

## 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, as described herein, interest on the Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION IX: OTHER INFORMATION" herein for further information.

**\$1,000,090,000**

# **The City of New York**

## **General Obligation Bonds, Fiscal 2013 Series D and E**

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 February 1 and August 1, commencing February 1, 2013. The Bonds can be purchased in principal amounts of \$5,000 or any integral multiple thereof. Other terms of the Bonds including redemption provisions are described herein. *A detailed schedule of the Bonds is set forth on the inside cover page.*

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters. The issuance of the Bonds is subject to the approval of the legality of the Bonds by Sidley Austin 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 Orrick, Herrington & Sutcliffe LLP, New York, New York, Special Disclosure Counsel to the City. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, Counsel to the Underwriters. It is expected that the Bonds will be available for delivery in New York, New York, on or about January 3, 2013.

### **Citigroup**

**BofA Merrill Lynch  
Morgan Stanley**

**J.P. Morgan  
Siebert Brandford Shank & Co., L.L.C.**

**Barclays Capital  
Goldman, Sachs & Co.  
Ramirez & Co., Inc.  
Southwest Securities, Inc.**

**M.R. Beal & Company  
Jefferies  
Rice Financial Products Company**

**Fidelity Capital Markets  
Loop Capital Markets, LLC  
Roosevelt & Cross Incorporated  
Wells Fargo Securities**

**Cabrera Capital Markets, LLC  
Raymond James | Morgan Keegan**

**Janney Montgomery Scott LLC  
RBC Capital Markets**

**Lebenthal & Co., LLC  
TD Securities (USA) LLC**

December 12, 2012

# \$1,000,090,000 General Obligation Bonds, Fiscal 2013 Series D and E

August 1,	\$520,185,000 Fiscal 2013 Series D				\$479,905,000 Fiscal 2013 Series E			
	Principal Amount	Interest Rate	Yield	CUSIP*	Principal Amount	Interest Rate	Price or Yield	CUSIP*
2013					\$19,385,000	3 %	0.19%	64966KED1
2014	\$27,470,000	4%	0.29%	64966KDM2	19,380,000	4	0.29	64966KEE9
2015	10,000,000	4	0.61	64966KDN0	4,070,000	3	0.61	64966KEF6
2015	17,470,000	5	0.61	64966KEC3	15,310,000	5	0.61	64966KFL2
2016	27,465,000	5	0.77	64966KDP5	1,790,000	3	0.77	64966KEG4
2016					1,995,000	4	0.77	64966KFA6
2016					15,595,000	5	0.77	64966KFM0
2017	27,465,000	5	0.94	64966KDQ3	1,475,000	3	0.94	64966KEH2
2017					4,030,000	4	0.94	64966KFB4
2017					13,875,000	5	0.94	64966KFN8
2018	27,465,000	5	1.12	64966KDR1	3,315,000	4	1.12	64966KEJ8
2018					16,065,000	5	1.12	64966KFC2
2019	40,985,000	5	1.32	64966KDS9	3,515,000	4	1.32	64966KEK5
2019					25,415,000	5	1.32	64966KFD0
2020	27,465,000	5	1.51	64966KDT7	4,295,000	4	1.51	64966KEL3
2020					15,085,000	5	1.51	64966KFE8
2021	40,990,000	5	1.74	64966KDU4	8,595,000	4	1.74	64966KEM1
2021					20,335,000	5	1.74	64966KFF5
2022	40,990,000	5	1.95	64966KDV2	8,430,000	4	1.95	64966KEN9
2022					20,500,000	5	1.95	64966KFG3
2023	40,990,000	5	2.08 <sup>(1)</sup>	64966KDW0	5,175,000	4 ½	2.08 <sup>(1)</sup>	64966KQF1
2023					23,755,000	5	2.08 <sup>(1)</sup>	64966KEP4
2024	40,990,000	5	2.13 <sup>(1)</sup>	64966KDX8	28,930,000	5	2.13 <sup>(1)</sup>	64966KEQ2
2025	40,990,000	5	2.18 <sup>(1)</sup>	64966KDY6	28,930,000	5	2.18 <sup>(1)</sup>	64966KER0
2026	27,470,000	5	2.24 <sup>(1)</sup>	64966KDZ3	650,000	4	2.44 <sup>(1)</sup>	64966KES8
2026					18,770,000	5	2.24 <sup>(1)</sup>	64966KFH1
2027	40,990,000	5	2.30 <sup>(1)</sup>	64966KEA7	230,000	4	2.50 <sup>(1)</sup>	64966KET6
2027					28,685,000	5	2.30 <sup>(1)</sup>	64966KFJ7
2028	40,990,000	5	2.36 <sup>(1)</sup>	64966KEB5	965,000	3	2.76 <sup>(1)</sup>	64966KEU3
2028					27,950,000	5	2.36 <sup>(1)</sup>	64966KFK4
2029					28,915,000	5	2.42 <sup>(1)</sup>	64966KEV1
2030					27,840,000	5	2.48 <sup>(1)</sup>	64966KEW9
2031					1,855,000	4	2.77 <sup>(1)</sup>	64966KEX7
2031					13,160,000	5	2.52 <sup>(1)</sup>	64966KFP3
2032					2,160,000	4	2.80 <sup>(1)</sup>	64966KEY5
2033 <sup>(2)</sup>					19,480,000	3	100	64966KEZ2

(1) Priced to first optional call on February 1, 2023.

(2) Term Bond.

\* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the City makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

The factors affecting the City's financial condition are complex. This Official Statement should be considered in its entirety and no one factor considered less important than any other by reason of its location herein. Where agreements, reports or other documents are referred to herein, reference should be made to such agreements, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof. Any electronic reproduction of this Official Statement may contain computer-generated errors or other deviations from the printed Official Statement. In any such case, the printed version controls.

This Official Statement contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the City, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the City, its independent auditors or the Underwriters that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date they were prepared. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based between modifications to the City's financial plan required by law.

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, 2012 and 2011, 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.

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

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

# OFFICIAL STATEMENT OF THE CITY OF NEW YORK

This Official Statement provides certain information concerning The City of New York (the “City”) in connection with the sale of \$1,000,090,000 aggregate principal amount of the City’s tax-exempt General Obligation Bonds, Fiscal 2013 Series D and E (the “Bonds”), consisting of \$520,185,000 Fiscal 2013 Series D (the “Series D Bonds”) and \$479,905,000 Fiscal 2013 Series E (the “Series E Bonds”).

## INTRODUCTORY STATEMENT

The Bonds are general obligations of the City for the payment of which the City has pledged its faith and credit. All real property subject to taxation by the City is 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 8,175,000, 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 2012 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 and except for the application of Statement No. 49 of the Government Accounting Standards Board (“GASB 49”), as described below. See “SECTION VI: FINANCIAL OPERATIONS—2008-2012 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 (the “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 2013 fiscal year in accordance with GAAP except for the application of GASB 49. The City’s current financial plan projects budget gaps for each of the 2014 through 2016 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.” For information regarding the June 2010 amendment of the Financial Emergency Act with respect to the application of GASB 49 to the City budget, see “SECTION III: GOVERNMENT AND FINANCIAL CONTROLS.” 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 for future State fiscal years 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—2013-2016 Financial Plan." In addition, the City has made various assumptions with respect to federal aid. Future federal actions or inactions 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. The financial plan is modified quarterly. 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 international, national, regional and local economies, the provision of State and federal aid, the impact on City revenues and expenditures of any future federal or State legislation and policies affecting the City and the cost of future labor settlements, pension structures and healthcare. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

Implementation of the financial plan is dependent on the City's ability to market successfully its bonds and notes, including revenue and tax anticipation notes that it may issue under certain circumstances to finance seasonal working capital requirements. 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." 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 in the financial markets generally, as well as future developments concerning the City, and public discussion of such developments, 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, environmental 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**

For the 2012 fiscal year, the City's General Fund had a total surplus of \$2.467 billion, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, except for the application of GASB 49 as described below, after discretionary and other transfers. The 2012 fiscal year is the thirty-second consecutive year that the City has achieved balanced operating results when reported in accordance with GAAP, except for the application of GASB 49.

### **2013-2016 Financial Plan**

On June 28, 2012, the City submitted to the Control Board the financial plan for the 2012 through 2016 fiscal years (the "June Financial Plan"), which is consistent with the City's expense and capital budgets for the 2013 fiscal year. On November 9, 2012, the City submitted to the Control Board a modification to the June Financial Plan (as so modified, the "Financial Plan").



The Financial Plan projects revenues and expenses for the 2013 fiscal year balanced in accordance with GAAP, except for the application of GASB 49, and projects gaps of approximately \$1.2 billion, \$2.8 billion and \$2.6 billion in fiscal years 2014 through 2016, respectively, after the implementation of a gap-closing program described below. The June Financial Plan had projected revenues and expenses for the 2013 fiscal year balanced in accordance with GAAP, except for the application of GASB 49, and had projected gaps of approximately \$2.5 billion, \$3.1 billion and \$3.1 billion in fiscal years 2014 through 2016, respectively.

The Financial Plan reflects, since the June Financial Plan, decreases in projected net revenues of \$431 million and \$24 million in fiscal years 2013 and 2015, respectively, and increases in projected net revenues of \$413 million and \$192 million in fiscal years 2014 and 2016, respectively. Changes in projected revenues include: (i) an increase in personal income tax revenues of \$17 million in fiscal year 2013; (ii) an increase in business tax revenues of \$69 million in fiscal year 2013; (iii) a decrease in real property transfer and mortgage recording tax revenues of \$7 million in fiscal year 2013; (iv) a decrease in sales tax revenues of \$3 million in fiscal year 2013; (v) an increase in tax audit revenues of \$113 million in fiscal year 2013; (vi) an increase in hotel tax revenues of \$4 million in fiscal year 2013; (vii) a decrease in other taxes of \$12 million in fiscal year 2013; and (viii) a net increase in other revenues of \$23 million in fiscal year 2013, and net decreases in other revenues of \$12 million, \$11 million and \$31 million in fiscal years 2014 through 2016, respectively. Changes in projected revenues also include decreases of \$635 million and \$13 million in fiscal years 2013 and 2015, respectively, and increases of \$425 million and \$223 million in fiscal years 2014 and 2016, respectively, resulting from changes in the anticipated timing of, and expected revenue from, the sale of taxi medallions. The number of taxi medallions that may be sold and the timing of such sale is subject to State administrative approval and certain litigation as described below.

The Financial Plan also reflects, since the June Financial Plan, increases in projected net expenditures of \$124 million, \$56 million, \$155 million and \$258 million in fiscal years 2013 through 2016, respectively. Changes in projected expenditures include: (i) decreases in employer health insurance costs of \$11 million, \$191 million, \$210 million and \$232 million in fiscal years 2013 through 2016, respectively, as a result of lower than assumed health insurance rates; and (ii) net increases in agency expenses of \$135 million, \$149 million, \$168 million and \$195 million in fiscal years 2013 through 2016, respectively. In addition, the Financial Plan reflects increases in required pension contributions of \$98 million, \$197 million and \$295 million in fiscal years 2014 through 2016, respectively, as a result of the pension funds realizing a rate of return in fiscal year 2012 lower than the assumed actuarial rate of return. For additional information on the City's pensions, see "SECTION IX: OTHER INFORMATION—Pension Systems."

In addition, the Financial Plan sets forth a gap-closing program to maintain budget balance in fiscal year 2013 and to reduce previously projected gaps for each of fiscal years 2014 through 2016. The gap-closing actions include agency programs reflecting reduced agency expenditures or increased revenues totaling \$555 million, \$1.0 billion, \$509 million and \$521 million in fiscal years 2013 through 2016, respectively.

The Financial Plan contains funding for settled employees in the 2008-2010 round of collective bargaining, but does not contain funding for wage increases for unsettled employees including the United Federation of Teachers ("UFT") for the 2008-2010 round of collective bargaining. Each 1% increase for UFT employees would cost approximately \$100 million annually and each 1% increase for other unsettled employees in the 2008-2010 round of collective bargaining would cost approximately \$16 million annually. A fact-finding procedure to provide recommendations for the resolution of an impasse in negotiations between the City and the UFT has commenced. The timing of final recommendations from the fact-finding procedure is uncertain and such recommendations are not binding, although such recommendations may influence ongoing collective bargaining. The Financial Plan does not include funding for wage increases for any employees in the first three years following the 2008-2010 round of collective bargaining, but does provide for 1.25% increases per year for all employees commencing in the fourth year after the 2008-2010 round of collective bargaining. Each 1% increase for all City employees costs approximately \$300 million annually.

The City and the UFT are in negotiations regarding the implementation of a teacher evaluation system as required by State law. Under the State's fiscal year 2012-2013 budget, annual increases in school aid are payable only to school districts, including the City, that have implemented the new teacher evaluation standards and procedures required under Section 3012-c of the State Education Law, submitted documentation of such implementation to the State Education Department ("SED") and received the State Commissioner of Education's approval thereof no later than January 17, 2013. If the City fails to submit the required documentation and obtain approval of the State Commissioner of Education, the apportionment of City school aid for the 2012-2013 school year will be limited to the amount of City school aid apportioned for the 2011-2012 school year, which is approximately \$250 million below the currently budgeted amount. In addition, if a teacher evaluation program is not implemented, the City would not receive \$31 million of federal funds reflected in the Financial Plan in fiscal year 2014.

On August 17, 2012, a State court found that the legislation authorizing the sale of additional taxi medallions was unconstitutional and declared the act null and void. The City has filed notices of appeal and is seeking an accelerated appellate review of such decision by the State Court of Appeals. As a result of the appellate process, delays in the sale of taxi medallions caused a revision from the June Financial Plan to move revenues previously expected in 2013 into future years as described above and may further adversely affect the timing of receipt of revenues anticipated in the Financial Plan, and, if the City is not ultimately successful on appeal, the City will not receive the \$790 million, \$447 million and \$223 million in fiscal years 2014 through 2016, respectively, in the Financial Plan. See "SECTION IX: OTHER INFORMATION—Litigation."

On Monday, October 29, 2012, Hurricane Sandy hit the Mid-Atlantic East Coast as a tropical storm. The storm caused widespread damage to the coastal and other low lying areas of the City and power failures in various parts of the City, including most of downtown Manhattan. The City, along with the State and federal governments, is engaged in a major effort to address the health and safety of its residents affected by the storm and the repair and stabilization of its infrastructure and other storm-damaged property. In November 2012, in addition to the capital funds already included in the Financial Plan for fiscal year 2013, the City appropriated \$500 million in capital funds for schools and hospitals damaged by the storm. In addition, the City appropriated \$500 million in expense funds for emergency repairs to damaged private properties. The City is in the process of tabulating the costs of the storm including preparation, damages and lost revenues. Although it is not yet possible for the City to determine such costs or to quantify with any certainty the long-term impact of the storm on the City and its economy, the City's preliminary estimate of damage to property of the City, the New York City Housing Authority (the "Housing Authority" or "HA") and the New York City Health and Hospitals Corporation ("HHC") is approximately \$4.5 billion. The City is currently assuming in its Financial Plan that all City expenditures for storm damage remediation will ultimately be paid from non-City sources, primarily the federal government. However, the amount and timing for receipt of funds from such sources cannot be determined at this time. The amount of additional resources from federal, State and other sources that may be required, is also uncertain at this time.

A series of automatic federal deficit reduction spending cuts and tax increases is scheduled to take effect on January 2, 2013, unless Congress adopts alternative legislation. The City estimates that such spending cuts to the federal budget for federal fiscal year 2013 could result in decreased federal aid totaling approximately \$300 million in fiscal years 2013 and 2014. Though the City cannot predict with certainty the effects of such automatic spending cuts and tax increases, various reports have indicated that such tax increases, including an increase of the capital gains tax, could have a negative effect on the City's economy and employment due in part to the high concentration of upper income individuals and securities industry jobs in the City. This negative effect, in turn, would be likely to impair the collection of currently forecast City tax revenues.

From time to time, the Control Board staff, the Office of the State Deputy Comptroller ("OSDC"), the City Comptroller, the Independent Budget Office ("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. For information on reports issued and to be issued by the City Comptroller and others reviewing and commenting on the June Financial Plan and the Financial Plan and identifying various risks see "SECTION VII: FINANCIAL PLAN—Certain Reports." Particular risks to the Financial Plan identified in the reports include potential collective bargaining costs and receipt of revenues from the sale of taxi medallions.

## **The State**

The State ended the 2011-2012 fiscal year with a general fund balance of \$1.79 billion, including approximately \$1.3 billion in reserves and \$283 million reserved for potential retroactive labor settlements. The State Legislature completed action on the \$133.4 billion budget for the 2012-2013 fiscal year on March 30, 2012 (the "Enacted Budget"). The State Annual Information Statement dated May 11, 2012, as updated August 10, 2012 (the "Annual Information Statement"), reflects the Enacted Budget, as modified by the First Quarterly Update to the State Financial Plan (the "First Quarterly Update"). The State released its Mid-Year Update to the Financial Plan in November, 2012 (the "Mid-Year Update"). The State expects to update the Annual Information Statement quarterly and expects to release its second quarterly update, which will describe the Mid-Year Update, in December, 2012.

In the Mid-Year Update, the State estimates that the State's General Fund (the "General Fund") will remain in balance in fiscal year 2012-2013, consistent with the Enacted Budget and First Quarterly Update reflected in the Annual Information Statement. General Fund receipts are expected to total \$59.1 billion, an increase of \$174 million from the First Quarterly Update, and General Fund disbursements, including transfers to other funds, are expected to total \$59.4 billion, an increase of \$174 million over the First Quarterly Update. The increase in receipts primarily results from unanticipated proceeds from a settlement agreement with a bank and the increase in disbursements reflects, among other things, a decrease in resources available to offset General Fund costs and an increase in expected costs for general State charges. The State estimates that it will end fiscal year 2012-2013 with a General Fund balance of \$1.5 billion, consistent with the First Quarterly Update. The State projects budget gaps of \$982 million, \$3.6 billion and \$4.4 billion in fiscal years 2013-2014, 2014-2015, and 2015-2016, respectively, assuming successful implementation of gap-closing actions. However, the Mid-Year Update and budget gap projections do not include an assessment of the immediate and long-term impacts of Hurricane Sandy on State receipts and disbursements. The storm's impact on the State's economy and finances is uncertain and subject to numerous factors, including the amount and timing of federal aid. The assessment of the storm's impact may result in material and adverse changes to the Mid-Year Update.

The Annual Information Statement and Mid-Year Update identify a number of risks inherent in the implementation of the Enacted Budget and the State financial plan. Such risks include, but are not limited to, the strength and duration of the economic recovery; the impact of federal deficit reduction measures; the performance of the national and State economies; the impact of international events on consumer confidence, oil supplies and oil prices; the impact of behavioral changes concerning financial sector profitability and the structure of financial sector bonuses, as well as any future legislation governing the structure of compensation; the impact of financial and real estate market developments on bonus income and capital gains realizations; shifts in monetary policy affecting interest rates and the financial markets; the impact of consumer spending on State tax collections; increased demand in entitlement-based and claims-based programs such as Medicaid, public assistance and general public health; the ability of the State to successfully market its securities; litigation against the State; actions taken by the federal government, including audits, disallowances, and changes in aid levels; changes to Medicaid rules; and risks concerning the implementation of gap-closing actions, including reductions in State agency spending.

## **Job Growth**

Private sector jobs in the City declined by 140,000, or 4.3%, from a peak in August 2008 to a low in August 2009. From September 2009 through October 2012, private sector jobs in the City increased by 235,000, a recovery of all private sector jobs lost during the downturn. Private sector jobs in the United States declined by 8.9 million, or 7.7%, from a peak in January 2008 to a low in February 2010. From February 2010 through October 2012, private sector jobs in the United States grew by 5.0 million, or 56% of private sector jobs lost. Recent information on job trends at both the national and City levels suggests continued modest growth; however, volatility over the past year has caused some uncertainty in the outlook for continued growth.

## **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 cover and 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 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, 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 when due. 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 applicable 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 and to limit its issuance of bond anticipation notes as required by the Act, as in effect from time to time.

The State pledges and agrees in the Financial Emergency Act that the State will not take any action that will impair the power of the City to comply with the covenants described in the preceding paragraph (the "City Covenants") or any right or remedy of any owner of the Bonds to enforce the City Covenants (the "State Pledge and Agreement"). The City will covenant to make continuing disclosure with respect to the Bonds (the "Undertaking") 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 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 to redeem, at or prior to maturity, the bonds identified in Appendix E hereto by providing, with other City funds, for the payment of the principal of and interest and applicable redemption premium, if any, on such bonds to the extent and to the payment dates shown in Appendix E. The proceeds of the Bonds will also be used for the payment of certain costs of issuance.

### **Mandatory Redemption**

The Series E Bonds maturing on August 1, 2033 are subject to mandatory redemption, at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, on the dates and in the amounts set forth below:

	<u>August 1,</u>	<u>Principal Amount to be Redeemed</u>
	2032	\$ 6,525,000
	2033 <sup>(1)</sup>	12,955,000

(1) Stated Maturity

At the option of the City, there will be credited against the applicable mandatory redemption amounts the principal amount of any term bonds that have been defeased, purchased or redeemed and not previously so credited.

### **Optional Redemption**

The Bonds maturing after August 1, 2022 will be subject to redemption at the option of the City, on or after February 1, 2023 in whole or in part, on any date, at par, plus accrued interest to the date of redemption. 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.

### **Selection of Bonds to Be Redeemed**

The particular series, subseries, maturities, amounts and interest rates of Bonds to be redeemed at the option of the City will be determined by the City in its sole discretion. If less than all of the Bonds of a series, subseries, maturity and interest rate are called for prior redemption, such Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

### **Notice of Redemption**

When Bonds are redeemed, the City will give notice of redemption only to DTC (not to the Beneficial Owners of the Bonds) not less than 30 or more than 60 days prior to the date fixed for redemption.

### **Defeasance**

As a condition to legal defeasance of any of the Bonds, the City must obtain an opinion of counsel to the effect that the owners thereof will not recognize income, gain or loss for federal income tax purposes as a result of such legal defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred. Any Bonds that are escrowed to maturity in the future will remain subject to optional redemption by the City.

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

The Depository Trust Company (“DTC”), New York, New York, acts as securities depository for the Bonds. Reference to the Bonds under this caption “Book-Entry Only System” shall mean all Bonds held through DTC. 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 of a series or subseries, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 is the holding company for DTC National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to 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”). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of Cede & Co. 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. or such other DTC nominee 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 will be sent to DTC. If less than all of the Bonds within a series, subseries, maturity or interest rate are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such series, subseries, maturity or interest rate 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 its Fiscal Agent, The Bank of New York Mellon, 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 of a series or subseries 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 of such series or subseries 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 under this caption "Book-Entry Only System" has been extracted from information furnished by DTC. Neither the City nor the Underwriters 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, was elected to a second term which commenced on January 1, 2006 and was elected for a third term which commenced on January 1, 2010. 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.* John C. Liu, the Comptroller of the City, took office on January 1, 2010. 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 \$128 billion as of September 30, 2012, 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.* Bill de Blasio, the Public Advocate, took office on January 1, 2010. 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.

On November 2, 2010, the City Charter was amended to provide 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 consecutive full terms, unless one full term or more has elapsed since that person last held such office. Such term limit applies only to officials first elected to office on or after November 2, 2010.

### **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 and the City Charter require the City to maintain its Expense Budget balanced when reported in accordance with GAAP. For fiscal years 2009 and 2010, the City was authorized to phase in implementation of GASB 49 for budgetary purposes. In June 2010, the Financial Emergency Act was amended to permanently waive the budgetary impact of GASB 49 by allowing the City to include certain pollution remediation costs in its capital budget and to finance such costs with the issuance of bonds. 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 2012 fiscal year, which includes, among other things, the City's financial statements for the 2012 fiscal year, was issued on October 29, 2012. The CAFR for the 2011 fiscal year received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the thirty-second 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 thirty-two consecutive fiscal years with a General Fund surplus when reported in accordance with then applicable GAAP, except with regard to the application of GASB 49.

In June 2004, the Government Accounting Standards Board (“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 current approach adopted with regard to accounting for pension expense and liabilities, with modifications to reflect differences between pension benefits and OPEB. As of June 30, 2012, the City reported an OPEB liability of \$88.2 billion in its government-wide financial statements, based upon an actuarial valuation in accordance with GASB 45. See “APPENDIX B—FINANCIAL STATEMENTS—Note E-4.” There is no requirement to fund the future OPEB obligation. For information on the trust established to fund a portion of the future OPEB liability, see “SECTION VI: FINANCIAL OPERATIONS—2008-2012 Summary of Operations.”

In November 2006, 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 (“PRO”), which are obligations to address the current or potential detrimental effects of existing pollution through activities such as site assessments and cleanups. The City implemented GASB 49 in fiscal year 2009 for financial reporting purposes. For fiscal year 2012, the City reported a PRO liability of \$212.4 million, the costs of known pollution which the City is obligated to remediate, estimated as of June 30, 2011. See “APPENDIX B — FINANCIAL STATEMENTS — Note D.4.” In addition to requiring recognition of PRO, under GASB 49 costs incurred for pollution remediation are generally reported as operating expenses rather than as capital expenditures. The City reported pollution remediation expenditures of approximately \$224.9 million in fiscal year 2012.

On April 30, 2008, pursuant to the Financial Emergency Act, the Control Board approved a phase-in of the budgetary impact of GASB 49, enabling the City to continue to finance with the issuance of bonds certain pollution remediation costs for projects authorized prior to fiscal year 2011 and, consequently, to achieve budget balance in fiscal years 2009 and 2010 in accordance with GAAP except for the application of GASB 49. In June 2010, the State amended the Financial Emergency Act to permanently waive the budgetary impact of GASB 49.

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 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 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 97% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of trustees. As of September 30, 2012, aggregate pension assets were allocated approximately as follows: 39.4% U.S. equity; 32.5% fixed income; 15.7% international equity; 6.6% private equity; 3.0% private real estate; 1.4% hedge funds; and 1.4% 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 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 Housing Authority 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. Under current law, prior to July 1, 2008 the Control Board was required to 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 were (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 impaired 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 was a substantial likelihood that such securities could 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 would 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 is authorized to be included in bonds of the City. Since enactment of this amendment to the Act, 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 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).

While the State Legislature amended the Act to extend the termination date of the Control Board, the power to impose or continue a Control Period terminated July 1, 2008. The power to impose or continue a Control Period is covered by a section of the Act that provides 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 continues in effect beyond July 1, 2008, no Control Period may be imposed after July 1, 2008.

#### *Financial Review and Oversight*

The Control Board, with the OSD, reviews and monitors revenues and expenditures of the City and the Covered Organizations. In addition, 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 2012, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 72.7% of total revenues in the 2013 fiscal year while federal aid, including categorical grants, will provide 10.5%, and State aid, including unrestricted aid and categorical grants, will provide 16.8%. 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 42.0% of its total tax revenues and 26.7% of its total revenues for the 2013 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—2008-2012 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, which amount may be further limited by the State Constitution or laws. On June 24, 2011 the Governor signed into law the State’s tax levy limitation law which restricts, among other things, the amount of real property taxes that may be levied on or behalf of a municipality in a particular year. Such law does not apply to the City. 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)								
2008 . . . . .	\$14,356.2	\$10,462.4	\$2,952.1	20.6%	\$14,949.0	70.0%	\$2.02	\$11.42
2009(5) . . . . .	15,903.5	13,213.6	1,168.9	7.6	17,525.7	75.4	1.87	12.28
2010 . . . . .	17,588.1	16,472.3	295.8	1.7	18,641.4	88.4	2.01	12.28
2011 . . . . .	18,323.7	16,418.4	921.2	5.0	18,898.5	86.9	2.17	12.28
2012 . . . . .	19,284.5	17,181.1	1,135.5	5.9	18,936.0	90.7	2.28	12.28
2013 . . . . .	20,133.2	16,239.9	2,896.2	14.4	19,101.9	85.0	2.35	12.28

- (1) As approved by the City Council.
- (2) The debt service levy includes a portion of the total reserve for uncollected real estate taxes.
- (3) Full valuation is based on the special equalization ratios (discussed below) and the billable assessed valuation. Special equalization ratios and full valuations are revised periodically as a result of surveys by the State Office of Real Property Tax Services.
- (4) The increase in the average tax rate between fiscal years 2008 and 2009 reflects the rescission of the 7% property tax decrease effective January 1, 2009.
- (5) Includes the mid-year property tax increase of \$576 million, effective January 1, 2009, rescinding the 7% property tax decrease enacted in June 2007.

*Assessment*

The City has traditionally assessed real property at less than market value. The State Office of Real Property Tax Services (the “State Office”) 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 Office from time to time. Ratios, and therefore full values, may be revised when new surveys are completed. The ratios and full values shown in the table below, which were used to compute the 2013 fiscal year operating limit and general debt limit, have been established by the State Office and include the results of the fiscal year 2011 market value survey.

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

<u>Fiscal Year</u>	<u>Billable Assessed Valuation of Taxable Real Estate(2)</u>	÷	<u>Special Equalization Ratio</u>	=	<u>Full Valuation(2)</u>
2009 .....	\$134,294,731,881		0.1847		\$727,096,545,106
2010 .....	143,334,172,616		0.1977		725,008,460,374
2011 .....	149,311,931,232		0.1999		746,933,122,721
2012 .....	157,121,003,987		0.2001		785,212,413,728
2013 .....	164,036,985,806		0.1911		858,382,971,251
				Average:	\$768,526,702,636

- (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 2012 fiscal year, the billable assessed value of all real estate (taxable and exempt) was \$270.6 billion comprised of \$96.0 billion of fully exempt real estate, \$63.8 billion of partially taxable real estate and \$110.8 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 2013 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 2013, class one was assessed at approximately 6% of market value and classes two, three and four were each assessed at 45.0% 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 2013 tax rates were set on June 28, 2012 and reflect a 5% limitation on the market value adjustment for 2012. The class tax rates were amended and restated on November 13, 2012 to limit the market value adjustment to 1.5%. The average tax rate for fiscal year 2013 was maintained at \$12.28 per \$100 of assessed value.

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 Office 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 Office by calculating the ratio of assessed value to market value. Various proceedings challenging assessments of real property for real estate tax purposes are pending. For further information regarding the City's potential exposure in certain of these proceedings, see "SECTION IX: OTHER INFORMATION—Litigation—Taxes" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

#### *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 year 1998, growing 0.7%, 2.2%, 3.1%, 4.0%, 6.0%, 5.7%, 5.7%, 3.8% and 7.5% in fiscal years 1998 through 2006, respectively.

For fiscal year 2007, billable assessed valuation rose by \$5.1 billion to \$115.1 billion. The billable assessed valuation as determined by the City Department of Finance rose to \$124.5 billion, \$133.0 billion, \$141.8 billion, \$147.6 billion, \$155.4 billion and \$162.3 billion for fiscal years 2008 through 2013, respectively. With a forecast decline in the class two and class four market values combined with a deflated level of existing pipeline of deferred assessment increases yet to be phased in, the billable assessed valuations are forecast to grow by 3.0%, 3.1% and 3.1% in fiscal years 2014 through 2016, respectively.

#### *Collection of the Real Estate Tax*

Real estate tax payments are due each July 1 and January 1. Prior to January 1, 2009, 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 were eligible to make tax payments in quarterly installments on July 1, October 1, January 1 and April 1. Effective January 1, 2009, owners of all properties assessed at \$250,000 or less are eligible to make tax payments in quarterly installments. Prior to January 1, 2009, an annual interest rate of 9% compounded daily was 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. As of January 1, 2009, the assessed value threshold subject to the late payment interest rate of 9% was raised from \$80,000 to \$250,000. 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 was extended through December 31, 2014. 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.

From time to time, the City sells tax liens to separate statutory trusts. In fiscal years 2008 through 2012, the City's tax lien program resulted in net proceeds of approximately \$35.5 million, \$33.9 million, \$39.0 million, \$2.4 million and \$82 million, respectively. The Financial Plan reflects receipt of \$46.0 million in fiscal year 2013 from tax lien sales.

### REAL ESTATE TAX COLLECTIONS AND DELINQUENCIES

Fiscal Year	Tax Levy(1)	Tax Collections on Current Year Levy	Tax Collections as a Percentage of Tax Levy	Prior Year (Delinquent Tax) Collections	Refunds	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of End of Fiscal Year	Delinquency as a Percentage of Tax Levy	Lien Sale Program(2)
2008	\$14,356.2	\$13,070.7	91.0%	\$194.8	\$(239.3)	\$(1,023.6)	\$(261.9)	1.82%	\$35.5
2009	15,903.5	14,423.4	90.7	162.6	(290.4)	(1,187.3)	(283.9)	1.79	33.9
2010	17,588.1	16,168.6	92.0	215.2	(239.3)	(1,077.6)	(341.9)	1.94	39.0
2011	18,323.7	16,830.2	91.8	265.7	(230.0)	(1,093.0)	(400.5)	2.19	2.4
2012	19,284.5	17,820.6	92.4	283.9	(240.6)	(1,129.5)	(334.4)	1.73	81.6
2013(3)	20,133.2	18,583.8	92.3	235.0	(435.0)	(1,149.6)	(412.6)	2.05	46.0

(1) As approved by the City Council.

(2) Includes repurchases of defective tax liens amounting to \$14.2 million in the 2011 fiscal year.

(3) Forecast.

### Other Taxes

The City expects to derive 58.0% of its total tax revenues for the 2013 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4.5% sales and compensating use tax, which commenced August 1, 2009, in addition to the 4% sales and use tax imposed by the State upon receipts from retail sales of tangible personal property and certain services in the City and the 0.375% metropolitan transportation district surcharge imposed by the State for the Metropolitan Transit Authority ("MTA"); (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. A portion of sales tax revenues payable to the City would be paid to the TFA if personal income tax revenues did not satisfy specified debt service ratios.

Revenues from taxes other than the real estate tax in the 2012 fiscal year increased by \$689 million, an increase of approximately 2.96% from the 2011 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real estate tax, for each of the City's 2008 through 2012 fiscal years.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(In Millions)				
Personal Income(1) .....	\$ 9,697	\$ 7,489	\$ 7,576	\$ 8,138	\$ 8,531
General Corporation .....	2,932	2,320	1,976	2,278	2,447
Banking Corporation .....	628	1,099	969	1,346	1,278
Unincorporated Business Income .....	1,852	1,785	1,560	1,675	1,637
Sales .....	4,868	4,594	5,059	5,586	5,812
Commercial Rent .....	545	583	594	601	629
Real Property Transfer .....	1,408	742	615	795	912
Mortgage Recording .....	1,138	515	366	434	537
Utility .....	392	398	375	394	371
Cigarette .....	123	96	94	70	67
Hotel .....	379	342	363	422	476
All Other(2) .....	419	475	515	536	513
Audits .....	1,016	948	769	989	743
<b>Total</b> .....	<u>\$25,397</u>	<u>\$21,386</u>	<u>\$20,832</u>	<u>\$23,264</u>	<u>\$23,953</u>

Note: Totals may not add due to rounding.

- (1) Personal Income excludes \$164 million and \$138 million retained by the TFA in fiscal years 2008 and 2009. In fiscal years 2010 through 2012, Personal Income includes the personal income tax revenues of \$191 million, \$695 million and \$617 million, respectively, retained by the TFA for funding requirements associated with TFA Future Tax Secured Bonds. In fiscal years 2008 through 2012, Personal Income includes \$1.113 billion, \$1.039 billion, \$718 million, \$494 million and \$578 million, respectively, which was provided to the City by the State as a reimbursement for the reduced personal income tax revenues resulting from the State School Tax Relief Program (the "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, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. Personal Income also reflects the impact of grants or the early provision for TFA debt service in fiscal years 2006 and 2007 which increased tax revenue by \$391 million, \$362 million and \$382 million in fiscal years 2008 through 2010, respectively. Personal Income also reflects the impact of certain additional grants to the TFA of \$546 million, \$546 million, \$371 million and \$790 million in fiscal years 2008 through 2011, respectively, which were used by the TFA to pay debt service in the following fiscal year thereby increasing personal income tax revenues by a like amount in each of those fiscal years.
- (2) All Other includes, among others, surtax revenues from New York City Off-Track Betting Corporation ("OTB"), beer and liquor taxes, and the automobile use tax, but excludes the STAR Program aid of \$1.255 billion, \$1.188 billion, \$904 million, \$712 million and \$790 million in fiscal years 2008 through 2012, 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 2008 through 2012 fiscal years.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(In Millions)				
Licenses, Permits and Franchises .....	\$ 502	\$ 493	\$ 487	\$ 525	\$ 583
Interest Income .....	377	124	22	21	16
Charges for Services .....	638	687	746	776	850
Water and Sewer Payments .....	1,202	1,284	1,540	1,295	1,373
Rental Income .....	257	255	234	253	291
Fines and Forfeitures .....	830	802	833	820	859
Other .....	1,238	981	828	698	1,275
<b>Total</b> .....	<u>\$5,044</u>	<u>\$4,626</u>	<u>\$4,690</u>	<u>\$4,388</u>	<u>\$5,247</u>

Note: Totals may not add due to rounding.



Rental income in fiscal years 2008 through 2012 includes approximately \$102.7 million, \$102.7 million, \$102.7 million, \$106.3 million and \$124.8 million, respectively, 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. Water and Sewer Payments includes \$267.3 million in fiscal year 2010 for collective bargaining settlements relating to certain water and sewer system workers.

Other miscellaneous revenues for fiscal years 2008 through 2012 include \$552 million, \$145.6 million, \$121.2 million, \$114.9 million and \$117.2 million, respectively, of tobacco settlement receivables (“TSRs”) from the settlement of litigation with certain cigarette manufacturers, that were not retained by TSASC. Other miscellaneous revenues for fiscal years 2008 through 2012 do not include TSRs retained by TSASC for debt service and operating expenses totaling \$79 million, \$87 million, \$69 million, \$69 million and \$70 million, respectively. Pursuant to the TSASC indenture, less than 40% of the TSRs are pledged to the TSASC bondholders and the remainder flow to the City. 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 2008 include \$180 million from HHC reimbursement, \$25 million from asset sales and \$48 million from the sale of 109 taxi medallions. Other miscellaneous revenues for fiscal year 2009 include \$71 million from HHC reimbursement, \$175 million from restitution agreements, \$125 million in the refund of FICA overpayments from the period 1989 through 2005 and \$106 million from the reimbursement of prior year expenditures. Other miscellaneous revenues for fiscal year 2010 include \$133.5 million in settlement revenue from a deferred prosecution, \$133.8 million from Battery Park City Authority (“BPCA”) joint purpose funds and \$122.5 million from the reimbursement of prior year expenditures. Other miscellaneous revenues for fiscal year 2011 include \$70.8 million in settlement revenue from a deferred prosecution and BPCA joint purpose funds of \$66.2 million. Other miscellaneous revenues for fiscal year 2012 include a \$469 million settlement payment by Science Applications International Corporation and \$150 million from a federal settlement with ING Bank N.V.

**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 2008 through 2012 fiscal years.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(In Millions)				
State Per Capita Aid(1) .....	\$242	\$327	\$(26)	\$ 0	\$ 0
Other .....	<u>0</u>	<u>0</u>	<u>8</u>	<u>39</u>	<u>25</u>
Total .....	<u>\$242</u>	<u>\$327</u>	<u>\$(18)</u>	<u>\$39</u>	<u>\$25</u>

(1) Fiscal year 2010 reflects a prior year disallowance of \$25.7 million as a result of the elimination of State revenue sharing.



**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 2008 through 2012 fiscal years.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(In Millions)				
<b>Federal</b>					
Community Development(1) . . . . .	\$ 260	\$ 251	\$ 263	\$ 241	\$ 225
Social Services . . . . .	2,619	2,758	3,084	3,209	3,290
Education . . . . .	1,739	1,717	2,911	2,762	1,861
Other . . . . .	1,074	1,215	1,458	1,665	1,802
Total . . . . .	<u>\$ 5,692</u>	<u>\$ 5,941</u>	<u>\$ 7,716</u>	<u>\$ 7,877</u>	<u>\$ 7,178</u>
<b>State</b>					
Social Services . . . . .	\$ 2,060	\$ 2,034	\$ 2,099	\$ 1,743	\$ 1,533
Education . . . . .	8,011	8,639	8,078	8,110	8,012
Higher Education . . . . .	174	178	173	154	179
Health and Mental Health . . . . .	487	468	448	397	536
Other . . . . .	689	805	847	851	854
Total . . . . .	<u>\$11,421</u>	<u>\$12,124</u>	<u>\$11,645</u>	<u>\$11,255</u>	<u>\$11,114</u>

(1) Amounts represent actual funds received and may be lower or higher than the appropriation of funds actually provided by the federal government for the particular fiscal year due either to underspending or the spending of funds carried forward from prior fiscal years.

## 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 public benefit corporations ("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—2008-2012 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 federal Temporary Assistance for Needy Families ("TANF") block grant funds through the State for 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. Historically, the cost of the Safety Net Assistance Program was borne equally by the City and the State. In the 2011-2012 State Budget the State implemented new funding formulas, increasing the City share of the Safety Net Assistance Program to 71 percent and eliminating the City Share of 25% for the Family Assistance Program by fully funding it with TANF block grant funds.

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 has been replaced by the 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 2013 through 2016 fiscal years. Actual enrollment in fiscal years 2008 through 2012 has been 1,011,240, 1,011,950, 1,027,497, 1,038,798 and 1,043,775, 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 36.0% of the costs of the Community Colleges in the 2013 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 State legislation in fiscal year 2006 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 State legislation in fiscal year 2006 capping City Medicaid payments, the State percentage of the non-federal share may vary. In addition, as a result of recent State legislation, the City share of Medicaid will increase by 2% in State fiscal year 2013-2014 and by 1% in State fiscal year 2014-2015. 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, 2012, 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 2008 through 2012 fiscal years.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Education . . . . .	140,268	139,208	136,369	134,209	132,273
Police . . . . .	51,977	52,304	50,715	49,671	50,325
Social Services, Homeless and Children's Services . . . . .	23,454	22,841	21,838	21,303	21,963
City University Community Colleges and Hunter Campus Schools . . . . .	6,936	7,286	7,775	7,653	7,849
Environmental Protection and Sanitation . . . . .	16,106	15,777	15,317	14,824	14,738
Fire . . . . .	16,390	16,230	15,970	15,752	15,404
All Other . . . . .	<u>55,887</u>	<u>55,565</u>	<u>53,699</u>	<u>51,483</u>	<u>50,998</u>
Total . . . . .	<u>311,018</u>	<u>309,211</u>	<u>301,683</u>	<u>294,895</u>	<u>293,550</u>

The following table presents the number of full-time employees of certain Covered Organizations, as reported by such Organizations, at the end of each of the City's 2008 through 2012 fiscal years.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Transit Authority . . . . .	49,055	48,139	46,582	44,966	44,963
Housing Authority . . . . .	11,800	11,281	11,222	11,248	11,293
HHC . . . . .	<u>38,439</u>	<u>38,626</u>	<u>37,744</u>	<u>36,798</u>	<u>36,335</u>
Total(1) . . . . .	<u>99,294</u>	<u>98,046</u>	<u>95,548</u>	<u>93,012</u>	<u>92,591</u>

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

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

### Labor Relations

Substantially all of the City's full-time employees are members of labor unions. For those employees, wages, hours or working conditions may be changed only as provided for under collective bargaining agreements. Although State law prohibits strikes by municipal employees, strikes and work stoppages by employees of the City and the Covered Organizations have occurred.

Collective bargaining for City employees is under the jurisdiction of either the New York City Office of Collective Bargaining, which was created under the New York City Collective Bargaining Law, or the 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. Although the impasse procedure may not impose a binding settlement, it may influence ongoing collective bargaining.

For information regarding the City’s assumptions with respect to the current status of the City’s agreements with its labor unions, the cost of future labor settlements and related effects on the Financial Plan, see “SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. PERSONAL SERVICES COSTS.”

### *Pensions*

The City maintains a number of pension systems providing benefits for its employees and employees of various independent agencies (including certain Covered Organizations). For further information regarding the City’s pension systems and the City’s obligations thereto, see “SECTION IX: OTHER INFORMATION—Pension Systems.”

### **Capital Expenditures**

The City makes substantial capital expenditures to reconstruct, rehabilitate and expand the City’s infrastructure and physical assets, including City mass transit facilities, water and sewer facilities, streets, bridges and tunnels, and to make capital investments that will improve productivity in City operations. For additional information regarding the City’s infrastructure, physical assets and capital program, see “SECTION VII: FINANCIAL PLAN—Long-Term Capital Program” and “—Financing Program.”

The City utilizes a three-tiered capital planning process consisting of the Ten-Year Capital Strategy (previously, the Ten-Year Capital Plan), the Four-Year Capital Plan and the current-year Capital Budget. The Ten-Year Capital Strategy, which is published once every two years in conjunction with the Executive Budget, is a long-term planning tool designed to reflect fundamental allocation choices and basic policy objectives. The Four-Year Capital Plan translates mid-range policy goals into specific projects. The Capital Budget defines for each fiscal year specific projects and the timing of their initiation, design, construction and completion.

On May 6, 2011, the City published the Ten-Year Capital Strategy for fiscal years 2012 through 2021. The Ten-Year Capital Strategy totals \$54.1 billion, of which approximately 74% would be financed with City funds, and reflects reductions to the previous Ten-Year Capital Strategy for fiscal years 2010 through 2019. 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, among other items: (i) \$20.2 billion to construct new schools and improve existing educational facilities; (ii) \$12.6 billion for improvements to the water and sewer system; (iii) \$3.4 billion for expanding and upgrading the City’s housing stock; (iv) \$2.4 billion for reconstruction or resurfacing of City streets; (v) \$651.7 million for continued City-funded investment in mass transit; (vi) \$3.4 billion for the continued reconstruction and rehabilitation of all four East River bridges and 108 other bridge structures; (vii) \$1.2 billion to expand current jail capacity; and (viii) \$369.9 million for construction and improvement of court facilities.

Those programs in the Ten-Year Capital Strategy financed with City funds are currently expected to be funded primarily from the issuance of bonds by the City, the Water Authority and the TFA. From time to time, 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 \$47.4 billion during the 2008 through 2012 fiscal years. City-funded expenditures, which totaled \$39.0 billion during the 2008 through 2012 fiscal years, have been financed through the issuance of bonds by the City, the TFA and the Water Authority. The following table summarizes the major categories of capital expenditures in the City’s 2008 through 2012 fiscal years.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
	(In Millions)					
Education . . . . .	\$2,358	\$ 2,750	\$ 2,953	\$2,015	\$1,877	\$11,954
Environmental Protection . . . . .	2,313	2,700	2,625	2,824	2,406	12,869
Transportation . . . . .	767	925	1,082	951	1,044	4,769
Transit Authority(1) . . . . .	47	77	74	65	131	394
Housing . . . . .	503	413	429	330	349	2,024
Hospitals . . . . .	143	189	253	128	169	881
Sanitation . . . . .	188	230	347	234	322	1,320
All Other(2) . . . . .	2,687	2,759	2,773	2,551	2,133	12,904
Total Expenditures(3) . . . . .	<u>\$9,005</u>	<u>\$10,044</u>	<u>\$10,536</u>	<u>\$9,099</u>	<u>\$8,431</u>	<u>\$47,115</u>
City-funded Expenditures(4) . . . . .	<u>\$6,310</u>	<u>\$ 7,248</u>	<u>\$ 9,824</u>	<u>\$8,602</u>	<u>\$6,994</u>	<u>\$38,978</u>

- (1) Excludes the Transit Authority’s non-City portion of the MTA capital program.
- (2) All Other includes, among other things, parks, correction facilities, public structures and equipment.
- (3) Total Expenditures for the 2008 through 2012 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures 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, 2012, 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 “2008-2012 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.

### 2008-2012 Summary of Operations

The following table sets forth the City's results of operations for its 2008 through 2012 fiscal years in accordance with GAAP.

The information regarding the 2008 through 2012 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 2011 and 2012 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 2008 through 2010 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				
	2008	2009	2010	2011	2012
	(In Millions)				
<b>Revenues and Transfers</b>					
Real Estate Tax(2) . . . . .	\$13,204	\$14,487	\$16,369	\$17,086	\$18,158
Other Taxes(3)(4) . . . . .	25,397	21,386	20,832	23,264	23,953
Miscellaneous Revenues(3) . . . . .	5,044	4,626	4,690	4,388	5,247
Other Categorical Grants . . . . .	1,090	1,280	1,579	1,523	1,141
Unrestricted Federal and State Aid(3) . . . . .	242	327	(18)	39	25
Federal Categorical Grants . . . . .	5,692	5,941	7,716	7,877	7,178
State Categorical Grants . . . . .	11,421	12,124	11,645	11,255	11,114
Less: Disallowances Against Categorical Grants . . . . .	(114)	—	—	(112)	166
<b>Total Revenues and Transfers(5) . . . . .</b>	<b>\$61,976</b>	<b>\$60,171</b>	<b>\$62,813</b>	<b>\$65,320</b>	<b>\$66,982</b>
<b>Expenditures and Transfers</b>					
Social Services . . . . .	\$12,511	\$12,151	\$12,370	\$11,786	\$13,259
Board of Education . . . . .	16,855	17,774	18,411	18,862	19,129
City University . . . . .	621	658	719	736	750
Public Safety and Judicial . . . . .	7,259	7,683	8,000	8,281	8,240
Health Services . . . . .	1,588	1,843	1,661	1,667	1,608
Pensions(6) . . . . .	5,616	6,265	6,631	6,843	7,830
Debt Service(3)(7) . . . . .	5,371	1,603	3,596	5,255	4,257
MAC Administrative Expenses(3) . . . . .	3	—	—	—	—
All Other(7)(8) . . . . .	12,147	12,189	11,420	11,885	11,904
<b>Total Expenditures and Transfers(5) . . . . .</b>	<b>\$61,971</b>	<b>\$60,166</b>	<b>\$62,808</b>	<b>\$65,315</b>	<b>\$66,977</b>
<b>Surplus(7)(8) . . . . .</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 5</b>

(Footnotes on next page)



*(Footnotes from previous page)*

- (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 2008 through 2012, Real Estate Tax includes \$142.2 million, \$148.7 million, \$185.9 million, \$218.1 million and \$212.2 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 Administrative Expenses include amounts paid to MAC by the State for 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." Other Taxes excludes \$164 million and \$138 million of personal income taxes in fiscal years 2008 and 2009, respectively, retained by the TFA. In fiscal years 2010 through 2012, the funding requirements associated with TFA Future Tax Secured Bonds of \$191 million, \$695 million and \$617 million, respectively, are included in Debt Service as a debt service expense and the personal income tax revenues retained by the TFA of \$191 million, \$695 million and \$617 million, respectively, for such funding requirements is included in Other Taxes as revenues to the City. Debt Service does not include debt service on TSASC bonds and, through fiscal year 2009, does not include the funding requirements associated with TFA Future Tax Secured 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.
- (6) For information regarding pension expenditures, see "SECTION IX: OTHER INFORMATION."
- (7) Surplus is the surplus after discretionary and other transfers and expenditures. The City had general fund operating revenues exceeding expenditures of \$4.640 billion, \$2.919 billion, \$3.651 billion, \$3.747 billion and \$2.467 billion before discretionary and other transfers and expenditures for the 2008, 2009, 2010, 2011 and 2012 fiscal years, respectively. Discretionary and other transfers are included in Debt Service and for transit and other subsidies, including grants and payments to the TFA through fiscal year 2009, in All Other. Debt Service includes grants to the TFA of \$371 million, \$790 million and \$879 million in fiscal years 2010 through 2012, respectively, which were used by the TFA to pay debt service in the following fiscal year thereby increasing personal income tax revenues by a like amount in each of those fiscal years.
- (8) All Other includes grants to the TFA of \$546 million in each of fiscal years 2008 and 2009, which were used by the TFA for TFA funding requirements in each of fiscal years 2009 and 2010, and resulted in increased personal income tax revenues of \$546 million in each of fiscal years 2009 and 2010. All Other includes prepayments into the OPEB trust of \$460 million and \$225 million in fiscal years 2008 and 2009, respectively, resulting in lowered OPEB expense of \$235 million in fiscal year 2009 and \$225 million in fiscal year 2010.

## Forecast of 2013 Results

The following table compares the forecast for the 2013 fiscal year contained in the financial plan, submitted to the Control Board in June 2012 (the “June 2012 Forecast”), with the forecast contained in the Financial Plan, which was submitted to the Control Board on November 9, 2012 (the “November 2012 Forecast”). Each forecast was prepared on a basis consistent with GAAP except for the application of GASB 49. For information regarding recent developments, see “SECTION I: RECENT FINANCIAL DEVELOPMENTS.”

	<u>June 2012 Forecast</u>	<u>November 2012 Forecast</u>	<u>Increase/(Decrease) from June 2012 Forecast</u>
	(In Millions)		
<b>REVENUES</b>			
Taxes			
General Property Tax .....	\$ 18,417	\$ 18,430	\$ 13
Other Taxes .....	24,503	24,571	68
Tax Audit Revenue .....	724	838	114 <sup>(1)</sup>
Subtotal — Taxes .....	<u>\$ 43,644</u>	<u>\$ 43,839</u>	<u>\$ 195</u>
Miscellaneous Revenues .....	6,949	6,506	(443) <sup>(2)</sup>
Unrestricted Intergovernmental Aid .....	—	—	—
Less: Intra-City Revenues .....	(1,631)	(1,704)	(73)
Disallowances Against Categorical Grants .....	(15)	(15)	—
Subtotal – City Funds .....	<u>\$ 48,947</u>	<u>\$ 48,626</u>	<u>\$(321)</u>
Other Categorical Grants .....	924	978	54
Inter-Fund Revenues .....	539	538	(1)
Federal Categorical Grants .....	6,661	7,262	601 <sup>(3)</sup>
State Categorical Grants .....	11,430	11,566	136 <sup>(4)</sup>
Total Revenues .....	<u>\$ 68,501</u>	<u>\$ 68,970</u>	<u>\$ 469</u>
<b>EXPENDITURES</b>			
Personal Services			
Salaries and Wages .....	\$ 21,801	\$ 21,875	\$ 74
Pensions .....	8,062	8,062	—
Fringe Benefits .....	8,429	8,419	(10)
Retiree Health Benefits Trust .....	(1,000)	(1,000)	—
Total – Personal Services .....	<u>\$ 37,292</u>	<u>\$ 37,356</u>	<u>\$ 64</u>
Other Than Personal Services			
Medical Assistance .....	\$ 6,283	\$ 6,282	\$ (1)
Public Assistance .....	1,274	1,274	—
All Other .....	21,149	21,661	512 <sup>(5)</sup>
Total – Other Than Personal Services .....	<u>\$ 28,706</u>	<u>\$ 29,217</u>	<u>\$ 511</u>
General Obligation, Lease and TFA Debt Service .....	6,118	6,108	(10)
FY 2012 Budget Stabilization & Discretionary Transfers .....	(2,408)	(2,431)	(23) <sup>(6)</sup>
FY 2013 Budget Stabilization .....	124	124	— <sup>(7)</sup>
General Reserve .....	300	300	—
Total Expenditures .....	<u>\$ 70,132</u>	<u>\$ 70,674</u>	<u>\$ 542</u>
Less: Intra-City Expenses .....	(1,631)	(1,704)	(73)
Net Total Expenditures .....	<u>\$ 68,501</u>	<u>\$ 68,970</u>	<u>\$ 469</u>

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- (1) The increase in Tax Audit Revenue is primarily due to an increase in general corporation tax.
- (2) The decrease in Miscellaneous Revenues is due to a reduction in fiscal year 2013 of \$635 million reflecting a delay in and reduction in revenue from taxi-medallion sales and decreases of \$7 million in water and sewer payments and \$2 million in interest income, offset by increases of \$74 million in intra-city revenues, \$18 million in licenses, permits and franchises, \$11 million in rental income, \$7 million in fines and forfeitures, \$1 million in charges for services, and net \$90 million in miscellaneous other revenues.
- (3) The increase in Federal Categorical Grants is due to increases of \$59.7 million in health and mental hygiene funding, \$25.7 million in housing preservation and development funding, \$129.7 million in police department funding, \$88.1 million in transportation funding, \$89.1 million in fire department funding, \$25.4 million in children's services funding, \$18.0 million in citywide administrative services funding, \$70.7 million in homeless services funding, \$45.7 million in social services funding, \$11.2 million in environmental protection funding, \$11.2 million in department of correction funding, \$10.4 million in technology funding, \$5.4 million in aging services funding and \$21.0 million in miscellaneous other agencies funding offset by decreases of \$38.7 million in education funding and \$3.8 million in debt service funding.
- (4) The increase in State Categorical Grants is due to increases of \$43 million in transportation funding, \$31.1 million in children's services funding, \$22.6 million in health and mental hygiene funding, \$21.9 million in miscellaneous agency funding, \$18.0 million in social services funding, \$13.7 million in youth and community development funding, \$8.9 million in homeless services funding, \$4.6 million in police department funding, \$3.9 million in parks and recreation funding, \$3.3 million in board of election funding, and \$12.3 million in other agencies funding offset by decreases of \$48.3 million in education funding.
- (5) The increase in Other Than Personal Services—All Other is primarily due to an increase of \$619 million in budget modifications reflecting increases in federal and categorical expenditures which are offset by federal and categorical grants, offset by a decrease of \$107 million in net agency expenditures.
- (6) FY 2012 Budget Stabilization & Discretionary Transfers includes \$2.431 billion in fiscal year 2013 which reflects the discretionary transfer of \$1.34 billion into the General Debt Service Fund, \$879 million to the TFA, \$125 million for lease debt in fiscal year 2012 for debt service due in fiscal year 2013, payments of \$64 million of other subsidies and \$23 million in net equity contribution in bond refunding in fiscal year 2012 otherwise due in fiscal year 2013. In addition, FY 2012 Budget Stabilization & Discretionary Transfers provides \$31 million for lease debt service due in fiscal year 2014.
- (7) FY 2013 Budget Stabilization reflects the discretionary transfer of \$124 million into the General Debt Service Fund in fiscal year 2013 for debt service due in fiscal year 2014.

## SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP, except for the application of GASB 49, for the 2013 through 2016 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)			
	2013	2014	2015	2016
	(In Millions)			
<b>REVENUES</b>				
Taxes				
General Property Tax(3)	\$18,430	\$18,970	\$19,632	\$20,275
Other Taxes(4)(5)	24,571	25,444	26,798	28,021
Tax Audit Revenue	838	709	709	709
Subtotal – Taxes	\$43,839	\$45,123	\$47,139	\$49,005
Miscellaneous Revenues(6)	6,506	7,105	6,724	6,581
Unrestricted Intergovernmental Aid	—	—	—	—
Less: Intra-City Revenues	(1,704)	(1,606)	(1,609)	(1,614)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal – City Funds	\$48,626	\$50,607	\$52,239	\$53,957
Other Categorical Grants	978	951	916	902
Inter-Fund Revenues(7)	538	509	508	509
Federal Categorical Grants	7,262	6,588	6,359	6,347
State Categorical Grants	11,566	11,703	12,042	12,521
Total Revenues	\$68,970	\$70,358	\$72,064	\$74,236
<b>EXPENDITURES</b>				
Personal Services				
Salaries and Wages	\$21,875	\$21,823	\$22,004	\$22,320
Pension(8)	8,062	8,212	8,203	8,399
Fringe Benefits	8,419	8,797	9,431	10,142
Retiree Health Benefits Trust(9)	(1,000)	(1,000)	—	—
Subtotal – Personal Services	\$37,356	\$37,832	\$39,638	\$40,861
Other Than Personal Services				
Medical Assistance	\$ 6,282	\$ 6,366	\$ 6,447	\$ 6,415
Public Assistance	1,274	1,275	1,273	1,273
All Other(10)	21,661	20,965	21,569	22,077
Subtotal – Other Than Personal Services	\$29,217	\$28,606	\$29,289	\$29,765
General Obligation, Lease and TFA Debt Service(11)	6,108	6,531	7,233	7,539
FY 2012 Budget Stabilization & Discretionary Transfers(12)	(2,431)	(31)	—	—
FY 2013 Budget Stabilization(13)	124	(124)	—	—
General Reserve	300	300	300	300
Subtotal	\$70,674	\$73,114	\$76,460	\$78,465
Less: Intra-City Expenses	(1,704)	(1,606)	(1,609)	(1,614)
Total Expenditures	\$68,970	\$71,508	\$74,851	\$76,851
Gap to be Closed	\$ —	\$ (1,150)	\$ (2,787)	\$ (2,615)

(1) The four year financial plan for the 2013 through 2016 fiscal years, as submitted to the Control Board on June 28, 2012, contained the following projections for the 2013-2016 fiscal years: (i) for 2013, total revenues of \$68.501 billion and total expenditures of \$68.501 billion; (ii) for 2014, total revenues of \$69.703 billion and total expenditures of \$72.211 billion, with a gap to be closed of \$2.508 billion; (iii) for 2015, total revenues of \$72.111 billion and total expenditures of \$75.228 billion, with a gap to be closed of \$3.117 billion; and (iv) for 2016, total revenues of \$74.081 billion and total expenditures of \$77.151 billion, with a gap to be closed of \$3.070 billion.

The four year financial plan for the 2012 through 2015 fiscal years, as submitted to the Control Board on June 29, 2011, contained the following projections for the 2012-2015 fiscal years: (i) for 2012, total revenues of \$65.911 billion and total expenditures of \$65.911 billion; (ii) for 2013, total revenues of \$67.036 billion and total expenditures of \$71.668 billion, with a gap to be closed of \$4.632 billion; (iii) for 2014, total revenues of \$68.266 billion and total expenditures of \$73.110 billion, with a gap to be closed of \$4.844 billion; and (iv) for 2015, total revenues of \$69.998 billion and total expenditures of \$74.920 billion, with a gap to be closed of \$4.922 billion.

The four year financial plan for the 2011 through 2014 fiscal years, as submitted to the Control Board on June 30, 2010, contained the following projections for the 2011-2014 fiscal years: (i) for 2011, total revenues of \$63.077 billion and total expenditures of \$63.077 billion;

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(ii) for 2012, total revenues of \$64.641 billion and total expenditures of \$68.357 billion, with a gap to be closed of \$3.716 billion; (iii) for 2013, total revenues of \$66.319 billion and total expenditures of \$70.883 billion, with a gap to be closed of \$4.564 billion; and (iv) for 2014, total revenues of \$68.105 billion and total expenditures of \$73.449 billion, with a gap to be closed of \$5.344 billion. The four year financial plans released in fiscal years prior to fiscal year 2011 did not include as revenues personal income tax revenues to be retained by the TFA and did not include as expenditures the funding requirements for TFA Future Tax Secured Bonds.

The four year financial plan for the 2010 through 2013 fiscal years, as submitted to the Control Board on June 23, 2009, contained the following projections for the 2010-2013 fiscal years: (i) for 2010, total revenues of \$59.480 billion and total expenditures of \$59.480 billion; (ii) for 2011, total revenues of \$61.237 billion and total expenditures of \$66.162 billion, with a gap to be closed of \$4.925 billion; (iii) for 2012, total revenues of \$62.659 billion and total expenditures of \$67.653 billion, with a gap to be closed of \$4.994 billion; and (iv) for 2013, total revenues of \$65.024 billion and total expenditures of \$70.657 billion, with a gap to be closed of \$5.633 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, 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 STAR Program, and other real estate tax assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—Revenue Assumptions—2. Real Estate Tax."
- (4) 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 to the extent necessary to provide statutory coverage. Other Taxes includes amounts that are expected to be retained by the TFA for its funding requirements associated with TFA Future Tax Secured Bonds.
- (5) For Financial Plan assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—Revenue Assumptions—3. Other Taxes."
- (6) 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 IV: SOURCES OF CITY REVENUES—Miscellaneous Revenues."
- (7) 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.
- (8) Pension reflects savings commencing in fiscal year 2015 from the implementation of a new pension tier as a result of recent State legislation. See "SECTION IX: OTHER INFORMATION—Pension Systems."
- (9) Retiree Health Benefits Trust reflects the reduction in contributions to the Trust of \$1 billion in each of fiscal years 2013 and 2014, respectively. See "SECTION VII: FINANCIAL PLAN—Assumptions—Expenditure Assumptions— 1. Personal Services Costs."
- (10) For a discussion of the categories of expenditures in Other Than Personal Services—All Other, see "SECTION VII: FINANCIAL PLAN—Assumptions—Expenditure Assumptions—2. Other Than Personal Services Costs."
- (11) For a discussion of the debt service in General Obligation, Lease and TFA Debt Service, see "SECTION VII : FINANCIAL PLAN — Assumptions — Expenditure Assumptions—3. General Obligation, Lease and TFA Debt Service."
- (12) FY 2012 Budget Stabilization & Discretionary Transfers includes \$2.431 billion in fiscal year 2013 which reflects the discretionary transfer of \$1.34 billion into the General Debt Service Fund, \$879 million to the TFA, \$125 million for lease debt in fiscal year 2012 for debt service due in fiscal year 2013, payments of \$64 million of other subsidies and \$23 million in net equity contribution in bond refunding in fiscal year 2012 otherwise due in fiscal year 2013. In addition, FY 2012 Budget Stabilization & Discretionary Transfers provides \$31 million for lease debt service due in fiscal year 2014.
- (13) FY 2013 Budget Stabilization reflects the discretionary transfer of \$124 million into the General Debt Service Fund in fiscal year 2013 for debt service due in fiscal year 2014.

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 thirty-two fiscal years, except for the application of GASB 49 with respect to fiscal years 2009 through 2012, and is projected to achieve balanced operating results for the 2013 fiscal year, except for the application of GASB 49, 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; realization of projected 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 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 be substantial. No assurance can be given that these estimates and projections, which include actions the City expects will be taken but are not within the City's control, will be realized. For information regarding certain recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."



Revenue Assumptions

1. GENERAL ECONOMIC CONDITIONS

The Financial Plan assumes modest growth in economic activity in calendar year 2012 compared to calendar year 2011. The following table presents a forecast of the key economic indicators for the calendar years 2011 through 2016. This forecast is based upon information available in May 2012.

**FORECAST OF KEY ECONOMIC INDICATORS**

	Calendar Years					
	2011	2012	2013	2014	2015	2016
<b>U.S. ECONOMY</b>						
<i>Economic Activity and Income</i>						
Real GDP (billions of 2005 dollars) . . . . .	13,315	13,592	13,905	14,379	14,841	15,254
Percent Change . . . . .	1.7	2.1	2.3	3.4	3.2	2.8
Non-Agricultural Employment (millions) . . . . .	131.4	133.3	135.3	137.7	140.1	142.2
Percent Change . . . . .	1.5	2.0	2.0	2.3	2.4	2.2
CPI-All Urban (1982-84=100) . . . . .	224.9	229.9	233.6	238.1	242.8	247.5
Percent Change . . . . .	3.1	2.2	1.6	1.9	2.0	2.0
Wage Rate (\$ per year) . . . . .	50,880	52,398	53,732	55,251	56,922	58,569
Percent Change . . . . .	3.1	3.0	2.5	2.8	3.0	2.9
Personal Income (\$ billions) . . . . .	13,004	13,488	14,019	14,716	15,435	16,191
Percent Change . . . . .	5.1	3.7	3.9	5.0	4.9	4.9
Pre-Tax Corp Profits (\$ billions) . . . . .	1,891	1,923	2,088	2,210	2,156	2,111
Percent Change . . . . .	3.9	1.7	8.6	5.8	(2.4)	(2.1)
Unemployment Rate (Percent) . . . . .	8.9	8.2	8.0	7.4	6.7	6.2
10-Year Treasury Bond Rate . . . . .	2.8	2.5	3.0	3.3	3.6	4.6
Federal Funds Rate . . . . .	0.1	0.1	0.1	0.1	1.2	3.3
<b>NEW YORK CITY ECONOMY</b>						
Real Gross City Product (billions of dollars) . . . . .	571.7	571.3	581.6	594.2	607.5	620.6
Percent Change . . . . .	0.1	(0.1)	1.8	2.2	2.2	2.2
Non-Agricultural Employment (thousands) . . . . .	3,786	3,836	3,880	3,926	3,968	4,012
Percent Change . . . . .	2.0	1.3	1.2	1.2	1.1	1.1
CPI-All Urban NY-NJ Area						
(1982-84=100) . . . . .	247.7	253.2	257.6	263.1	268.9	274.7
Percent Change . . . . .	2.8	2.2	1.7	2.1	2.2	2.2
Wage Rate (\$ per year) . . . . .	80,909	79,948	82,027	84,179	86,434	88,917
Percent Change . . . . .	3.7	(1.2)	2.6	2.6	2.7	2.9
Personal Income (\$ billions) . . . . .	442.8	449.4	463.8	482.5	500.5	520.8
Percent Change . . . . .	4.7	1.5	3.2	4.0	3.7	4.0
<b>NEW YORK REAL ESTATE MARKET</b>						
<i>Manhattan Primary Office Market</i>						
Asking Rental Rate (\$ per square foot) . . . . .	66.12	68.54	74.41	73.94	80.44	86.66
Percent Change . . . . .	6.7	3.7	8.6	(0.6)	8.8	7.7
Vacancy Rate – Percent . . . . .	9.7	9.6	7.8	9.6	9.1	9.2

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.”

Projections of real estate tax revenues include net revenues from the sale of real property tax liens of \$46 million, \$38 million, \$38 million and \$38 million in fiscal years 2013 through 2016, respectively. The authorization to sell such real estate tax liens was extended through December 31, 2014. Projections of real estate tax revenues include the effects of the STAR Program which will reduce the real estate tax revenues by an estimated \$214 million in fiscal year 2013. 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 \$466 million, \$481 million, \$496 million and \$513 million in fiscal years 2013 through 2016, respectively.

The delinquency rate was 1.8% in fiscal year 2008, 1.8% in fiscal year 2009, 1.9% in fiscal year 2010, 2.2% in fiscal year 2011 and 1.7% in fiscal year 2012. The Financial Plan projects delinquency rates of 2.1% in each of fiscal years 2013 and 2014 and 2.0% in each of fiscal years 2015 and 2016. For information concerning the delinquency rates for prior years, see “SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Collection of the Real Estate Tax.*” For a description of proceedings seeking real estate tax refunds from the City, see “SECTION IX: OTHER INFORMATION—Litigation—*Taxes.*”

## 3. OTHER TAXES

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)			
Personal Income(1) . . . . .	\$ 8,493	\$ 8,521	\$ 9,129	\$ 9,497
General Corporation . . . . .	2,477	2,685	2,788	2,917
Banking Corporation . . . . .	1,308	1,241	1,268	1,412
Unincorporated Business Income . . . . .	1,770	1,900	1,971	2,034
Sales . . . . .	6,061	6,326	6,599	6,839
Commercial Rent . . . . .	653	694	731	770
Real Property Transfer . . . . .	946	1,055	1,174	1,300
Mortgage Recording . . . . .	594	686	767	848
Utility . . . . .	402	421	434	446
Cigarette . . . . .	66	66	64	62
Hotel(2) . . . . .	477	489	513	536
All Other(3) . . . . .	1,324	1,360	1,360	1,360
<b>Total</b>	<u>\$24,571</u>	<u>\$25,444</u>	<u>\$26,798</u>	<u>\$28,021</u>

Note: Totals may not add due to rounding.

- (1) Personal Income includes \$920 million, \$1.910 billion, \$2.271 billion and \$2.471 billion of personal income tax revenues projected to be retained by the TFA for debt service and other expenses in the 2013 through 2016 fiscal years, respectively. These projections reflect reductions in personal income tax revenues as a result of the State’s STAR Program under law in effect at the date of the Financial Plan in the amount of \$610 million, \$645 million, \$645 million and \$645 million in the 2013 through 2016 fiscal years, respectively. The State will reimburse the City for reduced revenues resulting from the STAR Program.
- (2) Hotel includes the impact of an additional temporary hotel occupancy tax of 0.875 percent resulting in additional revenues of \$67 million, \$67 million, \$72 million and \$75 million in fiscal years 2013 through 2016, respectively.
- (3) All Other includes, among others, beer and liquor taxes and the automobile use tax. All Other also includes \$824 million, \$859 million, \$859 million and \$859 million in fiscal years 2013 through 2016, 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 STAR Program.

The Financial Plan reflects the following assumptions regarding projected baseline revenues from Other Taxes: (i) with respect to the personal income tax, strong growth in fiscal year 2013 due to employment gains and an acceleration in capital gains realizations in anticipation of higher federal tax rates beginning in calendar year 2013, slower growth in fiscal year 2014 as a result of the shift of capital gains realizations from fiscal year 2014 into fiscal year 2013, and moderate growth in fiscal years 2015 and 2016 reflecting the steady recovery of the national and local economies; (ii) with respect to the general corporation tax, slow growth in fiscal year 2013 reflecting a decline in finance sector tax payments as a result of certain taxpayers downward revision of tax year 2011 liability combined with an increase in non-finance sector tax payments paralleling the steady economic growth, and moderate growth in fiscal years 2014 through 2016 reflecting trend levels of Wall Street profitability and steady economic growth; (iii) with respect to the banking corporation tax, slow growth in fiscal year 2013 reflecting tax payments in the first quarter of the fiscal year, a decline in growth in fiscal year 2014 reflecting the withdrawal of federal support, and moderate growth in fiscal years 2015 and 2016 reflecting trend levels of Wall Street profitability and steady economic growth; (iv) with respect to the unincorporated business tax, moderate growth in fiscal year 2013 reflecting growth in the non-finance sector and a rebound in finance sector tax payments, and continued growth through 2016 reflecting steady economic growth; (v) with respect to the sales tax, moderate growth in fiscal year 2013 reflecting increased taxable consumption due to the local economic recovery and strong tourist consumption, and trend in fiscal years 2014 through 2016 reflecting steady economic growth; (vi) with respect to real property transfer tax, moderate growth in fiscal year 2013 and continued growth through fiscal year 2016, as both the volume and price of residential and commercial transactions rebound with the recovery of the local economy; (vii) with respect to the mortgage recording tax, strong growth continuing in fiscal year 2013 for the third consecutive year, after three years of decline from fiscal years 2008 through 2010, and growth continuing through fiscal year 2016, as both the volume and price of residential and commercial transactions rebound with the recovery of the local economy; and (viii) with respect to the commercial rent tax, moderate growth in fiscal year 2013, reflecting improving vacancy rates and asking rents as the local economy recovers from the impact of the national slowdown and contraction in office-using employment, and continuing growth through fiscal year 2016, as the local office market recovers with employment gains.

#### 4. MISCELLANEOUS REVENUES

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)			
Licenses, Permits and Franchises . . . . .	\$ 569	\$ 586	\$ 583	\$ 594
Interest Income . . . . .	17	11	12	65
Charges for Services . . . . .	888	921	917	917
Water & Sewer Payments (1) . . . . .	1,508	1,517	1,515	1,533
Rental Income . . . . .	291	291	293	293
Fines and Forfeitures . . . . .	812	815	815	814
Other . . . . .	717	1,358	980	751
Intra-City Revenues . . . . .	<u>1,704</u>	<u>1,606</u>	<u>1,609</u>	<u>1,614</u>
	<u>\$6,506</u>	<u>\$7,105</u>	<u>\$6,724</u>	<u>\$6,581</u>

(1) Received from the Water Board. For further information regarding the Water Board, see "SECTION VII: FINANCIAL PLAN—Financing Program."

Rental Income reflects approximately \$128.7 million in each of fiscal years 2013 through 2016 for lease payments for the City’s airports.

Other reflects \$124.3 million, \$124.1 million, \$123.8 million and \$123.5 million of projected resources in fiscal years 2013 through 2016, respectively, from the receipt by the City of TSRs. For more information, see “SECTION IV: SOURCES OF CITY REVENUES—Miscellaneous Revenues.” 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. Other also reflects \$790 million, \$447 million and \$223 million in fiscal years 2014 through 2016, respectively, from the sale of taxi medallions. On August 17, 2012, a State court found that the legislation authorizing the sale of additional taxi medallions was unconstitutional and declared the act null and void. The City has filed notices of appeal and is seeking an accelerated appellate review of such decision by the State Court of Appeals. For additional information see “SECTION IX: OTHER INFORMATION—Litigation.”

5. UNRESTRICTED INTERGOVERNMENTAL AID

There is no Unrestricted Intergovernmental Aid anticipated in any of fiscal years 2013 through 2016.

6. FEDERAL AND STATE CATEGORICAL GRANTS

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)			
Federal				
Community Development .....	\$ 229	\$ 220	\$ 219	\$ 219
Social Services .....	3,218	3,123	3,079	3,070
Education .....	1,904	1,891	1,816	1,815
Other .....	1,911	1,354	1,245	1,243
Total .....	<u>\$ 7,262</u>	<u>\$ 6,588</u>	<u>\$ 6,359</u>	<u>\$ 6,347</u>
State				
Social Services .....	\$ 1,478	\$ 1,439	\$ 1,410	\$ 1,409
Education .....	8,388	8,643	8,946	9,309
Higher Education .....	235	235	235	235
Health and Mental Hygiene .....	567	543	540	540
Other .....	898	843	911	1,028
Total .....	<u>\$11,566</u>	<u>\$11,703</u>	<u>\$12,042</u>	<u>\$12,521</u>

The Financial Plan assumes that all existing federal and State categorical grant programs will continue, unless specific legislation provides for their termination or adjustment, and assumes increases in aid where increased costs are projected for existing grant programs. Federal funds for education, primarily provided through the American Recovery and Reinvestment Act (“ARRA”) of \$86 million and \$76 million are reflected in fiscal years 2013 and 2014, respectively. In addition, the Financial Plan assumes increased federal Medicaid participation of \$32 million in fiscal year 2013. For information concerning projected State budget gaps and the possible impact on State aid to the City, see “INTRODUCTORY STATEMENT” and “SECTION I: RECENT FINANCIAL DEVELOPMENTS—The State.” As of September 30, 2012, approximately 13.3% of the City’s full-time and full-time equivalent employees (consisting of employees of the mayoral agencies and the DOE) were paid by Community Development funds, water and sewer funds and from other sources not funded by unrestricted revenues of the City.

A major component of federal categorical aid to the City is the Community Development program. Pursuant to federal legislation, Community Development grants are provided to cities primarily to aid low and moderate income persons by improving housing facilities, parks and other improvements, by providing certain social programs and by promoting economic development. These grants are based on a formula that takes into consideration such factors as population, housing overcrowding and poverty.

The City’s receipt of categorical aid is contingent upon the satisfaction of certain statutory conditions and is subject to subsequent audits, possible disallowances and possible prior claims by the State or federal governments. The general practice of the State and federal governments has been to deduct the amount of any disallowances against the current year’s payment, although in some cases the City remits payment for disallowed amounts to the grantor. Substantial disallowances of aid claims may be asserted during the course of the Financial Plan. The City estimates probable amounts of disallowances of recognized grant revenues and makes the appropriate adjustments to recognized grant revenue for each fiscal year. The amounts of such downward adjustments to revenue for disallowances attributable to prior years increased from \$124 million in the 1977 fiscal year to \$542 million in the 2006 fiscal year. The amount of such disallowance was \$103 million and \$114 million in fiscal years 2007 and 2008, respectively. There were no adjustments for estimated disallowances in fiscal years 2009 and 2010. In fiscal year 2011 the downward adjustment for disallowances was \$113 million and in fiscal year 2012 an upward adjustment of \$166 million was made, reflecting a reduced estimate of disallowances attributable to prior years as of June 30, 2012. As of June 30, 2012, the City had an accumulated reserve of \$997 million for all disallowances of categorical aid.

*Expenditure Assumptions*

1. PERSONAL SERVICES COSTS

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)			
Wages and Salaries . . . . .	\$21,769	\$21,558	\$21,539	\$21,606
Pensions . . . . .	8,062	8,212	8,203	8,399
Other Fringe Benefits . . . . .	8,419	8,797	9,431	10,142
Retiree Health Benefits Trust . . . . .	(1,000)	(1,000)	—	—
Reserve for Collective Bargaining . . . . .	106	265	465	714
Total . . . . .	<u>\$37,356</u>	<u>\$37,832</u>	<u>\$39,638</u>	<u>\$40,861</u>

The Financial Plan projects that the authorized number of City-funded full-time and full-time equivalent employees will decrease from an estimated level of 255,780 as of June 30, 2013 to an estimated level of 255,214 by June 30, 2016.

Other Fringe Benefits includes \$2.061 billion, \$2.219 billion, \$2.416 billion and \$2.647 billion in fiscal years 2013 through 2016, respectively, for OPEB expenditures for current retirees, which costs are currently paid by the City on a pay-as-you-go basis. For information on deposits to the trust to fund a portion of the future cost of OPEB for current and future retirees, see “SECTION VI: FINANCIAL OPERATIONS—2008-2012 Summary of Operations.” 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 E.4.”

Retiree Health Benefits Trust reflects lowered expense of \$1 billion in each of fiscal years 2013 and 2014, as a result of drawing down the Retiree Health Benefits Trust Fund in those years.

The Reserve for Collective Bargaining contains funds for unsettled non-uniformed employees for the 2006-2008 round of bargaining. It does not contain funds for wage increases for unsettled employees including the

UFT in the 2008-2010 round of collective bargaining. The Reserve for Collective Bargaining assumes no wage increases for the first three years of the round of collective bargaining following the 2008-2010 round of collective bargaining, followed by annual wage increases of 1.25% thereafter. For additional information, see “SECTION V: CITY SERVICES AND EXPENDITURES — Employees and Labor Relations — *Labor Relations.*”

For a discussion of the City’s pension systems, see “SECTION IX: OTHER INFORMATION—Pension Systems” and “APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note E.6. and Note F.”

2. OTHER THAN PERSONAL SERVICES COSTS

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)			
Administrative OTPS and Energy .....	\$18,188	\$17,473	\$17,851	\$18,181
Public Assistance .....	1,274	1,275	1,273	1,273
Medical Assistance .....	6,282	6,366	6,447	6,415
HHC Support .....	198	170	171	171
Other .....	<u>3,275</u>	<u>3,322</u>	<u>3,547</u>	<u>3,725</u>
Total .....	<u>\$29,217</u>	<u>\$28,606</u>	<u>\$29,289</u>	<u>\$29,765</u>

*Administrative OTPS and Energy*

The Financial Plan contains estimates of the City’s administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services, and the impact of agency gap-closing actions relating to such expenditures in the 2013 fiscal year. Thereafter, to account for inflation, administrative OTPS expenditures are projected to rise by 2.5% annually in fiscal years 2014 through 2016. Energy costs for each of the 2013 through 2016 fiscal years are assumed to increase annually, with total energy expenditures projected at \$1.15 billion in fiscal year 2013 and increasing to \$1.28 billion by fiscal year 2016.

*Public Assistance*

The number of persons receiving benefits under cash assistance programs is projected to average 352,956 per month in the 2013 fiscal year. Of total cash assistance expenditures in the City, the City-funded portion is projected to be \$527 million in fiscal year 2013, \$529 million in fiscal year 2014 and \$528 million in each of fiscal years 2015 and 2016.

*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 \$6.2 billion for the 2013 fiscal year, which is lower than subsequent fiscal years as a result of a temporary increase in the federal share of Medicaid costs under ARRA. The United States Department of Health and Human Services (“HHS”), which administers the Medicaid program, has communicated to the State that it may disallow a claim for a portion of the federal share of certain Medicaid costs that HHS believes should have been submitted as a different type of expenditure with a lower federal Medicaid rate than claimed. If it were disallowed, the City would be required to return approximately \$111 million that it previously received. Discussions concerning such possible disallowance are ongoing.

The City-funded portion of medical assistance payments is expected to increase to \$6.271 billion, \$6.353 billion and \$6.321 billion in fiscal years 2014 through 2016, respectively. Such payments include, among other things, City-funded Medicaid payments, including City-funded Medicaid payments to HHC.



### *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 \$197 million in fiscal year 2013 decreasing to \$171 million in fiscal year 2016. City-funded expenditures include City subsidy, intra-City payments and grants and exclude prepayments.

On an accrual basis, HHC's total receipts before implementation of the HHC gap-closing program are projected to be \$7.3 billion, \$7.4 billion, \$7.5 billion and \$7.6 billion in fiscal years 2013 through 2016, respectively. Total disbursements before implementation of the HHC gap-closing program are projected to be \$8.3 billion in fiscal year 2013 increasing to \$8.9 billion in fiscal year 2016. These projections assume increases in fringe benefits in fiscal years 2013 through 2016. 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 2012 through 2016 fiscal years was prepared in November 2012. The NYCT fiscal year coincides with the calendar year. The NYCT financial plan projects City assistance to the NYCT operating budget of \$329.2 million in 2012 increasing to \$442.0 million in 2016, in addition to real estate transfer tax revenue dedicated for NYCT use of \$409.2 million in 2012 increasing to \$600.8 million in 2016.

The NYCT financial plan includes additional revenues from a fare increase in 2011, three year net-zero and accelerated zero wage increases from 2011 through 2015 on pending labor negotiations, updated inflation assumptions and other actions. After reflecting such revenues and actions, the NYCT financial plan projects \$8.5 billion in revenues and \$11.4 billion in expenses for 2012, leaving a budget gap of \$2.9 billion. After accounting for accrual adjustments and cash carried over from 2011, NYCT projects an operating budget surplus of \$149.8 million in 2012. The NYCT financial plan forecasts operating budget gaps of \$300 million in 2013, \$500 million in 2014, \$600 million in 2015 and \$900 million in 2016.

In 2009, a Payroll Mobility Tax ("PMT") was enacted into State law to provide \$0.34 for every \$100 of payroll in the MTA's twelve county service area. The PMT is currently expected to raise revenues for the MTA in the amount of \$1.3 billion in 2012, growing to \$1.5 billion in 2016.

On August 22, 2012, the State Supreme Court ruled that the 2009 PMT is unconstitutional because there had not been a home rule message approving them from each of the twelve counties serviced by the MTA. The MTA has appealed the decision. The PMT remains due and payable pending the decision on appeal. If the MTA's appeal were not successful, the MTA's revenues would be reduced by the entire amount of the PMT. In addition, if the appeal were unsuccessful, the State legislature could eliminate funding that it currently provides to the MTA to replace the elimination of the PMT for school districts and small businesses, which was enacted into law effective in 2012. The amount of such reduction, if it occurred, is currently projected to be \$255 million in 2012, increasing to \$310 million in 2016.

The MTA Board approved the 2010-2014 Capital Program in April 2010 and the State Capital Program Review Board (“CPRB”) approved the first two years of it on June 2, 2010 because the MTA had identified funding for only the first two years of the program. The CPRB vetoed the last three years of the program without prejudice to permit the MTA additional time to resolve the funding issues. The MTA Board approved the amended 2010-2014 Capital Program in December 2011 and the CPRB approved it on March 27, 2012. The plan includes \$22.2 billion for all MTA agencies, including \$11.6 billion to be invested in the NYCT core system, \$1.9 billion for NYCT network expansion, and \$200 million for security.

The 2010-2014 Capital Program follows the 2005-2009 Capital Program, which provided approximately \$17.1 billion for NYCT. In addition, the 2005-2009 Capital Program included approximately \$2 billion for extension of the Number 7 subway line and other public improvements which will be funded with proceeds of bonds issued by the Hudson Yards Infrastructure Corporation (“HYIC”). See “SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Indebtedness of the City and Related Issuers.*”

#### *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, 2012, the City expended \$582.9 million for judgments and claims, \$118.8 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of \$735.2 million, \$767.8 million, \$778.9 million and \$814.8 million for the 2013 through 2016 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 2013 through 2016. 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, 2012 amounted to approximately \$6.3 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, 2012 include an estimate that the City’s liability in the *certiorari* proceedings, as of June 30, 2012, could amount to approximately \$859 million. Provision has been made in the Financial Plan for estimated refunds of \$435 million, \$445 million, \$389 million and \$395 million for the 2013 through 2016 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. GENERAL OBLIGATION, LEASE AND TFA DEBT SERVICE

Debt service estimates for fiscal years 2013 through 2016 include debt service on outstanding general obligation bonds and conduit debt, and the funding requirements associated with outstanding TFA Future Tax Secured Bonds, and estimates of debt service costs of, or funding requirements associated with, future general

obligation, conduit and TFA Future Tax Secured debt issuances based on 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.

In July 2009, the State amended the New York City Transitional Finance Authority Act to expand the borrowing capacity of the TFA by providing that it may have outstanding \$13.5 billion of Future Tax Secured Bonds (excluding Recovery Bonds) and may issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, does not exceed the debt limit of the City. As a result of this change, the City currently expects to finance through the TFA approximately half of the capital program that was previously expected to be financed with general obligation debt. Consequently, in order to more accurately reflect the debt service costs of the City's capital program, the Financial Plan includes as a debt service expense the funding requirements associated with TFA Future Tax Secured Bonds. This expense is offset by personal income tax revenues retained by the TFA, which are now included in the Financial Plan.

The Financial Plan reflects general obligation debt service of \$3.98 billion, \$4.30 billion, \$4.67 billion and \$4.75 billion in fiscal years 2013 through 2016, respectively, conduit debt service of \$310 million, \$324 million, \$316 million and \$322 million in fiscal years 2013 through 2016, respectively, and TFA funding requirements of \$1.80 billion, \$1.91 billion, \$2.27 billion and \$2.47 billion in fiscal years 2013 through 2016, respectively, in each case prior to giving effect to prepayments.

### **Certain Reports**

Set forth below are summaries of the most recent reports of the City Comptroller, OSDC and the staff of the Control Board. These summaries do not purport to be comprehensive or definitive.

On July 23, 2012, the City Comptroller released a report commenting on the City's adopted budget for fiscal year 2013 and the June Financial Plan. In his report, the City Comptroller identified net risks for fiscal years 2013 through 2016 which, when added to the results projected in the June Financial Plan, would result in gaps of \$3.32 billion, \$3.31 billion, \$3.83 billion and \$2.95 billion, respectively. The differences from the June Financial Plan projections result in part from the City Comptroller's expenditure projections, which exceed those in the June Financial Plan by \$2.79 billion, \$1.09 billion, \$1.13 billion and \$1.18 billion in fiscal years 2013 through 2016, respectively, resulting from: (i) wage increases, including retroactive wage increases, as a result of collective bargaining with the City's teacher and school administrator unions, which would result in increased costs of \$2.60 billion in fiscal year 2013 and \$900 million in each of fiscal years 2014 through 2016; (ii) increased overtime expenditures of \$153 million in fiscal year 2013 and \$100 million in each of fiscal years 2014 through 2016; (iii) uncertainty of receipt of increased Medicaid revenue for special education services of \$100 million in each of fiscal years 2013 through 2016; (iv) the phase-in of shortfalls in fiscal year 2012 pension investment returns relative to the actuarial interest rate assumption resulting in additional pension contributions of \$80 million, \$160 million, and \$240 million in fiscal years 2014 through 2016, respectively; and (v) lower estimates for judgments and claims expenditures of \$60 million, \$93 million, \$129 million and \$165 million in fiscal years 2013 through 2016, respectively. The differences from the June Financial Plan also result from the City Comptroller's revenue projections. The report estimates that (i) property tax revenues will be lower by \$13 million in fiscal year 2013, and higher by \$352 million, \$576 million and \$889 million in fiscal years 2014 through 2016, respectively; (ii) personal income tax revenues will be higher by \$36 million, \$299 million, \$129 million and \$221 million in fiscal years 2013 through 2016, respectively; (iii) business tax revenues will be lower by \$12 million, \$126 million, \$68 million and \$76 million in fiscal years 2013 through 2016, respectively; (iv) sales tax revenues will be higher by \$10 million, \$85 million, \$205 million and \$321 million in fiscal years 2013 through 2016, respectively; and (v) real-estate related tax revenues will be higher by \$79 million, \$41 million and \$37 million in fiscal years 2013 through 2015, respectively, and lower by \$59 million in fiscal year 2016. The revenue projections result in higher net tax revenues of \$100 million, \$651 million, \$879 million and

\$1.30 billion in fiscal years 2013 through 2016, respectively. Additionally, the City Comptroller's report states that the June Financial Plan assumption of revenues of \$635 million, \$365 million and \$460 million in fiscal years 2013 through 2015, respectively, from the sale of taxi medallions is a significant risk.

The City Comptroller expects to issue a Charter-mandated report by December 15, 2012 which will comment on the Financial Plan. This report will present the Comptroller's evaluation of the assumptions and methodologies underlying the Financial Plan and identify risks and offsets to the Financial Plan. In addition, the City Comptroller issued its annual Charter-mandated Report on Capital Debt and Obligations on December 7, 2012. The Report on Capital Debt and Obligations noted that the City and its related borrowers have a relatively high gross debt per capita and significant future capital requirements.

On July 23, 2012, the staff of OSDC released a report on the June Financial Plan. The report states that the fiscal year 2013 budget is balanced based on reasonable assumptions and that the City has made substantial progress over the past year in narrowing the outyear budget gaps, though the City still faces challenges and the City's ability to cushion the impact of adverse developments could be diminished by fiscal year 2014 because the City plans to exhaust most of the reserves accumulated during the last economic expansion. The report notes that the fiscal year 2013 budget is balanced with more than \$4 billion in non-recurring resources and that the fiscal year 2012 surplus is substantially smaller than the fiscal year 2011 surplus, an indication that spending is exceeding current year revenues. The report also notes that the City plans to draw down the remaining funds in the Retiree Health Benefits Trust in fiscal year 2013 and 2014. Additionally, the report identifies growth in non-discretionary costs such as pension contributions, health insurance and debt service as an area of concern.

The report quantifies certain risks, partially offset by possible additional resources, to the June Financial Plan. The report identifies net risks to the June Financial Plan of \$744 million, \$324 million and \$269 million in fiscal years 2013 through 2015, respectively, and net additional resources of \$391 million in fiscal year 2016. When combined with the results projected in the June Financial Plan, the report estimates budget gaps of \$744 million, \$2.83 billion, \$3.39 billion and \$2.68 billion in fiscal years 2013 through 2016, respectively. The risks to the June Financial Plan identified in the report include (i) \$635 million, \$365 million and \$460 million in fiscal years 2013 through 2015, respectively, if the planned sale of additional taxi medallions, which is currently the subject of multiple lawsuits, is not successfully implemented, and (ii) decreased savings of \$109 million in each of fiscal years 2013 through 2016 if agency gap-closing actions are not successfully implemented. The report identifies additional tax revenues of \$150 million, \$300 million and \$500 million in fiscal years 2014 through 2016, respectively. In addition to the adjustments to the June Financial Plan projections set forth above, the OSDC report identifies four additional risks that could have a significant impact on the City. First, the OSDC report identifies risks resulting from increased costs as a result of collective bargaining with the teachers' union of \$900 million in each of fiscal years 2013 through 2016, respectively, excluding any retroactive costs. Second, if wages for all City employees were to increase at the projected rate of inflation without any offsetting savings, costs would increase by \$17 million, \$91 million, \$259 million and \$511 million in fiscal years 2013 through 2016, respectively. Third, the report notes that the receipt of additional State education aid of \$293 million in fiscal year 2013 is contingent upon the City and the UFT reaching agreement on a teacher evaluation program. Fourth, the report states that the City could be required to increase its planned pension contribution by approximately \$90 million, \$180 million and \$270 million in fiscal years 2014 through 2016, respectively, because the pension systems earned an estimated 1.7% on investments in fiscal year 2012, compared with the expected gain of seven percent.

OSDC plans to issue a report on the Financial Plan in mid-December 2012.

On July 19, 2012, the staff of the Control Board issued a report on the June Financial Plan. The report states that the fiscal year 2013 adopted budget assumes increased revenues of \$276 million and gap-closing actions of \$5.8 billion, mostly of a non-recurring nature, the largest portion of which represents the \$2.4 billion surplus in fiscal year 2012 that is projected to be used entirely by fiscal year 2014. The report also states that the planned depletion of the Retiree Health Benefits Trust in fiscal years 2013 and 2014 is short-sighted and that the City needs to develop a plan on how to address increasing retiree health care costs. Additionally, the report notes that

the City will continue to face fiscal stress in the outyears and the likelihood that the outyear gaps can be solved with tax revenue gains is uncertain. Accordingly, the report notes that the City will need to continue its practice of developing agency actions in fiscal year 2013 to address outyear budget gaps.

The report quantifies certain risks to the June Financial Plan. The report identifies possible risks of \$717 million, \$545 million, \$676 million and \$251 million in fiscal years 2013 through 2016, respectively. When combined with the results projected in the June Financial Plan, these risks could result in estimated gaps of \$717 million, \$3.05 billion, \$3.79 billion and \$3.32 billion in fiscal years 2013 through 2016, respectively. The risks to the June Financial Plan identified in the report include (i) increased uniformed services overtime expenses of \$32 million, \$130 million, \$166 million and \$201 million in fiscal years 2013 through 2016, respectively; (ii) the failure to achieve planned Police Department overtime savings of \$50 million in each of fiscal years 2013 through 2016; and (iii) \$635 million, \$365 million and \$460 million in fiscal years 2013 through 2015, respectively, if the planned sale of additional taxi medallions, which is currently the subject of multiple lawsuits, is not successfully implemented.

The staff of the Control Board plans to issue a report on the Financial Plan on or about December 13, 2012.

### **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. On October 17, 2012, the City released the 2013-2016 Capital Commitment Plan (the "2013-2016 Capital Commitment Plan").

City-funded commitments, which were \$344 million in fiscal year 1979, are projected to reach \$11.0 billion in fiscal year 2013. City-funded expenditures are forecast at \$7.3 billion in fiscal year 2013; total expenditures are forecast at \$9.2 billion in fiscal year 2013. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2012 through 2021, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures."



The following table sets forth the major areas of capital commitment projected in the 2013-2016 Capital Commitment Plan.

**2013-2016 CAPITAL COMMITMENT PLAN**

	2013		2014		2015		2016		TOTALS	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Mass Transit(1) . . . . .	\$ 303	\$ 331	\$ 100	\$ 100	\$ 100	\$ 100	\$ 40	\$ 40	\$ 543	\$ 571
Roadway, Bridges . . . . .	1,128	1,806	631	896	334	476	393	497	2,486	3,675
Environmental Protection(2) . . . . .	2,949	2,993	1,707	1,707	1,273	1,273	974	1,062	6,903	7,035
Education(3) . . . . .	1,442	2,429	1,289	2,494	891	1,686	923	1,744	4,543	8,353
Housing . . . . .	646	778	255	344	191	262	219	257	1,312	1,641
Sanitation . . . . .	778	785	279	279	133	133	105	105	1,294	1,301
City Operations/Facilities . . .	7,114	7,651	1,498	1,615	527	588	467	680	9,605	10,534
Economic Development . . . . .	1,037	1,142	61	61	48	48	15	15	1,161	1,266
Reserve for Unattained Commitments . . . . .	(4,357)	(4,357)	1,393	1,393	703	703	373	373	(1,888)	(1,888)
<b>Total</b>										
Commitments(4) . . . . .	<u>\$11,040</u>	<u>\$13,558</u>	<u>\$7,212</u>	<u>\$8,889</u>	<u>\$4,199</u>	<u>\$5,268</u>	<u>\$3,507</u>	<u>\$4,773</u>	<u>\$25,959</u>	<u>\$32,487</u>
Total Expenditures(5) . . . . .	<u>\$ 7,322</u>	<u>\$ 9,228</u>	<u>\$7,485</u>	<u>\$9,350</u>	<u>\$6,622</u>	<u>\$8,274</u>	<u>\$5,936</u>	<u>\$7,465</u>	<u>\$27,365</u>	<u>\$34,317</u>

Note: Totals may not add due to rounding.

- (1) Excludes NYCT's non-City portion of the MTA capital program.
- (2) Includes water supply, water mains, water pollution control, sewer projects and related equipment.
- (3) All Funds reflects State funding for educational facilities in the form of financing of \$4.3 billion from the proceeds of bonds of the TFA that are 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 November 2012, 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 \$6.36 billion in capital investment would be needed for fiscal years 2014 through 2017 to bring the assets to a state of good repair. The report also estimated that \$366 million, \$189 million, \$218 million and \$207 million should be spent on maintenance in fiscal years 2014 through 2017, respectively.

The recommended capital investment for each inventoried asset is not readily comparable to the capital spending allocated by the City in the 2013-2016 Capital Commitment Plan and the Ten-Year Capital Strategy. Only a portion of the funding set forth in the 2013-2016 Capital Commitment 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 2013-2016 Capital Commitment Plan. The City also issues an annual report (the “Reconciliation Report”) that compares the recommended capital investment with the capital spending allocated by the City in the Four-Year Capital Plan to the specifically identified inventoried assets.

The most recent Reconciliation Report, issued in May 2012, concluded that the capital investment in the Four-Year Capital Plan, for fiscal years 2013 through 2016, for the specifically identified inventoried assets funded 52% of the total investment recommended in the preceding AIMS Report issued in December 2011. Capital investment allocated in the Ten-Year Capital Strategy published in May 2011 funded an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 64% 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 2013 through 2016 fiscal years to implement the 2013-2016 Capital Commitment Plan. See “SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities.”

#### 2013-2016 FINANCING PROGRAM

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
	(In Millions)				
City General Obligation Bonds(1) .....	\$1,700	\$2,880	\$2,620	\$2,280	\$ 9,480
TFA Future Tax Secured Bonds(1) .....	3,400	2,880	2,620	2,280	11,180
Water Authority Bonds(1)(2) .....	<u>2,072</u>	<u>1,554</u>	<u>1,177</u>	<u>1,146</u>	<u>5,949</u>
Total .....	<u>\$7,172</u>	<u>\$7,314</u>	<u>\$6,417</u>	<u>\$5,706</u>	<u>\$26,609</u>

Note: Totals may not add due to rounding.

(1) Figures exclude refunding bonds.

(2) Water Authority Bonds includes commercial paper.

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 Water Authority 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 2012 through 2021, projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately \$12.9 billion. The City’s Capital Commitment Plan for fiscal years 2013 through 2016 reflects total anticipated City-funded water and sewer commitments of \$6.9 billion which are expected to be financed with the proceeds of Water Authority debt.

The TFA is authorized to have outstanding \$13.5 billion of Future Tax Secured Bonds (excluding Recovery Bonds) and may issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, do not exceed the debt limit of the City. Future Tax Secured Bonds are issued for general City capital purposes and 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. 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. The TFA expects to issue \$1.122 billion, \$1.202 billion, \$1.035 billion and \$942 million of Building Aid Revenue Bonds in fiscal years 2013 through 2016, 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 2012 through 2021 totals \$54.1 billion, of which approximately 74% is to be financed with funds borrowed by the City and such other entities. See "INTRODUCTORY STATEMENT" and "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.

### **Interest Rate Exchange Agreements**

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.13." As of September 30, 2012, the aggregate notional amount of the City's interest rate exchange agreements was \$2,021,395,000 and the total marked-to-market value of such agreements was (\$201,009,709).

In addition, in connection with its Courts Facilities Lease Revenue Bonds (The City of New York Issue) Series 2005A and B, the Dormitory Authority of the State of New York ("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. Under such agreements, with a notional amount of \$125,500,000, an effective date of June 15, 2005 and a termination date of May 15, 2039, DASNY pays a fixed rate of 3.017% and receives payments based on a LIBOR-indexed variable rate. As of September 30, 2012, the total marked-to-market value of the DASNY agreements was (\$34,821,224).

### **Seasonal Financing Requirements**

The City since 1981 has fully satisfied its seasonal financing needs, when necessary, in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. The City has not issued short-term obligations to finance projected cash flow needs since fiscal year 2004. The City regularly reviews its cash position and the need for short-term borrowing. The Financial Plan reflects the issuance of short-term obligations in the amount of \$2.4 billion in each of fiscal years 2013 through 2016.

## SECTION VIII: INDEBTEDNESS

### Indebtedness of the City and Certain Other Entities

#### *Outstanding City and PBC Indebtedness*

The following table sets forth outstanding City and PBC indebtedness as of September 30, 2012. “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 PBCs: the Housing Authority, the New York City Educational Construction Fund (“ECF”), 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. or STAR Corp., which are not obligations of, and are not paid by, the City; nor does such indebtedness include obligations of HYIC, for which the City has agreed to pay, as needed and subject to appropriation, interest on but not principal of such obligations.

	<b>(In Thousands)</b>	
Gross City Long-Term Indebtedness(1) .....	\$40,862,802	
Less: Assets Held for Debt Service(2) .....	<u>(146,945)</u>	
Net City Long-Term Indebtedness .....		\$40,715,857
<b>PBC Indebtedness</b>		
Bonds Payable .....	410,230	
Capital Lease Obligations .....	<u>1,282,815</u>	
Gross PBC Indebtedness .....	1,693,045	
Less: Assets Held for Debt Service .....	<u>(235,174)</u>	
Net PBC Indebtedness .....		<u>1,457,871</u>
Combined Net City and PBC Indebtedness .....		<u><u>\$42,173,728</u></u>

(1) Reflects capital appreciation bonds at accreted values as of June 30, 2012.

(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 net City and PBC indebtedness as of June 30 of each of the fiscal years 2002 through 2011 and at September 30, 2012.

	<b>City Indebtedness</b>		<b>PBC Indebtedness</b>	<b>Total</b>
	<b>Long-Term</b>	<b>Short-Term</b>		
	<b>(In Millions)</b>			
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
2007 .....	34,396	—	1,637	36,033
2008 .....	33,129	—	1,558	34,687
2009 .....	38,648	—	1,484	40,131
2010 .....	41,490	—	1,395	42,885
2011 .....	41,737	—	1,550	43,287
2012 .....	40,913	—	1,486	42,399
September 30, 2012 .....	40,716	—	1,458	42,174

*Rapidity of Principal Retirement*

The following table details, as of September 30, 2012, the cumulative percentage of total City indebtedness that is scheduled to be retired in accordance with its terms in each prospective five-year period.

<u>Period</u>	<u>Cumulative Percentage of Debt Scheduled for Retirement</u>
5 years .....	23.52%
10 years .....	49.82
15 years .....	73.44
20 years .....	88.80
25 years .....	97.95
30 years .....	99.99

*City and PBC Debt Service Requirements*

The following table summarizes future debt service requirements, as of September 30, 2012, on City and PBC indebtedness.

<u>Fiscal Years</u>	<u>City Long-Term Debt</u>		<u>PBC</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Indebtedness</u>	
(In Thousands)				
2013 .....	\$ 605,454	\$ 1,312,866	\$ 56,374	\$ 1,974,694
2014 .....	2,157,905	1,721,663	69,757	3,949,325
2015 .....	2,301,494	1,633,978	77,133	4,012,605
2016 through 2147 .....	35,797,949	14,326,171	1,489,781	51,613,901
Total .....	<u>\$40,862,802</u>	<u>\$18,994,678</u>	<u>\$1,693,045</u>	<u>\$61,550,525</u>

*Certain Debt Ratios*

The following table sets forth the approximate ratio of City long-term general obligation indebtedness to taxable property value as of June 30 of each of the fiscal years 2003 through 2012.

<u>Fiscal Year</u>	<u>City Long-Term Indebtedness</u>	<u>Percentage of Actual Taxable Value of Property(1)</u>	<u>Per Capita</u>
	(In Millions)		
2003 .....	\$29,679	28.90%	\$3,652
2004 .....	31,378	29.38	3,841
2005 .....	33,903	30.73	4,128
2006 .....	35,844	29.26	4,344
2007 .....	34,506	27.03	4,152
2008 .....	36,100	24.80	4,325
2009 .....	39,991	26.31	4,765
2010 .....	41,555	26.31	4,952
2011 .....	41,785	26.17	4,979
2012 .....	42,286	26.77	5,129

Source: CAFR for the fiscal year ended June 30, 2012.

(1) Based on full valuations for each fiscal year derived from the application of the special equalization ratio reported by the State Office 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 2003 through 2012. 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 also not debt of the City. 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.

<u>Fiscal Year</u>	<u>General Obligation Bonds(1)</u>	<u>ECF</u>	<u>MAC(2)</u>	<u>TFA</u>	<u>TSASC</u>	<u>STAR</u>	<u>HYIC</u>	<u>PBC Indebtedness and Other(3)</u>	<u>IDA Stock Exchange</u>
(In Millions)									
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
2007 .....	34,506	123	—	14,607	1,317	2,368	2,100	2,832	102
2008 .....	36,100	109	—	14,828	1,297	2,339	2,067	2,025	101
2009 .....	39,991	102	—	16,913	1,274	2,253	2,033	1,937	99
2010 .....	41,555	150	—	20,094	1,265	2,178	2,000	1,859	99
2011 .....	41,785	281	—	23,820	1,260	2,117	2,000	1,895	98
2012 .....	42,286	274	—	26,268	1,253	2,054	3,000	1,818	95

Source: CAFR for the fiscal year ended June 30, 2012.

- (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 \$116 million, \$64 million, \$52 million and \$39 million in fiscal years 2002 through 2005, respectively. All of such general obligation “mirror” bonds have been paid.
- (2) All MAC bonds outstanding after 2004 were defeased with a portion of the proceeds of STAR Corp. bonds issued in November 2004.
- (3) PBC Indebtedness and Other includes PBC indebtedness (excluding ECF) and includes capital leases of the City.

As of October 31, 2012, approximately \$41 billion of City general obligation bonds were outstanding, of which \$6,438,485,000 are variable rate demand bonds. For further information regarding the City’s variable rate demand bonds, see Appendix D hereto.

As of September 30, 2012, \$3 billion aggregate principal amount of HYIC bonds were outstanding. Such bonds were issued to finance the extension of the Number 7 subway line and other public improvements. They 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 City has agreed to pay the amount of any shortfall in interest on such bonds, subject to appropriation. The Financial Plan provides approximately \$125 million for such interest support payments in each of fiscal years 2013 through 2016, of which \$125 million and \$31 million in fiscal years 2013 and 2014, respectively, has been provided through prepayments of HYIC debt service. The City has no obligation to pay the principal of such bonds.

*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; and (iii) redemption of short-term indebtedness issued in anticipation of the collection of taxes or other revenues, such as tax anticipation notes (“TANs”) and revenue anticipation notes (“RANs”) which (with permitted renewals thereof) 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 previously 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 City TANs and RANs when outstanding. 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 bond anticipation notes (“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.

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 and BANs, and long-term indebtedness issued for specified purposes 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.

Water Authority and TSASC indebtedness and the City’s commitments with other PBCs or related issuers are not chargeable against the City’s constitutional debt limit. The TFA and TSASC were created to provide financing for the City’s capital program. Without the TFA and TSASC, or other legislative relief, new contractual commitments for the City’s general obligation financed capital program would have been virtually brought to a halt during the financial plan period beginning early in the 1998 fiscal year. TSASC has issued approximately \$1.3 billion of bonds that are payable from TSRs. TSASC does not intend to issue additional bonds. The TFA is permitted to have outstanding \$13.5 billion of Future Tax Secured Bonds (excluding Recovery Bonds) and may issue additional Future Tax Secured Bonds, provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, do not exceed the debt limit of the City. Future Tax Secured 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 TFA, as of October 31, 2012, has outstanding approximately \$21.0 billion of Future Tax Secured Bonds (excluding Recovery Bonds). The TFA may also have outstanding \$9.4 billion of Building Aid Revenue Bonds, which are secured by State building aid and are not chargeable against the City’s constitutional debt limit.



The following table sets forth the calculation of debt-incurring power as of October 31, 2012.

	(In Thousands)
Total City Debt-Incurring Power under General Debt Limit .....	\$76,852,670
Gross Debt-Funded .....	\$41,210,995
Less: Excluded Debt .....	(96,347)
	41,114,647
Less: Appropriations for Payment of Principal .....	(455,178)
	40,659,469
Contracts and Other Liabilities, Net of Prior Financings Thereof .....	6,287,872
Total City Indebtedness .....	46,947,342
TFA Debt Outstanding above \$13.5 billion .....	6,768,785
Debt-Incurring Power .....	<u>\$23,136,542</u>

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 do not represent City indebtedness, have a similar budgetary effect. During a Control Period as defined by the Financial Emergency Act, neither the City nor any Covered Organization may enter into any arrangement whereby the revenues or credit of the City are directly or indirectly pledged, encumbered, committed or promised for the payment of obligations of a PBC unless approved by the Control Board. The principal forms of the City's financial commitments with respect to PBC debt obligations are as follows:

1. *Capital Lease Obligations*—These are leases of facilities by the City or a Covered Organization, entered into with PBCs, under which the City has no liability beyond monies legally available for lease payments. State law generally provides, however, that in the event the City fails to make any required lease payment, the amount of such payment will be deducted from State aid otherwise payable to the City and will be paid to the PBC.

2. *Executed Leases*—These are leases pursuant to which the City is legally obligated to make the required rental payments.

3. *Capital Reserve Fund Arrangements*—Under these arrangements, State law requires the PBC to maintain a capital reserve fund in a specified minimum amount to be used solely for the payment of the PBC's obligations. State law further provides that in the event the capital reserve fund is depleted, State aid otherwise payable to the City may be paid to the PBC to restore such fund.

Certain PBCs are further described below.

*New York City Educational Construction Fund*

As of September 30, 2012, \$268 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.

*Dormitory Authority of the State of New York*

As of September 30, 2012, \$553.3 million principal amount and \$717.2 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities and health facilities, respectively, in the City were outstanding. The court facilities and health facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

*City University Construction Fund*

As of September 30, 2012, approximately \$254 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 September 30, 2012, \$23.7 million principal amount of UDC bonds subject to 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, 2011 consisted of approximately 359,000 active employees, of whom approximately 90,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there were approximately 306,000 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.

The City has consistently made its full statutorily required pension contributions based on then-current actuarial valuations. For fiscal year 2012, the City's pension contributions for the five major actuarial pension systems, based on actuarial valuations performed as of June 30, 2010, plus the other pension expenditures described above, were approximately \$8 billion. These contributions are equal to those recommended by the Actuary and are expected to represent the statutory contributions. This representation of fiscal year 2012 contributions, as of November 2012, requires the enactment of certain enabling legislation that is expected when the State legislature reconvenes. The Financial Plan reflects pension expense projections of \$8.062 billion, \$8.212 billion, \$8.203 billion and \$8.399 billion, for fiscal years 2013 through 2016, respectively, which are the pension contributions the City expects to be required based on assumed statutory requirements and actuarial valuations. The Financial Plan reflects higher additional required contributions associated with actual pension fund investment performance in fiscal year 2012. In fiscal year 2012, the pension funds realized a 1.4 percent investment return which is significantly below the assumed actuarial rate of return of seven percent. The Financial Plan reflects additional contributions of \$98 million, \$197 million and \$295 million in fiscal years 2014 through 2016, respectively, due to the investment results in fiscal year 2012.

Pension expense estimates in the Financial Plan reflect a revised set of funding assumptions and methods contained in reports released by the Chief Actuary in February 2012 following his review of independent external audits. Highlights of the proposed changes include a lowering of the actuarial interest rate assumption from eight percent (gross of expenses) to seven percent (net of expenses), the use of updated mortality tables to account for longer life expectancy, an additional funding mechanism to support uniformed employee variable supplement funds and other modifications regarding rates of retirement and disability. The Actuary is also implementing a market value restart and switching funding methods to an alternative, but commonly-used method known as the Entry Age Actuarial Cost Method. Under this method, discrete unfunded liabilities are recognized. The Actuary is proposing to amortize the initial unfunded liability using increasing payments over a closed, explicit 22 year period, several years more than the implicit period under the current funding method. Certain components of the Actuary's proposals require enactment into State law, including the change to the actuarial interest rate assumption, the change to the funding method (and the related recognition of discrete unfunded actuarial accrued liabilities and establishment of explicit amortization periods), and the additional funding mechanism to support uniformed employee variable supplements funds. Other changes, such as mortality tables and the market value restart, do not require legislative approval. The board of trustees of each of the City's retirement systems has adopted a resolution supporting the funding assumptions and methods proposed by the Chief Actuary.

In the CAFR for fiscal year 2012, the funded status of the City's pension systems was reported under the Entry-Age Actuarial Cost Method (the new valuation method proposed by the Chief Actuary, subject to State legislation) and resulted in assets being reported as less than liabilities by approximately \$70 billion, or 60.1% funded for fiscal year 2012. The new valuation method represents a change from the previous method which was consistent with then-current GASB requirements and which had resulted in the City's pensions as being reported as 99.9% funded. For further information see "APPENDIX B — FINANCIAL STATEMENTS — Notes to Financial Statements — Note E.5" and "APPENDIX B — FINANCIAL STATEMENTS — Required Supplementary Information — Note A." Other measures of funded status would produce, in some cases, lower funded ratios of assets to liabilities and, in other cases, higher funded ratios of assets to liabilities, than the valuation methods shown in the CAFR.

The City accounts for its pensions consistent with the requirements of GASB. In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"). GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. GASB 68 is effective for fiscal years beginning after June 15, 2014, which, with respect to the City, would be its fiscal year 2015. GASB has encouraged early implementation. GASB 68 impacts reporting, disclosure and supplemental information related to pensions in financial statements but does not affect funding requirements, which are determined by State law. A significant change contained in GASB 68 is the requirement to report net pension liabilities on employers' Statements of Net Assets when the fair value of pension assets falls short of actuarially calculated liabilities. Prior to the implementation of GASB 68, GASB requires that employers report net pension liabilities on their financial statements only when there is a shortfall in cumulative contributions compared to either actuarially determined annual contributions, or contractually required contributions for certain cost-sharing plans. Although the City has not completed the process of evaluating the impact of GASB 68, the City expects that under certain circumstances the reported funded ratios of its pension plans could be lower under GASB 68 than stated under the current standard, which is described above.

For the 2012 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 44% 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 by the City in accordance with GASB Statement No. 27, as amended by GASB Statement No. 50, 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 ("TRS") and the New York City Board of Education Retirement System ("BERS"). However, the failure by any one employer to make its required payment could increase the obligations of the other employers. Depending on the system and the defaulting participating employer, such increased obligations could be material.

For further information regarding the City's pension systems see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note E.5" and "APPENDIX B — FINANCIAL STATEMENTS — Required Supplementary Information — Note A."

## **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, 2012 amounted to approximately \$6.3 billion. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Services Costs—*Judgments and Claims*."

#### *Taxes*

1. Numerous real estate tax *certiorari* proceedings alleging overvaluation, inequality and illegality are pending against the City. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential future liability for outstanding *certiorari* proceedings to be \$859 million at June 30, 2012. 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."

2. Con Edison has challenged the City's method of valuation for determining assessments of certain of its properties in three separate actions. Con Edison has challenged the City's tax assessments on the Hudson Avenue steam plant located in Brooklyn for fiscal years 1995 through 2012 and the East River Generating Station located in Manhattan for fiscal years 1994 through 2012. Additionally, Con Edison has challenged the City's special franchise assessment on its electric grid located in the public right of way. The challenges could result in substantial real property tax refunds in fiscal years 2013 and 2014.

#### *Miscellaneous*

1. Complaints on behalf of approximately 11,900 plaintiffs 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 were 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. The actions are consolidated in federal District Court pursuant to the Air Transportation and System Stabilization Act, which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. A not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the "WTC Insurance Company") was 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 WTC Insurance Company was funded by a grant from the Federal Emergency Management Agency in the amount of \$999,900,000. On June 10, 2010, the WTC Insurance Company announced that a settlement was reached with attorneys for the plaintiffs. On November 19, 2010, District Court Judge Hellerstein announced that more than the required 95% of plaintiffs agreed to the settlement, thus making it effective. Approximately \$637.5 million has been paid under the settlement, leaving residual funds of approximately \$400 million to insure and defend the City and its contractors against claims that are not settled as part of the settlement and any new claims. There are currently four cases remaining against the City. Additionally, the City is threatened with third-party claims in more than 1,000 building clean-up cases to which it is currently not a party. Since the applicable statute of limitations runs from the time a person learns of his or her injury or should reasonably be aware of the injury, additional plaintiffs may bring lawsuits in the future, which could result in substantial damages. No assurance can be given that the insurance will be sufficient to cover all liability that might arise from such claims.

2. In 1996, a class action was brought against the City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by the City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The District Court dismissed the case following a bench trial. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the District Court's ruling, dismissed the claims against the State, and remanded for further proceedings. On remand, the District Court decertified the class with respect to plaintiffs' claims for monetary relief and individualized injunctive relief. The District Court, however, left open the possibility that plaintiffs' claims for monetary relief, in the form of back pay, and individualized injunctive relief could be certified as a class during a remedies phase. The District Court found that the class survived as to plaintiffs' claims for classwide declaratory and injunctive relief and decided that the Board of Education had not violated Title VII by reducing plaintiffs' salaries, benefits, and seniority if they failed to pass the Core Battery exam, the earlier of the two exams at issue, which was last used by the State in 1996. The court, however, found that the City had violated Title VII by requiring plaintiffs to pass the Liberal Arts and Sciences Test ("LAST"), a version of which is currently used by the State. The District Court appointed a monitor to evaluate whether the current version of the LAST violates Title VII. The State had advised the City that the potential damages of all plaintiffs who failed to pass either the Core Battery exam or the LAST, based on the difference in salary between a certified public school teaching position and an uncertified parochial or private school teaching position, was approximately \$455,000,000. Because the trial court found that the City did not violate Title VII with regard to the plaintiffs who failed the Core Battery exam, if the court certifies a remedial class, their total potential damages would be less than estimated by the State.

3. In 2006, a relator (plaintiff) filed two lawsuits in the United States District Court for the Southern District of New York against the City's Department of Housing Preservation and Development ("HPD") and other defendants under the False Claims Act. The relator alleged that HPD was involved with the submission of false claims to the United States Department of Housing and Urban Development ("HUD") in connection with the federal government's Section 8 Enhanced Voucher program which provides rental subsidies to low and moderate income tenants payable to the landlord. These alleged false claims would have resulted in HUD's overpayment of subsidies to the defendant property owners, by virtue of the alleged improper removal of housing units from rent regulation. These lawsuits remained under seal pending completion of an investigation by the United States Department of Justice, which was completed in 2009. Following this investigation, the federal government elected to pursue common-law claims against the property owners, seeking a declaration that the properties are and should have remained subject to rent-regulation, and to recover any overpayments made as a result of the allegedly improper de-regulation. In May 2011, the property owners were granted summary judgment on all of the federal government's claims and the federal government's motion for reconsideration was denied on June 28, 2011. The federal government has not sought any relief against the City. The relator is pursuing the false claims actions against HPD and the defendant property owners, seeking treble damages of the alleged overpayments made by HUD on approximately 870 units, plus civil penalties of up to \$11,000 per claim for each violation of the False Claims Act. On July 2, 2010, the Court granted the City's motion to dismiss these actions. Subsequently, the relator filed an appeal which was dismissed as premature. In August 2011 the relator again filed an appeal.

4. The federal Department of Health and Human Services Office of Inspector General ("HHS OIG") conducted a review of Medicaid Personal Care Services claims made by providers in the City from January 1, 2004 through December 31, 2006, and concluded that 18 out of 100 sampled claims by providers failed to comply with federal and State requirements. The Medicaid Personal Care Services program in the City is administered by the City's Human Resources Administration. In its audit report issued in June 2009, the HHS OIG, extrapolating from the case sample, estimated that the State improperly claimed \$275.3 million in federal Medicaid reimbursement during the audit period and recommended to the Center for Medicare and Medicaid Services ("CMS") that it seek to recoup that amount from the State. To the City's knowledge, CMS has not taken any action to recover amounts from the State based on the findings in this audit, but no assurance can be given that it will not do so in the future.



Section 22 of Part B of Chapter 109 of the Laws of 2010 amended an earlier unconsolidated State law to set forth a process under which the State Department of Health may recover from a social services district, including the City, the amount of a federal Medicaid disallowance or recovery that the State Commissioner of Health “determines was caused by a district’s failure to properly administer, supervise or operate the Medicaid program.” Such a determination would require a finding that the local agency had “violated a statute, regulation or clearly articulated written policy and that such violation was a direct cause of the federal disallowance or recovery.” It is not clear whether the recovery process set out in the recent amendment can be applied to a federal disallowance against the State based upon a pre-existing audit; however, in the event that it does, and results in a final determination by the State Commissioner of Health against the City, such a determination could result in substantial liability for the City as a result of the audit.

5. A lawsuit has been brought against the City in the United States District Court for the Southern District of New York by School Safety Agents alleging violation of the federal Equal Pay Act, Title VII of the Civil Rights Act of 1964 and provisions of State law. Plaintiffs claim that School Safety Agents (who are predominantly female) earn less pay than Special Officers (who are predominantly male) although both jobs require substantially equal skill, effort and responsibility. The case has been certified as a class action. Although the case was commenced by three named plaintiffs in 2010, approximately 4,900 plaintiffs have recently opted into the lawsuit. Plaintiffs seek injunctive relief and damages. If plaintiffs were to ultimately prevail, the City could be subject to substantial liability.

6. In May 2007, the United States filed an action under Title VII of the Civil Rights Act of 1964 in the United States District Court for the Eastern District of New York challenging the City’s use of two written examinations for the entry-level position of firefighter on the ground that use of the tests on a pass/fail basis and to rank-order applicants for selection resulted in a disparate impact on black and Hispanic candidates and that the tests were not “job related and consistent with business necessity.” In September 2007, the Vulcan Society, a fraternal organization of black firefighters, and three black applicants intervened as plaintiffs and also asserted intentional discrimination claims. In July 2009, the Court found the City liable on the disparate impact claims. In January 2010, the Court ruled that the City had engaged in intentional discrimination and found that absent the discriminatory tests, the City would have hired an additional 293 black and Hispanic candidates from the two civil service lists generated by the two challenged exams. The Court also determined that all black and Hispanic candidates who took the discriminatory tests who can show they were otherwise qualified to be firefighters are entitled to a portion of the backwages and benefits which would have been paid to the 293 candidates had they been hired. After further briefing and a hearing held in August 2011, the Court issued an order on March 8, 2012 finding that the gross amount of backpay that would have been earned by the 293 victims of discrimination is \$128,696,803. The Court, however, further ruled that the City can reduce this amount significantly by each individual victim’s interim earnings. Consequently, the City believes that the amount of the judgment will ultimately be substantially less than \$128,696,803. The Court has not yet ruled on the amount of damages available to black candidates as a result of the finding of liability for intentional discrimination. The City expects to appeal the final judgment when it is entered.

7. In 2004, certain New York City Police Department sergeants brought a collective action under the United States Fair Labor Standards Act (“FLSA”) alleging that the City failed to pay them for all their overtime hours and properly calculate their overtime under the FLSA. The City asserted that sergeants were exempt from the FLSA. In July 2009, the United States District Court for the Southern District of New York decided in the City’s favor. In August 2011, the United States Court of Appeals for the Second Circuit reversed the decision of the District Court and held that plaintiffs are covered by the FLSA. On March 19, 2012, the City’s petition to the United States Supreme Court for certiorari was denied. Consequently, the City will now litigate the sergeants’ original claims. Approximately 5,000 current and former sergeants opted into the class which covers the period from April 2002, and possibly April 2001, to the present. Plaintiffs are claiming in excess of \$100,000,000 in backpay and liquidated damages. The parties have settled the case in principle for \$20 million. A fairness hearing was held by the Court on November 15, 2012 and the settlement was approved.

8. In January 2011, a class action was commenced in the United States District Court for the Southern District against the City, the New York City Taxi and Limousine Commission (“TLC”) and other defendants alleging that the TLC’s failure to require that a significant number of medallion taxicabs be wheelchair accessible violates the Americans with Disabilities Act (the “ADA”) and other statutes. On December 23, 2011, the Court granted summary judgment to plaintiffs and enjoined TLC from selling new taxicab medallions or issuing new street hail livery licenses for vehicles that are not wheelchair accessible until TLC proposes and the Court approves a comprehensive plan to provide passengers in wheelchairs with meaningful access to taxicab service. On March 21, 2012 the United States Court of Appeals for the Second Circuit granted TLC’s motion for a stay of the District Court’s injunction pending appeal. By opinion and order dated June 28, 2012, the United States Court of Appeals for the Second Circuit vacated the injunction and instructed the Court to enter judgment on behalf of the City on the ADA claim. A proceeding has also been commenced in State Supreme Court and withdrawn without prejudice to re-filing at a later date challenging the City’s selection of the Nissan NV200 as the model for future taxis. In addition, three actions have been commenced in New York State Supreme Court, New York County, challenging State legislation that authorizes the City to issue, and sell at public auction, 2,000 new taxi medallions for wheelchair accessible taxis and 18,000 new hail livery licenses. Plaintiffs in these three actions allege violations of the United States and New York Constitutions and the New York Environmental Quality Review Act. On June 1, 2012, the judge presiding over the State Supreme Court actions granted a temporary restraining order enjoining the implementation of such legislation until the Court rules on the plaintiffs’ motions for a preliminary injunction enjoining such implementation. On August 17, 2012, the State Supreme Court granted summary judgment to the plaintiffs in all three actions and permanently enjoined the implementation of the legislation authorizing the sale of 2,000 additional taxi medallions and the issuance of 18,000 livery hail licenses. The City has filed notices of appeal and is seeking to directly appeal to the New York State Court of Appeals. If the City is not successful on appeal, the City will be unable to issue and sell additional taxicab medallions and any hail livery licenses without further legislation. As a result of the appellate process, the delays in the sale of new taxi medallions and issuance of hail livery licenses will adversely effect the timing of receipt of revenues anticipated in the Financial Plan, and, if the City is not ultimately successful on appeal, the City would not receive the \$1.46 billion projected in the Financial Plan. See “SECTION I: RECENT FINANCIAL DEVELOPMENTS—2013-2016 Financial Plan.”

9. A lawsuit against the DOE and other school districts throughout the State alleging that claims by the districts seeking Medicaid reimbursement for their respective Targeted Case Management programs violated the federal False Claims Act was unsealed in July 2012 and served on the City in October 2012. The Targeted Case Management program is a program that coordinates services for children with disabilities. The relators (plaintiffs) allege that the districts submitted false and fraudulent claims for reimbursement. The federal government is not participating in this action. The relators seek treble damages as well as civil penalties. If the relators were to ultimately prevail, the City could be subject to substantial damages.

### **Environmental Regulation**

On March 2, 2010, following an earlier notice of proposed listing, the United States Environmental Protection Agency (“EPA”) listed the Gowanus Canal, a waterway located in Brooklyn, New York, as a federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”). While it was evaluating listing the Gowanus Canal, on November 5, 2009, EPA notified the City that EPA considers the City a potentially responsible party (“PRP”) under CERCLA for hazardous wastes in the Gowanus Canal. In its Gowanus PRP notice letter, EPA identified currently and formerly City-owned and operated properties, including an asphalt plant, an inactive incinerator, and waterfront properties historically leased to private entities, as sources of hazardous substances in the Gowanus Canal. On February 2, 2011, following an investigation of the location, concentrations, types, sources, and risks of contamination in the Gowanus Canal, EPA issued a Gowanus Canal Remedial Investigation Report. That report identified three former manufactured gas plants as the likely source of much of the contamination in the Gowanus Canal, but also identified combined sewer overflows as the likely source of some contamination. On December 30, 2011, EPA released its draft feasibility study for the Gowanus Canal, evaluating various alternatives to address the

contamination identified in its report. DEP is currently undertaking a \$160 million capital project which will modernize a flushing tunnel to directly improve water quality and circulation within the Gowanus Canal. This work also includes up-sizing a pump station at the head of the Gowanus Canal to reduce the discharge of combined sewer overflows and dredging of a portion of the Gowanus Canal. Based on prior communications between DEP and EPA, the pump project should not be impacted by the listing of the Gowanus Canal as a federal Superfund site, although the dredging project may be impacted. EPA has indicated that additional combined sewer overflow controls beyond the planned or projected upgrades under the Clean Water Act are necessary to prevent recontamination of the canal sediments. DEP disagrees and has provided EPA with several technical memoranda to demonstrate that the current data does not support this conclusion. DEP is continuing discussions with EPA and EPA has stated that it intends to release its proposed plan for the Gowanus Canal in the near future.

On September 27, 2010, following an earlier notice of proposed listing, EPA listed Newtown Creek, the waterway on the border between Brooklyn and Queens, New York, along with its five tributaries, as a Superfund site. On April 6, 2010, EPA notified the City that EPA considers the City a PRP under CERCLA for hazardous wastes in Newtown Creek. In its Newtown Creek PRP notice letter, EPA identified historical City activities that filled former wetlands and low lying areas in and around Newtown Creek and releases from formerly City-owned and operated facilities, including municipal incinerators, as well as discharges from sewers and combined sewer overflow outfalls, as potential sources of hazardous substances in Newtown Creek. The City is participating with five companies that own or operate facilities adjacent to Newtown Creek in the investigation of conditions in Newtown Creek and the evaluation of feasible remedies. This investigation, which is being performed under an Administrative Settlement Agreement and Order on Consent with EPA jointly entered into by the five companies and the City, is expected to take approximately six to seven years and cost approximately \$25 million, with the City's share being one quarter of the total, subject to reallocation. The settlement does not cover any remedy that may ultimately be chosen by EPA to address the contamination identified as a result of the investigation and evaluation.

Under CERCLA, a responsible party may be held responsible for monies expended for response actions at a Superfund site, including investigative, planning, removal, remedial and EPA enforcement actions. A responsible party may also be ordered by EPA to take response actions itself. Responsible parties include, among others, past or current owners or operators of a facility from which there is a release of a hazardous substance that causes the incurrence of response costs. The nature, extent, and cost of response actions at either Gowanus Canal or Newtown Creek, the contribution, if any, of discharges from the City's water and sewer system to hazardous substances in Newtown Creek, and the extent of the City's liability, if any, for monies expended for such response actions, will likely not be determined for several years.

## **Tax Exemption**

### *In General*

In the opinion of Sidley Austin LLP, New York, New York, as Bond Counsel, interest on the Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

The City has covenanted to comply with applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion from gross income of the interest on the Bonds for purposes of federal income taxation. In the opinion of Bond Counsel, assuming compliance by the City with such provisions of the Code, interest on the Bonds will not be included in the gross income of the owners thereof for purposes of federal income taxation. Failure by the City to comply with such applicable requirements may cause interest on the Bonds to be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds. Further, Bond Counsel will render no opinion as to the effect on the exclusion from gross income of interest on the Bonds of any action taken or not taken after the date of such opinion without the approval of Bond Counsel.

In the opinion of Bond Counsel, interest on the Bonds will not be an item of tax preference for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which no opinion will be rendered by Bond Counsel, 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.

#### *Original Issue Discount*

The excess, if any, of the amount payable at maturity of any maturity of the Bonds purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for federal, State and City income tax purposes to the same extent as interest on the Bonds. In general, the issue price of a maturity of the Bonds is the first price at which a substantial amount of Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bond for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

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

#### *Premium*

The excess, if any, of the tax basis of the Bonds purchased by a purchaser (other than a purchaser who holds the Bonds, as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of the Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of the Bonds are required to decrease their adjusted basis in the Bonds by

the amount of amortizable bond premium attributable to each taxable year the Bonds are held. The amortizable bond premium on the Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, such amortizable bond premium is treated as an offset to qualified stated interest received on the Bonds. Owners of such Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premiums upon sale or other disposition of such Bonds and with respect to the state and local tax consequences of owning and disposing of such Bonds.

#### *Backup Withholding*

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 Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service (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 Tax Developments**

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or cause interest on the Bonds to be subject, directly or indirectly, to State or local income taxation, or may otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or state tax exemption or the market value of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Bond Counsel expresses no opinion.

For example, based on a proposal by the President, the Senate Majority Leader introduced a bill, S. 1549 (the “Proposed Legislation”), which, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation in tax years beginning after December 31, 2012. The Proposed Legislation would also provide special rules for such bondholders that are also subject to the alternative minimum tax. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the Bonds to a tax or cause interest on the Bonds to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation on their individual situations.

#### **ERISA Considerations**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between employee benefit plans under ERISA or tax qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. In addition, each fiduciary of a Plan (“Plan Fiduciary”) must give appropriate consideration to the facts and circumstances that are relevant to an investment in the Bonds, including the role that such an



investment in the Bonds would play in the Plan's overall investment portfolio. Each Plan Fiduciary, before deciding to invest in the Bonds, must be satisfied that such investment in the Bonds is a prudent investment for the Plan, that the investments of the Plan, including the investment in the Bonds, are diversified so as to minimize the risk of large losses and that an investment in the Bonds complies with the documents of the Plan and related trust, to the extent such documents are consistent with ERISA. All Plan Fiduciaries, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Bond.

### **Ratings**

The Bonds have been rated "Aa2" by Moody's Investors Service, Inc. ("Moody's"), "AA" by Standard & Poor's Ratings Services ("Standard & Poor's") and "AA" by Fitch, Inc. ("Fitch"). 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. A securities rating is not a recommendation to buy, sell or hold securities.

### **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 as set forth in Appendix C 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 are being passed upon for the City by its Corporation Counsel.

Orrick, Herrington & Sutcliffe 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 for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, Counsel for the Underwriters.

### **Verification**

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

### **Underwriting**

The Bonds are being purchased for reoffering by the Underwriters for whom Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co, LLC, and Siebert Brandford Shank & Co., L.L.C are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Bonds will be \$4,647,320.33.

In addition, certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the City as Underwriters) for the distribution of the Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.



The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

### **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 the Electronic Municipal Market Access system (“EMMA”) ([www.emma.msrb.org](http://www.emma.msrb.org)) established by the Municipal Securities Rulemaking Board (the “MSRB”), 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 “2008-2012 Summary of Operations” in Section VI and “Pension Systems” in Section IX; and

(b) in a timely manner, not in excess of 10 Business Days after the occurrence of any event described below, notice to EMMA, of any of the following events with respect to the securities:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of security holders, if material;

- (8) Bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the City; which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets of business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating any such actions, other than pursuant to its terms, if material;
- (14) appointment of a successor or additional Fiscal Agent or the change of name of a Fiscal Agent, if material; and
- (15) 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.

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.

During the previous five years, the City has complied, in all material respects, with its continuing disclosure undertakings pursuant to the Rule.

### **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.

### **Financial Statements**

The City's financial statements for the fiscal years ended June 30, 2012 and 2011 are included herein as Appendix B. 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, 2012 and 2011, 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.

### **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 at [www.nyc.gov/omb](http://www.nyc.gov/omb). Copies of the published Comprehensive Annual Financial Reports of the Comptroller are available at [www.comptroller.nyc.gov](http://www.comptroller.nyc.gov) or upon written request to the Office of the Comptroller, Deputy Comptroller for Public Finance, 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

## ECONOMIC AND DEMOGRAPHIC INFORMATION

This section presents 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 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 substantially in number 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. No single assessed property in the City accounts for more than .5% of the City's real property tax revenue.

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. Subsequently, Wall Street activity, tourism, and the real estate market drove a broad based economic recovery until the second half of 2007. A decrease in economic activity began in the second half of 2007 and continued through the first half of 2010. The Financial Plan assumes that the gradual increase in economic activity that began in the second half of 2010 will continue through 2013.

### Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 2000 to 2010 (the most recent year for which City personal income data are available). From 2000 to 2008, personal income averaged 5.1% and 5.2% growth in the City and the nation, respectively. Total personal income in the City decreased by 5.8% in 2009 and increased by 5.5% in 2010. Total personal income in the nation decreased by 4.3% in 2009 and increased by 3.7% in 2010.

The following table sets forth information regarding personal income in the City from 2000 to 2010.

**PERSONAL INCOME(1)**

<u>Year</u>	<u>Total NYC Personal Income (\$ billions)</u>	<u>Per Capita Personal Income NYC</u>	<u>Per Capita Personal Income U.S.</u>	<u>NYC as a Percent of U.S.</u>
2000 .....	\$293.2	\$36,566	\$30,319	120.6%
2001 .....	299.0	37,093	31,157	119.1
2002 .....	299.5	37,107	31,481	117.9
2003 .....	305.7	37,895	32,295	117.3
2004 .....	327.6	40,732	33,909	120.1
2005 .....	351.6	43,876	35,452	123.8
2006 .....	386.7	48,374	37,725	128.2
2007 .....	416.5	51,978	39,506	131.6
2008 .....	427.9	53,037	40,947	129.5
2009 .....	403.2	49,588	38,846	127.7
2010 .....	425.6	51,989	39,937	130.2

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**

The City is a leading center for the banking and securities industry, life insurance, communications, fashion design and retail fields. Over the past two decades the City has experienced a number of business cycles. From 1992 to 2000, the City added 453,600 private sector jobs (growth of 17%). From 2000 to 2003, the City lost 174,600 private sector jobs (decline of 6%). From 2003 to 2008, the City added 255,100 private sector jobs (growth of 9%). From 2008 to 2009, the City lost 103,700 private sector jobs (decline of 3%). From 2009 to 2011, the City added 112,100 private sector jobs (growth of 4%). All such changes are based on average annual employment levels through and including the years referenced.

As of October 2012, total employment in the City was 3,901,900 compared to 3,803,500 in October 2011, an increase of approximately 2.6%.



The table below shows the distribution of employment from 2001 to 2011.

### EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Goods Producing Sectors</b>											
Construction .....	122	116	113	112	113	118	127	133	121	112	112
Manufacturing .....	156	139	127	121	114	106	101	96	82	76	75
<b>Service Producing Sectors</b>											
Trade, Transportation &											
Utilities .....	557	536	534	539	547	559	570	574	552	559	574
Information .....	200	177	164	160	163	165	167	170	165	166	171
Financial Activities .....	474	445	434	435	445	458	468	465	434	429	441
Professional & Business											
Services .....	582	550	537	542	556	571	592	603	569	575	597
Education & Health Services ...	627	646	658	665	679	695	705	719	735	753	765
Leisure & Hospitality .....	260	255	260	270	277	285	298	310	309	322	342
Other Services .....	149	150	149	151	153	154	158	161	160	161	164
<b>Total Private</b> .....	<b>3,127</b>	<b>3,015</b>	<b>2,975</b>	<b>2,995</b>	<b>3,047</b>	<b>3,112</b>	<b>3,186</b>	<b>3,230</b>	<b>3,126</b>	<b>3,153</b>	<b>3,239</b>
<b>Total Government</b> .....	<b>562</b>	<b>566</b>	<b>557</b>	<b>554</b>	<b>556</b>	<b>555</b>	<b>559</b>	<b>564</b>	<b>567</b>	<b>558</b>	<b>547</b>
<b>Total</b> .....	<b>3,689</b>	<b>3,581</b>	<b>3,531</b>	<b>3,549</b>	<b>3,603</b>	<b>3,667</b>	<b>3,745</b>	<b>3,794</b>	<b>3,693</b>	<b>3,711</b>	<b>3,786</b>

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 Earnings

In 2010, the City's service producing sectors provided approximately 3.0 million jobs and accounted for approximately 80% 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 2010, the employment share for the financial activities and professional and business services sectors was approximately 27% while the earnings share for those same sectors was approximately 48%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2010. 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 2010 are set forth in the following table.

**Sectoral Distribution of Employment and Earnings in 2010(1)**

	<u>Employment</u>		<u>Earnings(2)</u>	
	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>
<b>Goods Producing Sectors</b>				
Mining .....	0.0%	0.5%	0.0%	0.9%
Construction .....	3.0	4.2	3.0	5.4
Manufacturing .....	2.1	8.9	1.6	10.0
<b>Total Goods Producing</b> .....	5.1	13.7	4.5	16.3
<b>Service Producing Sectors</b>				
Trade, Transportation and Utilities .....	15.1	19.0	8.6	15.5
Information .....	4.5	2.1	7.2	3.3
Financial Activities .....	11.5	5.9	27.2	8.9
Professional and Business Services .....	15.5	12.9	21.0	16.4
Education and Health Services .....	20.3	15.0	11.5	12.9
Leisure & Hospitality .....	8.7	10.0	4.7	4.3
Other Services .....	4.3	4.1	2.9	3.7
<b>Total Service Producing</b> .....	79.9	69.0	83.1	65.0
<b>Total Private Sector</b> .....	85.0	82.7	88.9	81.6
<b>Government(3)</b> .....	15.0	17.3	11.1	18.4

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 2010 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.
<b>Private Sector:</b>								
Non-Manufacturing:								
Services .....	27.0%	19.8%	39.1%	30.7%	26.0%	18.4%	30.2%	28.7%
Wholesale and Retail Trade .....	18.6	22.5	16.8	23.0	15.1	16.6	9.3	14.9
Finance, Insurance and Real Estate .....	13.6	5.7	13.2	5.7	17.6	5.9	35.5	10.0
Transportation and Public Utilities .....	7.8	5.7	5.7	5.3	10.1	7.6	5.2	6.8
Contract Construction .....	2.3	4.8	3.3	5.1	2.6	6.3	2.9	5.9
Mining .....	0.0	1.1	0.0	0.4	0.4	2.1	0.1	1.0
Total Non-Manufacturing .....	69.3	59.6	78.1	70.3	71.8	56.9	83.2	67.3
Manufacturing:								
Durable .....	4.4	13.4	1.6	8.4	3.7	15.9	1.3	10.5
Non-Durable .....	10.6	9.0	4.9	5.6	9.5	8.9	4.8	6.1
Total Manufacturing .....	15.0	22.4	6.5	14.0	13.2	24.8	6.1	16.6
<b>Total Private Sector</b> .....	84.3	82.0	84.7	84.3	85.2	82.1	89.8	84.6
<b>Government(3)</b> .....	15.7	18.0	15.3	15.7	14.8	17.9	10.3	15.4

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

- (1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
- (2) Includes the sum of wage and salary disbursements, other labor income, and proprietors' income. The latest information available for the City is 2000 data.
- (3) Excludes military establishments.

**Unemployment**

As of October 2012, the total unemployment rate in the City was 9.2%, as it was in October 2011, based on data provided by the New York State Department of Labor, which is not seasonally adjusted. The annual unemployment rate of the City's resident labor force is shown in the following table.

**ANNUAL UNEMPLOYMENT RATE(1)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
New York City .....	6.1%	8.0%	8.3%	7.1%	5.8%	5.0%	4.9%	5.5%	9.2%	9.5%	9.0%
United States .....	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%

Source: U.S. Department of Labor, BLS.

- (1) Percentage of civilian labor force unemployed: excludes those persons unable to work and discouraged workers (i.e., persons not actively seeking work because they believe no suitable work is available).

**Public Assistance**

As of October 2012, the number of persons receiving cash assistance in the City was 357,265 compared to 352,361 in October 2011. The following table sets forth the number of persons receiving public assistance in the City.

**PUBLIC ASSISTANCE**

(Annual Averages in Thousands)

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
492.8	434.0	424.7	434.8	416.9	393.1	360.8	341.8	346.9	350.5	351.7

**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. Taxable sales and purchases reflects data from the State Department of Taxation and Finance publication “Taxable Sales and Purchases, County and Industry Data.” The yearly data presented in this paragraph and the table below covers the period from March 1 of the year prior to the listed year through the last day of February of the listed year. Between 2001 and 2008, total taxable sales volume grew at a compounded growth rate averaging over 4.4%. From 2009 to 2010, total taxable sales volume decreased by 6.3%, reflecting a decline in consumption, as a result of local employment losses and the local and national recessions. From 2010 to 2011, total taxable sales volume increased by 9.2% primarily as a result of an increase in consumption as a result of local employment gains and the local and national recoveries, as well as two sales tax base expansions enacted by the City, effective August 1, 2009.

The following table illustrates the volume of sales and purchases subject to the sales tax from 2001 to 2011.

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

<u>Year(1)</u>	<u>Retail(2)</u>	<u>Utility &amp; Communication Sales(3)</u>	<u>Services(4)</u>	<u>Manufacturing</u>	<u>Other(5)</u>	<u>City Other(6)</u>	<u>All Total</u>
2001 .....	\$25.6	\$11.4	\$22.3	\$2.3	\$17.3	\$ 7.1	\$ 86.0
2002 .....	25.6	11.9	20.7	2.0	15.2	5.4	80.9
2003 .....	26.1	11.4	21.0	1.8	14.8	6.5	81.6
2004 .....	32.3	11.6	21.7	1.9	14.8	7.1	89.5
2005 .....	36.5	12.0	24.1	2.1	16.2	7.3	98.2
2006 .....	35.9	13.2	26.3	2.2	17.9	9.6	105.1
2007 .....	33.4	12.8	28.1	2.4	19.4	10.6	106.7
2008 .....	33.3	13.5	31.5	2.8	20.7	13.1	115.0
2009 .....	31.3	14.3	31.8	2.7	19.8	13.8	113.6
2010 .....	31.0	13.9	30.1	2.2	17.9	11.3	106.4
2011 .....	34.6	14.5	33.0	2.2	19.3	12.7	116.3

Source: State Department of Taxation and Finance publication “Taxable Sales and Purchases, County and Industry Data.” Data are presented using NAICS.

- (1) 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.

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(Footnotes continued from previous page)

- (3) Utility and Communication sales include non-residential electric, non-residential gas and communication.
- (4) Services include business services, hotel occupancy services (stays for the first 90 days), and other services (auto repair, parking and others).
- (5) Other sales include construction, wholesale trade, arts, entertainment and recreation, and others.
- (6) City Other sales reflect the local tax base component of City taxable sales and purchases and include residential utility (electric and gas), Manhattan parking services, hotel occupancy services (stays from 91 to 180 days), and miscellaneous services (credit rating and reporting services, miscellaneous personal services and other services).

**Population**

The City has been the most populous city in the United States since 1790. The City’s population is larger than the combined population of Los Angeles and Chicago, the next most populous cities in the nation.

**POPULATION**

<u>Year</u>	<u>Total Population</u>
1970 .....	7,895,563
1980 .....	7,071,639
1990 .....	7,322,564
2000 .....	8,008,278
2010 .....	8,175,133

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 2000 and 2010.

**DISTRIBUTION OF POPULATION BY AGE**

<u>Age</u>	<u>2000</u>		<u>2010</u>	
		<u>% of Total</u>		<u>% of Total</u>
Under 5 .....	540,878	6.8	517,724	6.3
5 to 14 .....	1,091,931	13.6	941,313	11.5
15 to 19 .....	520,641	6.5	535,833	6.6
20 to 24 .....	589,831	7.4	642,585	7.9
25 to 34 .....	1,368,021	17.1	1,392,445	17.0
35 to 44 .....	1,263,280	15.8	1,154,687	14.1
45 to 54 .....	1,012,385	12.6	1,107,376	13.5
55 to 64 .....	683,454	8.5	890,012	10.9
65 and Over .....	937,857	11.7	993,158	12.1

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

**Housing**

In 2011, the housing stock in the City consisted of approximately 3,352,041 housing units, excluding certain special types of units primarily in institutions such as hospitals and universities (“Housing Units”) according to the 2011 Housing and Vacancy Survey released February 9, 2012. The 2011 housing inventory represented an increase of approximately 24,000 units, or 0.7%, since 2008. The 2011 Housing and Vacancy Survey indicates that rental housing units predominate in the City. Of all occupied housing units in 2011, approximately 31.9% were conventional home-ownership units, cooperatives or condominiums and approximately 68.1% were rental units. Due to changes in the inventory basis beginning in 2002, it is not possible to accurately compare Housing and Vacancy Survey results beginning in 2002 to the results of earlier Surveys until such time as the data is reweighted. The following table presents trends in the housing inventory in the City.

**HOUSING INVENTORY  
(In Thousands)**

<u>Ownership/Occupancy Status</u>	<u>1987</u>	<u>1991</u>	<u>1993</u>	<u>1996</u>	<u>1999</u>	<u>2002</u>	<u>2005</u>	<u>2008</u>	<u>2011</u>
Total Housing Units . . . . .	2,840	2,981	2,977	2,995	3,039	3,209	3,261	3,328	3,352
Owner Units . . . . .	837	858	825	858	932	997	1,032	1,046	1,015
Owner-Occupied . . . . .	817	829	805	834	915	982	1,010	1,019	984
Vacant for Sale . . . . .	19	29	20	24	17	15	21	26	31
Rental Units . . . . .	1,932	2,028	2,040	2,027	2,018	2,085	2,092	2,144	2,173
Renter-Occupied . . . . .	1,884	1,952	1,970	1,946	1,953	2,024	2,027	2,082	2,105
Vacant for Rent . . . . .	47	77	70	81	64	61	65	62	68
Vacant Not Available for Sale or Rent(1) . . . . .	72	94	111	110	89	127	137	138	164

Note: Details may not add up to totals due to rounding.  
 Sources: U.S. Bureau of the Census, 1987, 1991, 1993, 1996, 1999, 2002, 2005, 2008 and 2011 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.



**APPENDIX B**

**FINANCIAL STATEMENTS**

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**Basic Financial Statements of the City of New York  
June 30, 2012 and 2011**

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## Independent Auditors' Report

The People of The City of New York:

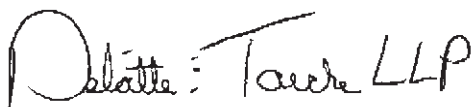
We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City of New York ("The City") as of and for the years ended June 30, 2012 and 2011, which collectively comprise The City's basic financial statements. 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 23 percent and 18 percent and 25 percent and 19 percent, as of and for the years ended June 30, 2012 and 2011 respectively, of the assets and revenues of the government-wide financial statements, 9 percent and 4 percent and 15 percent and 5 percent, as of and for the years ended June 30, 2012 and 2011 respectively, of the assets and revenues of the fund financial statements, 7 percent and 9 percent and 7 percent and 8 percent, as of and for the years ended June 30, 2012 and 2011 respectively, of the assets and net assets held in trust of the fiduciary fund financial statements, and 50 percent and 78 percent and 51 percent and 79 percent, as of and for the years ended June 30, 2012 and 2011 respectively, of the assets and revenues of the component unit 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 solely on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City, as of June 30, 2012 and 2011, 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 discussed in Note A.2, The City's 2011 financial statements were restated to reflect the financial statements of the New York City Tax Lien Trusts (NYCTLT), consisting of NYCTLT 2010-A, NYCTLT, 2009-A, NYCTLT 2008-A and NYCTLT 1998-2, as governmental activities rather than as fiduciary activities in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages B-4 through B-29 and the Required Supplementary Information on pages B-112 through B-114 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We, and the other auditors as it relates to Management's Discussion and Analysis only, have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



October 26, 2012

## 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, 2012 and 2011. 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 (deficit)*. 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 are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* (GASB61) in fiscal year 2012. The Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. For organizations that previously were required to be included as Component Units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and the organization for it to be included in the reporting entity as a Component Unit. For organizations that do not meet the financial accountability criteria for inclusion as Component Units, but should be included because the primary government's management determines that it would be misleading to exclude them, GASB61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. For Component Units that currently are blended based on "substantively the same governing body" criterion, GASB61 requires that the primary government and the Component Unit have a financial benefit or burden relationship or management of the primary government has operational responsibility of the activities of the Component Unit. New criteria also are added to require blending of Component Units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a Blended Component Unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a Component Unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. GASB61 requires a primary government to report its equity interest in a Component Unit as an asset. As a result of the analysis performed by the City in the course of implementing GASB61, a managerial decision was made to change the reporting of the New York City Tax Lien Trusts (NYCTLTs). The effect on the financial statements is to report the NYCTLTs as Blended Component Units of the City. They were formerly reported as Other Trust Funds. For the government-wide financial statements, the financial reporting impact of this change is an increase of \$150 million to "Net assets" in the *Statement of Net Assets*, and a decrease of \$10.9 million to the "Change in net assets" in the *Statement of Activities*. For the funds financial statements, the financial reporting impact is an increase of \$62.4 million to "Fund balance" in the *Balance Sheet* and a decrease of \$20 million to the "Net change in fund balance" in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*.

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. The principal role of funds in the financial reporting model is to demonstrate fiscal accountability. 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 funds balance sheet and the governmental funds 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, Other Trust Funds, and the Agency Funds.

The New York City Other Postemployment Benefits Plan (the PLAN) is composed of The New York City Retiree Health Benefits Trust (the Trust) and OPEB paid for directly by the City out of its general resources rather than through the Trust. The Trust is used to accumulate assets to pay for some of the OPEB provided by The City to its retired employees. The PLAN is reported in the City's financial statements as an Other Employee Benefit Trust Fund. The PLAN 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" amounts necessary to provide current benefits to eligible retirees and their dependents. During fiscal year 2012, the City contributed approximately \$1.4 billion to the PLAN.

## ***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.

## ***Financial Reporting Entity***

The financial reporting entity consists of the primary government and its Component Units which are legally separate organizations for which the primary government is financially accountable, and other legally separate organizations for which the primary government has determined, through the exercise of management's professional judgment, that inclusion of those organizations do not meet the financial accountability criteria, but are necessary to be included to prevent the reporting entity's financial statements from being 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 organizations that are fiscally dependent on the primary government if there is a potential for the organizations to provide specific financial benefits to the primary government or impose specific financial burdens on the primary government regardless of whether the organizations have separate elected governing boards, governing

boards appointed by higher levels of government or jointly appointed boards. The City is financially accountable for all of its Component Units.

#### *Blended Component Units*

Certain Component Units, despite being legally separate from the primary government, are reported as if they were part of the primary government because they 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)
- New York City Educational Construction Fund (ECF)
- Fiscal Year 2005 Securitization Corporation (FSC)
- Sales Tax Asset Receivable Corporation (STAR)
- Hudson Yards Development Corporation (HYDC)
- Hudson Yards Infrastructure Corporation (HYIC)
- New York City Tax Lien Trusts (NYCTLTs):
  - NYCTLT 1998-2
  - NYCTLT 2010-A
  - NYCTLT 2011-A
  - NYCTLT 2012-A

#### *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' governing bodies and either 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:

- 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)

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

- WTC Captive Insurance Company, Inc. (WTC Captive)
- Brooklyn Navy Yard Development Corporation (BNYDC)
- New York City Industrial Development Agency (IDA)
- New York City Energy Efficiency Corporation (EEC)
- The Trust for Governors Island (TGI)
- Brooklyn Bridge Park Corporation (BBPC)
- Business Relocation Assistance Corporation (BRAC)
- New York City Capital Resource Corporation (CRC)
- Build NYC Resource Corporation (Build NYC)

#### *Financial Analysis of the Government-wide Financial statements*

In the government-wide financial statements, all of the activities of the City, aside from its Discretely Presented Component Units, are considered governmental activities. Governmental activities increased the City's net deficit by \$7.5 billion during fiscal year 2012, and increased the net deficit by \$9.6 billion during fiscal year 2011, and increased the net deficit by \$11.7 billion during fiscal year 2010.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2012 governmental funds statement of revenues, expenditures, and changes in fund balances which reports an increase of \$47 million in fund balances and the increase in the net assets deficit reported in the government-wide statement of activities of \$7.5 billion, a difference of \$7.4 billion. A similar reconciliation is provided for fiscal year 2011 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/amortized) 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,		
	2012	2011	2010
	(in thousands)		
Revenues:			
Program revenues:			
Charges for services . . . . .	\$ 4,600,078	\$ 4,236,030	\$ 4,540,775
Operating grants and contributions . . . . .	18,768,706	19,951,270	20,403,783
Capital grants and contributions . . . . .	594,313	538,015	586,080
General revenues:			
Taxes . . . . .	41,982,497	40,803,751	38,058,116
Investment income . . . . .	117,608	133,758	65,508
Other Federal and State aid . . . . .	730,310	470,117	478,811
Other . . . . .	980,491	329,218	216,516
Total revenues . . . . .	<u>67,774,003</u>	<u>66,462,159</u>	<u>64,349,589</u>
Expenses:			
General government . . . . .	4,101,933	3,791,462	4,298,065
Public safety and judicial . . . . .	17,077,117	18,815,201	18,293,989
Education . . . . .	24,957,901	25,604,277	24,749,134
City University . . . . .	954,590	947,402	1,035,471
Social services . . . . .	14,181,836	12,896,220	13,183,110
Environmental protection . . . . .	3,456,151	3,744,521	4,374,543
Transportation services . . . . .	2,536,846	2,073,164	2,184,078
Parks, recreation, and cultural activities . . . . .	1,077,230	1,119,677	1,012,404
Housing . . . . .	1,327,674	1,317,725	1,425,949
Health (including payments to HHC) . . . . .	2,419,857	2,484,876	2,554,881
Libraries . . . . .	243,470	343,395	249,423
Debt service interest . . . . .	2,931,953	2,911,817	2,690,732
Total expenses . . . . .	<u>75,266,558</u>	<u>76,049,737</u>	<u>76,051,779</u>
Change in net assets . . . . .	(7,492,555)	(9,587,578)	(11,702,190)
Net deficit—beginning <sup>(a)</sup> . . . . .	(117,855,019)	(108,267,441)	(96,726,217)
Net deficit—ending . . . . .	<u>\$(125,347,574)</u>	<u>\$(117,855,019)</u>	<u>\$(108,428,407)</u>

In fiscal year 2012, the government-wide revenues increased from fiscal year 2011 levels by approximately \$1.3 billion, while government-wide expenses decreased by approximately \$783 million.

(a) The fiscal year 2010 net deficit ending balance compared to the fiscal year 2011 net deficit beginning balance results in a change of \$161.0 million. This is a result of the analysis performed by the City in the course of implementing GASB61 to change the reporting of the NYCTLTs as Blended Component Units of the City. They were formerly reported as Other Trust Funds.

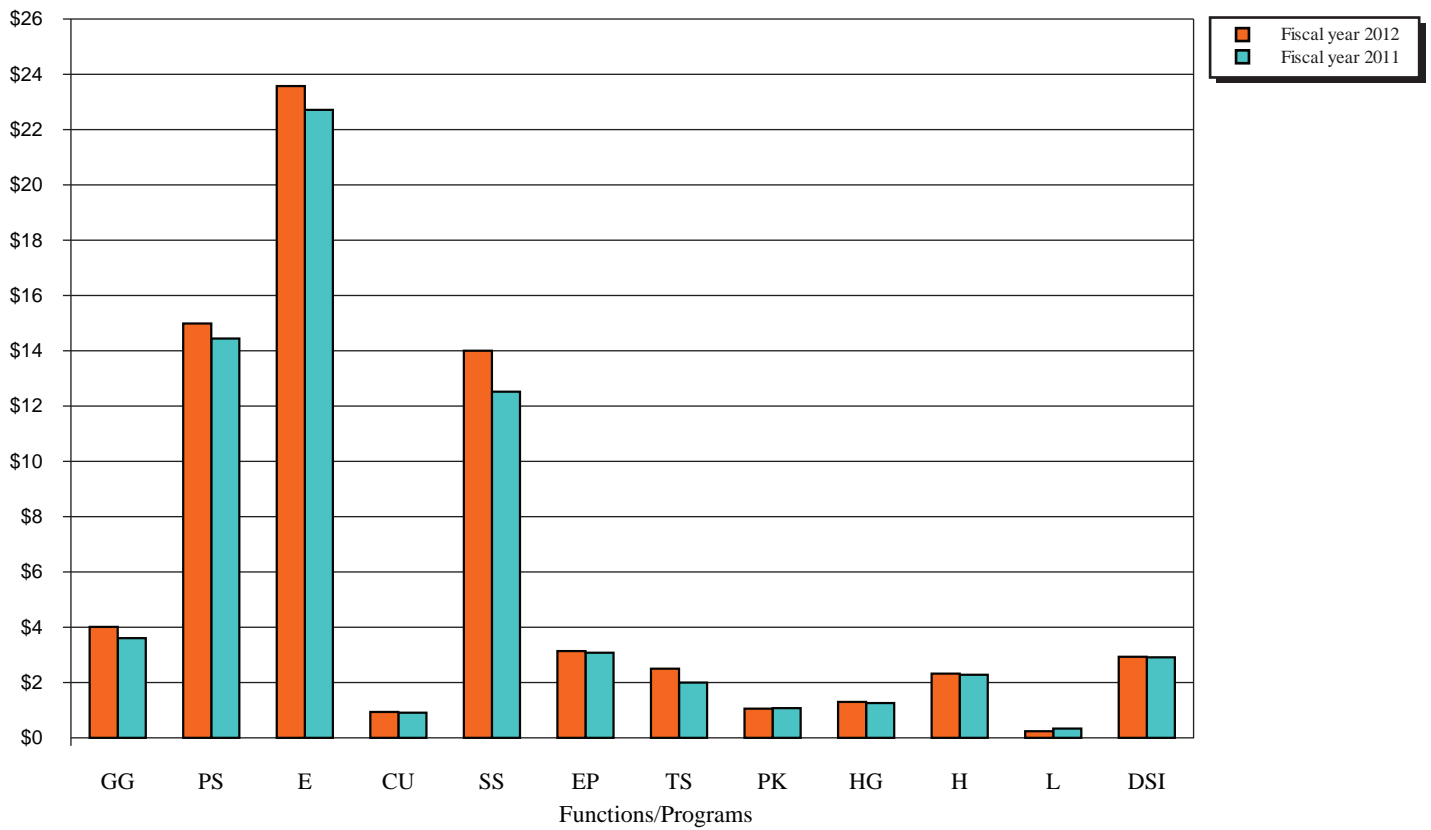
In fiscal year 2012, the increased costs of OPEB (i.e., the increase in the Net OPEB Obligation “NOO”) was approximately \$4.3 billion. The increase was due primarily to the increased value of benefits and interest in excess of employer contributions. In fiscal year 2011, the NOO increased by approximately \$8.9 billion.

GASB45 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 GASB45 expenses as they appear in the Statement of Activities for fiscal year 2012 and a comparison to fiscal year 2011:

Functions/Programs	Fiscal Year 2012		
	Expenses per Statement of Activities	GASB45 Expenses (in thousands)	Expenses excluding GASB45
General government (GG) . . . . .	\$ 4,101,933	\$ 89,179	\$ 4,012,754
Public safety and judicial (PS) . . . . .	17,077,117	2,090,568	14,986,549
Education (E) . . . . .	24,957,901	1,382,753	23,575,148
City University (CU) . . . . .	954,590	18,490	936,100
Social services (SS) . . . . .	14,181,836	179,837	14,001,999
Environmental protection (EP) . . . . .	3,456,151	318,555	3,137,596
Transportation services (TS) . . . . .	2,536,846	35,879	2,500,967
Parks, recreation and cultural activities (PK) . . . . .	1,077,230	21,801	1,055,429
Housing (HG) . . . . .	1,327,674	28,613	1,299,061
Health, including payments to HHC (H) . . . . .	2,419,857	97,447	2,322,410
Libraries (L) . . . . .	243,470	4,064	239,406
Debt service interest (DSI) . . . . .	2,931,953	—	2,931,953
Total expenses . . . . .	<u>\$75,266,558</u>	<u>\$4,267,186</u>	<u>\$70,999,372</u>

Functions/Programs	Fiscal Year 2011		
	Expenses per Statement of Activities	GASB45 Expenses (in thousands)	Expenses excluding GASB45
General government (GG) . . . . .	\$ 3,791,462	\$ 186,503	\$ 3,604,959
Public safety and judicial (PS) . . . . .	18,815,201	4,372,081	14,443,120
Education (E) . . . . .	25,604,277	2,889,801	22,714,476
City University (CU) . . . . .	947,402	38,669	908,733
Social services (SS) . . . . .	12,896,220	376,101	12,520,119
Environmental protection (EP) . . . . .	3,744,521	666,205	3,078,316
Transportation services (TS) . . . . .	2,073,164	75,035	1,998,129
Parks, recreation, and cultural activities (PK) . . . . .	1,119,677	45,593	1,074,084
Housing (HG) . . . . .	1,317,725	59,840	1,257,885
Health, including payments to HHC (H) . . . . .	2,484,876	203,794	2,281,082
Libraries (L) . . . . .	343,395	8,499	334,896
Debt service interest (DSI) . . . . .	2,911,817	—	2,911,817
Total expenses . . . . .	<u>\$76,049,737</u>	<u>\$8,922,121</u>	<u>\$67,127,616</u>

**Expenses — Governmental Activities<sup>(1)</sup>  
for the fiscal years ended June 30, 2012 and 2011  
(in billions)**



<b>Functions/Programs</b>	
GG	General government
PS	Public safety and judicial
E	Education
CU	City University
SS	Social services
EP	Environmental protection
TS	Transportation services
PK	Parks, recreation, and cultural activities
HG	Housing
H	Health, including payments to HHC
L	Libraries
DSI	Debt service interest

(1) Expenses exclude GASB45.

The major components of the changes in government-wide revenues were:

- Operating grants and contributions decreased due to a winding down of the American Recovery and Reinvestment Act of 2009 in 2012 versus 2011.
- Unrestricted Federal and State aid increased because the reported amount in 2011 was unusually low due to a write-off of the prior year's accrued New York State Revenue Sharing.
- Tax revenues, net of refunds, increased overall, as a result of the following:
  - The increase in real estate taxes results from growth in billable assessed value during the fiscal year.
  - The overall increase in sales and use taxes is driven primarily by large growth in mortgage recording taxes reflecting a rebound in the commercial real estate market. Additionally, there was an increase in the collection of general sales tax which demonstrates an increase in taxable consumption resulting from the local economic recovery and strong tourist consumption.
  - The increase in personal income taxes continued from 2011 as both wage and nonwage income strengthened.
  - The decrease in other income taxes (which include general corporation, financial corporation, unincorporated business income, non-resident personal income taxes, and utility tax) is mostly attributable to decreases in the business taxes (general corporation, financial corporation, and unincorporated business taxes). These declines originate from declines in the financial sector and Wall Street profitability versus prior years.
  - For all other taxes, the increase in taxes associated with the conveyance of real property reflects a recovery in both the volume and average sale price for commercial transactions and an improvement in the average sale prices for residential properties. Also increasing were hotel occupancy taxes stemming from record levels of tourism reached in calendar year 2011 as well as increases in commercial rent tax which shows improvements in commercial office vacancy rates and asking rents in Manhattan.
- The increase in the general revenues includes a settlement reached by the United States Attorney on behalf of the City of New York for restitution associated with the CityTime project.

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

- General government expenses rose predominantly due to increased fringe benefits costs.
- Expenses for Public Safety and Judicial decreased largely because the Department of Juvenile Justice was merged with the Administration for Children's Services and as a result is now reflected in Social Services.
- Social Services expenses increased primarily due to the merger of the Department of Juvenile Justice with the Administration for Children's Services and the subsequent transfer of associated costs.
- Transportation services increased in part due to higher payments made to the Transit Authority in fiscal year 2012.



In fiscal year 2011, the government-wide revenues increased from fiscal year 2010 by approximately \$2.1 billion, and government-wide expenses decreased by approximately \$2.0 million.

The major components of the changes in government-wide revenues were:

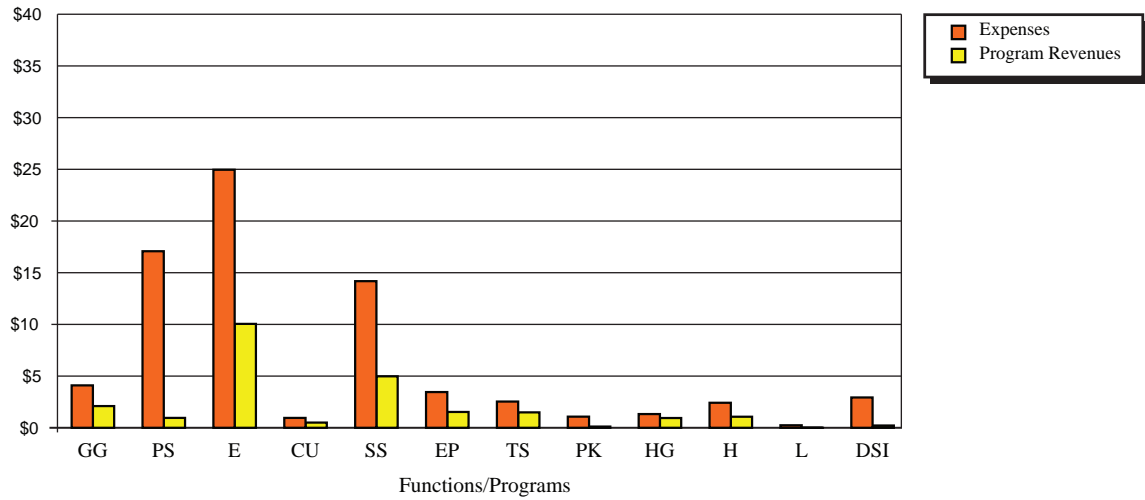
- Tax revenues, net of refunds, increased overall, as a result of the following:
  - The increase in real estate taxes results from growth in billable assessed value during the fiscal year.
  - The overall increase in sales and use taxes is driven primarily by a large increase in general sales tax which reflects growth in City private employment in calendar year 2010, an increase in consumption from the previous year’s depressed levels, and strong tourism consumption. Additional increases are also attributable to an increase in mortgage recording tax which reflects a rebound in mortgage originations from the prior year.
  - The increase in personal income taxes which resulted from growth in City private employment in calendar year 2010, an increased strength in Wall Street bonus payments, a rebound in non-wage income in calendar year 2010, and the elimination of the STAR rate cut for filers with NYS adjusted gross income greater than \$500,000.
  - The increase in other income taxes (which include general corporation, financial corporation, unincorporated business income, and non-resident personal income taxes) is mostly attributable to increases in the business taxes (general corporation, financial corporation, and unincorporated business taxes). Strong Wall Street profitability in calendar years 2009 and 2010 led to increases in finance sector firms’ payments. Additionally, the delayed withdrawal of federal support to financial corporations provided a boost to related taxes. Finally, a rebound in several non-finance related subsectors such as leisure and hospitality, retail trade, and health care, increased non-finance sector firms’ tax payments.
  - The increase in taxes associated with the conveyance of real property reflects a recovery in both the volume and average sale price for commercial transactions.
  - Investment income declined primarily due to declining market interest rates.

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

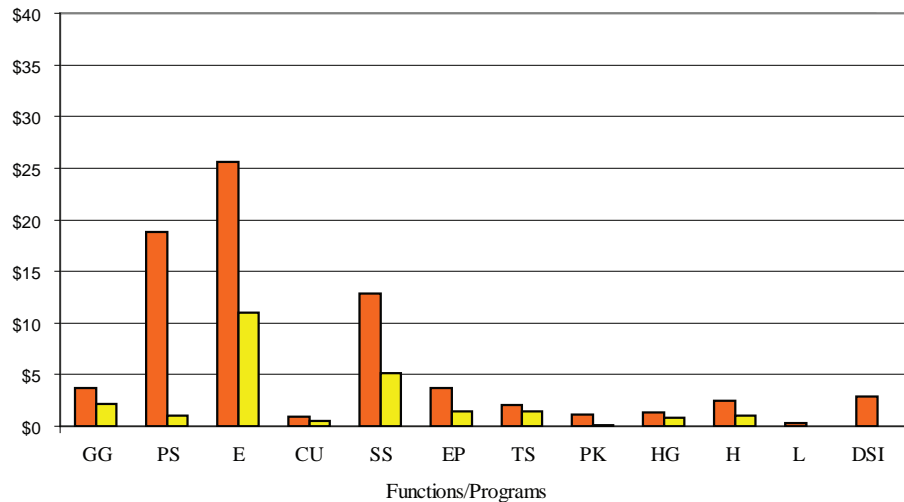
- Expenses for Public Safety and Judicial increased compared to the prior year because fiscal 2010 costs were partially offset by a write-off of previously estimated collective bargaining increases.
- Expenses for Education grew primarily due to further cost increases for special education and charter schools.
- Social Services expenses decreased due to declines in foster care and adoption caseloads. Additional decreases resulted from cuts in homecare services, declines in family shelter census and lower personnel costs associated with hiring delays and reductions.
- Environmental Protection expenses decreased primarily because fiscal 2010 costs were increased due to a large one-time collective bargaining settlement in the prior fiscal year and due to a decrease in pollution remediation costs.
- The increase in expenses for Libraries occurred primarily because of a significant “prepayment” of fiscal 2010 subsidies to Libraries that had been made in fiscal 2009, thereby reducing the fiscal 2010 expenses. Smaller prepayments of fiscal 2011 and fiscal 2012 subsidies were made in fiscal years 2010 and 2011, respectively.
- Debt Service interest expense increased as a result of increases in overall level of debt outstanding and conversions from floating rate to fixed rate debt.

The following charts compare the amounts of expenses and program revenues for fiscal years 2012 and 2011:

**Expenses and Program Revenues — Governmental Activities<sup>(1)</sup>  
for the year ended June 30, 2012  
(in billions)**



**Expenses and Program Revenues — Governmental Activities<sup>(1)</sup>  
for the year ended June 30, 2011  
(in billions)**

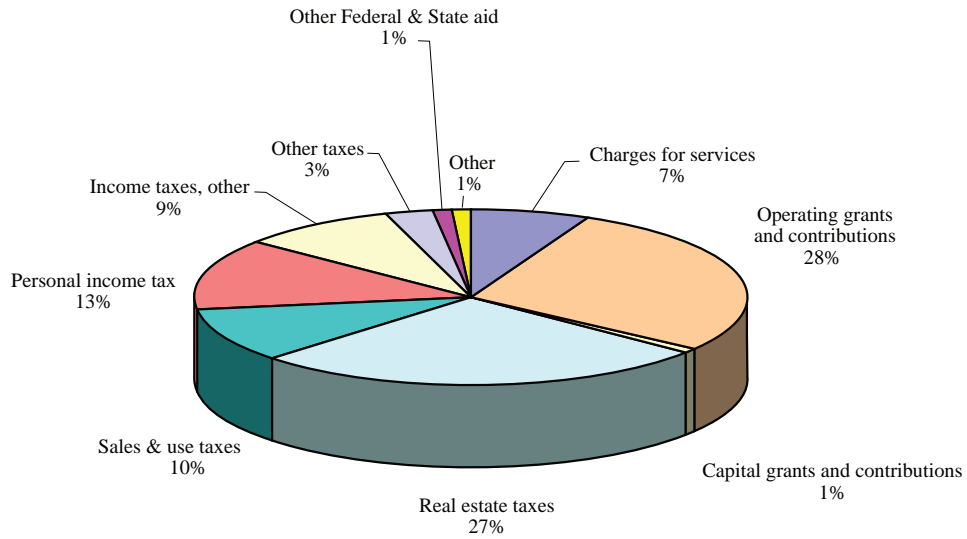


<b>Functions/Programs</b>	
GG	General government
PS	Public safety and judicial
E	Education
CU	City University
SS	Social services
EP	Environmental protection
TS	Transportation services
PK	Parks, recreation, and cultural activities
HG	Housing
H	Health, including payments to HHC
L	Libraries
DSI	Debt service interest

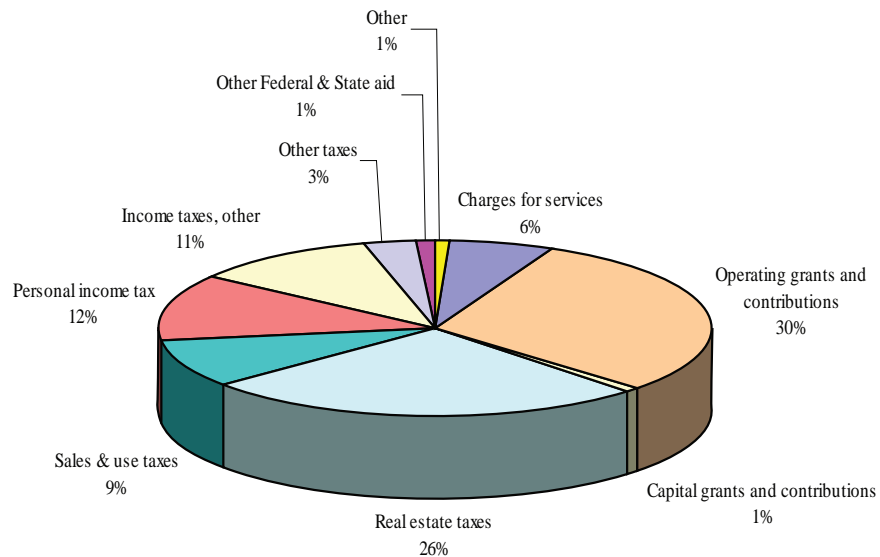
(1) Expenses include GASB45.

The following charts compare the amounts of program and general revenues for fiscal years 2012 and 2011:

**Revenues by Source — Governmental Activities  
for the year ended June 30, 2012**



**Revenues by Source — Governmental Activities  
for the year ended June 30, 2011**



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 \$125.3 billion at the close of the most recent fiscal year, an increase in the excess of liabilities over assets of \$7.5 billion from June 30, 2011, which in turn compares with the net deficit increase of \$9.4 billion over the prior fiscal year 2010.

	<b>Governmental Activities</b>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
		<b>(in thousands)</b>	
Current and other assets . . . . .	\$ 33,666,004	\$ 32,035,997	\$ 31,358,012
Capital assets (net of depreciation/ amortization) . . . . .	<u>48,215,076</u>	<u>46,468,237</u>	<u>43,474,065</u>
Total assets . . . . .	<u>81,881,080</u>	<u>78,504,234</u>	<u>74,832,077</u>
Long-term liabilities . . . . .	183,133,348	174,138,334	160,298,098
Other liabilities . . . . .	<u>24,095,306</u>	<u>22,220,919</u>	<u>22,962,386</u>
Total liabilities . . . . .	<u>207,228,654</u>	<u>196,359,253</u>	<u>183,260,484</u>
Net assets:			
Invested in capital assets, net of related debt . . . . .	(10,207,250)	(9,996,793)	(6,899,623)
Restricted . . . . .	6,635,670	6,657,505	6,883,624
Unrestricted (deficit) . . . . .	<u>(121,775,994)</u>	<u>(114,515,731)</u>	<u>(108,412,408)</u>
Total net deficit . . . . .	<u><u>\$(125,347,574)</u></u>	<u><u>\$(117,855,019)</u></u>	<u><u>\$(108,428,407)</u></u>

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest components of the net deficit are 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, 2012 and 2011:

<u>Components of Net Deficit</u>	<u>2012</u>	<u>2011</u>
	(in billions)	
<b>Net Assets Invested in Capital Assets</b>		
Some City-owned assets have a depreciable/amortizable 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/amortize more quickly than their related debt is paid, and they comprise one of the largest components of this difference . . . . .	\$ (10.2)	\$ (10.0)
<b>Net Assets Restricted for:</b>		
Debt Service . . . . .	3.9	5.4
Capital Projects . . . . .	<u>2.7</u>	<u>1.3</u>
Total net assets restricted . . . . .	<u>6.6</u>	<u>6.7</u>
<b>Unrestricted Net Assets</b>		
TFA issued debt to finance costs related to the recovery from the September 11, 2001 World Trade Center disaster, which are operating expenses of the City . . . . .	(1.4)	(1.5)
STAR issued debt related to the defeasance of the MAC issued debt . . . . .	(2.1)	(2.1)
The City has issued debt for the acquisition and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority (TA), NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end. . . . .	(14.5)	(12.2)
Certain long-term obligations do not require current funding:		
OPEB liability . . . . .	(88.2)	(83.9)
Judgments and claims . . . . .	(6.3)	(6.1)
Vacation and sick leave . . . . .	(4.2)	(3.9)
Pension liability . . . . .	(0.6)	(0.6)
Landfill closure and postclosure costs . . . . .	(1.5)	(1.6)
Other: . . . . .	<u>(2.9)</u>	<u>(2.6)</u>
Total unrestricted (deficit) net assets . . . . .	<u>(121.7)</u>	<u>(114.5)</u>
<b>Total net deficit . . . . .</b>	<u><u>\$(125.3)</u></u>	<u><u>\$(117.8)</u></u>

**Financial Analysis of the  
Governmental Funds**

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

	<b>Governmental Funds</b>					<b>Total</b>
	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>General Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Adjustments/ Eliminations</b>	
	(in thousands)					
Fund balances (deficit), June 30, 2010 . . . . .	\$ 442,150	\$(3,144,344)	\$ 2,926,198	\$ 3,333,764	\$ —	\$ 3,557,768
Revenues . . . . .	64,806,837	3,197,618	82,951	3,455,346	(2,882,579)	68,660,173
Expenditures . . . . .	(59,788,636)	(9,098,807)	(3,684,423)	(4,527,139)	2,187,535	(74,911,470)
Other financing sources (uses) . . . . .	<u>(5,013,079)</u>	<u>6,030,808</u>	<u>3,492,664</u>	<u>1,565,937</u>	<u>695,044</u>	<u>6,771,374</u>
Fund balances (deficit), June 30, 2011 . . . . .	447,272	(3,014,725)	2,817,390	3,827,908	—	4,077,845
Revenues . . . . .	66,482,257	2,805,913	121,158	3,488,013	(2,726,100)	70,171,241
Expenditures . . . . .	(62,649,080)	(8,430,996)	(3,841,129)	(6,733,015)	2,109,236	(79,544,984)
Other financing sources (uses) . . . . .	<u>(3,828,165)</u>	<u>5,893,250</u>	<u>2,276,189</u>	<u>4,462,349</u>	<u>616,864</u>	<u>9,420,487</u>
Fund balances (deficit), June 30, 2012 . . . . .	<u>\$ 452,284</u>	<u>\$(2,746,558)</u>	<u>\$ 1,373,608</u>	<u>\$ 5,045,255</u>	<u>\$ —</u>	<u>\$ 4,124,589</u>

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies and other payments that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of \$2.467 billion and \$3.747 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2012 and 2011, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of \$5 million in both fiscal years 2012 and 2011, 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, 2012, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling \$1.363 billion in fiscal year 2012 for fiscal year 2013 debt service. Similar transfers in fiscal year 2011 of \$2.788 billion for fiscal year 2012 debt service also primarily account for the General Debt Service Fund balance at June 30, 2011.

The Capital Projects Fund accounts for the financing of the City's capital program. The primary resource is obtained from the issuance of City and TFA debt. Capital-related expenditures are first paid from the General Fund, which is reimbursed for these expenditures by the Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, and other revenues and financing sources, the Capital Projects Fund will have a deficit. The deficit fund balances at June 30, 2012 and 2011 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**

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB49). In addition to requiring recognition of pollution remediation obligations, GASB49 generally precludes costs incurred for pollution remediation from being reported as capital expenditures. Thus, the City's fiscal year 2012 General Fund expenditures include approximately \$224.9 million of pollution remediation expenditures associated with projects which were originally included in the City's capital program. In June 2010, the state amended the Financial Emergency Act to permanently waive the budgetary impact of GASB49. Thus, \$201.9 million of City bond proceeds and \$23.0 million of other revenues (New York City Municipal Water



Finance Authority bond proceeds transferred to the City) supporting the \$224.9 million of pollution remediation expenditures are also reported in the General Fund for fiscal year 2012. In fiscal year 2011, \$267.8 million of City bond proceeds and \$18.9 million of other revenues (New York City Municipal Water Finance Authority bond proceeds transferred to the City) supported the \$286.7 million of pollution remediation expenditures reported in the General Fund. Although amounts were not established in the Adopted Budget, a modification to the budget was made to accommodate the pollution remediation expenditure charge in the General Fund. These pollution remediation expenditures were incurred by various agencies, as follows:

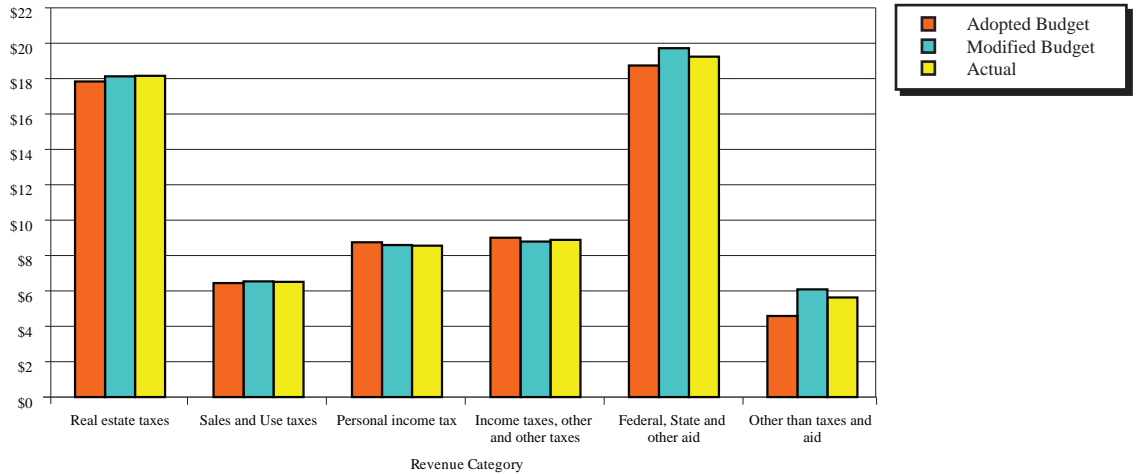
<b>General Fund Pollution Remediation Expenditures Fiscal Year 2012</b>		
	<b>Modified Budget</b>	<b>Actual</b>
(in thousands)		
General government .....	\$ 22,347	\$ 22,347
Public safety and judicial .....	1,865	1,865
Education .....	121,628	121,628
Social services .....	157	157
Environmental protection .....	25,007	25,007
Transportation services .....	50,339	50,339
Parks, recreation, and cultural activities .....	257	257
Housing .....	1,725	1,725
Health, including HHC .....	1,366	1,366
Libraries .....	172	172
Total expenditures .....	<u>\$224,863</u>	<u>\$224,863</u>

<b>General Fund Pollution Remediation Expenditures Fiscal Year 2011</b>		
	<b>Modified Budget</b>	<b>Actual</b>
(in thousands)		
General government .....	\$ 25,526	\$ 25,526
Public safety and judicial .....	6,025	6,025
Education .....	131,879	131,879
Social services .....	23	23
Environmental protection .....	20,444	20,444
Transportation services .....	74,002	74,002
Parks, recreation, and cultural activities .....	22,908	22,908
Housing .....	3,372	3,372
Health, including HHC .....	2,154	2,154
Libraries .....	369	369
Total expenditures .....	<u>\$286,702</u>	<u>\$286,702</u>

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

The following charts and tables summarize actual revenues by category for fiscal years 2012 and 2011 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

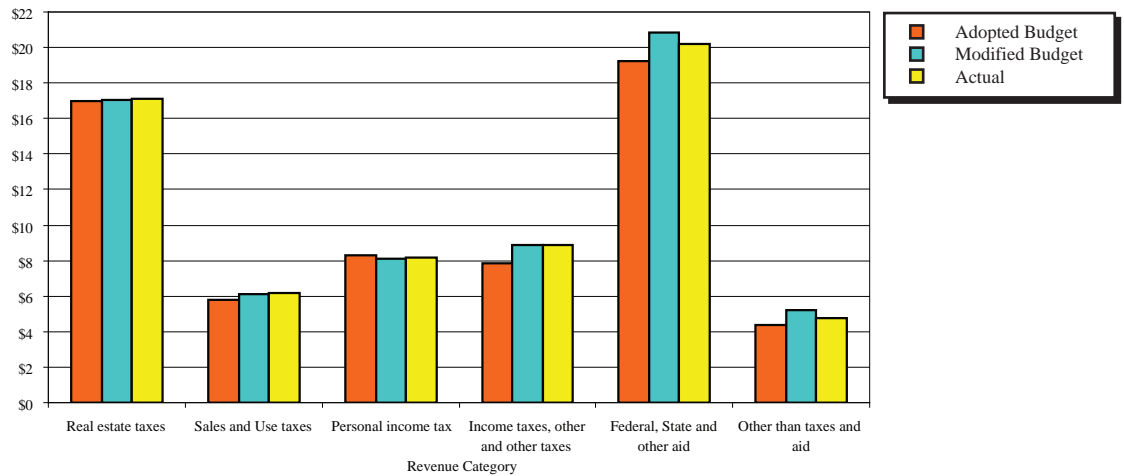
**General Fund Revenues  
Fiscal Year 2012  
(in billions)**



**General Fund Revenues  
Fiscal Year 2012**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
	(in millions)		
Taxes (net of refunds):			
Real estate taxes . . . . .	\$17,838	\$18,129	\$18,158
Sales and use taxes . . . . .	6,444	6,539	6,512
Personal income tax . . . . .	8,749	8,594	8,557
Income taxes, other . . . . .	6,285	6,420	6,499
Other taxes . . . . .	2,721	2,371	2,385
Taxes (net of refunds) . . . . .	<u>42,037</u>	<u>42,053</u>	<u>42,111</u>
Federal, State and other aid:			
Categorical . . . . .	18,705	19,694	19,216
Unrestricted . . . . .	37	25	25
Federal, State and other aid . . . . .	<u>18,742</u>	<u>19,719</u>	<u>19,241</u>
Other than taxes and aid:			
Charges for services . . . . .	2,491	2,521	2,539
Other revenues . . . . .	1,790	3,067	2,591
Bond proceeds . . . . .	—	202	202
Transfer from Nonmajor Debt Service Fund . . . . .	213	209	210
Transfer from General Debt Service Fund . . . . .	88	88	88
Other than taxes and aid . . . . .	<u>4,582</u>	<u>6,087</u>	<u>5,630</u>
Total revenues . . . . .	<u>\$65,361</u>	<u>\$67,859</u>	<u>\$66,982</u>

**General Fund Revenues**  
**Fiscal Year 2011**  
(in billions)



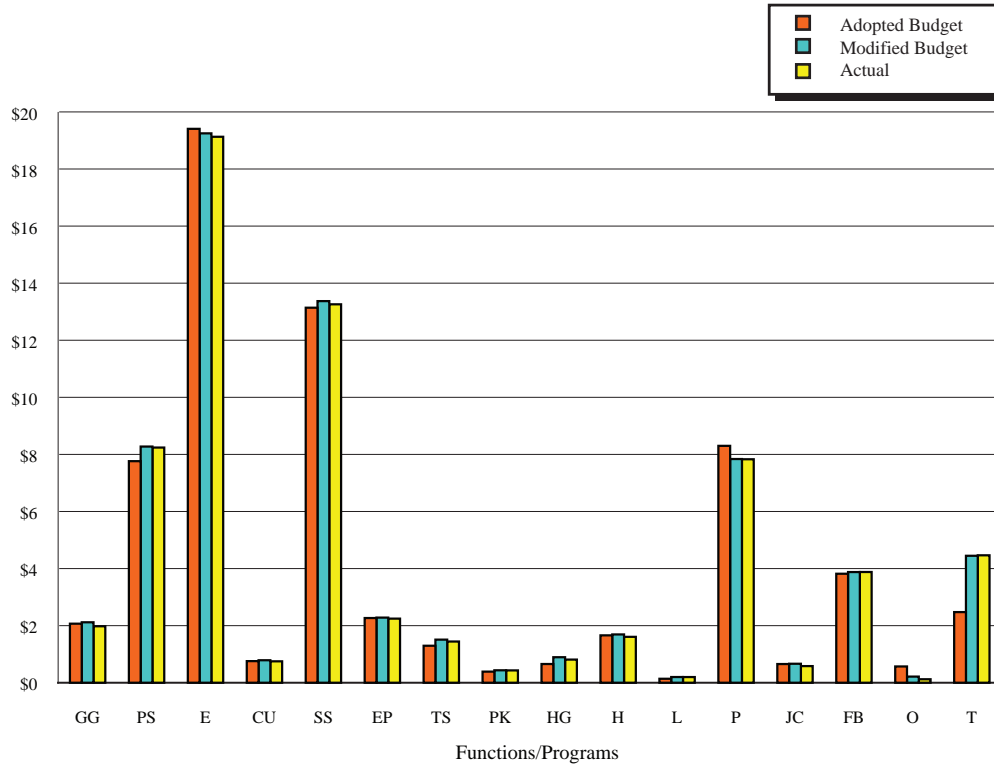
**General Fund Revenues**  
**Fiscal Year 2011**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
		(in millions)	
<b>Taxes (net of refunds):</b>			
Real estate taxes . . . . .	\$ 16,988	\$ 17,079	\$ 17,086
Sales and use taxes . . . . .	5,768	6,115	6,190
Personal income tax . . . . .	8,291	8,130	8,166
Income taxes, other . . . . .	5,392	6,687	6,705
Other taxes . . . . .	2,474	2,170	2,202
<b>Taxes (net of refunds) . . . . .</b>	<u>38,913</u>	<u>40,181</u>	<u>40,349</u>
<b>Federal, State and other aid:</b>			
Categorical . . . . .	19,201	20,781	20,145
Unrestricted . . . . .	14	51	39
<b>Federal, State and other aid . . . . .</b>	<u>19,215</u>	<u>20,832</u>	<u>20,184</u>
<b>Other than taxes and aid:</b>			
Charges for services . . . . .	2,326	2,318	2,345
Other revenues . . . . .	1,847	2,406	1,928
Bond proceeds . . . . .	—	268	268
Transfer from Nonmajor Debt Service Fund . . . . .	166	173	178
Transfer from General Debt Service Fund . . . . .	52	68	68
<b>Other than taxes and aid . . . . .</b>	<u>4,391</u>	<u>5,233</u>	<u>4,787</u>
<b>Total revenues . . . . .</b>	<u>\$ 62,519</u>	<u>\$ 66,246</u>	<u>\$ 65,320</u>

**General Fund Expenditures**

The following charts and tables summarize actual expenditures by function/program for fiscal years 2012 and 2011 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

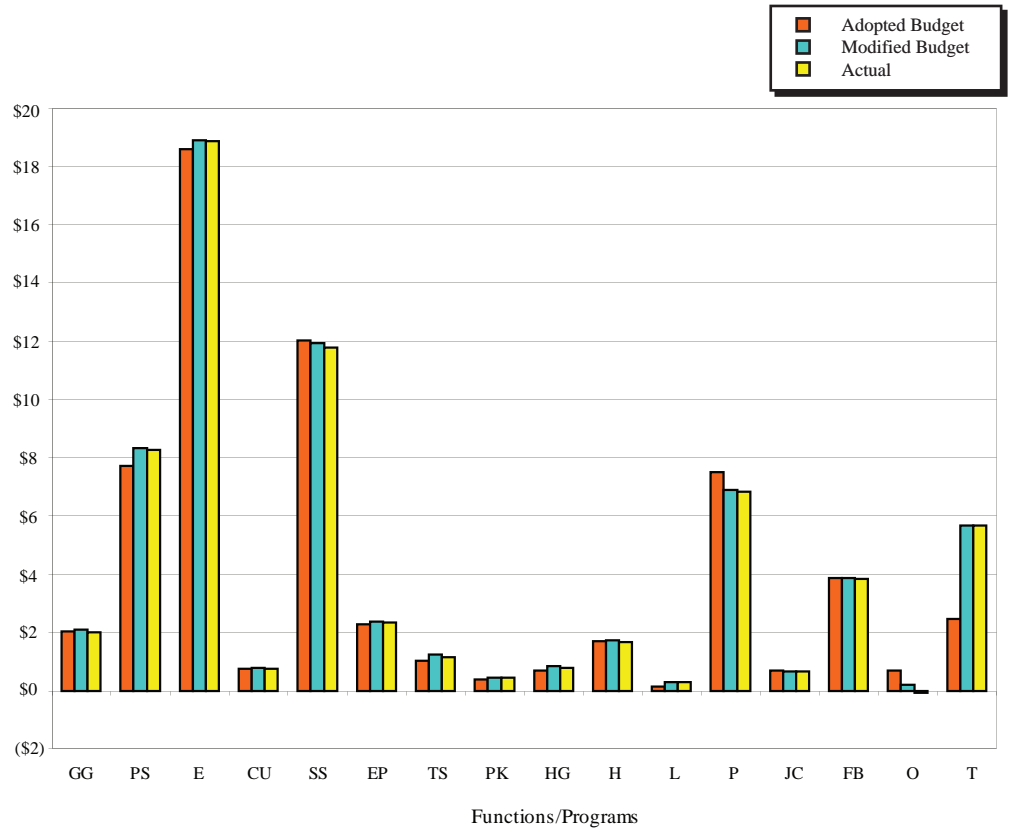
**General Fund Expenditures  
Fiscal Year 2012  
(in billions)**



**General Fund Expenditures  
Fiscal Year 2012**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
		(in millions)	
General government (GG) . . . . .	\$ 2,069	\$ 2,118	\$ 1,978
Public safety and judicial (PS) . . . . .	7,763	8,275	8,240
Education (E) . . . . .	19,407	19,249	19,129
City University (CU) . . . . .	757	788	750
Social services (SS) . . . . .	13,140	13,371	13,259
Environmental protection (EP) . . . . .	2,266	2,282	2,246
Transportation services (TS) . . . . .	1,296	1,510	1,444
Parks, recreation, and cultural activities (PK) . . . . .	389	436	432
Housing (HG) . . . . .	656	894	811
Health, including HHC (H) . . . . .	1,660	1,692	1,608
Libraries (L) . . . . .	139	200	199
Pensions (P) . . . . .	8,300	7,838	7,830
Judgments and claims (JC) . . . . .	655	665	583
Fringe benefits and other benefit payments (FB) . . . . .	3,819	3,878	3,880
Other (O) . . . . .	570	215	123
Transfers and other payments for debt service (T) . . . . .	2,475	4,448	4,465
<b>Total expenditures . . . . .</b>	<b><u>\$65,361</u></b>	<b><u>\$67,859</u></b>	<b><u>\$66,977</u></b>

**General Fund Expenditures**  
**Fiscal Year 2011**  
(in billions)



**General Fund Expenditures**  
**Fiscal Year 2011**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
		(in millions)	
General government (GG) . . . . .	\$ 2,019	\$ 2,107	\$ 2,006
Public safety and judicial (PS) . . . . .	7,713	8,336	8,281
Education (E) . . . . .	18,590	18,912	18,862
City University (CU) . . . . .	758	772	736
Social services (SS) . . . . .	12,030	11,927	11,786
Environmental protection (EP) . . . . .	2,292	2,367	2,340
Transportation services (TS) . . . . .	1,016	1,224	1,160
Parks, recreation, and cultural activities (PK) . . . . .	391	455	451
Housing (HG) . . . . .	689	856	788
Health, including HHC (H) . . . . .	1,686	1,735	1,667
Libraries (L) . . . . .	144	297	296
Pensions (P) . . . . .	7,488	6,877	6,843
Judgments and claims (JC) . . . . .	686	664	664
Fringe benefits and other benefit payments (FB) . . . . .	3,879	3,854	3,846
Other (O) . . . . .	690	188	(82)
Transfers and other payments for debt service (T) . . . . .	2,448	5,675	5,671
<b>Total expenditures . . . . .</b>	<u><u>\$62,519</u></u>	<u><u>\$66,246</u></u>	<u><u>\$65,315</u></u>

**General Fund Surplus**

The City had General Fund surpluses of \$2.467 billion, \$3.747 billion and \$3.651 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2012, 2011 and 2010, respectively. For the fiscal years 2012, 2011 and 2010, 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 2012, 2011 and 2010 budgets follow:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(in millions)	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service . . . . .	\$ 65	\$ 356	\$ 766
Discretionary transfers to the General Debt Service Fund . . . . .	1,275	2,428	2,122
Net equity contribution in bond refunding that accrued to future years debt service savings . . . . .	23	4	4
Grant to HYIC . . . . .	156	—	—
Grant to TFA . . . . .	879	790	371
Advance cash subsidies to the Public Library system . . . . .	64	164	164
Advance cash subsidies to the TA and Metropolitan Transportation Authority (MTA) . . . . .	—	—	219
Total expenditures and transfers (discretionary and other) . . . . .	2,462	3,742	3,646
Reported surplus . . . . .	<u>5</u>	<u>5</u>	<u>5</u>
Total surplus . . . . .	<u>\$2,467</u>	<u>\$3,747</u>	<u>\$3,651</u>



Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2012 Adopted Budget:

	<u>2012</u>
Additional Resources:	(in millions)
Federal Categorical Aid . . . . .	\$ 505
CityTime settlement proceeds . . . . .	469
Lower than expected pension expenditures . . . . .	469
Lower than expected supplies and materials costs . . . . .	406
Lower than expected all other general administrative OTPS expenditures . . . . .	367
Greater than expected real estate tax collections . . . . .	320
General Reserve . . . . .	300
Lower than expected all other debt service costs . . . . .	257
Higher than expected all other miscellaneous revenues . . . . .	195
Lower than expected provisions for disallowance reserve . . . . .	181
Higher than expected real property transfer tax collections . . . . .	137
Lower than expected energy costs . . . . .	133
Higher than expected all other tax collections . . . . .	120
Greater than expected banking corporation tax collections . . . . .	87
State categorical aid . . . . .	84
Lower than expected health insurance costs . . . . .	80
Lower than expected judgments and claims expenditures . . . . .	74
Higher than expected revenues from licenses, permits and privileges . . . . .	57
Greater than expected proceeds from asset sales . . . . .	47
Higher than expected charges for services . . . . .	47
Lower than expected public assistance spending . . . . .	44
Higher than expected revenues from fines and forfeitures . . . . .	44
Higher than expected mortgage tax collections . . . . .	37
Higher than expected commercial rent tax collections . . . . .	36
Lower than expected lease purchase debt service costs . . . . .	35
Greater than expected sales tax collections . . . . .	6
All other net underspending and revenues above budget . . . . .	<u>2</u>
Total . . . . .	<u>4,539</u>
Enabled the City to provide for:	
Additional prepayments for certain debt service costs and subsidies due in fiscal year 2013 . . . . .	2,439
Greater than expected overtime costs . . . . .	432
Greater than expected contractual services costs . . . . .	353
Lower than expected general corporation tax collections . . . . .	272
Lower than expected personal income tax collections . . . . .	228
Pollution remediation costs . . . . .	225
Lower than expected unincorporated business tax collections . . . . .	169
Greater than expected all other fixed and miscellaneous charges . . . . .	136
Higher than expected Medicaid spending . . . . .	77
Higher than expected property and equipment costs . . . . .	66
Lower than expected non-governmental grants . . . . .	53
Greater than expected payments to HHC . . . . .	24
Greater than expected all other social services spending (excluding Medicaid and public assistance) . . . . .	22
Lower than expected interest income . . . . .	17
Lower than expected unrestricted Federal and State aid . . . . .	12
Higher than expected all other personal services spending . . . . .	<u>9</u>
Total . . . . .	<u>4,534</u>
Reported Surplus . . . . .	<u>\$ 5</u>

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2011 Adopted Budget:

	<u>2011</u>
Additional Resources:	(in millions)
Federal Categorical Aid . . . . .	\$1,081
Lower than expected pension expenditures . . . . .	645
Greater than expected financial corporation tax collections . . . . .	575
Greater than expected sales tax collections . . . . .	445
Lower than expected Medicaid spending . . . . .	324
Lower than expected supplies and materials costs . . . . .	321
General Reserve . . . . .	300
Lower than expected all other debt service costs . . . . .	299
Non-governmental grants . . . . .	289
Lower than expected health insurance expenditures . . . . .	186
Greater than expected real property transfer tax collections . . . . .	164
Lower than expected public assistance spending . . . . .	134
Greater than expected real estate tax collections . . . . .	98
Higher than expected unincorporated business tax collections . . . . .	95
Greater than expected all other tax collections . . . . .	85
Lower than expected all other general administrative OTPS Expenditures . . . . .	85
Higher than expected all other miscellaneous revenue . . . . .	84
Lower than expected all other personal services costs . . . . .	69
Lower than expected lease purchase debt service costs . . . . .	51
Greater than expected commercial rent tax collections . . . . .	50
Greater than expected revenues from licenses, permits and privileges . . . . .	44
Higher than expected utility tax collections . . . . .	43
Greater than expected general corporation tax collections . . . . .	40
Lower than expected judgments and claims costs . . . . .	28
Unrestricted Federal and State Aid . . . . .	25
Greater than expected charges for services . . . . .	19
Lower than expected energy costs . . . . .	14
Lower than expected subsidy payments to libraries . . . . .	12
Greater than expected proceeds from asset sales . . . . .	8
Total . . . . .	<u>5,613</u>
Enabled the City to provide for:	
Additional prepayments for certain debt service costs and subsidies due in fiscal year 2012 . . . . .	3,738
Higher than expected contractual services costs . . . . .	891
Greater than expected overtime costs . . . . .	371
Higher than expected pollution remediation costs . . . . .	137
Lower than expected personal income tax collections . . . . .	134
Greater than expected provisions for disallowance reserve . . . . .	97
Greater than expected all other social services (excluding Medicaid and public assistance) . . . . .	54
Higher than expected all other fixed and miscellaneous charges . . . . .	39
Greater than expected property and equipment costs . . . . .	38
Lower than expected revenues from fines and forfeitures . . . . .	28
Lower than expected interest income . . . . .	27
State Categorical Aid . . . . .	26
Lower than expected mortgage tax collections . . . . .	20
Lower than expected tobacco settlement proceeds . . . . .	8
Total . . . . .	<u>5,608</u>
Reported Surplus . . . . .	<u>\$ 5</u>

## Capital Assets

The City's investment in capital assets (net of accumulated depreciation/amortization), is detailed as follows:

	Governmental Activities		
	2012	2011	2010
		(in millions)	
Land*	\$ 1,634	\$ 1,569	\$ 1,240
Buildings	28,383	27,007	25,154
Equipment (including software)	2,410	2,153	1,979
Infrastructure**	11,351	10,842	10,284
Construction work-in-progress*	4,437	4,897	4,817
Total	<u>\$48,215</u>	<u>\$46,468</u>	<u>\$43,474</u>

\* Not depreciable/amortizable

\*\* Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, park land and improvements, piers, bulkheads and tunnels.

The net increase in the City's capital assets during fiscal year 2012 was \$1.747 billion, a 4% increase. Capital assets additions in fiscal year 2012 were \$8.001 billion, a decrease of \$514 million from fiscal year 2011.

The net increase in the City's capital assets during fiscal year 2011 was \$2.994 billion, a 7% increase. Capital assets additions in fiscal year 2011 were \$8.515 billion, a decrease of \$1.065 billion from fiscal year 2010.

Additional information on the City's capital assets can be found in Note D.2 of the Basic Financial Statements and in schedule CA1 thru CA3 of other supplementary information.

## 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 2012, 2011 and 2010.

	New York City and City-Related Debt		
	2012	2011	2010
		(in millions)	
General Obligation Bonds <sup>(a)</sup>	\$42,286	\$41,785	\$41,555
TFA Bonds	19,587	17,624	14,407
TFA Recovery Bonds	1,372	1,466	1,466
TFA BARBs	5,309	4,730	4,221
TSASC Bonds	1,253	1,260	1,265
IDA Bonds	95	98	99
STAR Bonds	2,054	2,117	2,178
FSC Bonds	270	282	294
HYIC Bonds	3,000	2,000	2,000
ECF Bonds	274	281	150
Total bonds and notes payable	<u>\$75,500</u>	<u>\$71,643</u>	<u>\$67,635</u>

(a) Does not include capital contract liabilities.

## General Obligation

On July 1, 2012, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled \$52.7 billion (compared with \$52.03 and \$49.9 billion as of July 1, 2011 and 2010, 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 July 1, 2012, the City's 10% general limitation was \$76.9 billion (compared with \$76.1 and \$76.2 billion as of July 1, 2011 and 2010 respectively). The City's remaining debt incurring power as of July 1, 2012, after providing for capital contract liabilities, totaled \$24.17 billion.

As of June 30, 2012, the City's outstanding GO variable and fixed rate debt totaled \$7.67 billion and \$34.62 billion, respectively. Of the \$4.95 billion in GO bonds issued by the City in fiscal year 2012, a total of \$2.23 billion was issued to refund certain outstanding bonds at a lower interest rate and a total of \$2.72 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. These refundings produce budgetary dissavings of \$9.44 million in fiscal year 2012, and budgetary savings of \$222.15 million and \$69.72 million in 2013 and 2014, respectively. The refundings will generate approximately \$277.06 million in net present value savings throughout the life of the bonds.

In fiscal year 2012, the City issued \$297.46 million of traditional taxable fixed rate bonds. The traditional taxable bonds were sold on a competitive basis.

In addition, the City converted \$145.56 million of bonds between different interest rate modes.

During fiscal year 2012, GO variable rate debt traded at the following average interest rates:

	<u>Tax-Exempt</u>	<u>Taxable</u>
Dailies . . . . .	0.24%	—
Weeklies . . . . .	0.18%	1.17%
Auction Rate Securities—7 Day . . . . .	0.51%	—

During fiscal year 2012, Standard & Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) maintained the GO rating at AA. Moody's Investors Service (Moody's) continued to rate GO bonds at Aa2.

***Short-term Financing***

In fiscal year 2012, the City had no short-term borrowings.

***Transitional Finance Authority***

In 1997, in order to continue to fund the City's capital commitments in the face of an approaching GO debt limit, the New York State Legislature created the New York City Transitional Finance Authority (TFA). The TFA, a bankruptcy-remote separate legal entity, was initially authorized to issue debt secured by the City's collections of personal income tax and, if necessary, sales tax. These TFA bonds are identified as Future Tax Secured Bonds. The TFA was initially authorized to issue up to \$7.5 billion of Future Tax Secured Bonds. In fiscal year 2000, the debt incurring authorization for these bonds was increased by \$4 billion to a total of \$11.5 billion, and in fiscal year 2006, by \$2 billion to a total of \$13.5 billion. As of June 30, 2009, TFA had exhausted its debt incurring authorization for these bonds. In July 2009, however, Chapter 182 of the Laws of New York, authorized the issuance of additional Future Tax Secured Bonds subject to certain limitations. First, the \$13.5 billion debt authorization was changed to be based on outstanding debt and not debt issued. Second, the new authorization provides that the further Future Tax Secured Bonds, together with the amount of indebtedness contracted by the City, will not exceed the debt limit of the City.

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 (Recovery Bonds). 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 has issued \$2 billion in Recovery Bonds pursuant to this authorization.

As of June 30, 2012, the TFA Future Tax Secured Bond total debt outstanding, including Recovery Bonds and Subordinate Lien Bonds, totaled approximately \$20.96 billion.

TFA issued \$3.5 billion TFA bonds in fiscal year 2012, a total of \$2.8 billion was issued for new money capital purposes and \$700 million was issued to refund certain outstanding bonds at lower interest rates.

The proceeds of the refunding issues were placed in irrevocable escrow accounts to pay, when due, principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produce budgetary dissavings of \$2 million in fiscal year 2012, and budgetary

savings of \$50.34 million and \$285.5 thousand in fiscal years 2013 and 2014, respectively. The refundings will generate approximately \$46.9 million in net present value savings throughout the life of the bonds. Of the \$2.80 billion new money issued in fiscal year 2012, \$300 million were Qualified School Construction Bonds (QSCBs).

As of June 30, 2012, the TFA's outstanding variable rate debt, which included \$1.37 billion of TFA Recovery Bonds, totaled \$3.3 billion. During fiscal year 2012, TFA's variable rate debt traded at the following average interest rates:

	<u>Tax-Exempt</u>	<u>Taxable</u>
Dailies .....	0.32%	—
Weeklies .....	0.29%	0.28%
Auction Rate Securities—7 Day .....	0.53%	—
Index Floaters .....	1.02%	—
2-Day Mode .....	0.18%	—

In fiscal year 2012, S&P and Fitch maintained their respective ratings on both Senior Lien and Subordinate Lien TFA Bonds at AAA. Moody's maintained its rating on Senior Lien Bonds at Aaa and Subordinate Lien Bonds at Aa1.

In fiscal year 2006, the New York State Legislature authorized the 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. The legislation further authorized the City to assign to the 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 (State Building Aid) as security for the obligations. Pursuant to this authority, the TFA Building Aid Revenue Bond (TFA BARBs) credit was created. The City assigned all the State Building Aid to the TFA.

In fiscal year 2012, the TFA issued \$650 million in new money TFA BARBs to finance a portion of the City's educational facilities capital plan. As of June 30, 2012, the TFA BARBs outstanding totaled \$5.31 billion. Of the \$650 million bonds the TFA issued in fiscal year 2012, \$100 million were issued as QSCBs that will receive 100% interest subsidy from the federal government.

During fiscal year 2012, S&P and Fitch maintained the TFA BARBs rating at AA- and Moody's maintained the TFA BARBs rating at Aa3.

***TSASC, Inc.***

TSASC, Inc. (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.

TSASC had no financing activity in fiscal year 2012. As of June 30, 2012, TSASC had approximately \$1.25 billion of bonds outstanding.

TSASC bond ratings vary by maturity. As of June 30, 2012, S&P rated TSASC bonds maturing June 1, 2022, 2026, 2034 and 2042 BB+, B+, B and B- respectively. Fitch rated TSASC bonds maturing on June 1, 2022 and 2026 BBB+ and BBB- respectively. Fitch rated bonds maturing on June 1, 2034 and 2042 BB.

***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 these payments and to use the proceeds to retire existing Municipal Assistance Corporation for the City of New York (MAC) debt, thereby saved the City approximately \$500 million per year for fiscal years 2004 through 2008.

As of June 30, 2012, STAR had \$2.05 billion bonds outstanding. It had no financing activity in fiscal year 2012.

The bonds are rated AAA by S&P, Aa2 by Moody's, and AA by Fitch.

***Fiscal Year 2005 Securitization Corporation***

In fiscal year 2005, \$498.85 million of taxable bonds were issued by the Fiscal Year 2005 Securitization Corporation (FSC), a bankruptcy-remote local development corporation, established to restructure an escrow fund that was previously funded with GO bonds proceeds.

As of June 30, 2012, FSC had \$270.24 million bonds outstanding. It had no financing activity in fiscal year 2012.

As of June 30, 2012, the bonds were rated AA+ by S&P, Aaa by Moody's and AAA by Fitch.

***Hudson Yards Infrastructure Corporation***

In December 2006, \$2 billion of tax-exempt bonds were issued by the Hudson Yards Infrastructure Corporation (HYIC), a local development corporation established to provide financing for infrastructure improvements to facilitate economic development on Manhattan's far west side. Principal on the bonds is payable from revenues generated by the new development in the Hudson Yards District. To the extent that such revenues are not sufficient to cover interest payments, the City, subject to appropriation, has agreed to make interest support payments to HYIC. The interest support payments do not cover principal repayment of the bonds.

During fiscal year 2012 HYIC issued \$1 billion in revenue bonds. As of June 30, 2012, HYIC had \$3 billion bonds outstanding.

The bonds are rated A by S&P, A2 by Moody's, and A by Fitch.

***New York City Educational Construction Fund***

The New York City Educational Construction Fund (ECF), a public benefit corporation, established to facilitate the construction and improvement of City elementary and secondary school buildings in combination with other compatible lawful uses such as housing, office or other commercial buildings. The City is required to make rental payments on the school portions of the ECF projects sufficient to make debt service payments as they come due on ECF Bonds, less the revenue received by the ECF from the non-school portions of the ECF projects.

The ECF had no financing activity in fiscal year 2012.

As of June 30, 2012, ECF had \$274 million bonds outstanding.

The bonds are rated AA- by S&P and Aa3 by Moody's.

***New York City Tax Lien Trusts***

The New York City Tax Lien Trusts (NYCTLTs) are Delaware statutory trusts which were created to acquire certain liens securing unpaid real estate taxes, water rents, sewer surcharges, and other payables to the City and the New York City Water Board in exchange for the proceeds from bonds issued by the NYCTLTs, net of reserves funded by the bond proceeds and bond issued cost. The City is the sole beneficiary to the NYCTLTs and is entitled to receive distributions from the NYCTLTs after payments to the bondholders and certain reserve requirements have been satisfied.

As of June 30, 2012, the NYCTLT 2011-A had \$36 million in bonds outstanding.

***Interest Rate Exchange Agreements***

To lower borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has from time to time entered into interest rate exchange agreements (swaps) and sold options to enter into swaps at future dates. The City received specific authorization to enter into such agreements under Section 54.90 of the New York State Local Finance Law. No new swaps were initiated in fiscal year 2012. As of June 30, 2012, the outstanding notional amount on the City's various swap agreements was \$2.04 billion.



The Water Authority has also from time to time entered into interest rate exchange agreements in order to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio. In fiscal year 2012, it initiated no new swaps. As of June 30, 2012, the outstanding notional amount on the Water Authority's various swap agreements was \$621 million.

Additional information on the City's long-term debt can be found in Note D.4. of the Basic Financial Statements.

### ***Subsequent Events***

Subsequent to June 30, 2012, the City and TFA completed the following long-term financings:

#### ***Long-term Financing***

***City Debt:*** On October 23, 2012, The City of New York sold its Fiscal 2013 Series A General Obligation bonds of \$850 million for capital purposes.

On October 23, 2012, The City of New York sold its Fiscal 2013 Series B and C General Obligation bonds of \$600 million for refunding purposes.

On October 23, 2012, The City of New York converted its Fiscal 1994 Series A5 General Obligation bonds of \$22.18 million from Daily Mode to Fixed Rate Mode and Fiscal 1994 Series H6 General Obligation bonds, Fiscal 1996 Series J2 General Obligation bonds and Fiscal 2003 Series G3 General Obligation bonds of \$36.33 million from Weekly Mode to Fixed Rate Mode.

***TFA Debt:*** On July 19, 2012, TFA sold its Fiscal 2013 Series S-1 Building Aid Revenue Bonds of \$850 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series A1-3 Future Tax Secured Subordinate bonds of \$450 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series A4-7 Future Tax Secured Adjustable Rate bonds of \$350 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series B Future Tax Secured Subordinate bonds of \$950 million for refunding purposes.

#### ***NYCTLT***

***2012-A Debt:*** On August 8, 2012, NYCTLT 2012-A issued Tax Lien Collateralized Bonds, Series 2012-A of \$66.75 million to fund the purchase of certain liens from the City.

***Bond Ratings:*** On August 22, 2012, Fitch downgraded TSASC bonds maturing June 1, 2022 to BBB from BBB+, bonds maturing June 1, 2026 to BB- from BBB-, and bonds maturing June 1, 2034 and June 1, 2042 to B+ from BB.

### ***Commitments***

At June 30, 2012, the outstanding commitments relating to projects of the Capital Projects Fund amounted to approximately \$14.7 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 the Capital Projects Fund expenditures of \$54.1 billion over fiscal years 2012 through 2021. To help meet its capital spending program, the City and TFA borrowed \$6.18 billion in the public credit market in fiscal year 2012. The City and TFA plan to borrow \$5.10 billion in the public credit market in fiscal year 2013.

### ***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 200 South, New York, New York 10007-2341.

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

JUNE 30, 2012  
(in thousands)

	<b>Primary Government</b>	<b>Component</b>
	<b>Governmental</b>	<b>Units</b>
	<b>Activities</b>	<b>Units</b>
<b>ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 5,766,448	\$ 3,070,001
Investments, including accrued interest . . . . .	2,554,965	920,999
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$265,066) . . . . .	419,920	—
Federal, State and other aid . . . . .	7,697,707	—
Taxes other than real estate . . . . .	5,166,792	—
Leases . . . . .	—	1,700,410
Other . . . . .	1,395,738	3,464,574
Mortgage loans and interest receivable, net . . . . .	—	8,217,900
Inventories . . . . .	284,890	34,946
Due from Primary Government . . . . .	—	62,371
Due from Component Units . . . . .	1,839,653	—
Restricted cash, cash equivalents and investments . . . . .	7,077,280	4,904,603
Deferred charges . . . . .	887,472	—
Other . . . . .	421,507	602,054
Capital assets:		
Land and construction work-in-progress . . . . .	6,070,978	11,457,918
Other capital assets (net of depreciation/amortization):		
Buildings and equipment (including software) . . . . .	30,792,957	24,293,722
Infrastructure . . . . .	11,351,141	—
Deferred outflows of resources . . . . .	153,632	149,642
Total assets . . . . .	81,881,080	58,879,140
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities . . . . .	12,468,496	2,974,058
Accrued interest payable . . . . .	912,173	138,249
Unearned revenues:		
Prepaid real estate taxes . . . . .	5,543,586	—
Other . . . . .	3,858,040	330,123
Due to Primary Government . . . . .	—	1,839,653
Due to Component Units . . . . .	62,371	—
Estimated disallowance of Federal, State and other aid . . . . .	997,428	—
Other . . . . .	99,580	255,244
Derivative instruments — interest rate swaps . . . . .	153,632	137,030
Noncurrent liabilities:		
Due within one year . . . . .	4,939,653	1,652,052
Due in more than one year . . . . .	178,193,695	47,503,112
Total liabilities . . . . .	207,228,654	54,829,521
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt . . . . .	(10,207,250)	7,373,366
Restricted for:		
Capital projects . . . . .	2,720,782	40,766
Debt service . . . . .	3,914,888	1,492,282
Loans/security deposits . . . . .	—	85,597
Donor/statutory restrictions . . . . .	—	75,953
Operations . . . . .	—	261,333
Unrestricted (deficit) . . . . .	(121,775,994)	(5,279,678)
Total net assets (deficit) . . . . .	\$(125,347,574)	\$ 4,049,619

See accompanying notes to financial statements.

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

JUNE 30, 2011  
(in thousands)

	<b>Primary Government</b>	<b>Component</b>
	<b>Governmental</b>	<b>Units</b>
	<b>Activities</b>	<b>Units</b>
<b>ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 4,457,707	\$ 2,753,099
Investments, including accrued interest . . . . .	396,847	645,878
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$308,329) . . . . .	490,450	—
Federal, State and other aid . . . . .	8,434,007	—
Taxes other than real estate . . . . .	5,007,542	—
Leases . . . . .	—	1,705,667
Other . . . . .	3,576,527	3,508,251
Mortgage loans and interest receivable, net . . . . .	34	7,374,816
Inventories . . . . .	297,303	40,708
Due from Primary Government . . . . .	—	36,288
Due from Component Units . . . . .	1,870,487	—
Restricted cash, cash equivalents and investments . . . . .	6,161,219	5,684,924
Deferred charges . . . . .	789,969	—
Other . . . . .	488,207	608,096
Capital assets:		
Land and construction work-in-progress . . . . .	6,465,717	10,496,720
Other capital assets (net of depreciation/amortization):		
Buildings and equipment (including software) . . . . .	29,160,271	23,342,686
Infrastructure . . . . .	10,842,249	—
Deferred outflows of resources . . . . .	65,698	59,876
Total assets . . . . .	78,504,234	56,257,009
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities . . . . .	12,039,167	2,770,399
Accrued interest payable . . . . .	865,875	136,323
Unearned revenues:		
Prepaid real estate taxes . . . . .	4,631,627	—
Other . . . . .	3,284,194	289,355
Due to Primary Government . . . . .	—	1,870,487
Due to Component Units . . . . .	36,288	—
Estimated disallowance of Federal, State and other aid . . . . .	1,184,574	—
Other . . . . .	113,496	185,489
Derivative instruments — interest rate swaps . . . . .	65,698	44,134
Noncurrent liabilities:		
Due within one year . . . . .	5,301,669	1,642,194
Due in more than one year . . . . .	168,836,665	45,105,912
Total liabilities . . . . .	196,359,253	52,044,293
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt . . . . .	(9,996,793)	7,239,275
Restricted for:		
Capital projects . . . . .	1,254,669	46,675
Debt service . . . . .	5,402,836	1,256,197
Loans/security deposits . . . . .	—	62,443
Donor/statutory restrictions . . . . .	—	70,095
Operations . . . . .	—	257,499
Unrestricted (deficit) . . . . .	(114,515,731)	(4,719,468)
Total net assets (deficit) . . . . .	\$(117,855,019)	\$ 4,212,716

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**STATEMENT OF ACTIVITIES**  
FOR THE YEAR ENDED JUNE 30, 2012  
(in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
<b>Primary government:</b>						
General government . . . . .	\$ 4,101,933	\$ 1,122,481	\$ 936,994	\$ 40,857	\$ (2,001,601)	\$ —
Public safety and judicial . . . . .	17,077,117	279,128	676,840	228	(16,120,921)	—
Education . . . . .	24,957,901	68,102	9,953,121	28,810	(14,907,868)	—
City University . . . . .	954,590	313,901	188,195	693	(451,801)	—
Social services . . . . .	14,181,836	45,090	4,930,971	2,423	(9,203,352)	—
Environmental protection . . . . .	3,456,151	1,418,324	56,553	56,064	(1,925,210)	—
Transportation services . . . . .	2,536,846	923,112	256,411	311,493	(1,045,830)	—
Parks, recreation and cultural activities . . . . .	1,077,230	63,439	26,242	27,543	(960,006)	—
Housing . . . . .	1,327,674	276,014	557,515	111,174	(382,971)	—
Health (including payments to HHC) . . . . .	2,419,857	90,487	965,943	13,056	(1,350,371)	—
Libraries . . . . .	243,470	—	—	1,972	(241,498)	—
Debt service interest . . . . .	2,931,953	—	219,921	—	(2,712,032)	—
Total primary government . . . . .	<u>\$75,266,558</u>	<u>\$ 4,600,078</u>	<u>\$18,768,706</u>	<u>\$ 594,313</u>	<u>(51,303,461)</u>	—
Component Units . . . . .	<u>\$15,836,919</u>	<u>\$11,493,537</u>	<u>\$ 2,412,767</u>	<u>\$1,191,646</u>	—	<u>(738,969)</u>

**General revenues:**

Taxes (Net of Refunds):

Real estate taxes . . . . .	18,177,170	—
Sales and use taxes . . . . .	6,618,107	—
Personal income tax . . . . .	8,722,002	—
Income taxes, other . . . . .	6,079,881	—
Other taxes:		
Commercial Rent . . . . .	671,722	—
Conveyance of Real Property . . . . .	917,653	—
Hotel Room Occupancy . . . . .	486,525	—
Payment in Lieu of Taxes . . . . .	261,128	—
Other . . . . .	48,309	—
Investment income . . . . .	117,608	70,947
Other Federal and State aid . . . . .	730,310	5,550
Other . . . . .	980,491	499,375
Total general revenues . . . . .	<u>43,810,906</u>	<u>575,872</u>
Change in net assets . . . . .	(7,492,555)	(163,097)
Net assets (deficit) - beginning . . . . .	<u>(117,855,019)</u>	<u>4,212,716</u>
Net assets (deficit) - ending . . . . .	<u>\$(125,347,574)</u>	<u>\$4,049,619</u>

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**STATEMENT OF ACTIVITIES**  
FOR THE YEAR ENDED JUNE 30, 2011  
(in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Units
<b>Primary government:</b>						
General government . . . . .	\$ 3,791,462	\$ 943,558	\$ 1,179,330	\$ 67,299	\$ (1,601,275)	\$ —
Public safety and judicial . . . . .	18,815,201	268,677	731,307	10,040	(17,805,177)	—
Education . . . . .	25,604,277	68,252	10,977,840	5,399	(14,552,786)	—
City University . . . . .	947,402	277,685	196,459	5,155	(468,103)	—
Social services . . . . .	12,896,220	31,812	5,071,672	2,787	(7,789,949)	—
Environmental protection . . . . .	3,744,521	1,365,139	38,999	32,377	(2,308,006)	—
Transportation services . . . . .	2,073,164	874,345	257,183	298,207	(643,429)	—
Parks, recreation and cultural activities . . . . .	1,119,677	63,891	16,859	5,513	(1,033,414)	—
Housing . . . . .	1,317,725	263,617	494,798	109,686	(449,624)	—
Health (including payments to HHC) . . . . .	2,484,876	79,054	986,823	—	(1,418,999)	—
Libraries . . . . .	343,395	—	—	1,552	(341,843)	—
Debt service interest . . . . .	2,911,817	—	—	—	(2,911,817)	—
Total primary government . . . . .	<u>\$76,049,737</u>	<u>\$ 4,236,030</u>	<u>\$19,951,270</u>	<u>\$ 538,015</u>	<u>(51,324,422)</u>	—
Component Units . . . . .	<u>\$15,534,076</u>	<u>\$11,122,972</u>	<u>\$ 2,427,082</u>	<u>\$1,402,398</u>	—	<u>(581,624)</u>

**General revenues:**

Taxes (Net of Refunds):

Real estate taxes . . . . .	17,064,641	—
Sales and use taxes . . . . .	6,120,215	—
Personal income tax . . . . .	8,095,972	—
Income taxes, other . . . . .	7,313,299	—
Other taxes:		
Commercial Rent . . . . .	634,221	—
Conveyance of Real Property . . . . .	798,977	—
Hotel Room Occupancy . . . . .	436,218	—
Payment in Lieu of Taxes . . . . .	276,082	—
Other . . . . .	64,126	—
Investment income . . . . .	133,758	100,370
Other Federal and State aid . . . . .	470,117	2,569
Other . . . . .	329,218	418,939
Total general revenues . . . . .	<u>41,736,844</u>	<u>521,878</u>
Change in net assets . . . . .	(9,587,578)	(59,746)
Net assets (deficit) - beginning . . . . .	<u>(108,267,441)</u>	<u>4,272,462</u>
Net assets (deficit) - ending . . . . .	<u>\$(117,855,019)</u>	<u>\$4,212,716</u>

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**

JUNE 30, 2012  
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
<b>ASSETS:</b>						
Cash and cash equivalents . . . . .	\$ 5,632,790	\$ 28,309	\$ —	\$ 105,349	\$ —	\$ 5,766,448
Investments, including accrued interest . . . . .	2,602,173	—	—	17,060	—	2,619,233
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$265,066) . . . . .	419,920	—	—	—	—	419,920
Federal, State and other aid . . . . .	6,913,665	784,042	—	—	—	7,697,707
Taxes other than real estate . . . . .	4,761,961	—	—	404,831	—	5,166,792
Other . . . . .	1,007,640	—	—	359,059	—	1,366,699
Mortgage loans and interest receivable, net (less allowance for uncollectible amounts of \$327,305) . . . . .	—	—	—	—	—	—
Due from other funds . . . . .	2,814,399	312,887	—	451,213	(450,973)	3,127,526
Due from Component Units . . . . .	1,036,730	802,923	—	—	—	1,839,653
Restricted cash and investments . . . . .	—	713,645	1,378,774	4,984,861	—	7,077,280
Other . . . . .	—	84,297	—	321,988	—	406,285
Total assets . . . . .	<u>\$25,189,278</u>	<u>\$ 2,726,103</u>	<u>\$1,378,774</u>	<u>\$6,644,361</u>	<u>\$ (450,973)</u>	<u>\$35,487,543</u>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities . . . . .	\$10,303,799	\$ 1,584,907	\$ 5,166	\$ 574,624	\$ —	\$12,468,496
Accrued tax refunds:						
Real estate taxes . . . . .	25,310	—	—	—	—	25,310
Personal income tax . . . . .	29,888	—	—	49,831	—	79,719
Other . . . . .	83,501	—	—	—	—	83,501
Accrued judgments and claims . . . . .	386,874	101,972	—	—	—	488,846
Deferred revenues:						
Prepaid real estate taxes . . . . .	5,543,586	—	—	—	—	5,543,586
Uncollected real estate taxes . . . . .	331,135	—	—	—	—	331,135
Taxes other than real estate . . . . .	3,800,525	—	—	—	—	3,800,525
Other . . . . .	3,172,577	532,985	—	648,949	—	4,354,511
Due to other funds . . . . .	—	3,252,797	—	325,702	(450,973)	3,127,526
Due to Component Units . . . . .	62,371	—	—	—	—	62,371
Estimated disallowance of Federal, State and other aid . . . . .	997,428	—	—	—	—	997,428
Total liabilities . . . . .	<u>24,736,994</u>	<u>5,472,661</u>	<u>5,166</u>	<u>1,599,106</u>	<u>(450,973)</u>	<u>31,362,954</u>
<b>Fund balances:</b>						
Nonspendable . . . . .	452,284	—	—	577	—	452,861
Spendable:						
Restricted . . . . .	—	372,361	65,429	4,889,091	—	5,326,881
Committed . . . . .	—	—	1,308,179	610	—	1,308,789
Assigned . . . . .	—	—	—	154,977	—	154,977
Unassigned . . . . .	—	(3,118,919)	—	—	—	(3,118,919)
Total fund balances (deficit) . . . . .	<u>452,284</u>	<u>(2,746,558)</u>	<u>1,373,608</u>	<u>5,045,255</u>	<u>—</u>	<u>4,124,589</u>
Total liabilities and fund balances . . . . .	<u>\$25,189,278</u>	<u>\$ 2,726,103</u>	<u>\$1,378,774</u>	<u>\$6,644,361</u>	<u>\$ (450,973)</u>	<u>\$35,487,543</u>

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, 2011  
(in thousands)

	<u>General</u>	<u>Capital Projects</u>	<u>General Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Adjustments/ Eliminations</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>						
Cash and cash equivalents . . . . .	\$ 4,331,568	\$ 56,672	\$ —	\$ 69,467	\$ —	\$ 4,457,707
Investments, including accrued interest . . . . .	422,352	—	—	37,582	—	459,934
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$308,329) . . . . .	490,450	—	—	—	—	490,450
Federal, State and other aid . . . . .	7,647,115	786,892	—	—	—	8,434,007
Taxes other than real estate . . . . .	4,710,519	—	—	297,023	—	5,007,542
Other . . . . .	2,316,125	—	960,582	275,321	—	3,552,028
Mortgage loans and interest receivable, net (less allowance for uncollectible amounts of \$322,011) . . . . .	—	—	—	34	—	34
Due from other funds . . . . .	2,664,275	300,718	—	512,215	(512,112)	2,965,096
Due from Component Units . . . . .	1,061,891	682,345	—	—	—	1,744,236
Restricted cash and investments . . . . .	—	484,842	1,862,964	3,813,413	—	6,161,219
Other . . . . .	11,416	121,543	—	324,364	—	457,323
Total assets. . . . .	<u>\$23,655,711</u>	<u>\$ 2,433,012</u>	<u>\$2,823,546</u>	<u>\$5,329,419</u>	<u>\$ (512,112)</u>	<u>\$33,729,576</u>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities . . . . .	\$ 9,515,405	\$ 1,855,086	\$ 6,156	\$ 662,520	\$ —	\$12,039,167
Accrued tax refunds:						
Real estate taxes . . . . .	40,365	—	—	—	—	40,365
Personal income tax . . . . .	38,015	—	—	107,023	—	145,038
Other . . . . .	84,355	—	—	271,316	—	355,671
Accrued judgments and claims . . . . .	428,114	91,980	—	—	—	520,094
Deferred revenues:						
Prepaid real estate taxes . . . . .	4,631,627	—	—	—	—	4,631,627
Uncollected real estate taxes . . . . .	375,655	—	—	—	—	375,655
Taxes other than real estate . . . . .	3,702,862	—	—	—	—	3,702,862
Other . . . . .	3,171,179	324,284	—	159,831	—	3,655,294
Due to other funds. . . . .	—	3,176,387	—	300,821	(512,112)	2,965,096
Due to Component Units . . . . .	36,288	—	—	—	—	36,288
Estimated disallowance of Federal, State and other aid . . . . .	1,184,574	—	—	—	—	1,184,574
Total liabilities . . . . .	<u>23,208,439</u>	<u>5,447,737</u>	<u>6,156</u>	<u>1,501,511</u>	<u>(512,112)</u>	<u>29,651,731</u>
<b>Fund balances:</b>						
Nonspendable . . . . .	447,272	—	—	570	—	447,842
Spendable:						
Restricted . . . . .	—	129,196	355,883	3,710,282	—	4,195,361
Committed . . . . .	—	—	2,461,507	637	—	2,462,144
Assigned . . . . .	—	—	—	116,483	—	116,483
Unassigned . . . . .	—	(3,143,921)	—	(64)	—	(3,143,985)
Total fund balances (deficit) . . . . .	<u>447,272</u>	<u>(3,014,725)</u>	<u>2,817,390</u>	<u>3,827,908</u>	<u>—</u>	<u>4,077,845</u>
Total liabilities and fund balances . . . . .	<u>\$23,655,711</u>	<u>\$ 2,433,012</u>	<u>\$2,823,546</u>	<u>\$5,329,419</u>	<u>\$ (512,112)</u>	<u>\$33,729,576</u>

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, 2012  
(in thousands)

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

Total fund balances—governmental funds .....	\$ 4,124,589
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds .....	284,890
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds .....	48,215,076
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds .....	5,495,596
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable .....	(77,504,221)
Tax Lien collateralized bonds .....	(36,086)
OPEB liability .....	(88,174,139)
Accrued interest payable .....	(912,173)
Capital lease obligations .....	(1,818,240)
Accrued vacation and sick leave .....	(4,177,582)
Pension liability .....	(592,000)
Landfill closure and post-closure care costs .....	(1,474,586)
Pollution Remediation .....	(212,432)
Other long-term liabilities .....	(8,566,266)
Net assets (deficit) of governmental activities .....	<u><u>\$(125,347,574)</u></u>

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL**  
**FUNDS TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2011  
(in thousands)

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

Total fund balances—governmental funds .....	\$ 4,077,845
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds .....	297,303
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds .....	46,468,237
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds .....	5,358,133
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable .....	(72,866,301)
Tax Lien collateralized bonds .....	(34,267)
OPEB liability .....	(83,906,953)
Accrued interest payable .....	(865,875)
Capital lease obligations .....	(1,895,460)
Accrued vacation and sick leave .....	(3,929,073)
Pension liability .....	(592,200)
Landfill closure and post-closure care costs .....	(1,569,122)
Pollution Remediation .....	(226,223)
Other long-term liabilities .....	(8,171,063)
Net assets (deficit) of governmental activities .....	<u><u>\$(117,855,019)</u></u>

See accompanying notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2012  
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
<b>REVENUES:</b>						
Real estate taxes	\$18,157,722	\$ —	\$ —	\$ —	\$ —	\$18,157,722
Sales and use taxes	6,512,107	—	—	—	—	6,512,107
Personal income tax	8,557,002	—	—	616,864	(616,864)	8,557,002
Income taxes, other	6,498,881	—	—	—	—	6,498,881
Other taxes	2,385,674	—	—	—	—	2,385,674
Federal, State and other categorical aid	19,216,336	564,131	88,133	—	—	19,868,600
Unrestricted Federal and State aid	25,000	—	—	169,547	—	194,547
Charges for services	2,538,469	—	—	—	—	2,538,469
Tobacco settlement	—	—	—	187,168	—	187,168
Investment income	16,221	—	624	100,968	—	117,813
Interest on mortgages, net	—	—	—	976	—	976
Other revenues	2,574,845	2,241,782	32,401	2,412,490	(2,109,236)	5,152,282
Total revenues	<u>66,482,257</u>	<u>2,805,913</u>	<u>121,158</u>	<u>3,488,013</u>	<u>(2,726,100)</u>	<u>70,171,241</u>
<b>EXPENDITURES:</b>						
General government	1,977,838	902,673	—	336,198	—	3,216,709
Public safety and judicial	8,239,603	373,445	—	—	—	8,613,048
Education	19,129,084	1,877,005	—	2,192,855	(2,109,236)	21,089,708
City University	750,476	87,377	—	—	—	837,853
Social services	13,259,093	52,023	—	—	—	13,311,116
Environmental protection	2,246,210	2,728,031	—	—	—	4,974,241
Transportation services	1,443,700	1,175,198	—	—	—	2,618,898
Parks, recreation and cultural activities	431,940	634,888	—	—	—	1,066,828
Housing	811,045	348,760	—	—	—	1,159,805
Health (including payments to HHC)	1,608,034	210,464	—	—	—	1,818,498
Libraries	199,365	41,132	—	—	—	240,497
Pensions	7,830,440	—	—	—	—	7,830,440
Judgments and claims	582,869	—	—	—	—	582,869
Fringe benefits and other benefit payments	3,879,655	—	—	—	—	3,879,655
Administrative and other	122,069	—	96,072	276,206	—	494,347
Debt Service:						
Interest	—	—	1,739,487	1,312,875	—	3,052,362
Redemptions	—	—	2,005,570	2,614,881	—	4,620,451
Lease payments	137,659	—	—	—	—	137,659
Total expenditures	<u>62,649,080</u>	<u>8,430,996</u>	<u>3,841,129</u>	<u>6,733,015</u>	<u>(2,109,236)</u>	<u>79,544,984</u>
Excess (deficiency) of revenues over expenditures	<u>3,833,177</u>	<u>(5,625,083)</u>	<u>(3,719,971)</u>	<u>(3,245,002)</u>	<u>(616,864)</u>	<u>(9,373,743)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers from (to) General Fund	—	—	2,272,372	1,140,758	—	3,413,130
Transfers from (to) Nonmajor Capital Projects Funds	—	3,176,386	—	8,950	—	3,185,336
Transfers from (to) Nonmajor Special Revenue Funds	—	—	—	72,619	—	72,619
Principal amount of bonds issued	201,829	2,523,476	—	4,519,748	—	7,245,053
Bond premium	—	164,642	364,538	592,729	—	1,121,909
Capitalized leases	—	28,746	—	—	—	28,746
Issuance of refunding debt	—	—	2,227,470	2,178,810	—	4,406,280
Transfers to Capital Projects Fund	—	—	—	(3,176,386)	—	(3,176,386)
Transfers from (to) General Debt Service Fund	(2,272,372)	—	—	6,608	—	(2,265,764)
Transfers from (to) Nonmajor Debt Service Funds	(1,757,622)	—	(6,608)	(81,569)	616,864	(1,228,935)
Payments to refunded bond escrow holder	—	—	(2,581,583)	(799,918)	—	(3,381,501)
Total other financing sources (uses)	<u>(3,828,165)</u>	<u>5,893,250</u>	<u>2,276,189</u>	<u>4,462,349</u>	<u>616,864</u>	<u>9,420,487</u>
Net change in fund balances	5,012	268,167	(1,443,782)	1,217,347	—	46,744
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	447,272	(3,014,725)	2,817,390	3,827,908	—	4,077,845
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 452,284</u>	<u>\$ (2,746,558)</u>	<u>\$ 1,373,608</u>	<u>\$ 5,045,255</u>	<u>\$ —</u>	<u>\$ 4,124,589</u>

The reconciliation of the net change in fund balances of governmental funds to the change in 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**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED JUNE 30, 2011  
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
<b>REVENUES:</b>						
Real estate taxes	\$17,086,484	\$ —	\$ —	\$ —	\$ —	\$17,086,484
Sales and use taxes	6,190,215	—	—	—	—	6,190,215
Personal income tax	8,165,972	—	—	695,044	(695,044)	8,165,972
Income taxes, other	6,705,299	—	—	—	—	6,705,299
Other taxes	2,201,835	—	—	—	—	2,201,835
Federal, State and other categorical aid	20,145,261	532,616	67,503	—	—	20,745,380
Unrestricted Federal and State aid	38,996	—	—	169,627	—	208,623
Charges for services	2,344,682	—	—	—	—	2,344,682
Tobacco settlement	—	—	—	183,531	—	183,531
Investment income	20,786	—	166	84,595	—	105,547
Interest on mortgages, net	—	—	—	2,096	—	2,096
Other revenues	1,907,307	2,665,002	15,282	2,320,453	(2,187,535)	4,720,509
Total revenues	<u>64,806,837</u>	<u>3,197,618</u>	<u>82,951</u>	<u>3,455,346</u>	<u>(2,882,579)</u>	<u>68,660,173</u>
<b>EXPENDITURES:</b>						
General government	2,006,167	950,271	—	346,426	—	3,302,864
Public safety and judicial	8,281,129	387,087	—	—	—	8,668,216
Education	18,862,234	2,015,322	—	2,238,075	(2,187,535)	20,928,096
City University	736,092	83,316	—	—	—	819,408
Social services	11,785,981	59,970	—	—	—	11,845,951
Environmental protection	2,339,955	3,057,878	—	—	—	5,397,833
Transportation services	1,160,122	1,015,948	—	—	—	2,176,070
Parks, recreation and cultural activities	451,184	865,941	—	—	—	1,317,125
Housing	787,671	330,399	—	—	—	1,118,070
Health (including payments to HHC)	1,666,942	265,936	—	—	—	1,932,878
Libraries	295,990	66,739	—	—	—	362,729
Pensions	6,842,573	—	—	—	—	6,842,573
Judgments and claims	664,073	—	—	—	—	664,073
Fringe benefits and other benefit payments	3,846,135	—	—	—	—	3,846,135
Administrative and other	(82,948)	—	88,204	160,182	—	165,438
Debt Service:						
Interest	—	—	1,744,653	1,163,734	—	2,908,387
Redemptions	—	—	1,851,566	618,722	—	2,470,288
Lease payments	145,336	—	—	—	—	145,336
Total expenditures	<u>59,788,636</u>	<u>9,098,807</u>	<u>3,684,423</u>	<u>4,527,139</u>	<u>(2,187,535)</u>	<u>74,911,470</u>
Excess (deficiency) of revenues over expenditures	<u>5,018,201</u>	<u>(5,901,189)</u>	<u>(3,601,472)</u>	<u>(1,071,793)</u>	<u>(695,044)</u>	<u>(6,251,297)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers from (to) General Fund	—	—	3,488,937	1,096,899	—	4,585,836
Transfers from (to) Nonmajor Capital Projects Funds	—	3,979,583	—	42,825	—	4,022,408
Transfers from (to) Nonmajor Special Revenue Funds	—	—	—	102,631	—	102,631
Principal amount of bonds issued	267,801	1,912,199	—	4,460,953	—	6,640,953
Bond premium	—	—	187,351	128,115	—	315,466
Capitalized leases	—	139,026	—	—	—	139,026
Issuance of refunding debt	—	—	2,002,955	649,425	—	2,652,380
Transfers to Capital Projects Fund	—	—	—	(3,979,583)	—	(3,979,583)
Transfers from (to) General Debt Service Fund	(3,488,937)	—	—	5,170	—	(3,483,767)
Transfers from (to) Nonmajor Debt Service Funds	(1,791,943)	—	(5,170)	(145,456)	695,044	(1,247,525)
Payments to refunded bond escrow holder	—	—	(2,181,409)	(795,042)	—	(2,976,451)
Total other financing sources (uses)	<u>(5,013,079)</u>	<u>6,030,808</u>	<u>3,492,664</u>	<u>1,565,937</u>	<u>695,044</u>	<u>6,771,374</u>
Net change in fund balances	5,122	129,619	(108,808)	494,144	—	520,077
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	442,150	(3,144,344)	2,926,198	3,333,764	—	3,557,768
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 447,272</u>	<u>\$ (3,014,725)</u>	<u>\$ 2,817,390</u>	<u>\$ 3,827,908</u>	<u>\$ —</u>	<u>\$ 4,077,845</u>

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

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**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, 2012  
(in thousands)

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

Net change in fund balances—governmental funds .....		\$	46,744
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>			
Purchases of capital assets .....		\$	5,005,942
Depreciation/amortization expense .....		<u>(2,680,470)</u>	2,325,472
The net effect of various miscellaneous transactions involving capital assets and other ( <i>i.e.</i> sales, trade-ins, and donations) is to decrease net assets .....			(513,826)
<p>The issuance of long-term debt (<i>i.e.</i>, bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>			
Proceeds from sales of bonds .....		(11,651,333)	
Principal payments of bonds .....		6,880,043	
Other .....		<u>229,735</u>	(4,541,555)
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 .....			(380,905)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds .....			(175,090)
OPEB obligation .....			(4,267,186)
Pollution Remediation .....			<u>13,791</u>
Change in net assets—governmental activities .....			<u><u>\$(7,492,555)</u></u>

See accompanying notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2011  
(in thousands)

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

Net change in fund balances—governmental funds .....		\$ 520,077
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization in the current period.</p>		
Purchases of capital assets .....	\$ 5,452,333	
Depreciation/amortization expense .....	<u>(2,333,170)</u>	3,119,163
The net effect of various miscellaneous transactions involving capital assets and other ( <i>i.e.</i> sales, trade-ins, and donations) is to decrease net assets .....		(144,071)
<p>The issuance of long-term debt (<i>i.e.</i>, bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Proceeds from sales of bonds .....	(9,293,333)	
Principal payments of bonds .....	5,131,273	
Other .....	<u>28,221</u>	(4,133,839)
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 .....		(533,067)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds .....		477,122
OPEB obligation .....		(8,922,121)
Pollution Remediation .....		<u>29,158</u>
Change in net assets—governmental activities .....		<u>\$ (9,587,578)</u>

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(in thousands)

	Budget		Actual	Better (Worse) Than Modified Budget
	Adopted	Modified		
<b>REVENUES:</b>				
Real estate taxes .....	\$17,838,213	\$18,129,402	\$18,157,722	\$ 28,320
Sales and use taxes .....	6,443,700	6,539,360	6,512,107	(27,253)
Personal income tax .....	8,748,500	8,593,600	8,557,002	(36,598)
Income taxes, other .....	6,284,900	6,419,550	6,498,881	79,331
Other taxes .....	2,721,855	2,370,816	2,385,674	14,858
Federal, State and other categorical aid .....	18,704,581	19,694,090	19,216,336	(477,754)
Unrestricted Federal and State aid .....	37,407	25,000	25,000	—
Charges for services .....	2,491,141	2,521,151	2,538,469	17,318
Investment income .....	33,510	17,330	16,221	(1,109)
Other revenues .....	1,756,886	3,049,604	2,574,845	(474,759)
Total revenues .....	<u>65,060,693</u>	<u>67,359,903</u>	<u>66,482,257</u>	<u>(877,646)</u>
<b>EXPENDITURES:</b>				
General government .....	2,068,670	2,118,108	1,977,838	140,270
Public safety and judicial .....	7,763,300	8,275,367	8,239,603	35,764
Education .....	19,407,122	19,248,806	19,129,084	119,722
City University .....	757,137	788,343	750,476	37,867
Social services .....	13,139,776	13,371,497	13,259,093	112,404
Environmental protection .....	2,266,587	2,282,490	2,246,210	36,280
Transportation services .....	1,295,628	1,509,501	1,443,700	65,801
Parks, recreation and cultural activities .....	389,168	435,545	431,940	3,605
Housing .....	656,468	893,559	811,045	82,514
Health (including payments to HHC) .....	1,660,438	1,691,677	1,608,034	83,643
Libraries .....	139,020	199,533	199,365	168
Pensions .....	8,299,854	7,837,854	7,830,440	7,414
Judgments and claims .....	654,959	664,959	582,869	82,090
Fringe benefits and other benefit payments .....	3,819,176	3,878,406	3,879,655	(1,249)
Lease payments for debt service .....	155,700	137,659	137,659	—
Other .....	569,559	215,339	122,069	93,270
Total expenditures .....	<u>63,042,562</u>	<u>63,548,643</u>	<u>62,649,080</u>	<u>899,563</u>
Excess of revenues over expenditures .....	2,018,131	3,811,260	3,833,177	21,917
<b>OTHER FINANCING SOURCES (USES):</b>				
Principal amount of bonds issued .....	—	201,829	201,829	—
Transfer to Nonmajor Debt Service Fund .....	(1,134,965)	(1,948,242)	(1,967,068)	(18,826)
Transfer from Nonmajor Debt Service Fund .....	212,869	209,446	209,446	—
Transfers and other payments for debt service .....	(1,096,035)	(2,274,293)	(2,272,372)	1,921
Total other financing uses .....	<u>(2,018,131)</u>	<u>(3,811,260)</u>	<u>(3,828,165)</u>	<u>(16,905)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES ..	<u>\$ —</u>	<u>\$ —</u>	5,012	<u>\$ 5,012</u>
FUND BALANCE AT BEGINNING OF YEAR .....			447,272	
FUND BALANCE AT END OF YEAR .....			<u>\$ 452,284</u>	

See accompanying notes to financial statements.



**THE CITY OF NEW YORK**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(in thousands)

	Budget		Actual	Better (Worse) Than Modified Budget
	Adopted	Modified		
<b>REVENUES:</b>				
Real estate taxes . . . . .	\$16,988,083	\$17,078,571	\$17,086,484	\$ 7,913
Sales and use taxes . . . . .	5,767,500	6,114,735	6,190,215	75,480
Personal income tax . . . . .	8,291,000	8,130,200	8,165,972	35,772
Income taxes, other . . . . .	5,391,600	6,687,070	6,705,299	18,229
Other taxes . . . . .	2,473,907	2,170,251	2,201,835	31,584
Federal, State and other categorical aid . . . . .	19,201,207	20,780,643	20,145,261	(635,382)
Unrestricted Federal and State aid . . . . .	14,407	51,404	38,996	(12,408)
Charges for services . . . . .	2,325,604	2,318,143	2,344,682	26,539
Investment income . . . . .	47,800	22,225	20,786	(1,439)
Other revenues . . . . .	1,799,132	2,384,538	1,907,307	(477,231)
Total revenues . . . . .	<u>62,300,240</u>	<u>65,737,780</u>	<u>64,806,837</u>	<u>(930,943)</u>
<b>EXPENDITURES:</b>				
General government . . . . .	2,019,403	2,107,537	2,006,167	101,370
Public safety and judicial . . . . .	7,713,391	8,336,342	8,281,129	55,213
Education . . . . .	18,589,649	18,911,938	18,862,234	49,704
City University . . . . .	758,478	772,477	736,092	36,385
Social services . . . . .	12,029,837	11,926,502	11,785,981	140,521
Environmental protection . . . . .	2,291,842	2,366,764	2,339,955	26,809
Transportation services . . . . .	1,015,976	1,224,416	1,160,122	64,294
Parks, recreation and cultural activities . . . . .	391,071	454,686	451,184	3,502
Housing . . . . .	688,852	856,047	787,671	68,376
Health (including payments to HHC) . . . . .	1,685,544	1,734,712	1,666,942	67,770
Libraries . . . . .	144,368	296,825	295,990	835
Pensions . . . . .	7,487,680	6,877,293	6,842,573	34,720
Judgments and claims . . . . .	685,959	664,074	664,073	1
Fringe benefits and other benefit payments . . . . .	3,878,688	3,853,833	3,846,135	7,698
Lease payments for debt service . . . . .	169,487	145,336	145,336	—
Other . . . . .	690,371	187,643	(82,948)	270,591
Total expenditures . . . . .	<u>60,240,596</u>	<u>60,716,425</u>	<u>59,788,636</u>	<u>927,789</u>
Excess of revenues over expenditures . . . . .	2,059,644	5,021,355	5,018,201	(3,154)
<b>OTHER FINANCING SOURCES (USES):</b>				
Principal amount of bonds issued . . . . .	—	267,801	267,801	—
Transfer to Nonmajor Debt Service Fund . . . . .	(1,221,206)	(1,969,698)	(1,969,698)	—
Transfer from Nonmajor Debt Service Fund . . . . .	166,377	173,240	177,755	4,515
Transfers and other payments for debt service . . . . .	(1,004,815)	(3,492,698)	(3,488,937)	3,761
Total other financing uses . . . . .	<u>(2,059,644)</u>	<u>(5,021,355)</u>	<u>(5,013,079)</u>	<u>8,276</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES . . . . .	<u>\$ —</u>	<u>\$ —</u>	5,122	<u>\$ 5,122</u>
FUND BALANCE AT BEGINNING OF YEAR . . . . .			442,150	
FUND BALANCE AT END OF YEAR . . . . .			<u>\$ 447,272</u>	

See accompanying notes to financial statements.

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

JUNE 30, 2012  
(in thousands)

	<b>Pension and Other Employee Benefit Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS:</b>		
Cash and cash equivalents .....	\$ 896,676	\$1,172,719
Receivables:		
Member loans .....	1,693,143	—
Investment securities sold .....	2,414,668	—
Accrued interest and dividends .....	497,807	—
Other .....	593	—
Investments:		
Other short-term investments .....	5,928,991	—
Debt securities .....	30,927,274	923,274
Equity securities .....	57,760,434	—
Guaranteed investment contracts .....	4,335,925	—
Mutual funds .....	28,662,333	—
Collateral from securities lending transactions .....	9,980,976	—
Due from Pension Funds .....	6,032	—
Other .....	751,064	—
Total assets .....	<u>143,855,916</u>	<u>2,095,993</u>
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities .....	1,698,216	627,576
Payable for investment securities purchased .....	6,148,819	—
Accrued benefits payable .....	494,490	—
Due to Variable Supplements Funds .....	6,032	—
Securities lending transactions .....	10,007,790	—
Other .....	568	1,468,417
Total liabilities .....	<u>18,355,915</u>	<u>2,095,993</u>
<b>NET ASSETS:</b>		
Held in Trust for Benefit Payments .....	<u>\$125,500,001</u>	\$ —

See accompanying notes to financial statements.

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

JUNE 30, 2011  
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS:</b>		
Cash and cash equivalents .....	\$ 1,832,025	\$1,295,693
Receivables:		
Member loans .....	1,646,708	—
Investment securities sold .....	2,615,898	—
Accrued interest and dividends .....	444,730	—
Other .....	309	—
Investments:		
Other short-term investments .....	9,207,821	—
Debt securities .....	26,468,231	695,872
Equity securities .....	59,169,862	—
Guaranteed investment contracts .....	3,851,911	—
Management investment contracts .....	41,898	—
Mutual funds .....	30,216,793	—
Collateral from securities lending transactions .....	9,814,616	—
Due from Pension Funds .....	6,234	—
Other .....	139,416	—
Total assets .....	<u>145,456,452</u>	<u>1,991,565</u>
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities .....	1,047,440	725,263
Payable for investment securities purchased .....	8,378,740	—
Accrued benefits payable .....	480,589	—
Due to Variable Supplements Funds .....	6,234	—
Securities lending transactions .....	9,841,431	—
Other .....	416	1,266,302
Total liabilities .....	<u>19,754,850</u>	<u>1,991,565</u>
<b>Net Assets:</b>		
Held in Trust for Benefit Payments .....	<u>\$125,701,602</u>	<u>\$ —</u>

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
FOR THE YEAR ENDED JUNE 30, 2012  
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>
<b>ADDITIONS:</b>	
Contributions:	
Member contributions .....	\$ 1,650,293
Employer contributions .....	10,523,752
Other employer contributions .....	59,185
Total contributions .....	<u>12,233,230</u>
Investment income:	
Interest income .....	1,769,680
Dividend income .....	1,853,917
Net depreciation in fair value of investments .....	(1,204,312)
Investment expenses .....	(394,602)
Investment income, net .....	<u>2,024,683</u>
Securities lending transactions:	
Securities lending income .....	83,531
Securities lending fees .....	(5,353)
Net securities lending income .....	<u>78,178</u>
Payments from Pension Funds .....	12,441
Other .....	48,890
Total additions .....	<u>14,397,422</u>
<b>DEDUCTIONS:</b>	
Benefit payments and withdrawals .....	14,310,606
Payments to Variable Supplements Funds .....	12,441
Administrative expenses .....	129,304
Other .....	146,672
Total deductions .....	<u>14,599,023</u>
Decrease in plan net assets .....	(201,601)
<b>NET ASSETS:</b>	
Held in Trust for Benefit Payments:	
Beginning of Year .....	125,701,602
End of Year .....	<u>\$125,500,001</u>

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
FOR THE YEAR ENDED JUNE 30, 2011  
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>
<b>ADDITIONS:</b>	
Contributions:	
Member contributions .....	\$ 1,656,318
Employer contributions .....	9,584,162
Other employer contributions .....	56,138
Total contributions .....	<u>11,296,618</u>
Investment income:	
Interest income .....	1,661,023
Dividend income .....	1,728,026
Net appreciation in fair value of investments .....	21,584,352
Investment expenses .....	(415,576)
Investment income, net .....	<u>24,557,825</u>
Securities lending transactions:	
Securities lending income .....	76,075
Securities lending fees .....	(11,140)
Unrealized income in fair value of securities lending collateral .....	813
Net securities lending income .....	<u>65,748</u>
Payments from Pension Funds .....	12,357
Other .....	146,061
Total additions .....	<u>36,078,609</u>
<b>DEDUCTIONS:</b>	
Benefit payments and withdrawals .....	13,853,009
Payments to Variable Supplements Funds .....	12,357
Administrative expenses .....	123,942
Other .....	4,416
Total deductions .....	<u>13,993,724</u>
Increase in plan net assets .....	22,084,885
<b>NET ASSETS:</b>	
Held in Trust for Benefit Payments:	
Beginning of Year .....	<u>103,616,717</u>
End of Year .....	<u>\$125,701,602</u>

See accompanying notes to financial statements.

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

JUNE 30, 2012  
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2011	Housing Development Corporation October 31, 2011	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
<b>ASSETS:</b>							
Cash and cash equivalents .....	\$ 5,460	\$ 1,191,083	\$ 627,952	\$ 988,607	\$ 177,665	\$ 79,234	\$ 3,070,001
Investments, including accrued interest .....	27	687	360,922	113,950	32,399	413,014	920,999
Lease receivables .....	—	—	—	—	—	1,700,410	1,700,410
Other receivables .....	665,498	157,370	1,009,594	1,411,320	195,028	25,764	3,464,574
Mortgage loans and interest receivable, net .....	—	11	8,186,601	—	31,288	—	8,217,900
Inventories .....	—	10,706	—	24,240	—	—	34,946
Due from Primary Government .....	62,371	—	—	—	—	—	62,371
Restricted cash and investments .....	1,763,072	301,793	1,602,319	368,565	229,294	639,560	4,904,603
Other .....	228,395	101,140	64,120	9,764	122,133	76,502	602,054
Capital assets:							
Land and construction work-in-progress ..	8,422,470	2,127,100	—	724,678	108,693	74,977	11,457,918
Buildings and equipment .....	27,869,200	10,794,305	4,818	6,483,201	14,307	413,070	45,578,901
Accumulated depreciation .....	(9,816,894)	(7,160,053)	(3,497)	(4,197,915)	(3,784)	(103,036)	(21,285,179)
Deferred outflows of resources .....	134,752	—	—	—	—	14,890	149,642
Total assets .....	<u>29,334,351</u>	<u>7,524,142</u>	<u>11,852,829</u>	<u>5,926,410</u>	<u>907,023</u>	<u>3,334,385</u>	<u>58,879,140</u>
<b>LIABILITIES:</b>							
Accounts payable and accrued liabilities ..	51,361	328,884	825,822	1,206,260	157,955	403,776	2,974,058
Accrued interest payable .....	48,521	7,860	66,106	15,762	—	—	138,249
Unearned revenues .....	51,296	32,992	164,600	—	28,744	52,491	330,123
Due to Primary Government .....	677,880	—	865,077	171,653	125,043	—	1,839,653
Other .....	80,278	40,572	—	36,115	8,278	90,001	255,244
Derivative instruments—interest rate swaps ..	122,140	—	—	—	—	14,890	137,030
Noncurrent Liabilities:							
Due within one year .....	851,409	144,088	476,641	157,783	—	22,131	1,652,052
Due in more than one year .....	27,792,318	3,727,875	8,007,673	5,447,678	259,542	2,268,026	47,503,112
Total liabilities .....	<u>29,675,203</u>	<u>4,282,271</u>	<u>10,405,919</u>	<u>7,035,251</u>	<u>579,562</u>	<u>2,851,315</u>	<u>54,829,521</u>
<b>NET ASSETS:</b>							
Invested in capital assets, net of related debt .	(372,021)	5,349,279	1,321	2,059,253	10,523	325,011	7,373,366
Restricted for:							
Capital projects .....	—	—	—	—	40,766	—	40,766
Debt service .....	687,656	51,740	593,172	159,714	—	—	1,492,282
Loans/security deposits .....	—	—	—	—	50,941	34,656	85,597
Statutory reserve .....	—	—	—	65,896	—	—	65,896
Donor restrictions .....	—	—	—	10,057	—	—	10,057
Operations .....	212,885	—	48,448	—	—	—	261,333
Unrestricted (deficit) .....	(869,372)	(2,159,148)	803,969	(3,403,761)	225,231	123,403	(5,279,678)
Total net assets (deficit) .....	<u>\$ (340,852)</u>	<u>\$ 3,241,871</u>	<u>\$ 1,446,910</u>	<u>\$ (1,108,841)</u>	<u>\$ 327,461</u>	<u>\$ 483,070</u>	<u>\$ 4,049,619</u>

See accompanying notes to financial statements.

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

JUNE 30, 2011  
(in thousands)

	<u>Housing Authority December 31, 2010</u>	<u>Housing Development Corporation October 31, 2010</u>	<u>Health and Hospitals Corporation</u>	<u>Economic Development Corporation</u>	<u>Nonmajor Component Units</u>	<u>Total</u>
<b>ASSETS:</b>						
Cash and cash equivalents .....	\$ 14,875	\$ 466,774	\$ 901,241	\$ 173,215	\$ 81,401	\$ 2,753,099
Investments, including accrued interest .....	24	66,075	113,739	29,493	435,595	645,878
Lease receivables .....	—	—	—	—	1,705,667	1,705,667
Other receivables .....	614,322	930,467	1,590,530	196,435	19,684	3,508,251
Mortgage loans and interest receivable, net ..	—	7,332,572	—	42,231	—	7,374,816
Inventories .....	—	10,943	29,765	—	—	40,708
Due from Primary Government .....	36,288	—	—	—	—	36,288
Restricted cash and investments .....	1,585,512	2,446,553	423,133	92,975	854,826	5,684,924
Other .....	215,139	55,138	11,379	144,360	79,936	608,096
Capital assets:						
Land and construction work-in-progress ..	7,804,563	—	555,858	108,443	22,829	10,496,720
Buildings and equipment .....	26,316,560	4,748	6,295,065	8,550	361,119	43,443,388
Accumulated depreciation .....	(9,132,287)	(3,385)	(3,975,957)	(4,247)	(87,431)	(20,100,702)
Deferred outflows of resources .....	53,216	—	—	—	6,660	59,876
Total assets .....	<u>27,508,212</u>	<u>11,298,942</u>	<u>5,944,753</u>	<u>791,455</u>	<u>3,480,286</u>	<u>56,257,009</u>
<b>LIABILITIES:</b>						
Accounts payable and accrued liabilities ...	56,410	452,945	1,161,140	163,763	638,912	2,770,399
Accrued interest payable .....	50,260	62,072	16,643	—	—	136,323
Unearned revenues .....	61,517	162,329	—	14,340	33,479	289,355
Due to Primary Government .....	682,345	854,517	207,374	126,251	—	1,870,487
Other .....	64,367	—	—	5,127	77,840	185,489
Derivative instruments—interest rate swaps .	37,474	—	—	—	6,660	44,134
Noncurrent Liabilities:						
Due within one year .....	830,452	481,566	151,396	—	20,447	1,642,194
Due in more than one year .....	26,078,275	7,992,648	5,258,080	170,608	2,331,760	45,105,912
Total liabilities .....	<u>27,861,100</u>	<u>10,006,077</u>	<u>6,794,633</u>	<u>480,089</u>	<u>3,109,098</u>	<u>52,044,293</u>
<b>NET ASSETS:</b>						
Invested in capital assets, net of related debt .	(215,322)	1,363	1,975,015	4,302	237,018	7,239,275
Restricted for:						
Capital projects .....	—	—	—	39,618	7,057	46,675
Debt service .....	573,461	526,404	156,332	—	—	1,256,197
Loans/security deposits .....	—	—	—	45,518	16,925	62,443
Statutory reserve .....	—	—	60,448	—	—	60,448
Donor restrictions .....	—	—	9,647	—	—	9,647
Operations .....	199,636	43,733	—	—	—	257,499
Unrestricted (deficit) .....	(910,663)	721,365	(3,051,322)	221,928	110,188	(4,719,468)
Total net assets (deficit) .....	<u>\$ (352,888)</u>	<u>\$ 1,292,865</u>	<u>\$ (849,880)</u>	<u>\$ 311,366</u>	<u>\$ 371,188</u>	<u>\$ 4,212,716</u>

See accompanying notes to financial statements.



**THE CITY OF NEW YORK  
COMPONENT UNITS  
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2012  
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2011	Housing Development Corporation October 31, 2011	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
<b>EXPENSES</b> .....	\$ 3,496,518	\$3,687,309	\$ 186,606	\$ 7,559,662	\$ 756,523	\$ 150,301	\$15,836,919
<b>PROGRAM REVENUES:</b>							
Charges for services .....	3,236,474	895,864	231,575	6,801,796	271,744	56,084	11,493,537
Operating grants and contributions .....	—	2,065,734	—	249,637	84,417	12,979	2,412,767
Capital grants, contributions and other .....	26,903	470,895	—	174,977	407,810	111,061	1,191,646
Total program revenues .....	3,263,377	3,432,493	231,575	7,226,410	763,971	180,124	15,097,950
Net (expenses) program revenues .....	(233,141)	(254,816)	44,969	(333,252)	7,448	29,823	(738,969)
<b>GENERAL REVENUES:</b>							
Investment income .....	48,936	6,360	30,751	11,930	667	(27,697)	70,947
Other Federal and State aid .....	—	—	—	—	5,550	—	5,550
Other .....	196,241	50,262	78,325	62,361	2,430	109,756	499,375
General revenues, net .....	245,177	56,622	109,076	74,291	8,647	82,059	575,872
Change in net assets .....	12,036	(198,194)	154,045	(258,961)	16,095	111,882	(163,097)
Net assets (deficit)—beginning .....	(352,888)	3,440,065	1,292,865	(849,880)	311,366	371,188	4,212,716
Net assets (deficit)—ending .....	\$ (340,852)	\$3,241,871	\$1,446,910	\$(1,108,841)	\$327,461	\$ 483,070	\$ 4,049,619

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**COMPONENT UNITS**  
**STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2011  
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2010	Housing Development Corporation October 31, 2010	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
<b>EXPENSES</b> .....	\$ 3,378,672	\$3,595,746	\$ 182,005	\$ 7,418,490	\$ 780,716	\$ 178,447	\$15,534,076
<b>PROGRAM REVENUES:</b>							
Charges for services .....	3,068,306	870,977	208,859	6,594,750	321,946	58,134	11,122,972
Operating grants and contributions .....	—	2,163,495	—	212,180	29,040	22,367	2,427,082
Capital grants, contributions and other .....	18,696	561,992	—	200,270	516,425	105,015	1,402,398
Total program revenues .....	3,087,002	3,596,464	208,859	7,007,200	867,411	185,516	14,952,452
Net (expenses) program revenues .....	(291,670)	718	26,854	(411,290)	86,695	7,069	(581,624)
<b>GENERAL REVENUES:</b>							
Investment income .....	38,313	8,256	32,413	14,023	915	6,450	100,370
Other Federal and State aid .....	—	—	—	—	2,569	—	2,569
Other .....	180,986	41,875	6,170	76,761	1,649	111,498	418,939
General revenues, net .....	219,299	50,131	38,583	90,784	5,133	117,948	521,878
Change in net assets .....	(72,371)	50,849	65,437	(320,506)	91,828	125,017	(59,746)
Net assets (deficit)—beginning .....	(280,517)	3,389,216	1,227,428	(529,374)	219,538	246,171	4,272,462
Net assets (deficit)—ending .....	\$ (352,888)	\$3,440,065	\$1,292,865	\$ (849,880)	\$ 311,366	\$ 371,188	\$ 4,212,716

See accompanying notes to financial statements.

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**THE CITY OF NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 and 2011**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**1. Reporting Entity**

The City 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 and its Component Units which are legally separate organizations for which the primary government is financially accountable, and other legally separate organizations for which the primary government has determined, through the exercise of management’s professional judgment, that inclusion of those organizations do not meet the financial accountability criteria, but are necessary to be included to prevent the reporting entity’s financial statements from being 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 organizations that are fiscally dependent on the primary government if there is a potential for the organizations to provide specific financial benefits to the primary government or impose specific financial burdens on the primary government regardless of whether the organizations have separate elected governing boards, governing boards appointed by higher levels of government or jointly appointed boards. The City is financially accountable for all of its Component Units.

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, are reported as if they were part of the primary government because they all provide services exclusively to the City. They include the following:

**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 and to pay TFA’s administrative expenditures.

In addition to State legislative authorization to issue Future Tax Secured Bonds for capital purposes for which TFA had issued its statutory limit of \$13.5 billion as of June 30, 2007, in July 2009, authorizing legislation permits TFA to issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, does not exceed the debt limit of the City. As of July 1, 2012, the City’s and TFA’s combined debt-incurring capacity was approximately \$22.8 billion. TFA is also authorized to have outstanding Recovery Bonds of \$2.5 billion to fund the City’s costs related to and arising from events on September 11, 2001 at the World Trade Center. Further, legislation enacted in April 2006 enables TFA to have outstanding up to \$9.4 billion of Building Aid Revenue Bonds (BARBs), notes, or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system and TFA’s administrative expenditures. As of June 30, 2012, \$5.31 billion of BARBs have been issued and are outstanding.

TFA does not have any employees; its affairs are administered by employees of the City and of another Component Unit of the City, for which TFA pays a management fee and overhead 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 not-for-profit corporation law 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 future rights, title, and interest of the City to the TSRs were sold to TSASC.

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 TSRs after payment of debt service, operating expenses, and certain other costs as set forth in the original Indenture.

Under the Amended and Restated Indenture dated January 1, 2006 (Indenture), the Residual Certificate represents the entitlement to receive all amounts in excess of specified percentages of TSRs and other revenues (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 Indenture provides that a specified percentage of Collections are pledged, and required to be applied to the payment of debt service and operating costs. That percentage is 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, rent, and overhead 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 funded by appropriations made by the City which are guided by five-year capital plans, developed by the Department of Education (DOE) of the City. The City's appropriation for the five year capital plan for the fiscal years 2010 through 2014 is \$11.01 billion.

SCA carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter.

As SCA represents a pass-through entity, in existence for the sole purpose of capital projects, all expenditures are capitalized into construction-in-progress except for pollution remediation expenditures. Upon completion of construction-in-progress projects, the assets are transferred to DOE.

**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 \$499 million of bonds issued in December 2004 was 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 and overhead 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 (\$2.55 billion of bonds was issued in November 2004) to finance the payment of principal, interest, and redemption premium (if any), on all outstanding bonds of Municipal Assistance Corporation for The City of New York (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 and overhead based on its allocated share of personnel and overhead costs.

**Hudson Yards Development Corporation (HYDC).** HYDC, a local development corporation organized by the City under the not-for-profit corporation law of the State of New York, began operations in 2005 to manage and implement the City's economic development initiative for the development and redevelopment activities (Project) of the Hudson Yards area on the West Side of Manhattan (Project Area). HYDC is governed by a Board of thirteen 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.

**Hudson Yards Infrastructure Corporation (HYIC).** HYIC, a local development corporation organized by the City under the not-for-profit corporation law of the State of New York, began operations in 2005 for the purpose of financing certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (Project). HYIC does not engage in development directly, but finances development spearheaded by HYDC and carried out by existing public entities. HYIC fulfills its purpose through the issuance of 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 and overhead based on its allocated share of personnel and overhead costs.

**New York City Tax Lien Trusts (NYCTLTs).** The NYCTLTs are Delaware statutory trusts which were created to acquire certain liens securing unpaid real estate taxes, water rents, sewer surcharges, and other charges payable to the City and the New York City Water Board in exchange for the proceeds from bonds issued by the NYCTLTs, net of reserves funded by the bond proceeds and bond issue costs. The City is the sole beneficiary to the NYCTLTs and is entitled to receive distributions from the NYCTLTs after payments to the bondholders and certain reserve requirements have been satisfied. The NYCTLTs do not have any employees. The NYCTLTs affairs are administered by the owner trustee, its program manager, tax lien servicer, paying agent and investment custodian.

The NYCTLTs are:

- NYCTLT 1998-2
- NYCTLT 2010-A
- NYCTLT 2011-A
- NYCTLT 2012-A

#### *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. As of July 1, 2011, HHC dissolved the HHC Foundation of New York City, Inc. while continuing to coordinate and conduct activities consistent with the charitable purposes and mission of the Foundation.

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. HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City which includes 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.

**New York City Housing Development Corporation (HDC).** HDC, a corporate governmental agency constituting a public benefit corporation 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: (i) the accounts of HDC and (ii) two active discretely presented Component Units: Housing Assistance Corporation and the New York City Residential Mortgage Insurance Corporation. Also, HDC includes the Housing New York Corporation which became an inactive subsidiary of HDC on November 3, 2003 and is not expected to be dissolved and the NYC HDC Real Estate Owned Corporation which was established as a subsidiary of HDC on September 20, 2004 and during HDC's last fiscal year, there was no activity by this subsidiary. It is treated as a blended component of HDC. To accomplish its objectives, HDC is empowered to finance housing through new construction or rehabilitation and to provide permanent financing for multi-family residential housing. HDC finances significant amounts of its activities through issuance of 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.

**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 losses result from the essential services that HA provides, and such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, 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) the City in the form of debt service and capital payments. Subsidies are established through budgetary procedures which establish amounts to be funded by the grantor agencies.

**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 Capital Assets through a financing transaction which includes the issuance of double and triple tax-exempt industrial development bonds (IDBs). The participating organizations, in addition to satisfying legal requirements under IDA's governing laws, 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 tax that are less than full taxes; and exemption from City and State sales and use taxes as applied to construction materials, machinery and equipment. In addition to IDB financing, IDA also issued tax exempt payments in lieu of property taxes revenue bonds, taxable rental revenue bonds, taxable installment purchase bonds and taxable lease revenue bonds in connection with the construction of the new Yankee Stadium and Citi Field. 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 was formed in 1991 as a result of the merger of two not-for-profit corporations that performed economic development services for the City. EDC is a local development corporation organized 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 Component Unit, 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.

**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 consisted 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 for each business displaced. The funds were released to the displaced firm once eligible relocation had taken place.

Conversion contributions were deposited to the BRAC fund in the event that a displaced firm did not relocate within the City. In addition, if the space to be converted was vacant for less than five years, the conversion contribution was made directly 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 paid as reimbursement of moving costs after a firm completes its relocation. This program will continue to operate only with the current accumulated net assets now available.

In fiscal year 2007, BRAC had received \$1.5 million in contributions from EDC to administer the Greenpoint Relocation Program. This program is intended to help defray relocation costs for those manufacturing and industrial firms that may need to relocate due to the rezoning of the Greenpoint-Williamsburg area of Brooklyn by providing for maximum grants of \$50,000. As of June 30, 2012, the BRAC fund was valued at \$.06 million, and grants for both Industrial Relocation Grant and Greenpoint Relocation Program will be available until funds are exhausted.

**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. That lease was amended, restated and the term extended by a lease commencing July 1, 2012. 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. The physical operation and capital improvements of NYW are performed by the New York City Department of Environmental Protection (DEP) subject to contractual agreements with the Water Board and Water Authority.

**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 with \$999.9 million in funds by the Federal Emergency Management Agency (FEMA) and used this funding to support issuance of a liability insurance contract that 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. Coverage is provided on both an excess of loss and first dollar basis, depending on the line of coverage. 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 is a conduit bond issuer for the Recovery Zone Facility Bonds, which were allocated to the City to spur construction projects that have been unable to get traditional financing due to the current capital market. The ability to issue tax-exempt Recovery Zone Facility Bonds expired December 31, 2010. Until January 2008, CRC issued tax-exempt bonds for not-for-profit organizations' capital projects through the Loan Enhanced Assistance Program (LEAP). LEAP's goal was 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. However, LEAP is not currently available due to the continued suspension of a portion of the State of New York law governing industrial development activities.

CRC is a self-supporting entity and operates in a manner similar to a private business. 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.

**Brooklyn Bridge Park Corporation (BBPC).** BBPC is a not-for-profit corporation incorporated in the State of New York in 2010. BBPC was formed for the purposes of lessening the burdens of government by further developing and enhancing the economic vitality of the Brooklyn waterfront through the development, operation and maintenance of a renovated waterfront area, including a public park, which serves the people of the New York City region. BBPC is responsible for the planning, construction, maintenance and operation of Brooklyn Bridge Park, an 85 acre sustainable water front park stretching 1.3 miles along Brooklyn's East River shoreline. The majority of BBPC's funding will come from a limited number of revenue-generating development sites while a small fraction of the required operations and maintenance funds will be collected from concessions located throughout the park. BBPC is governed by a 17-member Board of Directors appointed by the Mayor, the Governor of New York State and local elected officials.

**Governors Island Corporation, doing business as The Trust for Governors Island (TGI).** TGI is a not-for-profit corporation incorporated in the State of New York in 2010. TGI was formed for the purposes of lessening the burdens of government by providing the planning, preservation, redevelopment and ongoing operations and maintenance of approximately 150 acres of Governors Island plus surrounding lands underwater, and is located in the Borough of Manhattan. TGI's mission is to transform Governors Island into a destination with great public open space, as well as educational, not-for-profit, and commercial facilities. TGI is breaking ground on 30 acres of new park space scheduled to open in 2013 and proceeding with an ambitious infrastructure program to ready the Island for expanded tenancy and activity. TGI receives funding from the City and State of New York. TGI is governed by a 13-member Board of Directors appointed by the Mayor, the Governor of the State of New York and local elected officials.

**New York City Energy Efficiency Corporation (EEC).** EEC is a not-for-profit corporation incorporated in the State of New York in 2010 whose purpose is to further the City's greenhouse gas reduction plans by facilitating energy efficient investments by private building owners across all building types in the five boroughs through the provisions of energy efficiency financing products.

To achieve its mission, EEC's strategic plan includes the following goals: (1) develop in-house capabilities that will permit EEC to play a critical role in catalyzing retrofit financing markets, (2) pilot various financing products that demonstrate energy efficiency is a commercially viable investment that can be financed in various private building sectors that are significant from the perspective of the City's greenhouse gas emissions reduction goals and (3) develop a non-profit organization with a business model that can become financially self-sustaining over time without excessive reliance on grant funding.

EEC is developing core in-house capabilities to make construction and permanent loans, provide credit enhancement, and manage both energy efficient retrofit technical and real estate finance risk. EEC is engaged in educating various lending organizations about opportunities to finance energy efficient projects while encouraging best practices with respect to retrofit implementation and ongoing performance monitoring.

EEC's activities are funded through two Federal grants awarded to the City under the Energy Efficient and Conservation Block Grant provisions of the American Recovery and Reinvestment Act of 2009. EEC's activities are further funded through several philanthropic grants that EEC was awarded in fiscal year 2012. EEC is governed by a 9-member Board of Directors and its membership includes public officials and private business leaders. Each Director was appointed by the Mayor.

**Build NYC Resource Corporation (Build NYC).** Build NYC is a local development corporation that commenced operation on November 4, 2011 and was organized to assist qualified not-for-profit institutions and other entities eligible under the Federal tax

laws in obtaining tax-exempt bond and taxable bond financing under the New York Not-for-Profit Corporation Law. Build NYC's primary goal is to facilitate access to private activity tax-exempt bond financing for not-for-profit institutions to acquire, construct, renovate, and/or equip their facilities.

Build NYC is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financing assistance. Its membership includes public officials and appointees of the Mayor.

Note: These Component Units publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 200 South, 1 Centre Street, New York, New York 10007-2341.

## 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. 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, which include allocated indirect 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. The fund balance in the General Fund is reported as nonspendable.

**Capital Projects Fund.** This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. Resources of the Capital Projects Fund are derived principally from proceeds of City and TFA bond issues, payments from the Water Authority, and from Federal, State, and other aid.

**General Debt Service Fund.** This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. 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.

**Nonmajor Governmental Funds.** The City reports the following blended Component Units within the nonmajor governmental funds: **TFA, TSASC, ECF, SCA, FSC, STAR, HYDC, HYIC** and the **NYCTLTs**. If a Component Unit is blended, the governmental fund types of the Component Unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. Although the primary government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component should be reported as a Special

Revenue Fund. Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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)
- Teachers' Retirement System of the City of New York 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 City Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York City Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York City Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York City Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- New York City Transit Police Officers' Variable Supplements Fund (TPOVSF)
- New York City Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)
- New York City Housing Police Officers' Variable Supplements Fund (HPOVSF)
- New York City Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- New York City 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)
- Deferred Compensation Plan for Certain Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(a) Plan)
- New York City Employee Individual Retirement Account (NYCE IRA/408(q) IRA)
- The New York City Other Postemployment Benefits Plan (PLAN)

Note: These Fiduciary Funds publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 200 South, 1 Centre Street, New York, New York 10007-2341.

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 major Component Units consist of **HHC, HDC, HA, EDC** and **NYW**. The discretely presented nonmajor components units consist of **IDA, BRAC, BNYDC, WTC Captive, CRC, BBPC, TGI, EEC** and **Build NYC**. 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 2012, the City adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

—Statement No. 61 *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*

—Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

—Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*

**Statement No. 61**, modifies certain requirements for inclusion of Component Units in the financial reporting entity.

For organizations that previously were required to be included as Component Units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and the organization for it to be included in the reporting entity as a Component Unit. For organizations that do not meet the financial accountability criteria for inclusion as Component Units, but should be included because the primary government’s management determines that it would be misleading to exclude them, the Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. For Component Units that currently are blended based on “substantively the same governing body” criterion, the Statement requires that the primary government and the Component Unit have a financial benefit or burden relationship or management of the primary government has operational responsibility of the activities of the Component Unit. New criteria also are added to require blending of Component Units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a Blended Component Unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a Component Unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. The Statement requires a primary government to report its equity interest in a Component Unit as an asset.

As a result of the analysis performed by the City in the course of implementing GASB 61, a managerial decision was made to change the reporting of the NYCTLTs. The effect on the financial statements is to report the NYCTLTs as Blended Component Units of the City. They were formerly reported as Other Trust Funds. For the government-wide financial statements, the financial reporting impact of this change is an increase of \$150 million to “Net assets” in the *Statement of Net Assets*, and a decrease of \$10.9 million to the “Change in net assets” in the *Statement of Activities*. For the funds financial statements, the financial reporting impact is an increase of \$62.4 million to “Fund balance” in the *Balance Sheet* and a decrease of \$20 million to the “Net change in fund balance” in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*.

The objective of **Statement No. 62**, is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants’ Committee on Accounting Procedure

The Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Those entities who chose to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements can continue to apply those pronouncements as other accounting literature. There was no impact on the City’s Financial Statements as a result of the implementation of Statement No. 62.

GASB issued **Statement No. 64** clarifies whether an effective hedge relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. There was no impact on the City’s Financial Statements as a result of the implementation of Statement No. 64.

### 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 and Other 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.

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.

The average balances maintained during fiscal years 2012 and 2011 were approximately \$705 million and \$315 million, respectively.

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 and Other Trust Funds are reported at fair value. Investments are stated at the last reported sales price on a national securities exchange or as priced by a nationally recognized securities pricing service as on the last business day of the fiscal year except for securities held as alternative investments where fair value is determined by the general partners of the partnerships the funds are invested in, and other experts with this asset class.

A description of the City's Fiduciary Funds securities lending activities in fiscal years 2012 and 2011 is included in Deposits and Investments (see Note D.1.).

#### **6. Inventories**

Inventories on hand at June 30, 2012 and 2011, estimated at \$285 million and \$297 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 the City and 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 all land, buildings, equipment (including software), water distribution and sewage collection system, and other elements of the City's infrastructure having an initial minimum useful life of five years, having a cost of more than \$35 thousand, 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, piers, bulkheads 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 generally 25 to 50 years for new construction, 10 to 25 for betterments and/or reconstruction, 5 to 15 years for equipment (including software) and 15 to 40 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 Nonmajor Governmental Funds is net of an allowance for uncollectible amounts of \$327 million and \$322 million for fiscal years 2012 and 2011, respectively. The allowance is composed of the balance of refinanced first lien mortgages one or more years in arrears when payments to the City are expected to be completed between the years 2013 and 2022. Based on the allowance criteria, the receivable has been fully reserved.

## **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. 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 noncurrent liability.

## **12. 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.

### 13. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2012 financial statements are as follows:

Item	Changes in Fair Value from June 30, 2011		Fair Value at June 30, 2012		Notional	
	Classification	Amount	Classification	Amount		
(in thousands)						
<b>Governmental activities</b>						
Cash flow Hedges:						
A	Pay-Fixed interest rate swap	Deferred Outflow	\$ (9,397)	Debt	\$ (32,748)	\$200,000
B	Pay-Fixed interest rate swap	Deferred Outflow	(3,133)	Debt	(10,917)	66,667
C	Pay-Fixed interest rate swap	Deferred Outflow	(3,133)	Debt	(10,917)	66,667
D	Pay-Fixed interest rate swap	Deferred Outflow	(3,133)	Debt	(10,917)	66,667
H	Pay-Fixed interest rate swap	Deferred Outflow	(52,025)	Debt	(84,481)	350,000
J	Pay-Fixed interest rate swap	Deferred Outflow	(1,163)	Debt	(1,499)	50,000
L	Pay-Fixed interest rate swap	Deferred Outflow	(1,785)	Debt	(2,153)	44,145
Investment derivative instruments:						
E	Pay-Fixed interest rate swap	Investment Revenue	(9,195)	Investment	(24,617)	134,300
F	Pay-Fixed interest rate swap	Investment Revenue	649	Investment	(601)	17,770
G	Basis Swap	Investment Revenue	3,915	Investment	(9,121)	542,790
K	Basis Swap	Investment Revenue	3,450	Investment	(29,929)	500,000

On December 15, 2011 derivative instrument I, which was a \$500 million pay-variable interest rate swap, deferred inflow, was terminated as scheduled and the City received a termination payment of \$18.708 million.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.



*Hedging Derivative Instruments*

The following table displays the objective and terms of the City's hedging derivative instruments outstanding at June 30, 2012, along with the credit rating of the associated counterparty. Regarding derivative instruments where the counterparty is unrated, the rating provided is of the counterparty's guarantor.

<u>Item</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u> (in thousands)	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
A	Pay-Fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D and E bonds	\$ 200,000	11/13/2002	8/1/2020	3.269%; receive 62.8% of USD-LIBOR-BBA	A+/Aa3
B	Pay-Fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D and E bonds	66,667	11/13/2002	8/1/2020	3.269%; receive 62.8% of USD-LIBOR-BBA	A-/Baa2*
C	Pay-Fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D and E bonds	66,667	11/13/2002	8/1/2020	3.269%; receive 62.8% of USD-LIBOR-BBA	A-/Baa1*
D	Pay-Fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D and E bonds	66,667	11/13/2002	8/1/2020	3.269%; receive 62.8% of USD-LIBOR-BBA	A/A2
H	Pay-Fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series A and B bonds	350,000	7/14/2003	8/1/2031	2.964%; receive 61.85% of USD-LIBOR-BBA	AA-/Aa3
J	Pay-Fixed interest rate swap	Hedge of changes in cash flows on the 2005 Series A and B bonds	50,000	7/29/2004	8/1/2014	Pay 4.01%/4.12%; receive CPI + .80% for 2013 maturity/CPI +.90% for 2014 maturity	A-/Baa1*
L	Pay-Fixed interest rate swap	Hedge of changes in cash flows on the 2005 Series J, K, and L Bonds	44,145	3/3/2005	8/1/2017	Pay 4.55%/4.63%/4.71%; receive CPI +1.50% for 2015 maturity/CPI +1.55% for 2016 maturity/CPI +1.60% for 2017 maturity	A+/Aa3

\* Counterparty is unrated. Ratings are of counterparty's guarantor.

LIBOR: London Interbank Offered Rate Index

CPI: Consumer Price Index

*Risks*

*Credit risk:* The City is exposed to credit risk on hedging derivative instruments. To minimize its exposure to loss related to credit risk, it is the City's policy to require counterparty collateral posting provisions in its hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments (net of the effect of applicable threshold requirements and netting arrangements) should the counterparty's credit rating fall below the following:

Each of the counterparties with respect to derivative instruments B and D (or its respective guarantor) is required to post collateral if its credit rating goes below A3/A-. The counterparty with respect to derivative instruments C and J (or its respective guarantor) is required to post collateral if all of its credit ratings go below the double-A category and will also post collateral if it has at least one rating below A2 or A. The counterparty with respect to derivative instruments A and L is required to post collateral if it has at least one rating below the double-A category. The counterparty with respect to derivative instrument H is required to post collateral if its credit ratings goes below A2/A. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The City has never been required to access collateral.

It is the City's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The aggregate fair value of hedging derivative instruments requiring collateralization at June 30, 2012 was \$(153.632) million.

Interest rate risk: The City is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or the Consumer Price Index decreases, the City's net payment on the swaps increases.

Basis risk: The City is exposed to basis risk on its pay-fixed interest rate swaps because the variable-rate payments received by the City on these hedging derivative instruments are based on a rate or index other than interest rates the City pays on its hedged variable-rate debt, which is remarketed either daily or weekly. Under the terms of its synthetic fixed rate swap transactions, the City pays a variable rate on its bonds based on SIFMA but receives a variable rate on the swaps based on a percentage of LIBOR.

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

Termination risk: The City or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The City is at 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 certain events, including: 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). If at the time of termination, a hedging derivative instrument is in a liability position, the City would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements, if applicable.

Counterparty risk: The City is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If a counterparty were to default under its agreement when the counterparty would owe a termination payment to the City, the City may 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.

Rollover risk: The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument.

#### *Contingencies*

All of the City's derivative instruments include provisions that require the City to post collateral in the event its credit rating falls below Baa1 (Moody's) or BBB+ (Standard & Poor's) for derivative instruments A, B, C, D, E, F, G, J, K, and L; or below Baa3 (Moody's) or BBB- (Standard & Poor's) for derivative instrument H. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified Agency securities in the amount equal to (in the form of cash) or greater than (in the form of securities) the fair value of derivative instruments in liability positions net of the effect of applicable netting arrangements and applicable thresholds. If the City does not post collateral, the derivative instrument may be terminated by the counterparty. At June 30, 2012, the aggregate fair value of all derivative instruments with these collateral posting provisions is \$(217,901) million. If the collateral posting requirements were triggered at June 30, 2012, based on ratings of Baa3 or BBB-, the City would be required to post \$121.32 million in collateral to its counterparties based on posting cash. The collateral requirements would be \$217.82 million for ratings below Baa3 or BBB- based on posting cash. The City's credit rating as of June 30, 2012 was Aa2 (Moody's) and AA (Standard & Poor's); therefore, no collateral has been posted as of that date.

**Swap Collateral Requirements upon a Rating Downgrade of the City<sup>(1)</sup>**

Counterparty/Swap	Fair Value <sup>(2)</sup> as of June 30, 2012	Collateral Threshold at Baa2/BBB to Baa3/BBB- <sup>(3)</sup>	Collateral Amount <sup>(4)</sup>  (in thousands)	Collateral Threshold below Baa3/BBB-	Collateral Amount <sup>(5)</sup>
JP Morgan Chase Bank, N.A. . . . .	\$ (64,831)	3,000	\$ 61,800	—	\$ 64,800
Merrill Lynch Capital Services, Inc. . . . .	(10,917)	3,000	7,917	—	10,917
Morgan Stanley Capital Services, Inc. . . . .	(21,537)	3,000	18,500	—	21,500
UBS AG . . . . .	(36,134)	3,000	33,100	—	36,100
Wells Fargo Bank, NA . . . . .	(84,481)	Infinity	—	—	84,500
Total Fair Value . . . . .	<u>\$(217,900)</u>		<u>\$121,317</u>		<u>\$217,817</u>

(1) All of the City's swap counterparties have agreements that collateral is to be posted by the City if the City were to owe a termination payment and its ratings fall below a certain level. The collateral amount is the counterparty's exposure, based on the market value of the swap, less a "threshold" amount. The threshold amount varies from infinity for higher rating levels to zero for lower rating levels. The threshold amount cannot be less than zero and a threshold amount of infinity would always result in no collateral being required regardless of the market value.

(2) A negative value means the City would owe a termination payment.

(3) A downgrade of the City to either Baa2 (Moody's) or BBB (S&P) is the first rating level at which the City would be required to post collateral.

(4) The swap counterparties, other than Merrill Lynch Capital Services Inc, round the collateral amount up or down to the nearest \$100,000. Merrill Lynch does not round the amount.

(5) Represents the total amount of required collateral for ratings below Baa3/BBB-. The amount of collateral required to be posted would be the amount shown below less any collateral previously posted.

**14. Real Estate Tax**

Real estate tax payments for the fiscal year ended June 30, 2012 were due July 1, 2011 and January 1, 2012 except that payments by owners of real property assessed at \$250,000 or less and cooperatives whose individual units on average are valued at \$250,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2012 taxes was June 29, 2011. 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 a 1% discount on the full amount of a taxpayer's yearly property tax is being offered if the entire amount shown on their bill is paid by the July due date (or grace period due date), a 0.66% discount on the last three quarters if the taxpayer waits until the October due date to pay the entire amount due, or a 0.33% discount on the last six months of taxes when the taxpayer pays the balance by the January due date for both fiscal years 2013 and 2012. Payment of real estate taxes before July 15, 2012, on properties with an assessed value of \$250,000 or less and before July 1, 2012, on properties with an assessed value over \$250,000 received the discount. Collections of these real estate taxes received on or before June 30, 2012 and 2011 were about \$5.5 billion and \$4.6 billion respectively. These amounts were recorded as deferred revenue.

The City sold approximately \$83.8 million of real property tax liens, fully attributable to fiscal year 2012, at various dates in fiscal year 2012. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that \$2.2 million worth of liens sold in fiscal year 2012 will require refunding. The estimated refund accrual amount of \$4 million, including the surcharge and interest, resulted in fiscal year 2012 net sale proceeds of \$79.8 million.

In fiscal year 2012, there was \$2.2 million refunded for defective liens from the fiscal year 2011 sale. This resulted in an increase to fiscal year 2012 revenue of \$1.8 million and consequently, the under estimated fiscal year 2011 accrual of \$4 million increased the net sale proceeds of the fiscal year 2011 sale to \$14.8 million up from the original fiscal year 2011 net sale proceeds reported as \$13 million.

The City sold approximately \$17 million of real property tax liens, fully attributable to fiscal year 2011, at various dates in fiscal year 2011. 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 \$3.9 million worth of liens sold in fiscal year 2011 will require refunding. The estimated refund accrual amount of \$4 million, including the surcharge and interest, resulted in fiscal year 2011 net sale proceeds of \$13 million.

In fiscal year 2011, there were \$14.2 millions refunded for defective liens from the fiscal year 2010 sale. This resulted in a decrease to fiscal year 2011 revenue of \$10.2 million and consequently, the unused fiscal year 2010 accrual of \$4 million decreased the net sale proceeds of the fiscal year 2010 sale to \$24.8 million up from the original fiscal year 2010 net sale proceeds reported as \$35 million.

In fiscal years 2012 and 2011, \$265 million and \$308 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, 2012 and 2011, excess amounts of \$65.4 million and \$356 million, respectively, were transferred to the General Debt Service Fund.

#### **15. 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.

#### **16. 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.

#### **17. Bond Discounts, Premiums and Issuance Costs**

In the funds financial statements, bond premiums, discounts and issuance costs are recognized as revenues/expenditures in the period incurred. In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds payable using the straight-line method. Bond premiums and discounts are presented as additions/reductions to the face amount of the bonds payable. Bond issuance costs are recorded as deferred charges and are amortized over the term of the bonds payable using the straight-line method.

#### **18. 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.

#### **19. 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 fiscal year paid.

#### **20. Fund Balance**

In accordance with Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of Fund Balance is based on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Nonspendable**—includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints requiring such amounts to remain intact. As required by the New York State Financial Emergency Act, the City must prepare its budget covering all expenditures, other than capital items, balanced so that the results do not show a deficit when reported in accordance with generally accepted accounting principles. Therefore, the General Fund’s fund balance must legally remain intact and is classified as nonspendable.

**Restricted**—includes fund balance amounts that are constrained for specific purposes which are externally imposed by creditors, laws or regulations of other governments, or constrained due to constitutional provisions or enabling legislation.

**Committed**—includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government’s formal action at the highest level of decision making authority and does not lapse at year-end. In accordance with the New York City Charter, the City Council is the City’s highest level of decision-making authority and can, by legal resolution prior to the end of the fiscal year, approve to establish, modify or rescind a fund balance commitment. For the Nonmajor Funds, the respective Boards of Directors of the Funds (“Boards”) constitute the highest level of decision-making authority. When resolutions are adopted by the Boards that constrain fund balances for a specific purpose; such resources are accounted for and reported as committed for such purpose; unless and until a subsequent resolution altering the commitment is adopted by a Board.

**Assigned**—includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City does not have any assigned amounts in its major funds. For the Nonmajor Funds, the fund balances which are constrained for use for a specific purpose based on the direction of any officer of the respective Funds who is duly authorized under the Funds’ bond indentures to direct the movement of such funds are accounted for and reported as assigned for such purpose unless and until a subsequent authorized action by the same, or another duly authorized officer, or by a Board, is taken which removes or changes the assignment.

**Unassigned**—The City’s Capital Fund’s deficit is classified as unassigned.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

Below is the detail included in the fund balance classifications for the governmental funds at June 30, 2012 and 2011:

	Fiscal Year 2012				
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
	(in thousands)				
<b>Nonspendable:</b>					
General Fund balance . . . . .	\$452,284	\$ —	\$ —	\$ —	\$ 452,284
Prepaid expenditures . . . . .	—	—	—	577	577
<b>Spendable:</b>					
Restricted					
Capital projects . . . . .	—	372,361	—	2,348,421	2,720,782
Debt service . . . . .	—	—	65,429	2,540,670	2,606,099
Committed					
Debt service . . . . .	—	—	1,308,179	610	1,308,789
Assigned					
Nonmajor operating funds . . . . .	—	—	—	138,612	138,612
Arbitrage Rebate Program . . . . .	—	—	—	16,365	16,365
Unassigned					
Capital Projects Fund . . . . .	—	(3,118,919)	—	—	(3,118,919)
<b>Total Fund Balance . . . . .</b>	<u>\$452,284</u>	<u>\$(2,746,558)</u>	<u>\$1,373,608</u>	<u>\$5,045,255</u>	<u>\$4,124,589</u>

	Fiscal Year 2011				
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Funds	Total Governmental
	(in thousands)				
<b>Nonspendable:</b>					
General Fund balance .....	\$447,272	\$ —	\$ —	\$ —	\$ 447,272
Prepaid expenditures .....	—	—	—	570	570
<b>Spendable:</b>					
Restricted					
Capital projects .....	—	129,196	—	1,125,473	1,254,669
Debt service .....	—	—	355,883	2,584,809	2,940,692
Committed					
Debt service .....	—	—	2,461,507	637	2,462,144
Assigned					
Nonmajor operating funds .....	—	—	—	91,519	91,519
Arbitrage Rebate Payment .....	—	—	—	24,964	24,964
Unassigned					
Capital Projects Fund .....	—	(3,143,921)	—	—	(3,143,921)
Nonmajor Special Revenue Fund .....	—	—	—	(64)	(64)
<b>Total Fund Balance</b> .....	<u>\$447,272</u>	<u>\$(3,014,725)</u>	<u>\$2,817,390</u>	<u>\$3,827,908</u>	<u>\$4,077,845</u>

## 21. Pensions

Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Notes E.5. and the Required Supplementary Information (RSI) section immediately following the Notes to Financial Statements), 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. Estimates and Assumptions

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

## 24. Pronouncements Issued But Not Yet Effective

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued in November, 2010, establishes recognition, measurement and disclosure requirements for Service Concession Arrangements for both transferors and governmental operators. A Service Concession Arrangements is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and the operator collects and is compensated by fees from third parties.

A transferor reports the facility subject to a Service Concession Arrangement as its capital asset. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred flow of resources. Revenues are recognized by the transferor on a systematic and rational manner over the term of the arrangement. A governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees and amortizes the intangible asset over the term of the arrangement. For revenue sharing arrangements, operators must report all revenues and expenses and transferors must report their portion of the shared revenues.



The requirements of Statement No. 60 are effective for financial statements for periods beginning after December 15, 2011. The City has not completed the process of evaluating the impact of Statement No. 60 on its financial statements.

In June of 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period.

Statement No. 63 also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The requirements of Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 63 on its financial statements.

In March of 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Government Accounting Standards Board in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The requirements of Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 65 on its financial statements.

In March of 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 66 on its financial statements.

In June of 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which:



- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered.

This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 25 and Statement No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

The provisions of Statement No. 67 are effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 67 on its financial statements.

In June of 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The requirements of this Statement apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts that meet certain criteria and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statement No. 27 and Statement No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The provisions of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The City has not completed the process of evaluating the impact of statement No. 68 on its financial statements.

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

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

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

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

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

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

Expenditures made against the expense budget are controlled through the use of quarterly spending allotments and units of appropriation. A unit of appropriation represents a subdivision of an agency's budget and is the level of control at which expenditures may not legally exceed the appropriation. The number of units of appropriation and the span of operating responsibility which each unit represents, differs from agency to agency depending on the size of the agency and the level of control required. Transfers between units of appropriation and supplementary appropriations may be made by the Mayor subject to the approval provisions set forth in the City Charter. Supplementary appropriations increased the expense budget by \$2.497 billion and \$3.727 billion subsequent to its original adoption in fiscal years 2012 and 2011, 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 Capital Projects Fund has cumulative deficits of \$2.7 billion and \$3.0 billion at June 30, 2012 and 2011, 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 New York City Banking Commission, which consists of representatives 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 at the Federal Deposit Insurance Corporation (FDIC) insured institutions have unlimited deposit insurance for noninterest bearing transaction accounts beginning December 31, 2010. This will cover the City's demand deposit accounts, including Central Treasury, Pool, and controlled disbursement accounts, at participating FDIC-insured institutions through December 31, 2012. Consequently, these noninterest-bearing transaction deposit accounts that are fully insured by FDIC's Transaction Account Guarantee Program do not need to be collateralized for fiscal year 2012.

At June 30, 2012 and 2011, the carrying amount of the City's unrestricted cash and cash equivalents was \$5.766 billion and \$4.458 billion, respectively, and the bank balances were \$2.597 billion and \$4.044 billion, respectively. Of the unrestricted bank balances, \$44 thousand and \$96 thousand were exposed to custodial risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it or the City will not be able to recover collateral securities that are in the possession of an outside party) because the bank balances were uninsured and uncollateralized at June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, the carrying amount of the restricted cash and cash equivalents was \$4.157 billion and \$3.744 billion, respectively, and the bank balances were \$1.380 billion and \$1.856 billion, respectively. Of the restricted bank balances, \$281 thousand and \$93 thousand were exposed to custodial credit risk because the respective bank balances were uninsured and uncollateralized at June 30, 2012 and 2011, respectively.

*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, 2012 and 2011:

**Governmental activities:**

Investment Type	Investment Maturities					
	(in years)					
	2012			2011		
	Less than 1	1 to 5	More than 5	Less than 1	1 to 5	More than 5
	(in thousands)					
<b>Unrestricted</b>						
U.S. Government securities . . . .	\$1,640,140	\$ —	\$ —	\$ 184,772	\$ —	\$ —
U.S. Government agency obligations . . . . .	282,164	197,307	—	132,874	67,377	—
Commercial paper . . . . .	474,703	—	—	—	—	—
Corporate Bonds . . . . .	—	24,918	—	—	24,908	—
Certificates of Deposit . . . . .	—	—	—	50,003	—	—
Investment derivative instruments . . . . .	—	—	(64,268) <sup>(1)</sup>	—	—	(63,087) <sup>(2)</sup>
Total unrestricted . . . . .	<u>\$2,397,007</u>	<u>\$222,225</u>	<u>\$(64,268)</u>	<u>\$ 367,649</u>	<u>\$ 92,285</u>	<u>\$(63,087)</u>
<b>Restricted</b>						
U.S. Government securities . . . .	\$ 589,643	\$294,175	\$ —	\$ 95,110	\$294,521	\$ —
U.S. Government agency obligations . . . . .	1,446,449	171,508	—	611,569	157,864	—
Commercial paper . . . . .	344,227	—	—	1,207,658	—	—
Municipal Bonds . . . . .	3,480	—	33,322	—	—	22,699
Time Deposits . . . . .	29,108	—	—	—	—	—
Repurchase agreements . . . . .	8,099	—	—	27,853	—	—
Total restricted . . . . .	<u>\$2,421,006</u>	<u>\$465,683</u>	<u>\$ 33,322</u>	<u>\$1,942,190</u>	<u>\$452,385</u>	<u>\$ 22,699</u>

(1) The City has two pay-fixed interest rate swaps (E and F) and two basis swaps (G and K) that are treated as investment derivative instruments (see Note A.13.). At June 30, 2012, the swaps had fair values of \$(24,617) thousand, \$(601) thousand, \$(9,121) thousand, and \$(29,929) thousand, respectively.

(2) The City had two pay-fixed interest rate swap (E and F) and two basis swaps (G and K) that were treated as investment derivative instruments. At June 30, 2011, the swaps had fair values of \$(15,422) thousand, \$(1,250) thousand, and \$(13,036) thousand and \$(33,379) thousand respectively.

**Interest rate risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the weighted average maturity to a period of less than 2 years. The City's current weighted average maturity is less than 192 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, 2012 and 2011, 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.

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

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

The City's investment policy related to custodial credit risk calls for limiting its investments to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the City.

#### *Investment Derivative Instruments*

*Credit risk:* The City is exposed to credit risk on investment derivative instruments. To minimize its exposure to loss related to credit risk, it is the City's policy to require counterparty collateral posting provisions in its investment derivative instruments. These terms require collateralization of the fair value of investment derivative instruments (net of the effect of applicable threshold requirements and netting arrangements) should the counterparty's credit rating fall below the following:

The counterparty with respect to derivative instruments E and F (or its respective guarantor) is required to post collateral if its credit rating goes below A3/A-. The counterparty with respect to derivative instrument G is required to post collateral if all of its credit ratings go below the double-A category and will also post collateral if it has at least one rating below A3 or A-. The counterparty with respect to derivative instrument K is required to post collateral if it has at least one rating below the double-A category. The City has never been required to access collateral.

It is the City's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The aggregate fair value of investment derivative instruments requiring collateralization at June 30, 2012 was \$(64,268) thousand. A negative aggregate fair value means the City would have owed payments to the counterparties. The City had no counterparty credit exposure to any of the investment derivative instrument counterparties as of that date.

*Interest rate risk:* The City is exposed to interest rate risk on its swaps. In derivative instruments E and F, pay-fixed, receive-variable interest rate swaps, as LIBOR decreases, the City's net payment on the swap increases.

*Basis risk:* The City is exposed to basis risk on derivative instruments E and F because the variable-rate payment received by the City is based on a rate or index other than the interest rate the City pays on its variable-rate debt. Under the terms of its derivative instrument F, the City pays a variable rate on the outstanding underlying bonds based on SIFMA, but receives a variable rate on the swap based on a percentage of LIBOR. In derivative instrument G, the City's variable payer rate is based on SIFMA times 1.36 and the City receives 100% of LIBOR in return. The City's net payments over time will be determined by both the absolute levels of interest rates and the relationship between SIFMA and LIBOR. In derivative instrument K, the City's variable payer rate is based on SIFMA and its variable receiver rate is based 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 SIFMA and LIBOR indices. As the overall level of interest rate decreases, the percentage of LIBOR received by the City increases.

*Tax risk:* The City is at risk that a change in Federal tax rates will alter the fundamental relationship between the SIFMA and LIBOR indices. A reduction in Federal tax rates, for example, will likely increase the City's payment on its underlying variable rate bonds in derivative instruments E and F and its variable payer rate in derivative instruments G and K.

*Termination risk:* The City or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The City is at 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 certain events, including: 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). If at the time of termination, an investment derivative instrument is in a liability position, the City would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

*Counterparty risk:* The City is at a risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If a counterparty were to default under its agreement when the counterparty would owe a termination payment to the City, the City may 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.

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' and Other 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 Law, 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, 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, within the short-term investment pools, 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 years 2004 through 2011, \$21.606 million was recovered as a distribution of bankruptcy proceeds and \$31.6 million was received as a partial settlement from litigation. In fiscal years 2011 and 2012, there was no further recoupment as an ongoing distribution of bankruptcy proceeds.

During fiscal year 2009, the value of certain underlying securities became impaired because of the bankruptcy proceeding of the issuer. Accordingly, the carrying amount of the collateral reported in the *Deferred Compensation Plans for Employees of The City of New York and Related Agencies and Instrumentalities* (DCP) statements of fiduciary net assets was reduced by a total of \$24.3 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions. In October, 2010, DCP's Board had decided to terminate its securities lending program as soon as it was feasibly possible, sell the defaulted securities, and assess the participants in its various investment options based on the benefit of the yearly revenues derived from the securities lending program since 2003 in conjunction with the number of years that a participant had been active in its investment programs from 2003 through August 2008. DCP sold the issuer's securities in fiscal year 2011 at the prevailing market prices, recovering \$5.3 million. From September 2008, through November 2010, DCP continued to lend securities and the investment income earned was set aside in a reserve to offset the collateral shortfall. The balance of the shortfall, approximately \$10 million, was applied to participant accounts in November 2010 as a one-time assessment. In November 2010, cash collateral in the amount of \$24.3 was returned to DCP's custodian and DCP's securities lending program was closed.

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, 2011 and 2012:

Primary Government	Primary Government						Balance June 30, 2012
	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011 (in thousands)	Additions	Deletions	
<b>Governmental activities:</b>							
Capital assets, not being depreciated/amortized:							
Land	\$ 1,240,525	\$ 328,282	\$ —	\$ 1,568,807	\$ 64,764	\$ 20	\$ 1,633,551
Construction work-in-progress	4,816,975	3,142,604	3,062,669	4,896,910	2,535,291	2,994,774	4,437,427
Total capital assets, not being depreciated/amortized	6,057,500	3,470,886	3,062,669	6,465,717	2,600,055	2,994,794	6,070,978
Capital assets, being depreciated/amortized:							
Buildings	41,218,802	3,062,669	127,415	44,154,056	2,994,774	409,287	46,739,543
Equipment (including software)	6,529,384	550,421	204,692	6,875,113	1,070,824	799,242	7,146,695
Infrastructure	15,865,324	1,431,026	400,189	16,896,161	1,335,063	293,501	17,937,723
Total capital assets, being depreciated/amortized	63,613,510	5,044,116	732,296	67,925,330	5,400,661	1,502,030	71,823,961
Less accumulated depreciation/amortization:							
Buildings	16,064,384	1,180,230	97,829	17,146,785	1,412,630	202,810	18,356,605
Equipment (including software)	4,550,845	371,482	200,214	4,722,113	441,667	427,104	4,736,676
Infrastructure	5,581,716	781,458	309,262	6,053,912	826,173	293,503	6,586,582
Total accumulated depreciation/amortization	26,196,945	2,333,170 <sup>(1)</sup>	607,305	27,922,810	2,680,470 <sup>(1)</sup>	923,417	29,679,863
Total capital assets, being depreciated/amortized, net	37,416,565	2,710,946	124,991	40,002,520	2,720,191	578,613	42,144,098
Governmental activities capital assets, net	\$43,474,065	\$6,181,832	\$3,187,660	\$46,468,237	\$5,320,246	\$3,573,407	\$48,215,076

<sup>(1)</sup> Depreciation/amortization expense was charged to functions/programs of the City for the fiscal years ended June 30, 2012 and 2011 as follows:

	2012	2011
	(in thousands)	
<b>Governmental activities:</b>		
General government	\$ 356,504	\$ 318,023
Public safety and judicial	178,495	158,776
Education	1,016,167	826,383
City University	5,686	6,473
Social services	64,693	64,988
Environmental protection	142,541	103,629
Transportation services	551,175	521,313
Parks, recreation and cultural activities	307,651	287,482
Housing	2,338	7,443
Health	39,480	29,131
Libraries	15,740	9,529
Total depreciation/amortization expense—governmental activities	\$2,680,470	\$2,333,170

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2012 and 2011. Sources of funding for capital assets are not available prior to fiscal year 1987.

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987 .....	\$ 6,695,418	\$ 6,364,253
City bonds .....	67,300,580	64,128,194
Federal grants .....	621,186	616,490
State grants .....	130,985	144,331
Private grants .....	556,315	563,607
Capitalized leases .....	<u>2,590,455</u>	<u>2,574,172</u>
Total funding sources .....	<u>\$77,894,939</u>	<u>\$74,391,047</u>

At June 30, 2012 and 2011, the 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 governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in buildings at June 30, 2012 and 2011 are leased properties that have elements of ownership. These assets are recorded as capital assets as follows:

	<u>Capital Leases</u>	
	<u>2012</u>	<u>2011</u>
	(in thousands)	
Governmental activities:		
Capital asset:		
Buildings, gross .....	\$2,590,455	\$2,574,172
Less accumulated amortization .....	<u>772,215</u>	<u>678,712</u>
Buildings, net .....	<u>\$1,818,240</u>	<u>\$1,895,460</u>

*Capital Commitments*

At June 30, 2012, the outstanding commitments relating to projects of the Capital Projects Fund amounted to approximately \$14.7 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 the Capital Projects Fund expenditures of \$54.1 billion over fiscal years 2012 through 2021. To help meet its capital spending program, the City and TFA borrowed \$6.18 billion in the public credit market in fiscal year 2012. The City and TFA plan to borrow \$5.10 billion in the public credit market in fiscal year 2013.

**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, 2012 and 2011 were approximately \$814.7 million and \$772.6 million, respectively.

As of June 30, 2012, the City (excluding discretely presented Component Units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
<b>Governmental activities:</b>			
Fiscal year ending June 30:			
2013 .....	\$ 194,014	\$ 502,337	\$ 696,351
2014 .....	187,782	452,858	640,640
2015 .....	182,454	419,912	602,366
2016 .....	176,034	402,504	578,538
2017 .....	170,046	387,852	557,898
2018-2022 .....	756,052	1,498,137	2,254,189
2023-2027 .....	498,753	870,126	1,368,879
2028-2032 .....	338,953	301,112	640,065
2033-2037 .....	113,093	67,562	180,655
2038-2042 .....	47,338	33,341	80,679
2043-2047 .....	—	11,955	11,955
2048-2052 .....	—	6,482	6,482
Future minimum payments .....	<u>2,664,519</u>	<u>\$4,954,178</u>	<u>\$7,618,697</u>
Less: Interest .....	<u>846,279</u>		
Present value of future minimum payments .....	<u>\$1,818,240</u>		

The present value of future minimum lease payments includes approximately \$1.296 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, 2012 and 2011 was approximately \$291 million and \$253 million, respectively. As of June 30, 2012, the following future minimum rentals are provided for by the leases:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
<b>Governmental activities:</b>			
Fiscal year ending June 30:			
2013 .....	\$ 1,045	\$ 208,275	\$ 209,320
2014 .....	1,083	206,890	207,973
2015 .....	1,121	199,108	200,229
2016 .....	1,177	189,466	190,643
2017 .....	1,198	176,286	177,484
2018-2022 .....	5,908	852,377	858,285
2023-2027 .....	5,198	795,299	800,497
2028-2032 .....	5,334	763,628	768,962
2033-2037 .....	4,178	763,294	767,472
2038-2042 .....	2,083	724,041	726,124
2043-2047 .....	1,996	721,290	723,286
2048-2052 .....	1,800	522,673	524,473
2053-2057 .....	1,800	71,270	73,070
2058-2062 .....	1,799	62,137	63,936
2063-2067 .....	1,799	49,137	50,936
2068-2072 .....	1,799	48,075	49,874
2073-2077 .....	1,799	46,781	48,580
2078-2082 .....	900	32,437	33,337
2083-2087 .....	—	28,563	28,563
Thereafter until 2106 .....	—	2	2
Future minimum lease rentals .....	<u>42,017</u>	<u>\$6,461,029</u>	<u>\$6,503,046</u>
Less interest .....	<u>27,345</u>		
Present value of future minimum lease rentals .....	<u>\$ 14,672</u>		

**4. Long-Term Liabilities**

*Changes in Long-term liabilities*

In fiscal years 2011 and 2012, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011 <small>(in thousands)</small>	Additions	Deletions	Balance June 30, 2012	Due Within One Year
<b>Governmental activities:</b>								
Bonds and notes payable:								
General obligation bonds	\$ 41,555,540	\$ 4,182,955	\$ 3,953,711	\$ 41,784,784	\$ 4,952,775	\$ 4,451,065	\$ 42,286,494	\$ 2,010,736
TFA Bonds	20,093,650	4,899,425	1,173,300	23,819,775	5,628,810	3,181,235	26,267,350	646,320
TSASC Bonds	1,265,305	—	5,015	1,260,290	—	7,540	1,252,750	—
IDA bonds	98,650	—	750	97,900	—	2,600	95,300	2,710
STAR bonds	2,177,900	—	61,445	2,116,455	—	62,800	2,053,655	11,345
FSC bonds	294,245	—	11,860	282,385	—	12,150	270,235	10,385
HYIC bonds	2,000,000	—	—	2,000,000	1,000,000	—	3,000,000	—
ECF bond	149,735	137,525	6,075	281,185	—	6,750	274,435	6,390
Total before premiums/discounts (net)	67,635,025	9,219,905	5,212,156	71,642,774	11,581,585	7,724,140	75,500,219	2,687,886
Less premiums/(discounts) (net)	1,093,763	315,466	185,702	1,223,527	1,121,909	341,434	2,004,002	—
Total bonds and notes payable <sup>(1)</sup>	68,728,788	9,535,371	5,397,858	72,866,301	12,703,494	8,065,574	77,504,221	2,687,886
Tax Lien collateralized bonds <sup>(2)</sup>	42,051	73,428	81,212	34,267	69,748	67,929	36,086	—
Capital lease obligations	1,859,214	139,026	102,780	1,895,460	28,746	105,966	1,818,240	80,056
Other tax refunds	1,891,637	500,709	293,637	2,098,709	409,220	500,709	2,007,220	163,220
Judgments and claims	5,572,281	1,736,683	1,226,865	6,082,099	1,302,202	1,106,363	6,277,938	1,295,031
Real estate tax certiorari	898,772	181,153	141,998	937,927	147,707	226,730	858,904	167,754
Vacation and sick leave	3,822,067	431,223	324,217	3,929,073	508,897	260,388	4,177,582	260,388
Pension liability	625,400	50,000	83,200	592,200	41,400	41,600	592,000	—
OPEB liability	74,984,832	10,494,993	1,572,872	83,906,953	5,707,001	1,439,815	88,174,139	—
Landfill closure and postclosure care costs	1,659,727	21,554	112,159	1,569,122	40,287	134,823	1,474,586	66,222
Pollution remediation obligations	255,381	219,477	248,635	226,223	175,765	189,556	212,432	219,096
Total changes in governmental activities long-term liabilities	\$160,340,150	\$23,383,617	\$9,585,433	\$174,138,334	\$21,134,467	\$12,139,453	\$183,133,348	\$4,939,653

(1) City bonds and notes 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.

(2) Tax lien collateralized Bonds are secured by trust assets.

The bonds and notes payable at June 30, 2012 and 2011, summarized by type of issue are as follows:

Primary Government	2012			2011		
	General Obligations*	Revenue*	Total	General Obligations*	Revenue*	Total
<small>(in thousands)</small>						
<b>Governmental activities:</b>						
Bonds and notes payable:						
General obligation bonds	\$42,286,494	\$ —	\$42,286,494	\$41,784,784	\$ —	\$41,784,784
TFA bonds	20,958,690	5,308,660	26,267,350	19,089,925	4,729,850	23,819,775
TSASC bonds	1,252,750	—	1,252,750	1,260,290	—	1,260,290
IDA bonds	95,300	—	95,300	97,900	—	97,900
STAR bonds	2,053,655	—	2,053,655	2,116,455	—	2,116,455
FSC bonds	270,235	—	270,235	282,385	—	282,385
HYIC bonds	—	3,000,000	3,000,000	—	2,000,000	2,000,000
ECF bonds	—	274,435	274,435	—	281,185	281,185
Total bonds and notes payable	\$66,917,124	\$8,583,095	\$75,500,219	\$64,631,739	\$7,011,035	\$71,642,774

\* The City issues General Obligation and Revenue bonds for capital projects which include construction, acquisition, repair or maintenance of the City's infrastructure. These include, but are not limited to, sidewalk installations, improvements to City's schools, fire stations, parks, bridges and tunnels, and acquisition of any furnishings, machinery, apparatus or equipment for any public purpose.

The following table summarizes future debt service requirements as of June 30, 2012:

Primary Government	Governmental Activities			
	General Obligation Bonds		Revenue Bonds and Notes	
	Principal	Interest <sup>(1)</sup>	Principal	Interest
	(in thousands)			
Fiscal year ending June 30:				
2013	\$ 2,671,616	\$ 2,744,237	\$ 16,270	\$ 440,516
2014	2,992,840	2,640,622	110,565	436,768
2015	3,249,471	2,506,346	115,925	432,506
2016	3,304,560	2,369,662	121,830	427,790
2017	3,301,636	2,231,403	134,115	422,517
2018-2022	16,494,012	9,093,019	761,125	2,015,637
2023-2027	14,847,654	5,772,001	957,385	1,811,708
2028-2032	10,688,502	3,056,942	1,224,145	1,523,758
2033-2037	6,761,767	1,200,639	1,570,535	1,160,394
2038-2042	2,605,018	261,087	571,200	815,353
2043-2047	5	16	3,000,000	612,500
2048-2052	2	15	—	—
Thereafter until 2147	41	138	—	—
	<u>66,917,124</u>	<u>31,876,127</u>	<u>8,583,095</u>	<u>10,099,447</u>
Less interest component	—	<u>31,876,127</u>	—	<u>10,099,447</u>
Total future debt service requirements	<u>\$66,917,124</u>	<u>\$ —</u>	<u>\$8,583,095</u>	<u>\$ —</u>

<sup>(1)</sup> Includes interest for general obligation bonds estimated at 2% rate on tax-exempt adjustable rate bonds and at 3% 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, 2012 and 2011, were 4.3% and 4.4%, respectively, and both ranged from 0% to 8.6%. The last maturity of the outstanding City debt is in the year 2147.

Since the City has variable rate debt outstanding, the terms by which interest rates change for variable rate debt are as follows: For Auction Rate Securities, an interest rate is established periodically by an auction agent at the lowest clearing rate based upon bids received from broker-dealers. Variable Rate Demand Bonds (VRDBs) are long-term bonds that have a daily or weekly “put” feature backed by a bank Letter of Credit or Stand By Bond Purchase Agreement. VRDBs are repriced daily or weekly and provide investors with the option to tender the bonds at each repricing. A broker, called a Remarketing Agent, is responsible for setting interest rates and reselling to new investors any securities that have been tendered. CPI Bonds pay the holder a floating interest rate tied to the consumer price index. The rate is a fixed spread plus a floating rate equal to the change in the Consumer Price Index-Urban (CPI-U) for a given period. LIBOR Bonds pay the holder a floating interest rate calculated as a percentage of the London Interbank Offering Rate (LIBOR). Direct Funding Bonds are fixed rate bonds that through a derivative pay the holder an adjusted rate based on the movement in the AAA Municipal Market Data (MMD) Index.

In fiscal years 2012 and 2011, the City issued \$2.23 billion and \$2 billion, respectively, of general obligation bonds to advance refund general obligation bonds of \$2.44 billion and \$2.10 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of \$31.43 million and \$57.10 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 2012, the refunding transactions will decrease the City’s aggregate debt service payments by \$305.98 million and provide an economic gain of \$277.06 million. In fiscal year 2011, the refunding transactions decreased the City’s aggregate debt service payments by \$152.61 million and provided an economic gain of \$125.45 million. At June 30, 2012 and 2011, \$17.69 billion and \$16.25 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 GO 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. In July 2009, the New York State Assembly passed legislation stipulating that certain TFA debt would be included in the calculation of debt-incurring margin within the debt limit of the City.

As of July 1, 2012 and 2011, the 10% general limitation was approximately \$76,853 billion and \$76.097 billion, respectively. Also, as of July 1, 2012, the City's remaining GO debt-incurring power totaled \$24,174 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 2012, discretionary and other transfers of \$1.34 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2013 debt service. In addition, in fiscal year 2012, discretionary transfers of \$1.034 billion were made from the General Fund to Component Units of the Debt Service Funds. In fiscal year 2011, discretionary and other transfers of \$2.78 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2012 debt service. In addition, in fiscal year 2011, discretionary transfers of \$789.7 million were made to Component Unit Debt Service Funds.

*Hedging derivative instrument payments and hedged debt*

The table that follows represents debt service payments on certain general obligation variable-rate bonds and net receipts/payments on associated hedging derivative instruments (see Note A.13.), as of June 30, 2012. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2012 will remain the same for their term.

Primary Government	Governmental Activities			
	General Obligation Bonds Principal	Interest	Hedging Derivative Instruments, Net	Total
	(in thousands)			
Fiscal year ending June 30:				
2013	\$ —	\$ 8,769	\$ 19,090	\$ 27,859
2014	25,000	7,849	19,509	52,358
2015	44,385	5,978	20,045	70,408
2016	11,980	4,544	20,371	36,895
2017	82,535	3,426	19,762	105,723
2018-2022	330,245	5,651	68,983	404,879
2023-2027	123,040	3,388	44,605	171,033
2028-2032	226,960	1,093	14,385	242,438
Total	<u>\$844,145</u>	<u>\$40,698</u>	<u>\$226,750</u>	<u>\$1,111,593</u>

*Judgments and Claims*

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

As of June 30, 2012 and 2011, claims in excess of \$740 billion and \$613 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be \$6.3 billion and \$6.1 billion, respectively.

As explained in Note A.11., the estimate of the liability for all judgments and claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by using the probable exposure information provided by the New York City Law Department (Law Department), and supplemented by information provided by the 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 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. Complaints on behalf of approximately 11,900 plaintiffs alleging similar causes of action have been filed naming the City or other defendants. The actions were either commenced in or have been removed to Federal District Court pursuant to the Air Transportation and System Stabilization Act, 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 by the District Court. On March 26, 2008, the Second Circuit upheld the District Court's decision holding that determining whether the City had immunity for its actions requires developing the factual record. A not-for-profit "captive" insurance company, WTC Captive, 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. On June 10, 2010 WTC Captive announced that a settlement was reached with attorneys for the plaintiffs. On November 19, 2010, District Court Judge Hellerstein announced that more than the required 95% of plaintiffs agreed to the settlement, thus making it effective. Approximately \$637.5 million has been paid under the settlement, leaving residual funds of approximately \$400 million to insure and defend the City and its contractors against claims that are not settled as part of the settlement and any new claims. There are still approximately 60 plaintiffs who have sued the City and who have not agreed to the terms of the settlement, or who were not eligible to participate in the settlement or have commenced actions subsequent to the completion of the settlement. The Court has not indicated how or when those cases will proceed. In addition, since the applicable statute of limitations runs from the time a person learns of his or her injury or should reasonably be aware of the injury, additional plaintiffs may bring lawsuits in the future, which could result in substantial damages. No assurance can be given that the insurance will be sufficient to cover all liability that might arise from such claims.

In 1996, a class action was brought against the City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by the City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The lower court dismissed the case. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the lower court's ruling, dismissed the claims against the State, and remanded the matter for further proceedings. The trial court on remand has received extensive briefing from the parties on the issue of City liability. The State has advised the City that there are approximately 3,500 members of the class and has calculated potential damages, based on the difference in salary between a certified public school teaching position and an uncertified parochial or private school teaching position, of approximately \$455 million.

In 2006, a relator filed two lawsuits in the United States District Court for the Southern District of New York against the City's Department of Housing Preservation and Development ("HPD") and other defendants under the False Claims Act. The relator alleged that HPD was involved with the submission of false claims to the United States Department of Housing and Urban Development ("HUD") in connection with the Federal government's Section 8 Enhanced Voucher program which provides rental subsidies to low and moderate income tenants payable to the landlord. These alleged false claims would have resulted in HUD's overpayment of subsidies to the defendant property owners, by virtue of the alleged improper removal of housing units from rent regulation. These lawsuits remained under seal pending completion of an investigation by the United States Department of Justice, which was completed in 2009. Following this investigation, the Federal government elected to pursue common-law claims against the property owners, seeking a declaration that the properties are and should have remained subject to rent-regulation, and to recover any overpayments made as a result of the allegedly improper de-regulation. In May 2011, the property owners were granted summary judgment on all of the Federal government's claims and the federal government's motion for reconsideration was denied on June 28, 2011. The Federal government has not sought any relief against the City. The relator is pursuing the false claims actions against HPD and the defendant property owners, seeking treble damages of the alleged overpayments made by HUD on approximately 870 units, plus civil penalties of up to \$11,000 per claim for each violation of the False Claims Act. On July 2, 2010, the Court granted the City's motion to dismiss these actions. Subsequently, the relator filed an appeal which was dismissed as premature. In August 2011 the relator again filed an appeal.

The Federal Department of Health and Human Services Office of Inspector General ("HHS OIG") conducted a review of Medicaid Personal Care Services claims made by providers in the City from January 1, 2004 through December 31, 2006, and concluded that 18 out of 100 sampled claims by providers failed to comply with Federal and State requirements. The Medicaid Personal Care Services program in the City is administered by the City's Human Resources Administration. In its audit report issued in June 2009, the HHS OIG, extrapolating from the case sample, estimated that the State improperly claimed \$275.3 million in Federal Medicaid reimbursement during the audit period and recommended to the Center for Medicare and Medicaid Services ("CMS") that it seek to recoup that amount from the State. To the City's knowledge, CMS has not taken any action to recover amounts from the State based on the findings in this audit, but no assurance can be given that it will not do so in the future.

Section 22 of Part B of Chapter 109 of the Laws of 2010 amended an earlier unconsolidated State law to set forth a process under which the State Department of Health may recover from a social services district, including the City, the amount of a Federal Medicaid disallowance or recovery that the State Commissioner of Health "determines was caused by a district's failure to properly administer,



supervise or operate the Medicaid program.” Such a determination would require a finding that the local agency had “violated a statute, regulation or clearly articulated written policy and that such violation was a direct cause of the Federal disallowance or recovery.” It is not clear whether the recovery process set out in the recent amendment can be applied to a Federal disallowance against the State based upon a pre-existing audit; however, in the event that it does, and results in a final determination by the State Commissioner of Health against the City, such a determination could result in substantial liability for the City as a result of the audit.

A lawsuit has been brought against the City in the United States District Court for the Southern District of New York by School Safety Agents alleging violation of the Federal Equal Pay Act, Title VII of the Civil Rights Act of 1964 and provisions of State law. Plaintiffs claim that School Safety Agents (who are predominantly female) earn less pay than Special Officers (who are predominantly male) although both jobs require substantially equal skill, effort and responsibility. The case has been certified as a class action. Although the case was commenced by three named plaintiffs in 2010, approximately 4,900 plaintiffs have recently opted into the lawsuit. Plaintiffs seek injunctive relief and damages. If plaintiffs were to ultimately prevail, the City could be subject to substantial liability.

In May 2007, the United States filed an action under Title VII of the Civil Rights Act of 1964 in the United States District Court for the Eastern District of New York challenging the City’s use of two written examinations for the entry-level position of firefighter on the ground that use of the tests on a pass/fail basis and to rank-order applicants for selection resulted in a disparate impact on black and Hispanic candidates and that the tests were not “job related and consistent with business necessity.” In September 2007, the Vulcan Society, a fraternal organization of black firefighters, and three black applicants intervened as plaintiffs and also asserted intentional discrimination claims. In July 2009, the Court found the City liable on the disparate impact claims. In January 2010, the Court ruled that the City had engaged in intentional discrimination and found that absent the discriminatory tests, the City would have hired an additional 293 black and Hispanic candidates from the two civil service lists generated by the two challenged exams. The Court also determined that all black and Hispanic candidates who took the discriminatory tests who can show they were otherwise qualified to be firefighters are entitled to a portion of the backwages and benefits which would have been paid to the 293 candidates had they been hired. After further briefing and a hearing held in August 2011, the Court issued an order on March 8, 2012 finding that the gross amount of backpay that would have been earned by the 293 victims of discrimination is \$128.7 million. The Court, however, further ruled that the City can reduce this amount significantly by each individual victim’s interim earnings. Consequently, the City believes that the amount of the judgment will ultimately be substantially less than \$128.7 million. The Court has not yet ruled on the amount of damages available to black candidates as a result of the finding of liability for intentional discrimination. The City expects to appeal the final judgment when it is entered.

In 2004, certain New York City Police Department sergeants brought collective action under the United States Fair Labor Standards Act (“FLSA”) alleging that the City failed to pay them for all their overtime hours and properly calculate their overtime under the FLSA. The City asserted that sergeants were exempt from the FLSA. In July 2009, the United States District Court for the Southern District of New York decided in the City’s favor. In August 2011, the United States Court of Appeals for the Second Circuit reversed the decision of the District Court and held that plaintiffs are covered by the FLSA. On March 19, 2012, the City’s petition to the United States Supreme Court for certiorari was denied. Consequently, the City will now litigate the sergeants’ original claims. Approximately 5,000 current and former sergeants opted into the class which covers the period from April 2002, and possibly April 2001, to the present. Plaintiffs are claiming in excess of \$100 million in backpay and liquidated damages. The parties have settled the case in principle for \$20 million. A fairness hearing will be held by the Court on October 31, 2012 to determine whether the settlement should be approved.

In January 2011, a class action was commenced in the United States District Court for the Southern District against the City, the New York City Taxi and Limousine Commission (“TLC”) and other defendants alleging that the TLC’s failure to require that a significant number of medallion taxicabs be wheelchair accessible violates the Americans with Disabilities Act (the “ADA”) and other statutes. On December 23, 2011, the Court granted summary judgment to plaintiffs and enjoined TLC from selling new taxicab medallions or issuing new street hail livery licenses for vehicles that are not wheelchair accessible until TLC proposes and the Court approves a comprehensive plan to provide passengers in wheelchairs with meaningful access to taxicab service. On March 21, 2012 the United States Court of Appeals for the Second Circuit granted TLC’s motion for a stay of the District Court’s injunction pending appeal. By opinion and order dated June 28, 2012, the United States Court of Appeals for the Second Circuit vacated the injunction and instructed the Court to enter judgment on behalf of the City on the ADA claim. A proceeding has also been commenced in State Supreme Court and withdrawn without prejudice to re-filing at a later date challenging the City’s selection of the Nissan NV200 as the model for future taxis. In addition, three actions have been commenced in New York State Supreme Court, New York County, challenging State legislation that authorizes the City to issue, and sell at public auction, 2,000 new taxi medallions for wheelchair accessible taxis and 18,000 new hail livery licenses. Plaintiffs in these three actions allege violations of the United States and New York Constitutions and the New York Environmental Quality Review Act. On June 1, 2012, the judge presiding over the State Supreme Court actions granted a temporary restraining order enjoining the implementation of such legislation until the Court rules on the plaintiffs’ motions

for a preliminary injunction enjoining such implementation. On August 17, 2012, the State Supreme Court granted summary judgment to the plaintiffs in all three actions and permanently enjoined the implementation of the legislation authorizing the sale of 2,000 additional taxi medallions and the issuance of 18,000 livery hail licenses. The City has filed notices of appeal and is seeking to directly appeal to the New York State Court of Appeals. If the City is not successful on appeal, the City will be unable to issue and sell additional taxicab medallions and any hail livery licenses without further legislation. As a result of the appellate process, the delays in the sale of new taxi medallions and issuance of hail livery licenses will adversely effect the timing of receipt of revenues anticipated in the Financial Plan, and, if the City is not ultimately successful on appeal, the City would not receive the \$1.0 billion projected in the Financial Plan.

Con Edison has challenged the City's method of valuation for determining assessments of certain of its properties in three separate actions. Con Edison has challenged the City's tax assessments on the Hudson Avenue steam plant located in Brooklyn for fiscal years 1995 through 2012 and the East River Generating Station located in Manhattan for fiscal years 1994 through 2012. Additionally, Con Edison has challenged the City's special franchise assessment on its electric grid located in the public right of way. The challenges could result in substantial real property tax refunds in fiscal years 2013 and 2014.

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. 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 \$858.9 million and \$937.9 million at June 30, 2012 and 2011, 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 the Required Supplementary Information (RSI) section immediately following the Notes to Financial Statements).

#### *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 when the related liability is incurred and payment is due.

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, 2012 which equates to the total estimated current cost is \$1,233 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 2012, expenditures for landfill closure and postclosure care costs totaled \$94.9 million.

Resource Conservation and Recovery Act Subtitle D Part 258, which became effective April, 1997, requires financial assurance regarding closure and postclosure care. This assurance was most recently provided, on March 19, 2012, by the City's Chief Financial Officer placing in the Fresh Kills landfill operating record representations in satisfaction of the Local Government Financial Test. As of June 30, 2012, the financial assurance cost estimate for the Fresh Kills Landfill is \$1.102 billion.

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

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

	<u>Amount</u> <u>(in thousands)</u>
Landfill .....	\$1,232,542
Hazardous waste sites .....	242,044
Total landfill and hazardous waste sites liability .....	<u>\$1,474,586</u>

*Pollution Remediation Obligations*

The pollution remediation obligations (PROs) at June 30, 2012 and June 30, 2011 summarized by obligating event and pollution type, respectively, are as follows:

<u>Obligating Event</u>	<u>Fiscal Year 2012</u>		<u>Fiscal Year 2011</u>	
	<u>Amount</u> <u>(in thousands)</u>	<u>Percentage</u>	<u>Amount</u> <u>(in thousands)</u>	<u>Percentage</u>
Imminent endangerment .....	\$ 822	.4%	\$ 32,089	14.2%
Violation of pollution prevention-related permit or license ..	108	.1	3,007	1.4
Named by regulator as a potentially responsible party .....	50,977	24.0	30,155	13.3
Named in a lawsuit .....	—	—	3,692	1.6
Voluntary commencement .....	160,525	75.5	157,280	69.5
Total .....	<u>\$212,432<sup>(1)</sup></u>	<u>100.0%</u>	<u>\$226,223<sup>(1)</sup></u>	<u>100.0%</u>

<u>Pollution Type</u>	<u>Fiscal Year 2012</u>		<u>Fiscal Year 2011</u>	
	<u>Amount</u> <u>(in thousands)</u>	<u>Percentage</u>	<u>Amount</u> <u>(in thousands)</u>	<u>Percentage</u>
Asbestos removal .....	\$ 91,988	43.3%	\$114,800	50.7%
Lead paint removal .....	32,554	15.3	58,146	25.7
Soil remediation .....	34,421	16.2	22,828	10.1
Water remediation .....	52,698	24.8	26,263	11.6
Other .....	771	.4	4,186	1.9
Total .....	<u>\$212,432<sup>(1)</sup></u>	<u>100.0%</u>	<u>\$226,223<sup>(1)</sup></u>	<u>100.0%</u>

<sup>(1)</sup> There are no expected recoveries deemed not yet realized or realizable to reduce the liability.

The PRO liability is derived from registered multi-year contracts which offsets cumulative expenditures (liquidated/unliquidated) against original encumbered contractual amounts. The potential for changes to existing PRO estimates is recognized due to such factors as: additional remediation work arising during the remediation of an existing pollution project; remediation activities may find unanticipated site conditions resulting in necessary modifications to work plans; changes in methodology during the course of a project may cause cost estimates to change, e.g., the new ambient air quality standard for lead considered a drastic change will trigger the adoption of new/revised technologies for compliance purposes; and changes in the quantity which is paid based on actual field measured quantity for unit price items measured in cubic meters, linear meters, etc. Consequently, changes to original estimates are processed as change orders. Further, regarding pollution remediation liabilities that are not yet recognized because they are not reasonably estimable, the Law Department relates that we have approximately 18 cases involving hazardous substances, including spills from above and underground storage tanks, and other condemnation on, or caused by facilities on City-owned property. There are also four cases involving environmental review and land use, and one case involving polychlorinated biphenyls caulk in the public schools. Due to the uncertainty of the legal proceedings we cannot estimate a future liability.

On March 2, 2010, following an earlier notice of proposed listing, the United States Environmental Protection Agency ("EPA") listed the Gowanus Canal, a waterway located in Brooklyn, New York, as a Federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). While it was evaluating listing the Gowanus Canal, on November 5, 2009, EPA notified the City that EPA considers the City a potentially responsible party ("PRP") under CERCLA

for hazardous wastes in the Gowanus Canal. In its Gowanus PRP notice letter, EPA identified currently and formerly City-owned and operated properties, including an asphalt plant, an inactive incinerator, and waterfront properties historically leased to private entities, as sources of hazardous substances in the Gowanus Canal. On February 2, 2011, following an investigation of the location, concentrations, types, sources, and risks of contamination in the Gowanus Canal, EPA issued a Gowanus Canal Remedial Investigation Report. That report identified three former manufactured gas plants as the likely source of much of the contamination in the Gowanus Canal, but also identified combined sewer overflows as the likely source of some contamination. On December 30, 2011, EPA released its draft feasibility study for the Gowanus Canal, evaluating various alternatives to address the contamination identified in its report. DEP is currently undertaking a \$160 million capital project which will modernize a flushing tunnel to directly improve water quality and circulation within the Gowanus Canal. This work also includes up-sizing a pump station at the head of the Gowanus Canal to reduce the discharge of combined sewer overflows and dredging of a portion of the Gowanus Canal. Based on prior communications between DEP and EPA, the pump project should not be impacted by the listing of the Gowanus Canal as a Federal Superfund site, although the dredging project may be impacted. EPA has indicated that additional combined sewer overflow controls beyond the planned or projected upgrades under the Clean Water Act are necessary to prevent recontamination of the canal sediments. DEP disagrees and has provided EPA with several technical memoranda to demonstrate that the current data does not support this conclusion. DEP is continuing discussions with EPA and EPA has not further identified what additional controls it may seek.

On September 27, 2010, following an earlier notice of proposed listing, EPA listed Newtown Creek, the waterway on the border between Brooklyn and Queens, New York, along with its five tributaries, as a Superfund site. On April 6, 2010, EPA notified the City that EPA considers the City a PRP under CERCLA for hazardous wastes in Newtown Creek. In its Newtown Creek PRP notice letter, EPA identified historical City activities that filled former wetlands and low lying areas in and around Newtown Creek and releases from formerly City-owned and operated facilities, including municipal incinerators, as well as discharges from sewers and combined sewer overflow outfalls, as potential sources of hazardous substances in Newtown Creek. The City is participating with five companies that own or operate facilities adjacent to Newtown Creek in the investigation of conditions in Newtown Creek and the evaluation of feasible remedies. On July 7, 2011, EPA, the City of New York and the Newton Creek Group (NCG) entered into an Administrative Settlement Agreement and Order on Consent (AOC) to complete a comprehensive study of the Newton Creek and its tributaries. The study, called a Remedial Investigation and Feasibility Study, will be completed according to CERCLA. Under the AOC, the City is required to establish and maintain financial security in the amount of \$25 million for the benefit of EPA in order to secure the full and final completion of the work required to be performed under the AOC by the City and the Newton Creek Group, the group of five companies (Phelps Dodge Refining Co., Texaco, British Petroleum, National Grid and Exxon Mobile) that are respondents to the AOC, in addition to the City. The City has made its demonstration of financial assurance pursuant to the Resource Conservation and Recovery Act, 40 C.F.R. §258.74(f). This assurance was most recently provided, on March 2012, to the EPA in satisfaction of the AOC. The AOC does not cover any remedy that may ultimately be chosen by EPA to address the contamination identified as a result of the investigation and evaluation.

Under CERCLA, a responsible party may be held responsible for monies expended for response actions at a Superfund site, including investigative, planning, removal, remedial and EPA enforcement actions. A responsible party may also be ordered by EPA to take response actions itself. Responsible parties include, among others, past or current owners or operators of a facility from which there is a release of a hazardous substance that causes the incurrence of response costs. The nature, extent, and cost of response actions at either Gowanus Canal or Newtown Creek, the contribution, if any, of discharges from the City's water and sewer system to hazardous substances in Newtown Creek, and the extent of the City's liability, if any, for monies expended for such response actions, will likely not be determined for several years.

**5. Interfund Receivables, Payables, and Transfers**

At June 30, 2012 and 2011, Primary Government and Discretely Presented Component Units receivable and payable balances and interfund transfers were as follows:

**Governmental activities:**

Due from/to other funds:

Receivable Fund	Payable Fund	2012	2011
		(in thousands)	
General Fund	Capital Projects Fund . . . . .	\$2,801,825 <sup>(1)</sup>	\$2,664,275 <sup>(1)</sup>
	HYIC—General Fund . . . . .	12,574	—
Capital Projects Fund	TFA—Capital Projects Fund . . . . .	310,281	286,727
	HYIC—Capital Projects Fund . . . . .	2,606	13,991
HYDC—Capital Projects Fund	HYIC—Capital Projects Fund . . . . .	51	103
HYIC—Debt Service Fund	HYIC—Capital Projects Fund . . . . .	189	—
Total due from/to other funds . . . . .		\$3,127,526	\$2,965,096

**Component Units:**

Due from/to Primary Government and Component Units:

Receivable Entity	Payable Entity		
Primary Government—General Fund	Component Units—HDC . . . . .	\$ 865,077	\$ 854,517
	HHC . . . . .	171,653	207,374
		1,036,730	1,061,891
Primary Government—Capital Projects Fund	Component Units—Water Authority . . . .	677,880	682,345
	EDC. . . . .	125,043	126,251
		802,923	808,596
Total due from Component Units . . . . .		\$1,839,653	\$1,870,487
Component unit—Water Board	Primary Government—General Fund . . .	\$ 62,371	\$ 36,288
Total due to Component Units . . . . .		\$ 62,371	\$ 36,288

<sup>(1)</sup> Net of eliminations within the same fund type.

Note: During both fiscal years 2012 and 2011, the Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.



**Governmental activities:**  
Interfund transfers

	Fiscal Year 2012					
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total
From General Fund .....	\$ —	\$ —	\$ 2,272,372	\$ 1,140,758	\$ —	\$ 3,413,130
From (to) General Debt Service .....	(2,272,372)	—	—	6,608	—	(2,265,764)
To Capital Projects .....	—	—	—	(3,176,386)	—	(3,176,386)
From (to) Nonmajor Debt Service .....	(1,757,622)	—	(6,608)	(81,569)	616,864	(1,228,935)
From Nonmajor Capital Projects .....	—	3,176,386	—	8,950	—	3,185,336
From Nonmajor Special Revenue .....	—	—	—	72,619	—	72,619
Total .....	<u>\$ (4,029,994)</u>	<u>\$ 3,176,386</u>	<u>\$ 2,265,764</u>	<u>\$ (2,029,020)</u>	<u>\$ 616,864</u>	<u>\$ —</u>

	Fiscal Year 2011					
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total
From General Fund .....	\$ —	\$ —	\$ 3,488,937	\$ 1,096,899	\$ —	\$ 4,585,836
From (to) General Debt Service .....	(3,488,937)	—	—	5,170	—	(3,483,767)
To Capital Projects .....	—	—	—	(3,979,583)	—	(3,979,583)
From (to) Nonmajor Debt Service .....	(1,791,943)	—	(5,170)	(145,456)	695,044	(1,247,525)
From Nonmajor Capital Projects .....	—	3,979,583	—	42,825	—	4,022,408
From Nonmajor Special Revenue .....	—	—	—	102,631	—	102,631
Total .....	<u>\$ (5,280,880)</u>	<u>\$ 3,979,583</u>	<u>\$ 3,483,767</u>	<u>\$ (2,877,514)</u>	<u>\$ 695,044</u>	<u>\$ —</u>

Transfers are used to: (i) move unrestricted General Fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as aids or matching funds for grant programs, (ii) move restricted amounts borrowed by authorized fund or Component Unit to finance Capital Projects Fund expenditures, (iii) move unrestricted surplus revenue from the General Fund to finance Capital Projects Fund expenditures and prepay debt service coming due in the next fiscal year, and (iv) move revenue from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due.

In the fiscal year ended June 30, 2012, the City made the following one-time transfer:  
Transfers from the General Fund of unrestricted grants of \$879 million on June 29, 2012 to TFA and \$156 million to HYIC. These funds will be used to fund debt service requirements for tax secured debt and debt service respectively during the fiscal year ending June 30, 2013.

In the fiscal year ended June 30, 2011, the City made the following one-time transfer:  
A transfer from the General Fund of an unrestricted grant of \$790 million on June 29, 2011 to TFA. These funds were used to fund debt service requirements for tax secured debt during the fiscal year ending June 30, 2012.



**E. OTHER INFORMATION**

**1. Audit Responsibility**

In fiscal years 2012 and 2011, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than Deloitte & Touche LLP are TSASC, Inc., New York City School Construction Authority, New York City Health and Hospitals 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, Deferred Compensation Plan, WTC Captive Insurance Company, Inc., New York City Capital Resource Corporation, New York City Educational Construction Fund, Sales Tax Asset Receivable Corporation, Fiscal Year 2005 Securitization Corporation, NYCTL Trusts, New York City Housing Authority, Hudson Yards Infrastructure Corporation, Hudson Yards Development Corporation, Brooklyn Bridge Park Corporation, The Trust for Governors Island, and The New York City Energy Efficient Corporation. In fiscal year 2011, auditors other than Deloitte & Touche LLP audited New York City Transitional Finance Authority. In addition in fiscal year 2012, auditors other than Deloitte & Touche LLP audited newly created Component Unit—Build NYC.

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Fiduciary Funds	
	2012	2011	2012	2011	2012	2011	2012	2011
Total assets . . . . .	4%	7%	50%	51%	48%	100%	7%	7%
Revenues, other financing sources and net assets held in trust . . . . .	4	5	78	79	80	100	9	8

**2. Subsequent Events**

The following events occurred subsequent to June 30, 2012:

*Long-term Financing*

*City Debt:* On October 23, 2012, The City of New York sold its Fiscal 2013 Series A General Obligation bonds of \$850 million for capital purposes.

On October 23, 2012, The City of New York sold its Fiscal 2013 Series B and C General Obligation bonds of \$600 million for refunding purposes.

On October 23, 2012, The City of New York converted its Fiscal 1994 Series A5 General Obligation bonds of \$22.18 million from Daily Mode to Fixed Rate Mode and Fiscal 1994 Series H6 General Obligation bonds, Fiscal 1996 Series J2 General Obligation bonds and Fiscal 2003 Series G3 General Obligation bonds of \$36.33 million from Weekly Mode to Fixed Rate Mode.

*TFA Debt:* On July 19, 2012, TFA sold its Fiscal 2013 Series S-1 Building Aid Revenue Bonds of \$850 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series A1-3 Future Tax Secured Subordinate bonds of \$450 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series A4-7 Future Tax Secured Adjustable Rate bonds of \$350 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series B Future Tax Secured Subordinate bonds of \$950 million for refunding purposes.

*NYCTLT*

*2012-A Debt:* On August 8, 2012, NYCTLT 2012-A issued Tax Lien Collateralized Bonds, Series 2012-A of \$66.75 million to fund the purchase of certain liens from the City.

*Bond Ratings:* On August 22, 2012, Fitch downgraded TSASC bonds maturing June 1, 2022 to BBB from BBB+, bonds maturing June 1, 2026 to BB- from BBB-, and bonds maturing June 1, 2034 and June 1, 2042 to B+ from BB.

### 3. Other Employee Benefit Trust Funds

*Deferred Compensation Plans For Employees of The City of New York and Related Agencies and Instrumentalities (DCP) and the New York City Employee Individual Retirement Account (NYCE IRA)*

DCP offers employees of The City of New York and Related Agencies and Instrumentalities two defined contribution plans in accordance with Internal Revenue Code Sections 457 and 401(k). DCP permits employees to defer a portion of their salary on either a pre-tax (traditional) or after-tax (Roth) basis until future years. Funds may not be withdrawn until termination, retirement, death, Board-approved unforeseen emergency or hardship (as defined by the Internal Revenue Code) or, if still working for the City, upon attainment of age 70½ in the 457 Plan or upon age 59½ in the 401(k). A 401(a) defined contribution plan is available to certain employees of the Lieutenant's Benevolent Association of The City of New York Police Department.

The NYCE IRA is a deemed Individual Retirement Account (IRA) in accordance with Internal Revenue Code Section 408(q) and is available as both a traditional and Roth IRA to those employees eligible to participate in the 457 Plan and 401(k) Plan and their spouses along with former employees and their spouses. Funds may be withdrawn from the NYCE IRA at any time, however, certain conditions must be met for withdrawals to be considered Qualified Distributions (penalty-free).

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

Participants in DCP or NYCE IRA can choose among seven investment options, or one of twelve pre-arranged portfolios consisting of varying percentages of those investment options. Participants can also invest a portion of their assets in a self-directed brokerage option.

*The New York City Other Postemployment Benefits Plan (PLAN)*

PLAN is a fiduciary Component Unit of the City and is composed of: (1) the New York City Retiree Health Benefits Trust (RHBT) which is used to receive, hold, and disburse assets accumulated to pay for some of the postemployment benefits other than pensions (OPEB) provided by the City to its retired employees and (2) OPEB paid for directly by the City out of its general resources rather than through RHBT. RHBT was established for the exclusive benefit of the City's retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with the City's various collective bargaining agreements and the City's Administrative Code. 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, PLAN is presented as an Other Employee Benefit Trust Fund in the City's financial statements. The separate annual financial statements of PLAN are available at: Office of the Comptroller, Bureau of Accountancy — Room 200 South, 1 Centre Street, New York, New York 10007.

*Summary of Significant Accounting Policies:*

*Basis of Accounting.* The measurement focus of PLAN is on the flow of economic resources. This focus emphasizes the determination of changes in the PLAN's 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.

The Schedule of Funding Progress of OPEB valuations appears in the RSI Section, immediately following the Notes to Financial Statements.

**4. Other Postemployment Benefits**

*Program Description.* The New York City Health Benefits Program (Program) is a single-employer defined benefit healthcare plan funded by PLAN, 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 Premium reimbursements and welfare fund contributions. PLAN issues a publicly available financial report that includes financial statements and required supplementary information for funding PLAN’s OPEB and the report is available at: Office of the Comptroller, Bureau of Accountancy-Room 200 South, 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 Premium Reimbursements; Welfare Fund Benefits stem from the City’s various collective bargaining agreements. The City is not required by law or contractual agreement to provide funding for the Program other than the pay-as-you-go amounts necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal year ended June 30, 2012, the City paid \$1.4 billion on behalf of the Program. 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. Program 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 (ARC) of the employer, 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 GASB45). Under this method, in general, 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 Program, and changes in the City’s net OPEB obligation to the Program for the year ended June 30, 2012:

	<u>Amount</u> (in thousands)
Annual required contribution . . . . .	\$ 89,613,955
Interest on net OPEB obligation . . . . .	3,356,278
Adjustment to annual required contribution . . . . .	<u>(87,263,232)</u>
Annual OPEB cost (expense) . . . . .	5,707,001
Payments made . . . . .	<u>1,439,815</u>
Increase in net OPEB obligation . . . . .	4,267,186
Net OPEB obligation-beginning of year . . . . .	<u>83,906,953</u>
Net OPEB obligation-end of year . . . . .	<u>\$ 88,174,139</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Program, and the net OPEB obligation for the fiscal years ended June 30, 2012, 2011, 2010, 2009, 2008 and 2007 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Paid</u>	<u>Net OPEB Obligation</u>
	(in thousands)		
6/30/12	\$5,707,101	25.2%	\$88,174,139
6/30/11	10,494,993	15.0	83,906,953
6/30/10	11,021,425	14.3	74,984,832
6/30/09	3,937,583	42.8	65,544,361
6/30/08	7,419,205	25.5	63,290,218
6/30/07	7,164,986	40.6	57,761,938

*Funded Status and Funding Progress.* As of June 30, 2011, the most recent actuarial valuation date, the funded status was 3.1%. The actuarial accrued liability for benefits was \$85.9 billion, and the actuarial value of assets was \$2.6 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$83.3 billion. The covered payroll (annual payroll of active employees covered) was \$19.9 billion, and the ratio of the UAAL to the covered payroll was 419.6%. 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 determined actuarial valuations of OPEB incorporated the use of demographic and salary increase assumptions among others as reflected below. Amounts determined regarding the funded status 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 in the RSI section immediately following the Notes to Financial Statements, disclosures required by GASB43 for OPEB Plan reporting, presents GASB No. 45 results of OPEB valuations as of June 30, 2011, 2010, 2009, 2008, 2007, and 2006 and the schedule provides a six year information trend 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, 2011 and 2010 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 (NYCERS); (ii) Teachers’ Retirement System of the City of New York Qualified Pension Plan (TRS); (iii) New York City Board of Education Retirement System Qualified Pension Plan (BERS); (iv) New York City Police Pension Fund (POLICE); and (v) New York City Fire Department Pension Fund (FIRE). The OPEB actuarial valuations incorporate only the use of certain NYCRS demographic and salary increase assumptions the NYCRS demographic and salary scale assumptions are changed from the prior OPEB actuarial valuation. The demographic and salary scale assumptions requiring NYCRS Board approval were adopted by each respective Board of Trustees during fiscal year 2012. The legislation required to enact those actuarial assumptions and methods that require New York State legislation are pending but are expected to be enacted when the Legislature next convenes.

The OPEB-specific actuarial assumptions used in the June 30, 2011 OPEB actuarial valuation of the Plan are as follows:

- Valuation Date . . . . . June 30, 2011.
- Discount Rate . . . . . 4.0% per annum.<sup>(1)</sup>
- Per Capita Claims Costs . . . . . HIP HMO and GHI/EBCBS benefit costs reflect age adjusted premiums. Age adjustments from assumed average age of covered population for non-Medicare retirees and HIP HMO Medicare retirees. Age adjustment based on actual age distribution of the GHI/EBCBS Medicare covered population. Insured premiums without age adjustment for other coverage. Premiums assumed to include administrative costs.

Employer premium contribution schedules for the month of July 2011 and January 2012 were reported by the Mayor’s Office of Labor Relations. In most cases, the premium contributions remained the same throughout the year. HIP HMO Medicare rates varied by date and by specific Plan option. These variations are the result of differing Medicare Advantage reimbursements. The various monthly rates were blended by proportion of enrollment. For other rates, where the January 2012 premium rate was different than the July 2011 premium rate, the valuation assumed that the January 2012 rate was more representative of the long-range cost of the arrangement.

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

Initial monthly premium rates used in valuations are shown in the following tables:

Plan	Monthly Rate	
	FY '12 <sup>(1)</sup>	FY '11 <sup>(2)</sup>
<b>HIP HMO</b>		
Non-Medicare Single	\$ 507.60	\$ 462.43
Non-Medicare Family	1,243.59	1,132.93
Medicare	135.87	132.40
<b>GHI/EBCBS</b>		
Non-Medicare Single	442.70	418.94
Non-Medicare Family	1,149.28	1,087.56
Medicare	166.00	166.00
<b>Others</b>		
Non-Medicare Single	507.60	462.43
Non-Medicare Family	1,243.59	1,132.93
Medicare	166.00	166.00

(1) Used in June 30, 2011 actuarial valuation.

(2) Used in June 30, 2010 actuarial valuation.

Welfare Funds ..... Welfare Fund contributions reflect a three year trended average of reported annual contribution amounts for current retirees. A trended average is used instead of a single reported Welfare Fund amount to smooth out negotiated variations. The Welfare Fund rates reported for the previous two valuations were trended to current levels based on a historic increase rate of 2.3% for fiscal year 2011 and 2.4% for fiscal year 2010 approximating overall recent growth of Welfare Fund contributions.

For the June 30, 2011 and the June 30, 2010 OPEB actuarial valuations, certain lump-sum amounts have been included in calculating the three-year trended average. Furthermore, retroactive adjustments to Welfare Fund contribution rates were used in the trended average as of the dates they were effective (i.e., using the retroactive date).

Reported annual contribution amounts for the last three years shown in Appendix B, Tables 2a to 2e of the Report on the Seventh Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program dated September 19, 2012, for fiscal year 2012 used for current retirees.

Weighted average annual contribution rates used for future retirees:

	Annual Rate	
	FY'12	FY'11
NYCERS	\$1,775	\$1,789
TRS	1,876	1,871
BERS	1,767	1,782
POLICE	1,691	1,734
FIRE	1,783	1,764

Contributions were assumed to increase by Medicare Plans trend rates.

For Welfare Fund contribution amounts reflected in the June 30, 2010 actuarial valuation for current retirees, see Report on the Sixth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program dated September 21, 2011.

Medicare Part B Premiums . . . . .	<u>Calendar Year</u>	<u>Monthly Premium</u>
	2008	\$ 96.40
	2009	96.40
	2010 ( <i>announced</i> )	110.50
	2010 ( <i>used</i> )	100.21
	2011 ( <i>announced</i> )	115.40
	2011 ( <i>used</i> )	101.53
	2012	99.90*

\* Reflected only in the June 30, 2011 OPEB actuarial valuation.

2012 Medicare Part B Premium assumed to increase by Medicare Part B trend rates.

Medicare Part B Premium reimbursement amounts have been updated to reflect actual premium rates announced for calendar years through 2012. The actual 2013 Medicare Part B Premium was not announced at the time these calculations were prepared and thus, was not reflected in the valuation.

Due to the fact that there were no cost-of-living increases in Social Security benefits for Calendar Years 2010 and 2011, most Medicare Part B participants were not actually charged the Medicare Part B Premium announced for 2012.

For anyone having their standard Medicare Part B Premium paid out of their Social Security check in 2009, the Medicare Part B Premium was frozen at the 2009 level. Individuals first collecting Social Security in 2010, or who first paid Medicare Part B Premiums in 2010 (e.g., turning age 65) would pay the full base 2010 premium of \$110.50.

Individuals first collecting Social Security in 2011, or who first paid Medicare Part B Premiums in 2011, paid the full base premium of \$115.40, while those who first were covered in 2010 paid \$110.50 throughout 2011 as well. Individuals whose Medicare Part B Premiums are paid directly by other entities (e.g., Medicaid for individuals in a nursing home) would have \$110.50 paid on their behalf during 2010, and \$115.40 paid on their behalf during 2011.

Individuals who pay the Medicare Part B Income Related Monthly Adjustment Amount (“IRMAA”) were not subject to the freeze and paid higher amounts during 2010 that are predicted on the \$110.50. For 2011 they paid higher amounts predicated on the \$115.40. The Federal government estimated that about 3/4 of Medicare retirees owed only \$96.40 per month during 2011.

For the June 30, 2009 OPEB actuarial valuation (i.e., Fiscal Year 2010), the annual premium used (i.e., \$1,179.64) equaled 6 months of the Calendar Year 2009 premium plus 6 months of:

- 73% of the Calendar Year 2009 monthly premium (i.e., \$96.40), representing the approximate percentage of the overall U.S. Medicare population that will pay the frozen amount, and
- 27% of the Calendar Year 2010 monthly premium (i.e., \$110.50), representing the approximate percentage of the overall U.S. Medicare population that will pay the Calendar Year 2010 amount.

This blended premium reflects an approximation of the overall amount collected for Medicare Part B and was considered a better measure upon which to base future projections.



For the June 30, 2011 OPEB actuarial valuation (i.e., Fiscal Year 2012), the annual premium used (i.e., \$1,208.58) equals 6 months of the Calendar Year 2011 premium (i.e., 73% of \$96.40 + 27% of \$110.50) plus 6 months of the calendar year 2012 premium (\$99.90). Future Calendar Year Part B premium rates are projected from the Calendar Year 2012 rate of \$99.90 using the assumed Medicare Part B Premium trend.

Overall Medicare Part B Premium amounts assumed to increase by the following percentages to reflect the income-related increases in Medicare Part B Premiums for high income individuals:

<u>Fiscal Year</u>	<u>Income-related Medicare Part B Increase</u>	
	<u>June 30, 2011 Valuation</u>	<u>June 30, 2010 Valuation</u>
2011	N/A	3.4%
2012	3.5%	3.5
2013	3.6	3.6
2014	3.7	3.7
2015 and later	Increasing by .1% per year to a maximum of 5.0%	Increasing by .1% per year to a maximum of 5.0%

N/A: Not Applicable.

Medicare Part B Premium

Reimbursement Assumption ..... For the June 30, 2011 OPEB actuarial valuation, 90% of Medicare participants are assumed to claim reimbursement (unchanged from last year).

Health Care Cost Trend Rate

(HCCTR) ..... Covered medical expenses are assumed to increase by the following percentages (unchanged from last valuation):

<u>Year Ending<sup>(1)</sup></u>	<u>Pre-Medicare Plans</u>	<u>Medicare Plans</u>	<u>Medicare Part B Premium</u>
2012 <sup>(2)</sup>	9.5%	5.0%	7.5%
2013	9.5	5.0	7.0
2014	9.5	5.0	6.5
2015	9.0	5.0	6.0
2016	8.5	5.0	5.5
2017	8.0	5.0	5.0
2018	7.5	5.0	5.0
2019	7.0	5.0	5.0
2020	6.5	5.0	5.0
2021	6.0	5.0	5.0
2022	5.5	5.0	5.0
2023 and later	5.0	5.0	5.0

<sup>(1)</sup> Fiscal year for Pre-Medicare Plans and Medicare Plans and calendar year for Medicare Part B Premiums.

<sup>(2)</sup> For the June 30, 2011 OPEB actuarial valuation, rates shown for 2012 were not reflected since actual values for the fiscal year 2012 per capita costs, fiscal year 2012 Welfare Fund contributions, and calendar year 2012 Medicare Part B Premium amounts were used.

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

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

The premiums are age adjusted for HIP HMO and GHI/EBCBS participants. The age adjustments were based on assumed age 40 for non-Medicare-eligible retirees and assumed age 73 for HIP HMO Medicare-eligible retirees. An actual age distribution based on reported census information was used for Medicare-eligible GHI/EBCBS retirees and dependents.

The age adjustment for the non-Medicare GHI/EBCBS premium reflects a 5% (unchanged) reduction in the GHI portion of the premium for the estimated margin anticipated to be returned. GHI represents \$216.19 of the \$442.70 single non-Medicare GHI/EBCBS monthly rate for the June 30, 2010 OPEB actuarial valuation and \$200.57 of the \$418.94 single non-Medicare GHI/EBCBS monthly rate for the June 30, 2010 OPEB actuarial valuation.

In addition to age adjustment, the premiums for HIP HMO Medicare-eligible retirees were multiplied by the following factors to reflect actual calendar year 2012 premiums and future anticipated changes in Medicare Advantage reimbursement rates. As of June 30, 2009, the factors had been updated to reflect that Medicare Advantage reimbursement rates are expected to be significantly reduced over the next several years. The reductions in the reimbursement rates were part of the National Health Care Reform (NHCR) legislation and are likely to be most significant in areas where medical costs are greater, such as New York City. In developing the adjustment factors for the June 30, 2010 and the June 30, 2011 OPEB actuarial valuations, it was assumed that the cost of HIP coverage would not be allowed to exceed the cost of GHI/EBCBS coverage for Medicare retirees. The adjustment factors used as of June 30, 2010 are shown for comparative purposes:

<u>Fiscal Year</u>	<u>Factor*</u>	
	<u>6/30/11 Valuation</u>	<u>6/30/10 Valuation</u>
2011	N/A	1.0000
2012	1.0000	1.0250
2013	1.0200	1.0850
2014	1.0800	1.1500
2015	1.1400	1.2000
2016	1.1800	1.2300
Thereafter	1.2000	1.2300

\* Includes anticipated impact of National Health Care Reform.  
N/A: Not Applicable.

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 in the June 30 OPEB actuarial valuations for the following portion of retirees:

	Valuation as of June 30	
	2011	2010
NYCERS	35%	35%
TRS	45	45
BERS	45	45
POLICE	15	15
FIRE	20	20

Participation . . . . . Active participation assumptions based on current retiree elections. Actual elections for current retirees. Portions of current retirees not eligible for Medicare are assumed to change elections upon attaining age 65 based on patterns of elections of Medicare-eligible retirees. Detailed assumptions appear in the following table:

Benefits	Plan Participation Assumptions				
	June 30, 2011 and June 30, 2010 Valuations				
	NYCERS	TRS	BERS	POLICE	FIRE
<u>Pre-Medicare</u>					
-GHI/EBCBS	65%	83%	73%	76%	71%
-HIP HMO	22	6	16	13	16
-Other HMO	8	4	3	9	12
-Waiver	5	7	8	2	1
<u>Medicare</u>					
-GHI	72	87	78	82	77
-HIP HMO	21	9	16	12	16
-Other HMO	4	2	2	4	6
-Waiver	3	2	4	2	1
<u>Post-Medicare Migration</u>					
-Other HMO to GHI	50	0	33	50	50
-HIP HMO to GHI	0	0	0	0	0
-Pre-Med. Waiver					
• to GHI @ 65	13	35	50	0	0
• to HIP @ 65	13	35	0	0	0

Waivers are assumed to include participants who do not qualify for coverage because they were working less than 20 hours a week at termination.

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 to children (coverage to age 26 based on legislative mandates under recently enacted National Health Care Reform) of uniformed members of the Police or Fire Departments who die 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.
- (iii) Effective August 31, 2010 surviving spouses of retired uniformed members of the Departments of Correction and Sanitation 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), and for all survivors of uniformed members of the Departments of Correction and Sanitation, 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. Beginning with the June 30, 2010 OPEB actuarial valuation, the valuation includes an estimate of the value of benefits provided to existing survivors of POLICE and FIRE retirees who died other than in the Line of Duty, who qualified for lifetime continuation coverage prior to the valuation date, based on the assumptions outlined above. The valuation includes the entire cost of additional surviving spouse benefits for basic coverage and Medicare Part B Premium reimbursement for Line of Duty survivors, although the OA 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 26. Child dependents of future retirees assumed to receive coverage for eight years after retirement.

Group	Dependent Coverage Assumptions				
	June 30, 2011 and June 30, 2010 Valuations				
	NYCERS	TRS	BERS	POLICE	FIRE
<u>Male</u>					
-Single Coverage	30%	45%	35%	15%	10%
-Spouse	40	35	55	15	20
-Child/No Spouse	5	5	2	5	5
-Spouse and Child	25	15	8	65	65
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
<u>Female</u>					
-Single Coverage	70%	60%	60%	45%	10%
-Spouse	20	32	35	10	20
-Child/No Spouse	5	3	2	25	5
-Spouse and Child	5	5	3	20	65
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

For accidental death, 80% of POLICE and FIRE members are assumed to have family coverage.

Demographic Assumptions . . . . . With one exception, the same demographic and salary scale assumptions that were used to value the pension benefits of the NYCERS for determining employer contributions for fiscal years beginning 2012 were also used to determine OPEB information for fiscal year 2012. These assumptions were adopted by the Boards of Trustees of the NYCERS during fiscal year 2012. The exception was for BERS retirees where the probabilities of mortality after service retirement, instead of the probabilities of mortality for beneficiaries of BERS retirees, were used to value the OPEB benefits for dependents of BERS retirees.

Most of the demographic assumptions for decrement from active service are changed from the prior OPEB valuation. The actuarial assumptions used to determine OPEB information for fiscal year 2012 are shown in appendix D of the Report on the Seventh Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report), dated September 19, 2012, and for fiscal year 2011, in Appendix D of the Sixed Annual OPEB Report. These OPEB Reports were prepared in accordance with GASB Nos. 43 and 45. These OPEB Reports

are available at the Office of the Comptroller, Bureau of Accountancy – Room 200 South, 1 Centre Street, New York, NY 10007 and are also available on the web site of the New York City Office of the Actuary at <http://www.nyc.gov/html/actuary>.

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 who enroll in community-rated HMO’s, including HIP, since these individuals pay their full community rate. However, the City’s costs under the experience-rated GHI/EBCBS coverage are affected by the claims for COBRA-covered individuals.

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 assumption in the June 30, 2011 OPEB actuarial valuation of a lump-sum COBRA cost of \$725 for terminations during fiscal year 2011 (\$675 lump-sum cost during fiscal year 2010 was assumed in the June 30, 2009 actuarial valuation). The \$725 (\$675) lump-sum amount is increased by the Pre-Medicare HCCTR for future years but is not adjusted for age-related morbidity.

Cadillac Tax . . . . . Effective with the June 30, 2009 OPEB actuarial valuation, a load is applied to all Pre-Medicare, Medicare, and Medicare Part B Premium liabilities to estimate the impact of the high cost plan excise tax (Cadillac Tax) that will be imposed beginning in 2018 under NHCR. The additional Cadillac Tax due to the riders is assumed to be reflected in the contribution required for the rider. The additional Cadillac Tax due to amounts provided by Welfare Fund benefits is assumed to be absorbed by the Welfare Fund or by lower net Welfare Fund contribution amounts. For the June 30, 2011 OPEB actuarial valuations the load is 1.0% (0.5% last year).

Active/Inactives Liabilities . . . . . Beginning with the June 30, 2010 OPEB actuarial valuation it was assumed that the liability for the Active/Inactive members should be 40% of the measured liability of the Active/Inactive population. This is roughly equivalent to assuming 60% of the Active/Inactive members will terminate membership prior to vesting and not receive OPEB.

Stabilization Fund . . . . . A 0.7% load is applied on all City GASB45 obligations (.6% in last valuation). The same loads apply to the GASB No. 43 obligations in the current and preceding valuation. The load is not applicable to Component Units.

Educational Construction Fund . . . . . The actuarial assumptions used for determining obligations for ECF are shown in Appendix E of the Report on the Seventh Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated September 20, 2012. The Report was prepared as of June 30, 2011, in accordance with GASB Nos. 43 and 45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 200 South, 1 Centre Street, New York, New York 10007 and are also available on the website of the New York City Office of the Actuary at <http://www.nyc.gov/html/actuary>.

CUNY TIAA . . . . . The actuarial assumptions used for determining obligations for CUNY TIAA are shown in Appendix F of the Report on the Seventh Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated September 19, 2012. The Report was prepared as of June 30, 2011 in accordance with GASB43 and 45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 200 South, 1 Centre Street, New York, New York 10007 and are also available on the website of the New York City Office of the Actuary at <http://www.nyc.gov/html/actuary>.

## 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 certain 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 certain 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 Department 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 Department Pension Fund as set forth in ACNY Section 13-313.1.

The NYCRS provide pension benefits to retired employees based on salary, length of service, member contributions, Plan and Tier. In addition, the 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 (10 years for certain members who joined TRS and BERS beginning Calendar Year 2010). Except for NYCERS and BERS, permanent, full-time employees are generally required to become members of a NYCRS upon employment. Permanent full-time employees who are eligible to participate in NYCERS and BERS are generally 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.

Currently there are several Tiers, referred to as Tier I, Tier II, Tier III, Tier IV and Tier VI. Members are assigned a Tier based on Plan and membership date. The Tier II Plan provisions have expired as of June 30, 2009. This affects new hires into the uniformed forces of Police and Fire (new members of POLICE and FIRE) and Detective Investigators who become new members of NYCERS between July 1, 2009 and March 31, 2012.

Chapter 504 of the Laws of 2009 (Chapter 504/09) modified some of the Plan provisions for certain members who first joined TRS or BERS after Calendar Year 2009. These modifications are expected to reduce future employer pension contributions.



Chapter 18 of the Laws of 2012 (Chapter 18/12) amended the retirement benefits of public employees who establish membership in a public employee retirement system on or after April 1, 2012. Chapter 18/12 is commonly referred to as Tier VI. Tier VI is expected to reduce future employer pension contributions.

*Plan Membership*

As of June 30, 2011, June 30, 2010 and June 30, 2009, the membership of NYCERS consisted of:

	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
<b>Plan Membership at June 30, 2011 (Preliminary):</b>						
Retirees and Beneficiaries Receiving Benefits . . . . .	135,468	74,064	14,399	45,755	17,017	286,703
Terminated Vested Members Not Yet						
Receiving Benefits . . . . .	8,914	8,932	189	780	30	18,845
Other Inactives* . . . . .	18,969	10,938	3,445	1,643	16	35,011
Active Members . . . . .	182,021	109,636	23,131	33,705	10,650	359,143
Total Plan Membership . . . . .	<u>345,372</u>	<u>203,570</u>	<u>41,164</u>	<u>81,883</u>	<u>27,713</u>	<u>669,702</u>
	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
<b>Plan Membership at June 30, 2010:</b>						
Retirees and Beneficiaries Receiving Benefits . . . . .	132,487	72,356	13,969	44,634	17,140	280,586
Terminated Vested Members Not Yet						
Receiving Benefits . . . . .	8,941	8,170	199	848	33	18,191
Other Inactives* . . . . .	19,332	10,803	3,661	1,836	23	35,655
Active Members . . . . .	184,982	111,647	23,324	34,597	11,080	365,630
Total Plan Membership . . . . .	<u>345,742</u>	<u>202,976</u>	<u>41,153</u>	<u>81,915</u>	<u>28,276</u>	<u>700,062</u>
	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
<b>Plan Membership at June 30, 2009:</b>						
Retirees and Beneficiaries Receiving Benefits . . . . .	131,031	70,825	13,641	44,285	17,263	277,045
Terminated Vested Members Not Yet						
Receiving Benefits . . . . .	8,867	7,486	229	843	34	17,459
Other Inactives* . . . . .	21,513	8,689	3,673	1,998	30	35,903
Active Members . . . . .	186,284	113,132	23,303	35,608	11,460	369,787
Total Plan Membership . . . . .	<u>347,695</u>	<u>200,132</u>	<u>40,846</u>	<u>82,734</u>	<u>28,787</u>	<u>700,194</u>

\* Represents members no longer on payroll, including pending withdrawals, members on leaves of absence, members awaiting refunds of contributions or benefit determinations, etc.

Effective with Fiscal Year 2006, Employer Contributions are determined under the One-Year Lag Methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. For example, the dates of June 30, 2010 (Lag) valuation date, including the membership data above, was used for determining the Fiscal Year 2012 Employer Contributions.

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

Member contributions are established by law and vary by Plan. In general, Tier I and Tier II member contribution rates are dependent upon the employee’s age at membership and retirement plan election. In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees, are not required to make basic 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, TRS and BERS also make additional member contributions. Tier VI members who join between April 1, 2012 and March 31, 2013 contribute 3% of salary until a new contribution structure takes effect on April 1, 2013. Beginning April 1, 2013, Tier VI members contribute between 3.0% and 6.0% of salary, depending on salary level.

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.

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 (OYLM) 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).

*Pension Costs*

From Fiscal Year 2006 to 2011, the NYCERS Annual Pension Costs and the City’s Statutory Contributions were determined under OYLM, on the basis of revised actuarial assumptions, the Frozen Initial Liability Actuarial Cost Method and a revised Actuarial Asset Valuation Method (AAVM). These assumptions methods are referred to as the 2006 A&M.

Beginning Fiscal Year 2012, the NYCERS Annual Pension Costs and the City’s Employer Contributions are determined under OYLM, on the basis of revised actuarial assumptions including an Actuarial Interest Rate (AIR) assumption of 7.0% per annum, net of expenses, the Entry Age Actuarial Cost Method, a Market Value Restart as of June 30, 2011, an Actuarial Asset Value as of June 30, 2010 set to recognize investment performance during Fiscal Year 2011 and an amortization method for payment of Unfunded Actuarial Accrued Liabilities (UAAL). These assumptions and methods are referred to as the 2012 A&M.

The total actuarially determined Annual Pension Costs for the NYCERS, for the Fiscal Years ended June 30, 2012, 2011 and 2010 were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(in millions)	
NYCERS .....	\$3,017.0	\$2,387.2	\$2,197.7
TRS .....	2,673.1	2,469.0	2,484.1
BERS .....	213.7	180.2	147.3
POLICE .....	2,362.7	2,057.6	1,954.7
FIRE .....	<u>970.7</u>	<u>883.6</u>	<u>867.4</u>
Total annual pension costs .....	<u>\$9,237.2</u>	<u>\$7,977.6</u>	<u>\$7,651.2</u>

For Fiscal Year 2012 the City’s Employer Contributions to the NYCERS, based on the actuarial valuations performed as of June 30, 2010 under OYLM, plus other pension expenditures, were approximately \$7,962.1 million. These Employer Contributions are equal to those recommended by the Actuary and are expected to represent the Statutory Contributions. Technically, the representations of Fiscal Year 2012 Employer Contributions still (as of October 2012) requires the enactment of certain enabling legislation that is expected when the New York State Legislature reconvenes later during Calendar Year 2012.

For Fiscal Year 2011, the City’s Statutory Contributions for the NYCERS, based on the actuarial valuations performed as of June 30, 2009 under OYLM, plus other pension expenditures, were approximately \$7,008.9 million.

For Fiscal Years 2012, 2011 and 2010, 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 paid by the City, primarily because the City is only one of the participating employers in NYCERS, TRS, and BERS.

For Fiscal Years 2012, 2011 and 2010, 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.

The City's Statutory Contributions for the Fiscal Years ended June 30, 2012, 2011 and 2010 were as follows:

	<u>2012<sup>#</sup></u>	<u>2011</u> (in millions)	<u>2010</u>
NYCERS* .....	\$1,668.0	\$1,320.4	\$1,205.6
TRS* .....	2,613.3	2,427.7	2,450.7
BERS* .....	203.8	170.5	139.5
POLICE .....	2,385.7	2,083.6	1,981.0
FIRE .....	976.9	890.7	874.3
OTHER** .....	114.4	116.0	104.5
Total Statutory Contributions .....	<u>\$7,962.1</u>	<u>\$7,008.9</u>	<u>\$6,755.6</u>

# Pending the enactment of enabling New York State Legislation.

\* 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 for all employers participating in NYCERS, TRS, and BERS for Fiscal Years ended June 30, 2012, 2011 and 2010 were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
NYCERS .....	55.29%	55.31%	54.86%
TRS .....	97.76	98.33	98.66
BERS .....	95.37	94.62	94.69

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. However, the failure by any one employer to make its required payment could increase the obligation of the other participating employers within the particular retirement system.

\*\* 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 the NYCERS. The City also contributes per diem amounts into certain union-administered annuity funds.

*Net Pension Obligations*

NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems and the City has no Net Pension Obligations to these systems. Note: The Annual Pension Costs for these systems are the Statutory Contributions. For Fiscal Year 2012 the actuarially-required contributions are expected to equal the Statutory Contributions.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for Fiscal Year 2012 are as follows:

	<u>POLICE</u>	<u>FIRE</u> (in millions)	<u>TOTAL</u>
(1) Annual Required Contribution .....	\$2,385.7	\$976.9	\$3,362.6
(2) Interest on Net Pension Obligation .....	28.4	13.0	41.4
(3) Adjustment to Annual Required Contribution .....	28.5	13.1	41.6
(4) Annual Pension Cost=(1)+(2)-(3) .....	<u>2,385.6</u>	<u>976.8</u>	<u>3,362.4</u>
(5) Statutory Contribution .....	<u>2,385.7</u>	<u>976.9</u>	<u>3,362.6</u>
(6) Change in Net Pension Obligation=(4)-(5) .....	(0.1)	(0.1)	(0.2)
(7) Net Pension Obligation Beginning of Year .....	<u>406.3</u>	<u>185.9</u>	<u>592.2</u>
(8) Net Pension Obligation End of Year=(6)+(7) .....	<u>\$ 406.2</u>	<u>\$185.8</u>	<u>\$ 592.0</u>

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

	<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
		(in millions)		
POLICE .....	6/30/12	\$2,385.6	100%	\$406.2
	6/30/11	2,057.5	101	406.3
	6/30/10	1,954.7	101	432.4
FIRE .....	6/30/12	\$ 976.8	100%	\$185.8
	6/30/11	883.6	101	185.9
	6/30/10	867.4	101	193.0

Additional information as of the latest actuarial valuation follows:

	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>
Valuation Date <sup>(1)</sup> .....	June 30, 2010 (Lag)	June 30, 2010 (Lag)	June 30, 2010 (Lag)	June 30, 2010 (Lag)	June 30, 2010 (Lag)
Actuarial Cost Method <sup>(2)</sup> ..	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method					
Initial Unfunded .....	Increasing Dollar	Increasing Dollar	Increasing Dollar	Increasing Dollar	Increasing Dollar
Post-2010 Unfunded .....	Level Dollar	Level Dollar	Level Dollar	Level Dollar	Level Dollar
Remaining Amortization Period					
Initial Unfunded .....	22 years	22 years	22 years	22 years	22 years
Post-2010 Unfunded ...	N/A	N/A	N/A	N/A	N/A
Asset Valuation Method ..	6-Year Smoothed Market <sup>#</sup>	6-Year Smoothed Market <sup>#</sup>	6-Year Smoothed Market <sup>#</sup>	6-Year Smoothed Market <sup>#</sup>	6-Year Smoothed Market <sup>#</sup>

N/A: Not Applicable.

# With a Market Value Restart as of June 30, 2011 and the June 30, 2010 Actuarial Asset Value defined to recognize Fiscal Year 2011 investment performance.

*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 ended June 30, 2012 and 2011 are as follows; reflecting the 2012 A&M and 2006 A&M, respectively.

	2012	2011
Valuation Date . . . . .	June 30, 2010 (Lag). <sup>(1)</sup>	June 30, 2009 (Lag). <sup>(1)</sup>
Actuarial Cost Method . . . . .	Entry Age. <sup>(2)</sup>	Frozen Initial Liability. <sup>(3)</sup>
Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL) . . . . .	Increasing Dollar for Initial UAAL.	Not Applicable
Remaining Amortization Period . . . . .	22 years for Initial UAAL.	Not Applicable.
Actuarial Asset Valuation Method . . . . .	Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 2011. <sup>(4)</sup>	Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.
Investment Rate of Return . . . . .	7.0% per annum, net of expenses (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum, gross of expenses (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 2012.	Tables adopted by Boards of Trustees during Fiscal Year 2006.
Active Service: Withdrawal, Death, Disability, Retirement . . . . .	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2006. <sup>(5)(6)</sup>
Salary Increases <sup>(7)</sup> . . . . .	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.
Cost-of-Living Adjustments <sup>(7)</sup> . . . . .	1.5% per annum for Tiers I and II. 2.5% per annum for Tier III.	1.3% per annum.

<sup>(1)</sup> Under One-Year Lag Methodology, the actuarial valuation determines the Employer Contribution for the second following Fiscal Year.

<sup>(2)</sup> Beginning with the June 30, 2010 (Lag) actuarial valuation under the 2012 A&M, the Entry Age Actuarial Cost Method (“EAACM”) of funding is utilized by the Actuary to calculate the contribution required of the Employer. Under this method, the Actuarial Present Value (“APV”) of Benefits (“APVB”) of each individual included in the actuarial valuation is allocated on a level basis over the earnings (or service) of the individual between entry age and assumed exit age(s). The employer portion of this APV allocated to a valuation year is the Normal Cost. The portion of this APV not provided for at a valuation date by the APV of Future Normal Costs or future member contributions is the Actuarial Accrued Liability (“AAL”). The excess, if any, of the AAL over the Actuarial Asset Value (“AAV”) is the Unfunded Actuarial Accrued Liability (“UAAL”). Under this method, actuarial gains (losses), as they occur, reduce (increase) the UAAL and are explicitly identified and amortized. Increases (decreases) in obligations due to benefit changes, actuarial assumption changes and/or actuarial method changes are also explicitly identified and amortized.

<sup>(3)</sup> Under the Frozen Initial Liability Actuarial Cost Method, the excess of the APV of projected benefits of the membership as of the valuation date, over the sum of the AAV 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. For all NYCERS, the financial results for Fiscal Year 2011 using this Frozen Initial Liability Actuarial Cost Method are identical to those that would be produced using the Aggregate Actuarial Cost Method.

<sup>(4)</sup> Market Value Restart as of June 30, 2011. Actuarial Asset Value (“AAV”) as of June 30, 2010 defined to recognize Fiscal Year 2011 investment performance. The June 30, 2010 AAV is derived as equal to the June 30, 2011 Market Value of Assets, discounted by the Actuarial Interest Rate assumption (adjusted for cash flow) to June 30, 2010.

- (5) *Supplemental probabilities of retirement were adopted by the TRS Retirement Board applicable to benefits payable under Chapter 19 of the Laws of 2008.*
- (6) *Additional assumptions were adopted by the POLICE Board of Trustees for valuing the benefits payable to Tier III active members.*
- (7) *Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.*

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

The most recent actuarial study analyzed experience for Fiscal Years 2007 through 2010. In a report dated December 2011 the independent actuarial auditor made recommendations to the actuarial assumptions and methods. The Actuary reviewed these recommendations.

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

Based, in part, upon a review of the two most recent experience studies, the Actuary issued reports for the NYCERS proposing changes in actuarial assumptions and methods for determining Employer Contributions for Fiscal Years beginning on and after July 1, 2011 (February 2012 Reports). Where required, the Boards of Trustees of the NYCERS adopted those changes to actuarial assumptions that required Board approval. The State Legislature and the Governor were expected to enact prior to June 30, 2012 and are now expected to enact legislation to provide for those changes to the actuarial assumptions and methods that require legislation, including the Actuarial Interest Rate (AIR) assumption of 7.0% per annum, net of expenses.

Chapter 152/06 provided effective for Fiscal Years 2006 and after, for the changes in actuarial assumptions and methods that required 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 provided 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 OYLM. Under this methodology, a Fiscal Year 20XX Employer Contribution is determined using a June 20XX-2 valuation date. This methodology requires technical adjustments to certain components determined as of a valuation date used to compute a Fiscal Year Employer Contribution.

Beginning with 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 (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 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 Actuary reset the Actuarial Asset Value ("AAV") to Market Value (i.e., "Market Value Restart") as of June 30, 2011. As of June 30, 2010, the AAV is defined to recognize Fiscal Year 2011 investment performance. The June 30, 2010 AAV is derived as equal to the June 30, 2011 Market Value of Assets, discounted by the AIR assumption (adjusted for cash flow) to June 30, 2010. The AAVM for reflecting Fiscal Year 2012 and later UIR remains unchanged.

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 180 of the Laws of 2011 extended the AIR for one year, through June 30, 2012.



*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 state law, VSFs are not to be construed as constituting pension or retirement system funds. Instead, they provide scheduled supplemental payments, 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 the ACNY.

1. POVSF provides supplemental benefits to POLICE members who retire 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 POLICE members who retire 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 the ACNY.

3. FFVSF provides supplemental benefits to FIRE members who retire 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 FIRE members who retire 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.

NYCERS 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 the ACNY.

5. TPOVSF provides supplemental benefits to NYCERS members who retire 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. As a result of insufficient fund assets to pay benefits as of June 30, 2011, NYCERS is required to transfer assets so that TPOVSF can meet its benefit obligations when due.
6. TPSOVSF provides supplemental benefits to NYCERS members who retire 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 NYCERS members who retire 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 NYCERS members who retire 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 NYCERS members who retire 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. Scheduled benefits to COVSF participants were paid for calendar years 2000 to 2005. Due to insufficient assets, no benefits were paid to COVSF participants after Calendar Year 2005.

#### *Funding Policy and Contributions*

ACNY 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 2012 and 2011, 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, 2012 and June 30, 2011, respectively.

For Fiscal Years 2012 and 2011, required transfers from NYCERS of approximately \$2.3 million and \$2.4 million, respectively, were made to HPOVSF.

For Fiscal Years 2012 and 2011, required transfers from NYCERS of approximately \$3.0 million and \$2.8 million, respectively, were made to HPSOVSF.

For Fiscal Year 2012, and Fiscal Year 2011, required transfers from NYCERS of approximately \$4.2 million and \$1.9 million respectively, were made to TPOVSF.

For Fiscal Years 2012 and 2011, required transfers from NYCERS of approximately \$3.2 million and \$3.2 million, respectively, were made to TPSOVSF.

As of June 30, 2012, NYCERS has accrued approximately \$1.1 million, \$1.3 million, \$2.1 million and \$1.6 million toward the amounts expected to be transferred to HPOVSF, HPSOVSF, TPOVSF and TPSOVSF, respectively, to meet the December 2012 benefit obligations of those funds.

*Funded Status*

The funded status of each NYCERS as of June 30, 2010, the date of the most recent actuarial valuation under OYLM, where the Actuarial Accrued Liability is defined using the Entry Age Actuarial Cost Method, is as follows:

	<b>Funded Status</b>					<b>UAAL as a Percentage of Covered Payroll</b>
	<b>Entry Age Accrued Liability Basis</b>					
<b>Actuarial Value of Assets</b>	<b>Actuarial Liability (AAL) —Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>	
(a)	(b)	(b-a) (in millions)	(a/b)	(c)	((b-a)/c)	
NYCERS . . . . .	\$40,433.3	\$62,935.3*	\$22,502.0	64.2%	\$12,101.4	185.9%
TRS . . . . .	32,477.5	55,138.4	22,660.9	58.9	7,979.7	284.0
BERS . . . . .	2,056.5	3,558.3	1,501.8	57.8	912.3	164.6
POLICE . . . . .	22,908.7	38,134.4*	15,225.7	60.1	3,464.1	439.5
FIRE . . . . .	7,392.7	15,349.6*	7,956.9	48.2	1,138.2	699.1

\* Includes the net accrued obligations to the Variable Supplements Funds.

The schedule of funding progress in the RSI section, immediately following the Notes to Financial Statements, provides information about whether the Actuarial Asset Values are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (determined in a manner consistent with the Plan’s funding method).

THE CITY OF NEW YORK  
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

**A. Schedule of Pension Funding Progress**

The schedule of funding progress presents the following information for each of the past thirteen consecutive Fiscal Years for each of the NYCERS. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

	(1)	(2)	(3)	(4)	(5)	(6)	
	Actuarial Valuation Date	Actuarial Asset Value (AAV)	Actuarial Accrued Liability (AAL)*	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(a) & (b)	(2) - (1)	(1) ÷ (2)	(1) ÷ (2)	(3) ÷ (5)	
			(in millions)				
NYCERS .....	6/30/10(Lag)	\$40,433.3	\$62,935.3	\$22,502.0	64.2%	\$12,101.4	185.9%
	6/30/09(Lag)	41,710.2	41,710.2	0.0	100.0	11,881.0	0.0
	6/30/08(Lag)	40,722.2	40,722.2	0.0	100.0	11,306.0	0.0
	6/30/07(Lag)	38,925.7	38,959.1	33.4	99.9	10,762.0	0.3
	6/30/06(Lag)	38,367.1	38,431.3	64.2	99.8	10,127.8	0.6
	6/30/05(Lag)	39,692.4	39,797.1	104.7	99.7	9,670.8	1.1
	6/30/04(Lag)	40,638.6	40,786.7	148.1	99.6	9,361.2**	1.6
	6/30/04	40,088.2	40,236.3	148.1	99.6	9,157.4	1.6
	6/30/03	42,056.0	42,244.1	188.1	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 .....	6/30/10(Lag)	32,477.5	55,138.4	22,660.9	58.9	7,979.7	284.0
	6/30/09(Lag)	30,775.0	30,775.0	0.0	100.0	8,016.6	0.0
	6/30/08(Lag)	32,227.4	32,227.4	0.0	100.0	7,926.6	0.0
	6/30/07(Lag)	33,854.2	33,856.7	2.5	100.0	7,222.5	0.0
	6/30/06(Lag)	32,405.6	32,410.6	5.0	100.0	6,978.7	0.1
	6/30/05(Lag)	32,865.1	32,872.3	7.2	100.0	6,273.9	0.1
	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	33,182.7	13.5	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	36,147.6	5.2	100.0	4,721.5	0.1
	6/30/99	34,626.1	34,626.1	0.0	100.0	4,217.7	0.0
BERS .....	6/30/10(Lag)	2,056.5	3,558.3	1,501.8	57.8	912.3	164.6
	6/30/09(Lag)	1,963.7	1,963.7	0.0	100.0	910.6	0.0
	6/30/08(Lag)	2,084.1	2,084.1	0.0	100.0	852.1	0.0
	6/30/07(Lag)	1,983.7	1,985.6	1.9	99.9	777.6	0.2
	6/30/06(Lag)	1,830.3	1,834.0	3.7	99.8	750.0	0.5
	6/30/05(Lag)	1,841.0	1,846.3	5.3	99.7	715.1	0.7
	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 .....	6/30/10(Lag)	22,908.7	38,134.4	15,225.7	60.1	3,464.1	439.5
	6/30/09(Lag)	22,676.2	22,676.2	0.0	100.0	3,261.1	0.0
	6/30/08(Lag)	21,393.2	21,393.2	0.0	100.0	3,095.9	0.0
	6/30/07(Lag)	19,800.6	19,800.6	0.0	100.0	2,961.6	0.0
	6/30/06(Lag)	18,689.5	18,689.5	0.0	100.0	2,816.9	0.0
	6/30/05(Lag)	18,767.3	18,767.3	0.0	100.0	2,812.9	0.0
	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

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited), Continued

		(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial Valuation Date	Actuarial Asset Value (AAV)	Actuarial Accrued Liability (AAL)*	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(a) & (b)	(2) - (1) (in millions)	(1) ÷ (2)		(3) ÷ (5)
POLICE (Continued) . . . .	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 . . . . .	6/30/10(Lag)	7,392.7	15,349.6	7,956.9	48.2	1,138.2	699.1
	6/30/09(Lag)	7,304.8	7,327.6	22.8	99.7	1,079.7	2.1
	6/30/08(Lag)	6,943.0	6,986.2	43.2	99.4	1,051.6	4.1
	6/30/07(Lag)	6,459.1	6,520.7	61.6	99.1	1,000.4	6.2
	6/30/06(Lag)	6,174.1	6,252.0	77.9	98.8	932.7	8.4
	6/30/05(Lag)	6,169.2	6,261.6	92.4	98.5	908.3	10.2
	6/30/04(Lag)	6,277.3	6,382.5	105.2	98.4	864.8**	12.2
	6/30/04	6,185.8	6,290.9	105.1	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	6,660.8	135.1	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

\* The June 30, 2010 (Lag) actuarial valuation used to determine the Fiscal Year 2012 Employer Contribution was based on revised actuarial assumptions and methods proposed by the Actuary (the "2012 A&M"). Where required, the Boards of Trustees of the NYCERS adopted those changes to the actuarial assumptions and methods that required Board approval. The State Legislature and Governor were expected to enact enabling legislation prior to June 30, 2012 and are now expected, upon the Legislature reconvening, to enact a Chapter Law to provide for those changes in actuarial assumptions and methods that require legislation, including the Actuarial Interest Rate ("AIR") assumption of 7.0% per annum, net of expenses, the Entry Age Actuarial Cost Method and the amortization of Unfunded Actuarial Accrued Liabilities.

Actuarial valuations used to determine Employer Contributions in fiscal years prior to Fiscal Years 2012 were based on the Frozen Initial Liability Actuarial Cost Method and on actuarial assumptions and methods adopted by the Boards of Trustees of the NYCERS and on enabling legislation during Fiscal Years 2006 ("2006 A&M") and 1999 ("1999 A&M").

\*\* 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) Beginning with the June 30, 2004 (Lag) actuarial valuation the Actuarial Asset Valuation Method ("AAVM") was changed to a method that reset 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, any Unexpected Investment Returns ("UIR") for Fiscal Years 2000 and later are phased into the AAV beginning the following June 30 at rates 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.

This revised AAVM was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the Fiscal Year 2006 Employer Contributions in conjunction with the One-Year Lag Methodology and the revised economic and noneconomic assumptions. 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 (or cumulative rates of 10%, 25%, 45%, 70% and 100% over a period of five years).

The Actuary reset the Actuarial Asset Value to the Market Value of Assets (“MVA”) as of June 30, 2011 (i.e., “Market Value Restart”).

For the June 30, 2010 (Lag) actuarial valuation, the AAV is defined to recognize Fiscal Year 2011 investment performance. The June 30, 2010 AAV is derived as equal to the June 30, 2011 MVA, discounted by the AIR assumption (adjusted for cash flow) to June 30, 2010.

- (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.

**B. Schedule of Employer Contributions**

Total Employer Contributions to the NYCERS

Fiscal Year Ended June 30	NYCERS		TRS		BERS		POLICE		FIRE	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
(in millions)										
2012	\$3,017.0	100.0%	\$2,673.1	100.0%	\$213.7	100.0%	\$2,385.7	100.0%	\$976.9	100.0%
2011	2,387.2	100.0	2,469.0	100.0	180.2	100.0	2,083.6	100.0	890.7	100.0
2010	2,197.7	100.0	2,484.1	100.0	147.3	100.0	1,981.0	100.0	874.3	100.0
2009	2,150.4	100.0	2,223.6	100.0	134.2	100.0	1,932.2	100.0	843.8	100.0
2008	1,874.2	100.0	1,916.5	100.0	143.1	100.0	1,797.8	100.0	780.2	100.0
2007	1,471.0	100.0	1,600.9	100.0	129.8	100.0	1,544.3	100.0	683.2	100.0
2006	1,024.4	100.0	1,316.6	100.0	90.8	100.0	1,337.7	100.0	608.8	100.0
2005	1,020.4	80.6	1,304.0	94.2	106.4	90.9	1,123.9	91.9	518.4	94.4
2004	542.2	57.3	1,015.3	90.6	95.0	88.5	917.7	88.5	427.7	91.8
2003	197.8	54.6	805.8	79.4	87.9	79.9	821.4	76.1	389.5	81.4
2002	105.7	100.0	607.8	83.9	66.7	84.8	636.5	84.0	346.2	87.3
2001	100.0	100.0	572.0	77.8	52.1	75.3	543.8	76.0	298.9	80.7
2000	68.6	100.0	181.8	100.0	9.5	100.0	250.0	100.0	182.9	100.0

**C. Schedule of Funding Progress for the New York City Other Postemployment Benefits Plan**

The schedule of funding progress presents GASB45 results of OPEB valuations as of fiscal years ended June 30, 2012, 2011, 2010, 2009, 2008, 2007, and 2006. The schedule provides a seven year information trend 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)*	(3) Unfunded AAL (UAAL)	(4) Funded Ratio (1)÷(2)	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3)÷(5)
(in thousands)						
6/30/11	\$2,631,584	\$85,971,494	\$83,339,910	3.1%	\$19,912,761	418.5%
6/30/10	3,022,624	82,063,852	79,041,228	3.7	19,731,127	400.6
6/30/09	3,103,186	73,674,157	70,570,971	4.2	19,469,182	362.5
6/30/08	3,186,139	65,164,503	61,978,364	4.9	18,721,681	331.1
6/30/07	2,594,452	62,135,453	59,541,001	4.2	17,355,874	343.1
6/30/06	1,001,332	56,077,151	55,075,819	1.8	16,546,829	332.8
6/30/05	—	50,543,963	50,543,963	—	15,737,531	321.2

\*Based on the Frozen Entry Age Actuarial Cost Method.





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FOUNDED 1866

January 3, 2013

HONORABLE JOHN C. LIU  
COMPTROLLER  
The City of New York  
Municipal Building  
New York, New York 10007

Dear Comptroller Liu:

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 2013 Series D and Series E (the "Bonds").

The Bonds are issued pursuant to 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. In rendering the opinions set forth herein, we reviewed certificates of the City and such other agreements, documents and matters to the extent we deemed necessary to render our opinions. We have not undertaken an independent audit or investigation of the matters described or contained in the foregoing certificates, agreements and documents. We have assumed, without undertaking to verify, the genuineness of all documents and signatures presented to us; the due and legal execution and delivery thereof by, and validity against, any parties other than the City; and the accuracy of the factual matters represented, warranted or certified therein.

Based on the foregoing and our examination of existing law, 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. The City has covenanted to comply with applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion from gross income of the interest on the Bonds for purposes of federal income taxation. Assuming compliance by the City with such provisions of the Code, interest on the Bonds will not be included in the gross income of the owners thereof for purposes of federal income taxation. Failure by the City to comply with such applicable requirements may cause interest on the Bonds to be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds. Further, we render no opinion as to the effect on the exclusion from gross income of interest on the Bonds of any action taken or not taken after the date of this opinion without our approval.

Sidley Austin (NY) LLP is a Delaware limited liability partnership doing business as Sidley Austin LLP and practicing in affiliation with other Sidley Austin partnerships.

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

5. The excess, if any, of the amount payable at maturity of any maturity of the Bonds over the initial offering price of such Bonds to the public at which price a substantial amount of such maturity is sold to the public represents original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. The Code further provides that such original issue discount excluded as interest accrues in accordance with a constant interest method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining gain or loss on disposition of Bonds with original issue discount will be increased by the amount of such accrued interest.

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

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

Very truly yours,

## VARIABLE RATE DEMAND BONDS

<u>Series</u>	<u>Outstanding Principal Amount</u>	<u>Provider</u>	<u>Facility Type</u>	<u>Expiration or Optional Termination by Provider</u>
1994A-4	\$ 36,750,000	BayernLB	LOC <sup>(1)</sup>	November 30, 2015
1994A-6	30,000,000	Landesbank Hessen-Thüringen Girozentrale	LOC	December 15, 2015
1994A-7	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
1994A-8	25,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994A-9	24,600,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994A-10	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994B-2	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994B-3	10,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994C	25,300,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994E-2	40,700,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994E-4	50,000,000	BNP Paribas	LOC	November 1, 2014
1994E-5	67,100,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994H-3	90,000,000	State Street Bank and Trust Company	SBPA <sup>(2)</sup>	October 14, 2013
1995B-4	50,000,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	December 15, 2015
1995B-5	12,500,000	JPMorgan Chase Bank, N.A.	SBPA	March 12, 2013
1995B-7	21,000,000	JPMorgan Chase Bank, N.A.	SBPA	March 12, 2013
1995B-8	50,000,000	BayernLB	LOC	November 30, 2015
1995B-9	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
1995F-4	50,000,000	Landesbank Hessen-Thüringen Girozentrale	LOC	December 15, 2015
1995F-5	45,600,000	BayernLB	LOC	November 30, 2015
1995F-6	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1996J-3	25,300,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
2002A-6	70,000,000	Dexia Crédit Local	SBPA	November 1, 2017
2002A-10	60,000,000	Dexia Crédit Local	SBPA	November 1, 2017
2003C-2	100,000,000	BayernLB	LOC	November 30, 2015
2003C-3A	60,000,000	Bank of Nova Scotia	SBPA	November 1, 2013
2003C-3B	30,000,000	Lloyds TSB Bank PLC	SBPA	November 1, 2013
2003C-4	110,000,000	Bank of Tokyo-Mitsubishi UFJ, LTD.	LOC	November 1, 2013
2003C-5	100,000,000	The Bank of New York Mellon	LOC	November 1, 2013
2004A-2	75,000,000	Bank of America, N.A.	LOC	June 30, 2015
2004A-3	100,000,000	Morgan Stanley Bank, N.A.	LOC	June 27, 2014
2004A-4	25,000,000	Bank of Nova Scotia	LOC	August 30, 2013
2004A-5	50,000,000	Bank of Nova Scotia	LOC	August 30, 2013
2004A-6	100,000,000	Mizuho Corporate Bank, Ltd.	LOC	June 20, 2014
2004H-1	40,300,000	The Bank of New York Mellon	LOC	October 31, 2014
2004H-2	60,455,000	The Bank of New York Mellon	LOC	October 31, 2014
2004H-3	60,455,000	The Bank of New York Mellon	LOC	October 31, 2014
2004H-4	40,300,000	The Bank of New York Mellon	LOC	October 31, 2014

(1) Letter of Credit

(2) Standby Bond Purchase Agreement

<u>Series</u>	<u>Outstanding Principal Amount</u>	<u>Provider</u>	<u>Facility Type</u>	<u>Expiration or Optional Termination by Provider</u>
2004H-5	\$ 35,330,000	Dexia Crédit Local	LOC	February 2, 2022
2004H-6	70,635,000	Bank of America, N.A.	LOC	March 1, 2013
2004H-7	35,330,000	KBC Bank, N.V.	LOC	December 31, 2014
2004H-8	70,635,000	Bank of America, N.A.	LOC	March 1, 2013
2006E-2	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006E-3	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006E-4	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006F-3	75,000,000	Sumitomo Mitsui Banking Corporation	LOC	September 20, 2013
2006F-4A	40,000,000	Sumitomo Mitsui Banking Corporation	LOC	September 20, 2013
2006F-4B	35,000,000	Union Bank, N.A.	LOC	September 20, 2013
2006H-1	65,270,000	Dexia Crédit Local	LOC	January 1, 2014
2006H-2	65,270,000	Dexia Crédit Local	LOC	January 1, 2014
2006I-3	50,000,000	Bank of America, N.A.	LOC	May 12, 2014
2006I-4	125,000,000	The Bank of New York Mellon	LOC	April 1, 2013
2006I-5	75,000,000	California Public Employees' Retirement System	LOC	April 1, 2013
2006I-6	75,000,000	California State Teachers' Retirement System	LOC	April 1, 2013
2006I-7	50,000,000	Bank of America, N.A.	LOC	May 12, 2014
2006I-8	50,000,000	State Street Bank and Trust Company	LOC	May 12, 2014
2008D-3	50,000,000	Crédit Agricole CIB	SBPA	December 4, 2014
2008D-4	50,000,000	Crédit Agricole CIB	SBPA	December 4, 2014
2008J-3	150,000,000	Barclays Bank, PLC	SBPA	January 31, 2014
2008J-4	100,000,000	Bank of America, N.A.	SBPA	April 1, 2013
2008J-5	101,405,000	Dexia Crédit Local	SBPA	April 1, 2015
2008J-6	111,225,000	Landesbank Hessen-Thüringen Girozentrale	LOC	April 1, 2013
2008J-7	78,905,000	Landesbank Baden-Württemberg	LOC	April 1, 2013
2008J-8	78,895,000	Landesbank Baden-Württemberg	LOC	April 1, 2013
2008J-9	100,000,000	Bank of Nova Scotia	SBPA	April 1, 2014
2008J-10	100,000,000	Bank of Tokyo-Mitsubishi UFJ, LTD.	LOC	March 31, 2014
2008J-11	100,000,000	KBC Bank, N.V.	SBPA	April 1, 2014
2008J-12	103,160,000	Dexia Crédit Local	SBPA	April 1, 2015
2008L-3	80,000,000	Bank of America, N.A.	SBPA	April 23, 2014
2008L-4	100,000,000	US Bank, N.A.	LOC	December 20, 2014
2008L-5	145,400,000	Dexia Crédit Local	SBPA	April 23, 2015
2008L-6	150,000,000	Wells Fargo Bank, N.A.	SBPA	April 23, 2014
2009B-3	100,000,000	TD Bank, N.A.	LOC	January 1, 2015
2010G-4	150,000,000	Barclays Bank, PLC	SBPA	March 29, 2013
2012A-3	25,000,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	December 15, 2015
2012A-4	100,000,000	KBC Bank, N.V.	LOC	August 8, 2014
2012A-5	50,000,000	Bank of Nova Scotia	SBPA	August 8, 2014
2012D-3	126,665,000	The Bank of New York Mellon	LOC	October 31, 2014
2012G-3	300,000,000	Citibank, N.A.	LOC	April 3, 2015
2012G-4	100,000,000	PNC Bank, National Association	LOC	April 3, 2015
2012G-5	75,000,000	Wells Fargo Bank, N.A.	SBPA	April 3, 2015
2012G-6	200,000,000	Mizuho Corporate Bank, Ltd.	LOC	April 3, 2015
2012G-7	85,000,000	Bank of Tokyo-Mitsubishi UFJ, LTD	LOC	April 3, 2015
2013A-2	100,000,000	Mizuho Corporate Bank, Ltd.	LOC	October 23, 2015
2013A-3	100,000,000	Mizuho Corporate Bank, Ltd.	LOC	October 23, 2015
2013A-4	75,000,000	Sumitomo Mitsui Banking Corporation	LOC	October 23, 2015
2013A-5	50,000,000	Sumitomo Mitsui Banking Corporation	LOC	October 23, 2015
	<u>\$6,438,485,000</u>			

**APPENDIX E**

**BONDS TO BE REDEEMED**

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

The Bonds To Be Redeemed are being redeemed in whole or in part as indicated in the notes.

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

<u>Series</u>	<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>
2002E	June 3, 2002	August 1, 2014	5.625%	February 4, 2013	\$ 7,925,000(a)
		August 1, 2015	5.625	February 4, 2013	130,000(p)
2002G	June 3, 2002	August 1, 2014	5.625	February 4, 2013	4,915,000(p)
		August 1, 2015	5.000	February 4, 2013	3,460,000(p)
2003A	August 1, 2002	August 1, 2016	4.800	February 4, 2013	20,000(p)
2003C	November 13, 2002	August 1, 2013	4.500	February 4, 2013	9,840,000(a)
		August 1, 2013	5.500	February 4, 2013	41,805,000(p)
		August 1, 2014	5.500	February 4, 2013	33,070,000(p)
		August 1, 2015	4.750	February 4, 2013	155,000(p)
		August 1, 2015	5.500	February 4, 2013	42,685,000(p)
2003F	January 22, 2003	January 15, 2019	5.000	February 4, 2013	10,000(p)
		January 15, 2020	5.100	February 4, 2013	5,000(p)
		January 15, 2020	6.000	February 4, 2013	5,000(p)
		January 15, 2023	5.250	February 4, 2013	10,000(p)(t)
		January 15, 2033	5.250	February 4, 2013	10,000(p)(t)
2003J	June 4, 2003	June 1, 2033	4.750	June 1, 2013	1,600,000(p)(t)
2004A	July 14, 2003	August 1, 2013	4.000	August 1, 2013	3,775,000(p)
2004D	October 15, 2003	October 15, 2033	5.000	October 15, 2013	9,140,000(a)(t)
2004I	April 1, 2004	August 1, 2013	3.000	August 1, 2013	15,000(p)
		August 1, 2013	3.500	August 1, 2013	5,000(p)
		August 1, 2016	5.000	August 1, 2014	245,000(p)
		August 1, 2018	4.000	August 1, 2014	20,000(p)
2005B	July 29, 2004	August 1, 2016	5.250	August 1, 2014	5,000(p)
		August 1, 2017	5.250	August 1, 2014	10,000(p)
		August 1, 2018	5.250	August 1, 2014	5,000(p)
		August 1, 2020	5.250	August 1, 2014	5,000(p)
		August 1, 2024	4.750	August 1, 2014	5,000(p)
2005C	August 18, 2004	August 15, 2018	4.500	August 15, 2014	2,950,000(a)
		August 15, 2020	4.600	August 15, 2014	1,380,000(a)

See notes on page E-3.

<u>Series</u>	<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>	
2005D	November 10, 2004	August 15, 2021	4.750%	August 15, 2014	\$ 425,000(a)	
		August 15, 2022	4.800	August 15, 2014	120,000(a)	
		August 15, 2024	4.875	August 15, 2014	3,090,000(a)	
		August 15, 2025	5.000	August 15, 2014	8,150,000(p)	
		August 15, 2027	5.100	August 15, 2014	21,705,000(p)	
		November 1, 2016	5.000	November 1, 2014	12,810,000(p)	
		November 1, 2017	5.000	November 1, 2014	9,455,000(p)	
		November 1, 2018	4.100	November 1, 2014	275,000(p)	
		November 1, 2019	5.000	November 1, 2014	820,000(p)	
		November 1, 2020	4.250	November 1, 2014	1,190,000(p)	
		November 1, 2021	5.000	November 1, 2014	1,140,000(p)	
		November 1, 2022	5.000	November 1, 2014	10,680,000(p)	
		November 1, 2023	5.000	November 1, 2014	3,735,000(p)	
		November 1, 2025	5.000	November 1, 2014	12,525,000(p)	
		November 1, 2026	4.625	November 1, 2014	100,000(p)	
2005E	November 10, 2004	November 1, 2026	5.000	November 1, 2014	6,620,000(p)	
		November 1, 2027	5.000	November 1, 2014	15,395,000(p)	
		November 1, 2028	5.000	November 1, 2014	14,235,000(p)	
		November 1, 2034	5.000	November 1, 2014	30,960,000(p)(t)	
		November 1, 2016	5.000	November 1, 2014	7,530,000(p)	
		November 1, 2017	5.000	November 1, 2014	10,270,000(p)	
		November 1, 2018	3.750	November 1, 2014	545,000(p)	
		November 1, 2024	5.000	November 1, 2014	5,465,000(p)	
		November 1, 2025	5.000	November 1, 2014	14,235,000(p)	
		November 1, 2026	4.625	November 1, 2014	20,000(p)	
2005G	December 21, 2004	December 1, 2016	5.000	December 1, 2014	6,460,000(p)	
		December 1, 2017	5.000	December 1, 2014	11,400,000(p)	
		December 1, 2018	4.000	December 1, 2014	3,220,000(p)	
		December 1, 2019	5.000	December 1, 2014	12,320,000(p)	
		December 1, 2020	4.450	December 1, 2014	1,350,000(p)	
		December 1, 2021	5.000	December 1, 2014	15,115,000(p)	
		December 1, 2022	5.000	December 1, 2014	3,430,000(p)	
			(Yield 4.310%)			
		December 1, 2022	5.000	December 1, 2014	11,670,000(p)	
			(Yield 4.590%)			
		December 1, 2023	5.000	December 1, 2014	16,385,000(p)	
		December 1, 2024	5.000	December 1, 2014	3,765,000(p)	
		December 1, 2025	5.000	December 1, 2014	3,420,000(p)	
		December 1, 2026	5.000	December 1, 2014	3,590,000(p)	
		December 1, 2027	5.000	December 1, 2014	3,770,000(p)	
December 1, 2028	5.000	December 1, 2014	3,955,000(p)			
December 1, 2033	5.000	December 1, 2014	8,945,000(p)(t)			
2005H	December 21, 2004	August 1, 2013	5.000	August 1, 2013	14,965,000(p)	
		August 1, 2016	5.000	August 1, 2014	19,710,000(p)	
		August 1, 2017	5.000	August 1, 2014	4,770,000(p)	
2005J	March 3, 2005	March 1, 2018	5.000	March 1, 2015	10,810,000(p)	
		March 1, 2019	5.000	March 1, 2015	5,000(p)	
		March 1, 2020	5.000	March 1, 2015	17,830,000(p)	
		March 1, 2022	5.000	March 1, 2015	19,655,000(p)	
		March 1, 2023	5.000	March 1, 2015	20,640,000(p)	
		March 1, 2024	5.000	March 1, 2015	21,670,000(p)	

See notes on page E-3



<u>Series</u>	<u>Dated Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>
		March 1, 2025	5.000%	March 1, 2015	\$22,755,000(p)
		March 1, 2030	5.000	March 1, 2015	73,800,000(p)(t)
		March 1, 2035	5.000	March 1, 2015	13,440,000(p)(t)
2005K	March 3, 2005	August 1, 2013	5.000	August 1, 2013	2,355,000(p)
		August 1, 2018	5.000	August 1, 2015	1,090,000(p)
		August 1, 2020	5.000	August 1, 2015	410,000(p)
2005M	April 28, 2005	April 1, 2019	5.000	April 1, 2015	12,560,000(p)
		April 1, 2020	5.000	April 1, 2015	17,330,000(p)
		April 1, 2022	5.000	April 1, 2015	19,110,000(p)
		April 1, 2023	5.000	April 1, 2015	20,065,000(p)
		April 1, 2024	5.000	April 1, 2015	21,070,000(p)
		April 1, 2025	5.000	April 1, 2015	22,120,000(p)
		April 1, 2026	5.000	April 1, 2015	7,255,000(p)
		April 1, 2030	5.000	April 1, 2015	82,565,000(p)(t)
2005N	April 28, 2005	August 1, 2013	3.875	August 1, 2013	1,895,000(p)
		August 1, 2013	5.000	August 1, 2013	2,460,000(p)
		August 1, 2020	5.000	August 1, 2015	7,170,000(p)
2005O	June 2, 2005	June 1, 2019	5.000	June 1, 2015	23,740,000(p)
			(Yield 4.125%)		
		June 1, 2019	5.000	June 1, 2015	1,935,000(p)
			(Yield 3.940%)		
		June 1, 2020	5.000	June 1, 2015	20,880,000(p)
		June 1, 2021	5.000	June 1, 2015	22,715,000(p)
		June 1, 2022	5.000	June 1, 2015	13,780,000(p)
		June 1, 2023	5.000	June 1, 2015	2,795,000(p)
		June 1, 2024	5.000	June 1, 2015	6,470,000(p)
		June 1, 2025	5.000	June 1, 2015	11,955,000(p)
		June 1, 2030	5.000	June 1, 2015	10,945,000(p)(t)
2005P	June 2, 2005	August 1, 2013	3.600	August 1, 2013	1,495,000(p)
		August 1, 2020	5.000	August 1, 2015	6,060,000(p)
2006A	August 3, 2005	August 1, 2020	5.000	August 1, 2015	6,190,000(p)
2006C	August 3, 2005	August 1, 2013	3.625	August 1, 2013	8,260,000(p)
		August 1, 2013	5.000	August 1, 2013	205,000(p)
2006D	August 3, 2005	August 1, 2013	5.000	August 1, 2013	3,500,000(p)
2006F	September 22, 2005	September 1, 2013	3.500	September 1, 2013	11,065,000(p)
		September 1, 2013	5.000	September 1, 2013	5,000(p)
2007A	August 17, 2006	August 1, 2013	3.875	August 1, 2013	50,000(p)
2007C	January 9, 2007	January 1, 2014	4.000	January 1, 2014	2,235,000(p)
2007D	January 9, 2007	February 1, 2014	5.000	February 1, 2014	8,955,000(p)
2008D	December 4, 2007	December 1, 2013	4.000	December 1, 2013	8,150,000(p)
2008G	January 3, 2008	August 1, 2013	4.000	August 1, 2013	2,595,000(p)
2008L	April 23, 2008	April 1, 2014	5.000	April 1, 2014	1,075,000(a)
2010C	October 15, 2009	August 1, 2013	3.000	August 1, 2013	4,455,000(p)
2010E	December 22, 2009	August 1, 2013	3.000	August 1, 2013	6,775,000(p)
2010F	December 22, 2009	August 1, 2013	5.000	August 1, 2013	590,000(p)

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

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

(t) The defeased bonds will be credited against the redemption listed below:

**2003F  
2023 Term Bond**

<u>January 15,</u>	<u>Amount</u>
2022	\$10,000

**2003F  
2033 Term Bond**

<u>January 15,</u>	<u>Amount</u>
2030	\$5,000
2032	5,000

**2003J  
2033 Term Bond**

<u>June 1,</u>	<u>Amount</u>
2029	\$ 380,000
2033	1,220,000

**2004D  
2033 Term Bond**

<u>October 15,</u>	<u>Amount</u>
2033	\$9,140,000

**2005D  
2034 Term Bond**

<u>November 1,</u>	<u>Amount</u>
2030	\$ 9,720,000
2031	10,205,000
2032	7,230,000
2033	3,805,000

**2005G  
2033 Term Bond**

<u>December 1,</u>	<u>Amount</u>
2030	\$4,365,000
2031	4,580,000

**2005J  
2030 Term Bond**

<u>March 1,</u>	<u>Amount</u>
2026	\$23,895,000
2027	11,575,000
2028	12,160,000
2029	12,765,000
2030	13,405,000

**2005J  
2035 Term Bond**

<u>March 1,</u>	<u>Amount</u>
2031	\$13,440,000

**2005M  
2030 Term Bond**

<u>April 1,</u>	<u>Amount</u>
2027	\$24,390,000
2028	16,405,000
2029	26,890,000
2030	14,880,000

**2005O  
2030 Term Bond**

<u>June 1,</u>	<u>Amount</u>
2029	\$10,945,000

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