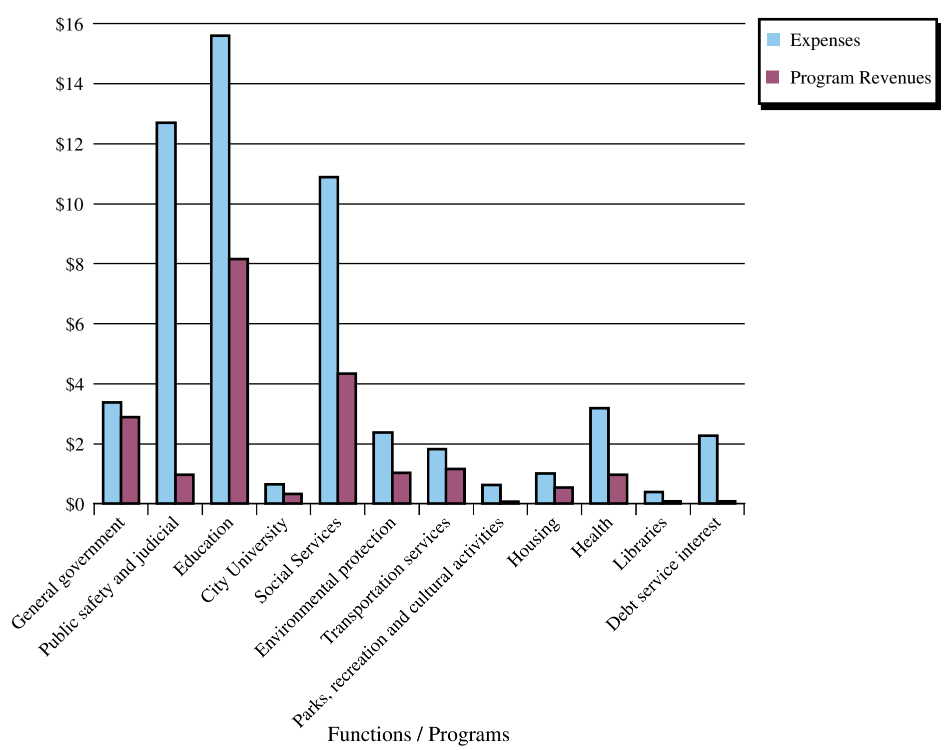
- An increase in general government expenditures, primarily as a result of the one-time pass through of Federal funds to the WTC Captive.
- An increase in public safety expenses reflecting a wage increase for police officers, as well as the increased pension and health benefits costs.
- An increase in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

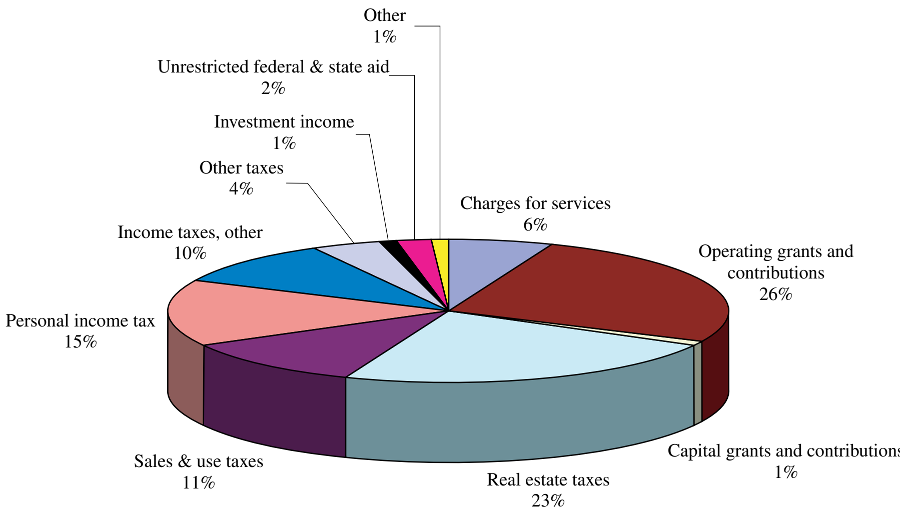


Expenses and Program Revenues — Governmental Activities
June 30, 2005
(in billions)

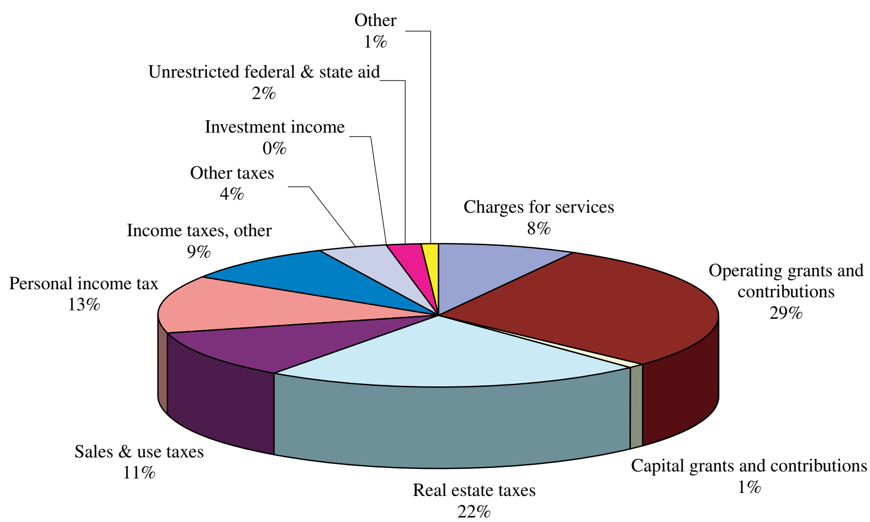


The following charts compare the amounts of program and general revenues for fiscal years 2006 and 2005:

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.

	Governmental Activities		
	2006	2005	2004
		(in thousands)	
Current and other assets	$ 27,878,882	$ 27,783,430	$ 19,691,909
Capital assets (net of depreciation)	32,170,950	30,682,882	29,958,556
Total assets	60,049,832	58,466,312	49,650,465
Long-term liabilities	121,963,394	66,590,911	61,288,787
Other liabilities	18,980,253	19,067,942	14,883,092
Total liabilities	140,943,647	85,658,853	76,171,879
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	(80,766,665)	(25,220,993)	(22,603,648)
Total net deficit	$(80,893,815)	$(27,192,541)	$(26,521,414)

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:

Components of Net Deficit	2006	2005
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable life used for financial reporting that is different from the period over which the related debt principal is being repaid. Schools and related education assets depreciate more quickly than their related debt is paid, and they comprise one of the largest components of this difference	$ (5.3)	$ (6.6)
Net Assets Restricted for:		
Debt Service	4.8	3.8
Capital Projects	.5	.9
Total net assets restricted	5.3	4.7
Unrestricted Net Assets		
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 acquistion and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority, NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end.	(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:	(.7)	.2
Total unrestricted net assets	(80.8)	(25.3)
Total net deficit	$(80.9)	$(27.2)

Financial Analysis of the Governmental Funds

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

Governmental Funds

	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total
			(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	$ 422,483	$(2,203,941)	$ 3,243,672	$ 1,822,275	$ —	$ 3,284,489

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.

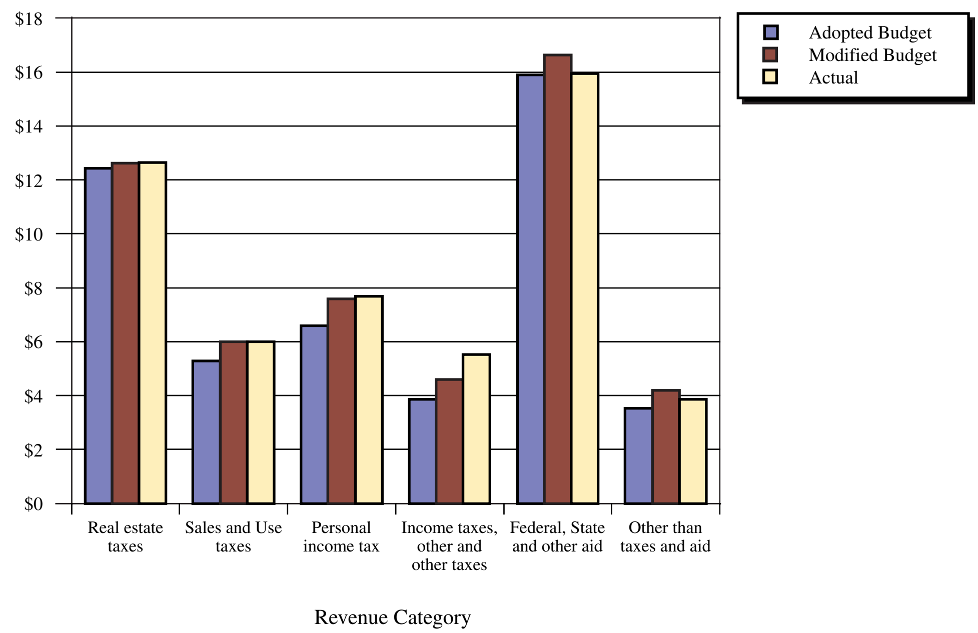
General Fund Budgetary Highlights

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.

General Fund Revenues

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)

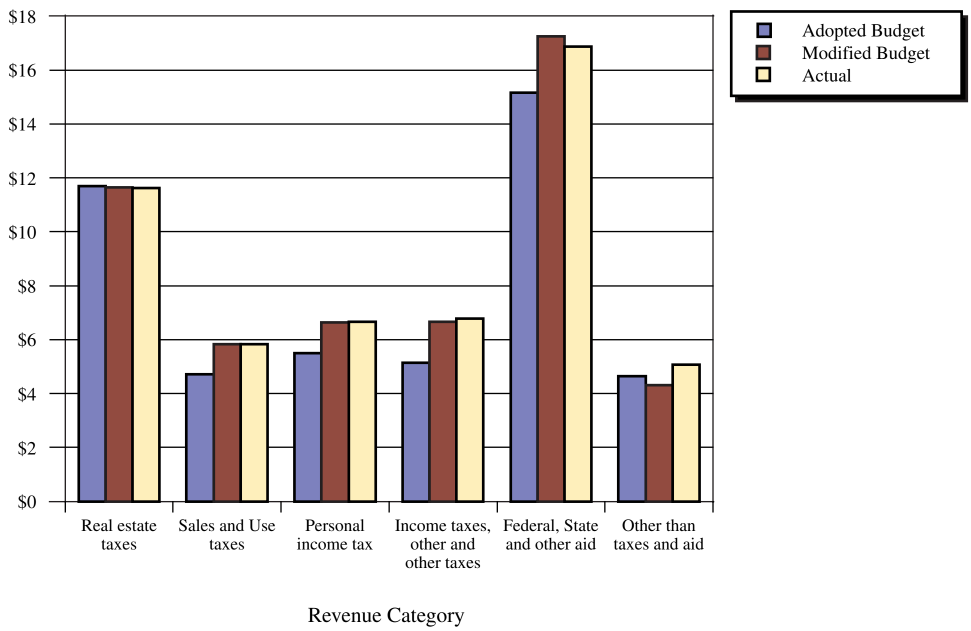


General Fund Revenues

Fiscal Year 2006
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
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
Taxes (net of refunds)	30,383	33,944	34,212
Federal, State and other aid:			
Categorical	15,340	16,135	15,437
Unrestricted	562	489	494
Federal, State and other aid	15,902	16,624	15,931
Other than taxes and aid:			
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
Other than taxes and aid	3,537	4,196	3,861
Total revenues	$49,822	$54,764	$54,004

General Fund Revenues
Fiscal Year 2005
(in billions)



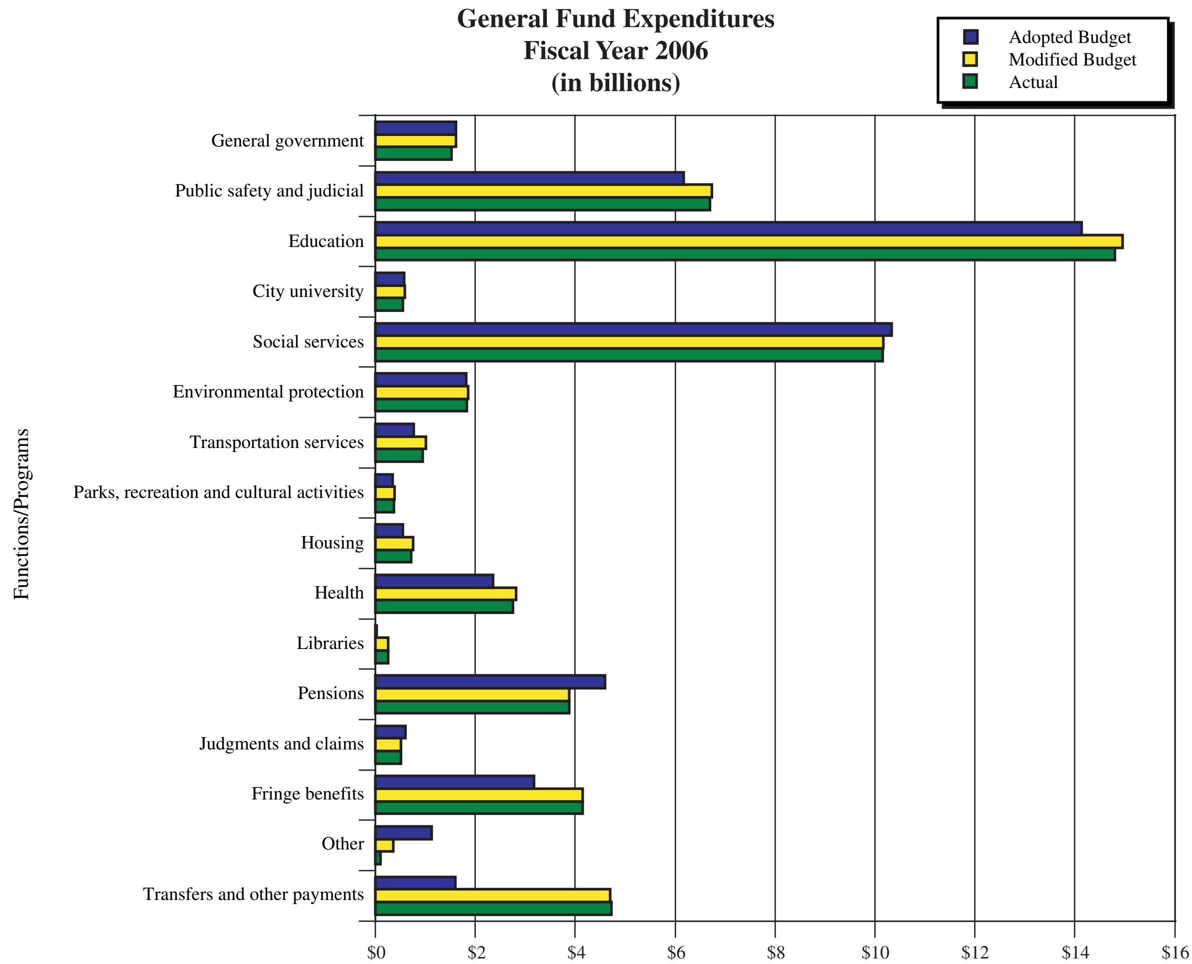
General Fund Revenues

Fiscal Year 2005
(in millions)

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

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.



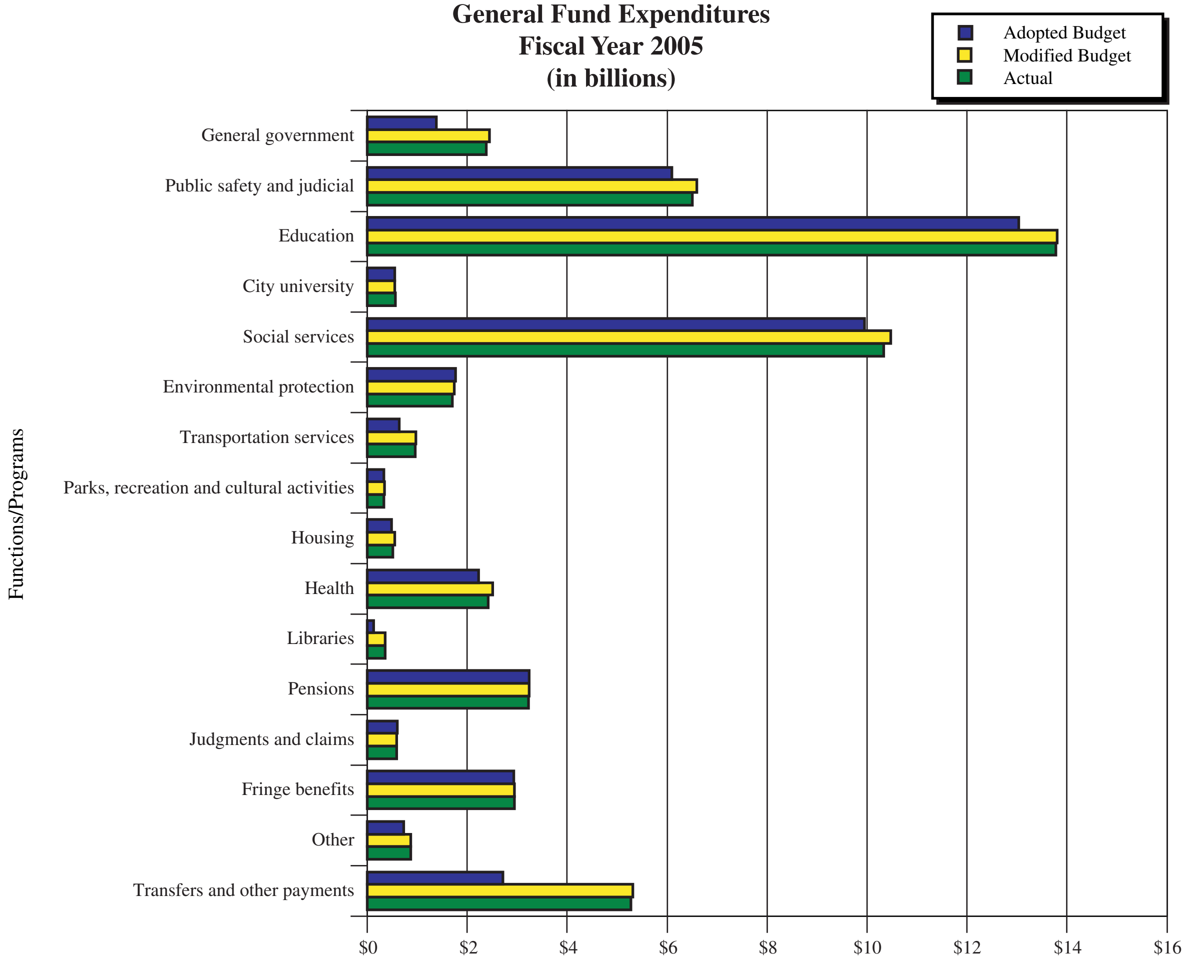
General Fund Expenditures

Fiscal Year 2006

(in millions)

	Adopted Budget	Modified Budget	Actual
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
Total expenditures	$49,822	$54,764	$53,999

General Fund Expenditures
Fiscal Year 2005
(in billions)



General Fund Expenditures
Fiscal Year 2005
(in millions)

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

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:

	2006	2005	2004
		(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	—	172	159
Total expenditures and transfers (discretionary and other)	3,751	3,529	1,923
Reported operating surplus	5	5	5
Total operating surplus	$3,756	$3,534	$1,928

Fiscal Year 2006

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:

	2006 (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	300
Total	7,483
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	3
Total	7,478
Reported Surplus	$ 5

Fiscal Year 2005

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:

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

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	$32,171	$30,683	$29,959

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[a]	$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	52,456	51,416	47,971
Less treasury obligations	—	39	51
Outstanding debt	$52,456	$51,377	$47,920

(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 Al. 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 Aal. 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)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
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
LIABILITIES:		
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
NET ASSETS:		
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)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
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	58,466,312	36,009,234
LIABILITIES:		
Accounts payable and accrued liabilities	13,021,409	1,937,332
Accrued interest payable	644,431	73,805
Unearned revenues:		
Prepaid real estate taxes	3,287,473	—
Other	1,385,898	193,264
Due to Primary Government	—	711,088
Due to Component Units	31,390	—
Estimated disallowance of Federal, State and other aid	362,913	—
Payable for investment securities purchased	257,000	—
Other	77,428	64,044
Noncurrent Liabilities:		
Due within one year	3,937,817	1,253,277
Due in more than one year	62,653,094	20,780,107
Total liabilities	85,658,853	25,012,917
NET ASSETS:		
Invested in capital assets, net of related debt	(6,611,918)	8,883,401
Restricted for:		
Capital projects	880,627	64,986
Debt service	3,759,743	769,106
Loans/security deposits	—	70,982
Donor/statutory restrictions	—	39,807
Operations	—	145,693
Unrestricted (deficit)	(25,220,993)	1,022,342
Total net assets (deficit)	$(27,192,541)	$10,996,317

See accompanying notes to financial statements.

THE CITY OF NEW YORK

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

(in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary Government:						
General government	$ 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	$109,782,080	$ 3,345,160	$15,126,979	$ 475,674	(90,834,267)	—
Component Units	$ 13,920,126	$ 9,023,077	$ 1,954,404	$ 831,956	—	(2,110,689)
General revenues:						
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					37,132,993	312,674
Change in net assets					(53,701,274)	(1,798,015)
Net Assets (Deficit) — Beginning					(27,192,541)	10,996,317
Net Assets (Deficit) — Ending					$(80,893,815)	$ 9,198,302

See accompanying notes to financial statements.

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary Government:						
General government	$ 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	$54,898,596	$ 4,143,436	$15,936,907	$ 366,432	(34,451,821)	—
Component Units	$11,016,520	$ 7,198,394	$ 2,116,813	$ 964,921	—	(736,392)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					11,677,383	—
Sales and use taxes					5,828,383	—
Personal income tax					7,176,764	—
Income taxes, other					4,888,238	—
Other taxes					2,137,921	—
Investment income					232,109	169,710
Unrestricted Federal and State aid					1,258,399	3,384
Other					581,497	497,201
Total general revenues					33,780,694	670,295
Change in net assets					(671,127)	(66,097)
Net Assets (Deficit) — Beginning					(26,521,414)	11,062,414
Net Assets (Deficit) — Ending					$(27,192,541)	$10,996,317

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
ASSETS:						
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
LIABILITIES AND FUND BALANCES:						
Liabilities:						
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
Fund balances:						
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
ASSETS:						
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
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$11,569,981	$ 1,277,486	$ 8,684	$ 213,435	$ (48,177)	$13,021,409
Accrued tax refunds:						
Real estate taxes	37,272	—	—	—	—	37,272
Personal income 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
Fund balances:						
Reserved for:						
Capital projects	—	876,011	—	4,616	—	880,627
Debt service	—	—	2,088,280	1,669,326	1,829	3,759,435
Noncurrent mortgage loans	—	—	—	308	—	308
Unreserved (deficit), reported in:						
General Fund	417,841	—	—	—	—	417,841
New York City Capital Projects Fund	—	(2,336,896)	—	—	—	(2,336,896)
Nonmajor 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	$(80,893,815)

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	$ (27,192,541)

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
REVENUES:						
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	53,900,778	2,155,522	27,350	2,550,523	(1,717,466)	56,916,707
EXPENDITURES:						
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	49,508,064	6,594,587	3,160,474	3,684,546	(1,715,637)	61,232,034
Excess (deficiency) of revenues over expenditures	4,392,714	(4,439,065)	(3,133,124)	(1,134,023)	(1,829)	(4,315,327)
OTHER FINANCING SOURCES (USES):						
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)	(4,388,072)	3,696,009	4,288,516	(17,340)	—	3,579,113
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	$ 422,483	$(2,203,941)	$ 3,243,672	$ 1,822,275	$ —	$ 3,284,489

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

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)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 3,522,523	
Depreciation expense	(2,018,812)	1,503,711
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.* sales, trade-ins, and donations) is to decrease net assets		106,750
The issuance of long-term debt (*i.e.,* 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.		
Proceeds from sales of bonds	(6,769,784)	
Principal payments of bonds	5,748,719	
Other	(154,437)	(1,175,502)
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		(764,653)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		872,085
OPEB obligation		(53,507,451)
Change in net assets—governmental activities		$(53,701,274)

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
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 3,110,766	
Depreciation expense	(2,366,576)	744,190
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.,* sales, trade-ins, and donations) is to decrease net assets		(706,473)
The issuance of long-term debt (*i.e.,* 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.		
Proceeds from sales of bonds	(10,952,314)	
Principal payments of bonds	7,467,096	
Other	(121,785)	(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		442,671
Change in net assets—governmental activities		$ (671,127)

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			Better (Worse) Than Modified Budget
	Adopted	Modified	Actual	
REVENUES:				
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	49,775,456	54,688,674	53,900,778	(787,896)
EXPENDITURES:				
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	48,465,699	50,295,978	49,508,064	787,914
Excess of revenues over expenditures	1,309,757	4,392,696	4,392,714	18
OTHER FINANCING SOURCES (USES):				
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	(1,309,757)	(4,392,696)	(4,388,072)	4,624
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	$ —	$ —	4,642	$ 4,642
FUND BALANCE AT BEGINNING OF YEAR			417,841	
FUND BALANCE AT END OF YEAR			$ 422,483	

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS:		
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	133,203,165	1,493,476
LIABILITIES:		
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	26,207,790	1,493,476
NET ASSETS:		
Held in Trust for Benefit Payments	$106,995,375	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005
(in thousands)

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

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions	$ 1,339,584
Employer contributions	5,378,294
Other employer contributions	21,727
Total contributions	6,739,605
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	10,148,255
Securities lending transactions:	
Securities lending income	768,826
Securities lending fees	(709,760)
Net securities lending income	59,066
Payments from Pension Funds	5,479
Other	35,972
Total additions	16,988,377
DEDUCTIONS:	
Benefit payments and withdrawals	9,753,958
Payments to VSF	5,479
Other	7,578
Administrative expenses	105,707
Total deductions	9,872,722
Increase in plan net assets	7,115,655
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	99,879,720
End of Year	$106,995,375

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)

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions	$ 1,203,213
Employer contributions	3,670,481
Other employer contributions	20,429
Total contributions	4,894,123
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	9,186,782
Securities lending transactions:	
Securities lending income	428,609
Securities lending fees	(371,066)
Net securities lending income	57,543
Payments from Pension Funds	4,963
Other	88,869
Total additions	14,232,280
DEDUCTIONS:	
Benefit payments and withdrawals	9,074,863
Other	24,729
Administrative expenses	106,173
Total deductions	9,205,765
Increase in plan net assets	5,026,515
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	94,853,205
End of Year	$ 99,879,720

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
ASSETS:								
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	19,240,608	6,516,953	6,753,889	4,286,498	364,220	41,414	1,891,662	39,095,244
LIABILITIES:								
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	16,341,227	1,268,929	5,904,030	4,303,626	204,823	163,704	1,710,603	29,896,942
NET ASSETS:								
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)	$ 2,899,381	$ 5,248,024	$ 849,859	$ (17,128)	$159,397	$(122,290)	$ 181,059	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2005
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2004	Housing Development Corporation October 31, 2004	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 1,099,053	$ 497,026	$ 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	18,570,764	6,211,997	5,349,066	3,595,230	330,577	39,979	1,911,621	36,009,234
LIABILITIES:								
Accounts payable and accrued liabilities	13,535	629,724	213,263	967,540	79,255	22,295	11,720	1,937,332
Accrued interest payable	31,300	1,225	28,339	12,941	—	—	—	73,805
Deferred revenues	89,210	16,883	74,509	—	790	—	11,872	193,264
Due to Primary Government	288,136	—	422,726	—	—	226	—	711,088
Other	—	47,946	—	—	3,744	9,219	3,135	64,044
Noncurrent Liabilities:								
Due within one year	1,037,984	41,532	108,730	61,982	—	1,900	1,149	1,253,277
Due in more than one year	13,955,495	212,133	3,697,386	1,088,998	91,293	6,981	1,727,821	20,780,107
Total liabilities	15,415,660	949,443	4,544,953	2,131,461	175,082	40,621	1,755,697	25,012,917
NET ASSETS:								
Invested in capital assets, net of related debt	2,803,031	4,871,990	—	1,081,764	2,933	12,682	111,001	8,883,401
Restricted for:								
Capital projects	—	—	—	—	58,554	6,432	—	64,986
Debt service	152,544	—	367,534	111,101	—	—	137,927	769,106
Loans/security deposits	—	—	—	—	68,385	—	2,597	70,982
Statutory reserve	—	—	—	27,948	—	—	—	27,948
Donor restrictions	—	—	—	11,859	—	—	—	11,859
Operations	145,693	—	—	—	—	—	—	145,693
Unrestricted (deficit)	53,836	390,564	436,579	231,097	25,623	(19,756)	(95,601)	1,022,342
Total net assets (deficit)	$ 3,155,104	$ 5,262,554	$ 804,113	$ 1,463,769	$ 155,495	$ (642)	$ 155,924	$10,996,317

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)

	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
EXPENSES	$2,428,339	$2,774,499	$178,558	$ 7,456,772	$624,094	$ 382,973	$74,891	$13,920,126
PROGRAM REVENUES:								
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	1,978,930	2,676,531	180,915	6,014,844	612,455	257,911	87,851	11,809,437
Net (expenses) program revenues	(449,409)	(97,968)	2,357	(1,441,928)	(11,639)	(125,062)	12,960	(2,110,689)
GENERAL REVENUES:								
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	193,686	83,438	43,389	(38,969)	15,541	3,414	12,175	312,674
Change in net assets	(255,723)	(14,530)	45,746	(1,480,897)	3,902	(121,648)	25,135	(1,798,015)
Net Assets—Beginning	3,155,104	5,262,554	804,113	1,463,769	155,495	(642)	155,924	10,996,317
Net Assets (deficit)—Ending	$2,899,381	$5,248,024	$849,859	$ (17,128)	$159,397	$(122,290)	$181,059	$ 9,198,302

See accompanying notes to financial statements.

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

	Water and Sewer System	Housing Authority December 31, 2004	Housing Development Corporation October 31, 2004	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
EXPENSES	$ 2,460,002	$ 2,708,293	$ 150,416	$ 4,790,666	$ 601,067	$ 257,041	$ 49,035	$11,016,520
PROGRAM REVENUES:								
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	1,884,727	2,748,805	151,102	4,566,209	610,725	248,325	70,235	10,280,128
Net (expenses) program revenues	(575,275)	40,512	686	(224,457)	9,658	(8,716)	21,200	(736,392)
GENERAL REVENUES:								
Investment income	97,362	28,585	25,875	11,915	3,645	483	1,845	169,710
Unrestricted Federal and State aid	—	—	—	—	3,384	—	—	3,384
Other	78,834	64,075	—	349,295	644	2,458	1,895	497,201
General revenues, net	176,196	92,660	25,875	361,210	7,673	2,941	3,740	670,295
Change in net assets	(399,079)	133,172	26,561	136,753	17,331	(5,775)	24,940	(66,097)
Net Assets—Beginning	3,554,183	5,129,382	777,552	1,327,016	138,164	5,133	130,984	11,062,414
Net Assets (deficit)—Ending	$ 3,155,104	$ 5,262,554	$ 804,113	$ 1,463,769	$ 155,495	$ (642)	$ 155,924	$10,996,317

See accompanying notes to financial statements.

A. Summary of Significant Accounting Policies

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

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

1. Reporting Entity

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

	2006	2005			Prior Years Since 2003
Transaction Number	**(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	
Notional Amount (000):					
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
Up-front Cash Payment to the City (000)		$ —	$20,585	$ —	$ 20,000
Effective Date		7/29/04	8/1/04	3/3/05	
Termination Date		8/1/14	12/1/33	8/1/17	
Final Bond Maturity		8/1/14	12/15/33	8/1/17	
Provider Cancel Option Date		N/A	N/A	N/A	
Option Premium (000)		$ —	$ —	$ —	$ 19,860
City Pays		4.01%/ 4.12%	BMA	4.55%/ 4.63%/ 4.71%	
Payments Made by the City (000):					
as of 6/30/06	$ —	$(3,060)	$(22,118)	$(1,867)	$(164,147)
as of 6/30/05	$ —	$(1,028)	$ (7,752)	$ —	$ (94,113)
City Receives		CPI plus .80% for the 2013 Maturity; and CPI plus .90% for the 2014 Maturity	Stepped % of 1-month LIBOR	CPI plus 1.50% for the 2015 Maturity; CPI plus 1.55% for the 2016 Maturity; and CPI plus 1.55% for the 2017 Maturity	
Payments Received by the City (000):					
as of 6/30/06	$ —	$ 2,885	$ 24,007	$ 2,302	$ 151,554
as of 6/30/05	$ —	$ 747	$ 8,330	$ —	$ 77,660
First Counterparty Payment Date		2/1/05	9/1/04	8/1/05	
First City Payment Date		2/1/05	9/1/04	8/1/05	
Marked to Market Value (000):					
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 Maturities (in years)			
	2006		2005	
Investment Type	**Less than 1**	**1 to 5**	**Less than 1**	**1 to 5**
	(in thousands)			
Unrestricted				
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	$1,957,569	$ 18,352	$802,838	$ 38,246
Restricted				
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	$ 547,645	$594,725	$205,971	$698,112

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 counter party, 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)			
Governmental activities:							
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(1)	799,190	19,362,464	2,018,812(1)	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	$29,958,556	$3,084,773	$2,360,447	$30,682,882	$2,962,829	$1,474,761	$32,170,950

(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)	
Governmental activities:		
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	$2,018,812	$2,366,576

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.

	2006	2005
	(in thousands)	
Capital Projects Funds:		
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	3,714,134	3,699,943
Total funding sources	$52,701,625	$50,045,346

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:

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

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:

	Capital Leases	Operating Leases	Total
Governmental activities:		(in thousands)	
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	4,378,668	$3,548,512	$7,927,180
Less interest	1,454,049		
Present value of future minimum payments	$2,924,619		

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:

	Capital Leases	Operating Leases	Total
Governmental activities:		(in thousands)	
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	$101,933	$5,515,848	$5,617,781
Less interest	58,383		
Present value of future minimum lease rentals	$ 43,550		

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	Additions	Deletions	Balance June 30, 2006	Due Within One Year
				(in thousands)				
Governmental activities:								
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	$61,288,787	$13,786,489	$8,484,365	$66,590,911	$64,778,564	$ 9,406,081	$121,963,394	$5,527,130

(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 General Obligations	2006 Revenue	2006 Total	2005 General Obligations	2005 Revenue	2005 Total
	(in thousands)					
Governmental activities:						
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	$52,371,997	$ 83,945	$52,455,942	$51,242,334	$134,960	$51,377,294

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

Primary Government	Governmental Activities: General Obligation Bonds Principal	General Obligation Bonds Interest(1)	Revenue Bonds Principal	Revenue Bonds Interest
	(in thousands)			
Fiscal year ending June 30:				
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	—	—
	52,371,997	31,014,863	83,945	24,468
Less interest component	—	31,014,863	—	24,468
Total future debt service requirements	$52,371,997	$ —	$ 83,945	$ —

(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.

	Governmental Activities			
	General Obligation Bonds			
Primary Government	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
	(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	$2,605,475	$1,978,304	$(169,067)	$4,414,712

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 amoutns 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:

	Amount (in thousands)
Landfill	$1,425,255
Hazardous waste sites	226,745
Total landfill and hazardous waste sites liability	$1,652,000

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[1]	$1,715,766[1]
Total due from/to other funds		2,289,648	1,715,766

Component units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity	2006	2005
Primary government—General Fund:	Component units: HDC	921,928	422,726
	OTB	209	226
		922,137	422,952
Primary government—NYC Capital Projects Fund	Component unit—Water Authority	326,124	288,136
Total due from component units		1,248,261	711,088
Component unit—Water Board	Primary government—General Fund	8,506	31,390
Total due to component units		8,506	31,390
Total due from/to primary government and component units		1,256,767	742,478
Total primary government and component units receivable and payable balances		$3,546,415	$2,458,244

(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
	(percent)							
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.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)— Entry Age	(3) Unfunded AAL (UAAL)	(4) Funded Ratio	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll
			(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 Reimbursments; 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:

	Amount (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	2,182,871
Increase in net OPEB obligation	53,507,451
Net OPEB obligation—beginning of year	—
Net OPEB obligation—end of year	$53,507,451

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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
	(in thousands)		
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.[1]
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:

	Monthly Rate for Fiscal Year 2006	
Plan	Basic	MH/SA Rider[2]
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	$78.20
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:

	HCCTR Assumptions		
Year Ending*	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.

Age	Annual Increase
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.

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

Demographic Assumptions . . . . The same assumptions that were used to value the pension benefits of the NYCRS 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[3], 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[4] 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.

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

2 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.

3 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.

4 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	308,230	172,873	32,711	75,098	28,710	617,622

	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	308,230	172,873	32,711	75,098	28,710	617,622

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:

	2006	2005	2004
		(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	601.7	515.1	424.5
Total annual pension costs	$4,336.1	$4,051.8	$2,979.7

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 NYCRS, 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:

Phase-In Percent	Fiscal Year
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:

	2006	2005	2004
		(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	$4,015.0	$3,369.9	$2,444.5

* 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:

	2006	2005	2004
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 NYCRS. The City also contributes per diem amounts into certain union-administered annuity funds.

Net Pension Obligations

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

	POLICE	FIRE	TOTAL
		(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	1,337.7	608.8	1,946.5
(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)	$ 543.9	$220.1	$ 764.0

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

	Fiscal Year Ending	Annual Pension Cost (APC)	Pecentage 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
Valuation Date	*June 30, 2004 (Lag).(1)*	*June 30, 2004.*
Actuarial Cost Method	*Frozen Initial Liability.(2)*	*Frozen Initial Liability.(2)*
Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)	*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.*	*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.*
Remaining Amortization Period	*5 years for FIRE(3), 1 year for 2000 ERI, and 3 years for 2002 ERI (Part A only).*	*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).*
Actuarial Asset Valuation Method	*Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.*	*Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.*
Investment Rate of Return	*8.0% per annum(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*	*8.0% per annum(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*
Post-Retirement Mortality	*Tables adopted by Boards of Trustees during fiscal year 2006.*	*Tables adopted by Boards of Trustees during fiscal year 2000.*
Active Service: Withdrawal, Death, Disability, Retirement	*Tables adopted by Board of Trustees during fiscal year 2006.*	*Tables adopted by Boards of Trustees during fiscal year 2000.*
Salary Increases	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)*	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)*
Cost-of-Living Adjustments	*1.3% per annum.(5)*	*1.3% per annum.(5)*

(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 NYCRS 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 NYCRS 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 NYCRS 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 NYCRS 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 NYCRS: the actuarial valuation date, the actuarial asset value, the actuarial accrued liability, the unfunded actuarial accrued liability, the actuarial asset value as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial accrued liability to annual covered payroll. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of June 30, 2004 (Lag), June 30, 2004, 2003, 2002, 2001, 2000, and 1999.

	Actuarial Valuation Date	(1) Actuarial Asset Value (AAV) (a)	(2) Actuarial Accrued Liability (AAL)* (a) & (b)	(3) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1) (in millions)	(4) Funded Ratio (1) ÷ (2)	(5) Annual Covered Payroll	(6) 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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APPENDIX C

BOND INSURER

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

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("FSA") will issue its Municipal Bond Insurance Policy (the "Policy") for the Subseries C-1 Bonds maturing in 2024 and 2025 (the "FSA Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on FSA Insured Bonds when due as set forth in the form of the Policy included as Appendix D to this Official Statement.

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

Financial Security Assurance Inc.

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

At June 30, 2007, FSA's combined policyholders' surplus and contingency reserves were approximately $2,642,612,000 and its total net unearned premium reserve was approximately $2,116,401,000 in accordance with statutory accounting principles. At June 30, 2007, FSA's consolidated shareholder's equity was approximately $3,072,828,000 and its total net unearned premium reserve was approximately $1,660,356,000 in accordance with generally accepted accounting principles.

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

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

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APPENDIX D

SPECIMEN BOND INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

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

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

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

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

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

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

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

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

[Countersignature]

By ______________________

FINANCIAL SECURITY ASSURANCE INC.

By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

SIDLEY AUSTIN LLP

SIDLEY AUSTIN LLP
787 SEVENTH AVENUE
NEW YORK, NY 10019
(212) 839 5300
(212) 839 5599 FAX

BEIJING
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SAN FRANCISCO
SHANGHAI
SINGAPORE
TOKYO
WASHINGTON, DC

FOUNDED 1866

October 4, 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 2008 Series C (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, C-3 and C-4 Bonds (the "Tax-Exempt Bonds") is not includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of federal income taxation under existing law. Interest on the Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the 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 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.

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 Tax-Exempt 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,