NEW ISSUE

In the opinion of Bond Counsel, interest on the Series 2007 S-1 Bonds will be exempt from personal income taxes imposed by the State of New York (the "State") or any political subdivision thereof, including The City of New York (the "City"), and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series 2007 S-1 Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION VII: TAX MATTERS" herein for further information.

NYC TFA Building Aid Revenue Bonds

$650,000,000
New York City Transitional Finance Authority
Building Aid Revenue Bonds
Fiscal 2007 Series S-1

Dated: Date of Delivery | Due: July 15, as shown on inside cover page

The Building Aid Revenue Bonds, Fiscal 2007 Series S-1 (the "Series 2007 S-1 Bonds"), are being issued by the New York City Transitional Finance Authority (the "Authority") pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act") and Chapter 16 of the Laws of New York, 1997, as amended (together with the School Financing Act, the "Act"), and an Amended and Restated Original Indenture, to be dated November 16, 2006, as supplemented (the "Indenture"), by and between the Authority and The Bank of New York, New York, New York, as trustee (the "Trustee").

The Series 2007 S-1 Bonds constitute the first series of Building Aid Revenue Bonds issued by the Authority under the Indenture. Provided certain statutory and contractual conditions are met, other Bonds of the Authority on a parity with the Series 2007 S-1 Bonds may be issued. The Series 2007 S-1 Bonds together with all other series of Building Aid Revenue Bonds issued under the Indenture are referred to as "Building Aid Revenue Bonds." See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

Pursuant to the School Financing Act, the Building Aid Revenue Bonds are payable from the State Building Aid (as defined herein) payable by the State to the City and assigned to the Authority. The payment of State Building Aid and any other State education aid to the City or the Authority is subject to annual appropriation by the State, is subject and subordinate to certain prior statutory and State constitutional claims and is dependent in part upon the financial condition of the State. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State" and "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

The application of State Building Aid to the payment of the Building Aid Revenue Bonds is subordinate to the payment of (i) obligations of the Authority issued prior to the date of issuance of the Series 2007 S-1 Bonds including the payment of Debt Service on Senior Bonds and debt service on Parity Debt and (ii) certain operating expenses of the Authority (collectively, the "Pre-07 S-1 Obligations"). State Building Aid shall only be applied to payment of the Pre-07 S-1 Obligations in the event that other revenues of the Authority, consisting primarily of Personal Income Taxes and Sales Taxes, are insufficient to pay the Pre-07 S-1 Obligations and other Authority obligations payable from Tax Revenues. The Authority expects that Personal Income Taxes and Sales Taxes will be sufficient to pay the Pre-07 S-1 Obligations and other obligations payable from Tax Revenues. The Building Aid Revenue Bonds are not secured by Personal Income Taxes or Sales Taxes. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS."

Pursuant to Section 99-b of the State Finance Law, as amended by the School Financing Act, the State Comptroller shall deduct and withhold State education aid or assistance due to the City in an amount required to pay the principal of and interest on any Building Aid Revenue Bonds in default.

The Series 2007 S-1 Bonds will be issued only as fully registered bonds, registered in the nominee name of The Depository Trust Company ("DTC"). Purchasers will not receive physical delivery of the Series 2007 S-1 Bonds.

Interest on the Series 2007 S-1 Bonds accrues from their dated date, and is payable on each January 15 and July 15, commencing July 15, 2007.

The Series 2007 S-1 Bonds are subject to redemption prior to maturity as described herein.

Payment of regularly scheduled principal of and interest on the Series 2007 S-1 Bonds maturing July 15, 2012 through July 15, 2036, inclusive, will be insured by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Series 2007 S-1 Bonds.

THE BUILDING AID REVENUE BONDS ARE PAYABLE FROM AND SECURED BY A LIEN ON STATE BUILDING AID SUBORDINATE TO PAYMENT OF THE PRE-07 S-1 OBLIGATIONS. THE BUILDING AID REVENUE BONDS ARE NOT A DEBT OF EITHER THE STATE OR THE CITY, AND NEITHER THE STATE NOR THE CITY SHALL BE LIABLE THEREON. PAYMENT OF STATE BUILDING AID AND ANY OTHER STATE EDUCATION AID TO THE CITY OR THE AUTHORITY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE. THE BUILDING AID REVENUE BONDS DO NOT CONSTITUTE "STATE SUPPORTED DEBT" (COMMONLY KNOWN AS "STATE APPROPRIATION DEBT") WITHIN THE MEANING OF THE STATE FINANCE LAW. THEREFORE, THE STATE WILL NOT BE ENTERING INTO ANY FINANCING AGREEMENT OR SERVICE CONTRACT IN CONNECTION WITH THE BUILDING AID REVENUE BONDS.

The Series 2007 S-1 Bonds are being offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of legality of the Series 2007 S-1 Bonds and certain other matters by Sidley Austin LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority and the City by the New York City Corporation Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York. It is expected that the Series 2007 S-1 Bonds will be available for delivery to DTC in New York, New York, on or about November 16, 2006.

Bear, Stearns & Co. Inc.

Citigroup		**Goldman, Sachs & Co.**
Banc of America Securities LLC	**First Albany Capital, Inc.**	**JPMorgan**
Lehman Brothers	**Loop Capital Markets LLC**	**M.R. Beal & Company**
Merrill Lynch & Co.	**Morgan Stanley**	**Prager, Sealy & Co., LLC**
Ramirez & Co., Inc.	**Roosevelt and Cross Incorporated**	**Siebert Brandford Shank & Co., LLC**
UBS Investment Bank		**Wachovia Bank, National Association**
A.G. Edwards & Sons, Inc.	**Jackson Securities Inc.**	**Raymond James & Associates, Inc.**
RBC Capital Markets	**Ryan Beck & Co., Inc.**	**Southwest Securities**

November 9, 2006

$650,000,000
New York City Transitional Finance Authority
Building Aid Revenue Bonds,
Fiscal 2007 Series S-1

Due July 15	Principal Amount	Interest Rate	Yield
2008	$ 5,260,000	3½%	3.42%
2008	4,145,000	4	3.42
2009	9,755,000	3¾	3.48
2010	5,605,000	3¾	3.56
2010	4,515,000	5	3.56
2011	6,240,000	3¾	3.58
2011	6,350,000	5	3.58
2012(1)	13,145,000	4	3.58
2013(1)	8,095,000	4	3.64
2013(1)	5,580,000	5	3.64
2014(1)	8,535,000	4	3.70
2014(1)	5,740,000	5	3.70
2015(1)	5,890,000	4	3.74
2015(1)	9,015,000	5	3.74
2016(1)	6,545,000	4	3.78
2016(1)	9,045,000	5	3.78
2017(1)	1,425,000	3¾	3.85
2017(1)(2)	14,880,000	5	3.84
2018(1)(2)	17,105,000	5	3.89
2019(1)(2)	17,960,000	5	3.93
2020(1)	5,710,000	4	4.01
2020(1)(2)	13,145,000	5	3.96
2021(1)	1,675,000	4	4.04
2021(1)(2)	18,065,000	5	3.99
2022(1)(2)	20,715,000	5	4.01
2023(1)(2)	21,750,000	5	4.04
2024(1)(2)	22,835,000	5	4.05
2025(1)(2)	23,980,000	5	4.07
2026(1)	1,820,000	4⅛	4.16
2026(1)(2)	23,355,000	5	4.08
2027(1)(2)	26,420,000	5	4.09
2028(1)(2)	27,740,000	5	4.10
2029(1)(2)	29,125,000	5	4.11
2036(1)	955,000	4¼	4.26

$62,700,000 5% Fiscal 2007 Series S-1 Term Bonds due July 15, 2031 — Yield 4.12%(1)(2)

$30,000,000 4¼% Fiscal 2007 Series S-1 Term Bonds due July 15, 2036 — Yield 4.26%(1)(2)

$155,180,000 5% Fiscal 2007 Series S-1 Term Bonds due July 15, 2036 — Yield 4.15%(1)(2)

(1) Insured by Financial Guaranty Insurance Company.
(2) Priced to first par call on January 15, 2017.

Certain of the information in this Official Statement has been provided by the City and other sources considered by the Authority to be reliable, including publicly available information concerning the State. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized. No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation with respect to the Series 2007 S-1 Bonds, other than those contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion 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 affairs of the parties referred to above since the date hereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Series 2007 S-1 Bonds, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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 and the State and the amount of State Building Aid and Tax Revenues (as defined herein), the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Authority 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 Authority. These forward-looking statements speak only as of the date of this Official Statement. The Authority 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 Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

ALTHOUGH CERTAIN INFORMATION RELATING TO THE FINANCIAL CONDITION OF THE STATE IS INCLUDED IN THIS OFFICIAL STATEMENT, THE STATE HAS NOT REVIEWED OR APPROVED THIS OFFICIAL STATEMENT, NOR IS IT PASSING UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT.

THE SERIES 2007 S-1 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY BODY. 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 CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007 S-1 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY OF TERMS

The following is qualified in its entirety by reference to the information appearing elsewhere in this Official Statement. Terms used in this Official Statement and not defined herein are defined in "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT."

Issuer	The New York City Transitional Finance Authority (the "Authority") is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State").
Statutory Authorization	The Authority was created by Chapter 16 of the Laws of New York, 1997 (the "Enabling Act"). The Enabling Act became effective March 5, 1997, and provided for the issuance of Bonds for general capital purposes of The City of New York (the "City"), the payment of Bonds from Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)), and statutory and contractual covenants of the Authority, the City and the State. The Enabling Act was amended in 2000 and 2006 to, among other things, increase the debt-incurring capacity of the Authority for general City capital purposes to a total of $13.5 billion. In 2001, the Enabling Act was amended to permit the Authority to have outstanding up to $2.5 billion of Bonds and Notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Obligations").
	In 2006, the Enabling Act was also amended pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act"). The School Financing Act authorizes the Authority to issue Bonds, Notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's five-year educational facilities capital plan (the "Five-Year Plan") and authorizes the City to assign to the Authority all or any portion of the State aid payable to the City or its school district pursuant to subdivision 6 of Section 3602 of the State Education Law, or any successor provision of State law ("State Building Aid").
Purpose of Issue	The proceeds of the $650,000,000 Building Aid Revenue Bonds, Fiscal 2007 Series S-1 Bonds (the "Series 2007 S-1 Bonds") will be used to pay a portion of the costs of one or more of the Five-Year Plans approved in accordance with Section 2590-p of the State Education Law, as amended (the "Education Law").
Securities Offered	The Series 2007 S-1 Bonds are being issued by the Authority pursuant to the School Financing Act and the Enabling Act, as amended (collectively, the "Act"), and an Amended and Restated Original Indenture, to be dated November 16, 2006 as supplemented (the "Indenture"), by and between the Authority and the Trustee. The Series 2007 S-1 Bonds (along with all other Building Aid Revenue Bonds hereafter issued under the Indenture, the "Building Aid Revenue Bonds") are payable by the Authority from the State Building Aid, subject to annual appropriation by the State, assigned by the City to the Authority and by the Authority to the Trustee. The

Series 2007 S-1 Bonds constitute the first Series of Building Aid Revenue Bonds issued by the Authority. The Indenture also permits the Authority to issue Notes and to enter into other obligations on a parity with the Building Aid Revenue Bonds (the "School Obligations"). See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS."

Not Debt of State or City ..... The Series 2007 S-1 Bonds are not a debt of either the State or the City, and neither the State nor the City shall be liable thereon. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State supported debt" (commonly known as "State appropriation debt") within the meaning of the State Finance Law. Therefore, the State will not be entering into any financing agreement or service contract, the principal terms of which would require the State to seek an annual appropriation and govern payments pursuant to such appropriation, in connection with the Building Aid Revenue Bonds.

Based on State and federal constitutional, statutory and case law and the terms of the Indenture, the Assignment and the Agreement (herein defined), Bond Counsel is of the opinion that the Authority is not eligible for protection from its creditors pursuant to Title II (the "Bankruptcy Code") of the United States Code; and if the debts of the City were adjusted under the Bankruptcy Code and the City or its creditors were to assert a right to the State Building Aid equal or prior to the rights of the Bondholders, such assertion would not succeed.

Security for Authority Indebtedness.............. Subject to statutory debt limitations and restrictions contained in the Indenture, the Authority is authorized to issue Senior Bonds, Parity Debt (as defined below) and Building Aid Revenue Bonds. The Authority currently has Outstanding $9,638,045,000 of Senior Bonds (including both the issuance amount of capital appreciation bonds, and Bonds that have been economically defeased). The Authority also has Outstanding $1,765,060,000 of Recovery Obligations and $1,336,120,000 of Subordinate Bonds issued on a parity with Recovery Obligations (collectively, "Parity Debt").

Pursuant to the Indenture, Senior Bonds and Parity Debt issued prior to the date of issuance of the Series 2007 S-1 Bonds, will be payable in the first instance from Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)) and, to the extent that Tax Revenues are insufficient, from State Building Aid. Senior Bonds and Parity Debt issued after the date of issuance of the Series 2007 S-1 Bonds are secured only by Tax Revenues and will have no claim to State Building Aid. In addition, certain operating expenses of the Authority may be paid from State Building Aid to the extent Tax Revenues are insufficient therefor. The payment of the Building Aid Revenue Bonds is subordinate to (i) the payment of debt service on such Senior Bonds and Parity Debt issued prior to the date of issuance of the Series 2007 S-1 Bonds and (ii) such operating

	expenses of the Authority (collectively, the "Pre-07 S-1 Obligations").
	The Building Aid Revenue Bonds are not secured by Tax Revenues and are payable from State Building Aid subordinate to the payment of the Pre-07 S-1 Obligations. Therefore, if Tax Revenues are not sufficient to pay the Pre-07 S-1 Obligations as well as other Authority obligations payable from Tax Revenues issued after the date of issuance of the Series 2007 S-1 Bonds, State Building Aid on deposit in the Building Aid Subaccount of the Collection Account will be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for payment of the Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and other Authority obligations payable from the Tax Revenues. See "SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS—Debt Service Coverage."
	The Authority has no source of payment for the Building Aid Revenue Bonds other than State Building Aid, which is subject to annual appropriation of the State.
State Building Aid	The Series 2007 S-1 Bonds (along with all other Building Aid Revenue Bonds) are payable from the State Building Aid subject to annual appropriation by the State, assigned by the City to the Authority, and by the Authority to the Trustee. State Building Aid is paid in support of education facilities in the State for the benefit of elementary and/or secondary school students.
	Under the Assignment (herein defined), the City has assigned to the Authority all State Building Aid payable to the City since the date of the Assignment and all State Building Aid to be received in the future by the City. Under the Indenture, State Building Aid consists of Confirmed Building Aid and Incremental Building Aid. Confirmed Building Aid consists of State Building Aid statutorily required to be paid to the Authority with respect to projects approved by the New York State Education Department (the "SED"), subject to appropriation, but not to any other statutory or administrative conditions or approvals (other than annual State appropriation), and which shall be calculated in accordance with the State Covenant and with the building aid ratios applicable to such projects at the date of calculation. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—State Building Aid." "Incremental Building Aid" consists of State Building Aid to be received in the future by the Authority for City educational building projects that are approved by the SED in the future. Requests for Incremental Building Aid are made on behalf of the City by application of the New York City School Construction Authority ("SCA") to the SED. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—State Building Aid."
State Appropriation	Payment of State Building Aid is subject to annual appropriation by the State. If there is not sufficient money appropriated by the State to

enable the Authority to pay the Building Aid Revenue Bonds on a timely basis, the State will not be liable to the Authority, the City or the Bondholders for any deficiency. There is no contractual relationship between the Authority and the State. The State has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State" and "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

Financial Condition of the State.	The payment of State Building Aid to the Authority is dependent in part upon the financial condition of the State. Future State budgetary restrictions could result in delays in the payment of or reductions in the amount of State Building Aid payable to the Authority. In the event that State education aid or assistance is reduced by the State in the future, such reduction could result in a diminished flow of State Building Aid to the Authority. In addition, State Building Aid is payable by the State from amounts held in the State's General Fund, upon which there are potential prior constitutional and statutory claims. Intercept of amounts held in the State's General Fund could result in a diminished flow of State Building Aid to the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State" and "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."
Assignment	Under an Assignment of State Aid (the "Assignment") dated October 19, 2006 as amended, the City, acting through the Mayor, has assigned to the Authority all of the State Building Aid. Pursuant to the School Financing Act, the State Building Aid and the right to receive the State Building Aid are now the property of the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Assignment of State Building Aid."
Competing Claims to State Aid	The Authority's receipt of State Building Aid is expressly subject and subordinate under the School Financing Act to prior statutory claims on State education aid and assistance (1) under Section 99-b of the State Finance Law for the benefit of the holders of any defaulted bonds of the City issued for school purposes, (2) for the Municipal Bond Bank Agency for the payment of its bonds issued to satisfy prior claims of the City for amounts owed to the City under the Education Law and (3) for the New York City Educational Construction Fund to restore its Debt Service Reserve Fund relating to its outstanding bonds. In addition, the State may withhold or recover State education aid or assistance payable to the City for the City's failure to provide certain educational services (e.g., courses in special areas, certain number of instructional days, certain health services, services for handicapped students, administrative practices or willful disobedience of certain laws or directives), or to otherwise correct errors or omissions in apportionments of State education aid or assistance pursuant to subdivision 5 of Section 3604 of the

	Education Law as statutorily mandated. The foregoing statutory claims to State education aid and assistance and withholding or recovery of State education aid or assistance payable to the City are collectively referred to as "Competing Claims." The Authority does not expect that any such Competing Claims will materially reduce State Building Aid payable to the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Competing Claims to State Aid."
Memorandum of Understanding	Each year the State annually appropriates money to the City to pay for educational needs of the City's students ("Education Aid") pursuant to Section 3602 of the Education Law. A portion of such Education Aid constitutes State Building Aid apportioned pursuant to subdivision 6 of Section 3602 of the Education Law which is paid, together with certain other Education Aid, payable pursuant to Section 3609-a of the Education Law (the "General Education Aid Payments"). The State has not previously distinguished payments of State Building Aid from General Education Aid Payments to the City. The City, the Authority, the SED and the New York State Comptroller (the "State Comptroller") have entered into a Memorandum of Understanding dated as of October 26, 2006 (the "MOU") to determine the amount included in each General Education Aid Payment that is attributable to State Building Aid (the "Building Aid Payment"). Under the MOU, prior to each General Education Aid Payment, the Authority will calculate and certify to the SED, the State Comptroller and the Director of the Division of the Budget of the State the amount of the Building Aid Payment included in each General Education Aid Payment. In addition, the MOU provides that if permitted by applicable law, the State Comptroller shall satisfy any Competing Claims to Education Aid from Education Aid other than State Building Aid ("Other School Aid") first and, thereafter, from State Building Aid if the expected sources of funds for the payment of the Competing Claims from Other School Aid are unavailable or insufficient. Although the MOU sets forth the understanding of the City, the Authority, the SED and the State Comptroller as to the payment of State Building Aid and Other School Aid, the MOU will not be assigned to the Trustee or pledged as security for the Building Aid Revenue Bonds. While no assurance can be given that the MOU will be legally enforceable, the School Financing Act authorizes the assignment of State Building Aid by the City to the Authority and requires the payment of State Building Aid to the Authority following such assignment. See "—Competing Claims to State Aid" and "SECTION II—SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Memorandum of Understanding" and "—Competing Claims to State Aid."
99-b State Aid Intercept.	Section 99-b of the State Finance Law, as amended by the School Financing Act, provides that in the event a holder or owner of any Building Aid Revenue Bond shall file with the State Comptroller a verified statement describing such bond and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of

the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and serve a copy thereof by registered mail upon the Comptroller of the City, the Chancellor of the school district of the City (the "Chancellor") and the chief fiscal officer of the Authority. Upon the filing of such a certificate in the office of the State Comptroller, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of Education Aid due to the City or its school district such amount thereof as may be required to pay the principal of and interest on the Building Aid Revenue Bonds then in default. Education Aid so withheld shall be transferred by the State Comptroller to the paying agent for the Building Aid Revenue Bonds so in default.

Education Aid so applied pursuant to State Finance Law Section 99-b secures only Bonds or Notes issued for school purposes and does not secure other obligations of the Authority.

Section 99-b of the State Finance Law contains the covenant of the State with the Bondholders that it will not repeal, revoke or rescind the provisions of Section 99-b of the State Finance Law or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby; but nothing in Section 99-b of the State Finance Law shall be deemed or construed as requiring the State to continue the payment of Education Aid or as limiting or prohibiting the State from repealing or amending any law relating to such State education aid or assistance, the manner and timing of payment or apportionment thereof, or the amount thereof. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—99b – State Aid Intercept."

State and City Covenants. . . . . . The Act and the Indenture contain the covenant of the State with the Bondholders (the "State Covenant") that the State shall not limit or alter the rights vested in the Authority by the Act to fulfill the terms of the Indenture, or in any way impair the rights and remedies of such holders or the security for the Bonds until such Bonds, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders of the Bonds, are fully paid and discharged. The State Covenant does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes relating to State Building Aid subject to the Assignment. However, the State, under the School Financing Act and under the Indenture, covenants that State Building Aid shall in all events (i) continue to be so payable, as assigned to the Authority, so long as the State Building Aid is paid and (ii) continue to be calculated in accordance with the same formula used for such calculation, and otherwise on the same basis as such aid is calculated, on the date that an applicable project is approved for reimbursement from State Building Aid.

For more information regarding covenants of the State and City, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Agreements of the State and the City."

Additional Building Aid Revenue Bonds	The Series 2007 S-1 Bonds constitute the first Series of Building Aid Revenue Bonds issued under the Indenture. The Authority expects that it will issue other Building Aid Revenue Bonds in the future. The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds by providing to the Trustee, among other documents, an Officer's Certificate setting forth: (i) Annual School Bond Debt Service, including debt service on such Series of Building Aid Revenue Bonds in each Series Fiscal Year; and (ii) the Confirmed Building Aid payable in the Fiscal Year preceding each Series Fiscal Year, which shall be at least equal to the amount set forth in clause (i) for each Series Fiscal Year. For purposes of the above certificate, each interest rate on Outstanding and proposed variable-rate Building Aid Revenue Bonds (if not economically fixed or otherwise offset by a Qualified Swap, a liquidity account, or otherwise with Rating Confirmation) shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."
Interest and Principal	Interest on the Series 2007 S-1 Bonds will accrue from their dated date at the rates set forth on the inside cover page hereof and will be payable semiannually on January 15 and July 15 of each year, commencing July 15, 2007. The record date for payment of interest on the Series 2007 S-1 Bonds is the last business day of the calendar month immediately preceding the interest payment date. Principal will be due as shown on the inside cover page and herein. Interest on and principal of the Building Aid Revenue Bonds will be paid by the Authority from State Building Aid on deposit in the School Bond Account. State Building Aid shall be deposited into the School Bond Account in accordance with the retention schedule as described in "Retention Procedures" below.
Optional Redemption	The Series 2007 S-1 Bonds maturing on or before July 15, 2016, are not subject to optional redemption prior to maturity. The Series 2007 S-1 Bonds maturing after July 15, 2016 are subject to optional redemption prior to maturity on 30 days' notice, beginning on January 15, 2017 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date. See "SECTION IV: THE BONDS—Optional Redemption."
Mandatory Redemption	The Series 2007 S-1 Bonds maturing on July 15, 2031 and the Series 2007 S-1 Bonds bearing a 4.75% or 5.00% rate of interest and maturing on July 15, 2036 are subject to mandatory redemption, in part, prior to maturity as described herein. See "SECTION IV: THE BONDS—Mandatory Redemption."

Collection Account	All Revenues (consisting primarily of Tax Revenues and State Building Aid) received by the Authority shall be promptly deposited into the Collection Account within which there are created a Tax Revenue Subaccount and a Building Aid Subaccount. Any Tax Revenues received by the Authority shall be promptly deposited into the Tax Revenue Subaccount. Tax Revenues do not secure the Building Aid Revenue Bonds. The City has assigned all of the State Building Aid to the Authority pursuant to the Assignment, and the Authority and the City will request the State Comptroller to make payments of State Building Aid to the Trustee. Any State Building Aid received by the Authority or the Trustee shall be promptly deposited in the Building Aid Subaccount.
Application of State Building Aid	State Building Aid in the Building Aid Subaccount of the Collection Account shall be applied in the following order of priority, as implemented in part by the Retention Procedures: first, to Pre-07 S-1 Senior Debt; second, to the Authority's operating expenses, which may include reserves but excluding operating expenses properly allocable to Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt; third, to Pre-07 S-1 Parity Debt and then to the payment of Building Aid Revenue Bonds and other School Obligations; and fourth, daily or as soon as practicable but no later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.
Retention Procedures	To provide for the timely payment of School Obligations subject to the rights of the Holders of Pre-07 S-1 Obligations, money in the Building Aid Subaccount shall be retained therein until transferred as follows: (1) at any time, to the Pre-07 S-1 Senior Subaccount or the Pre-07 S-1 Parity Subaccount, in that order of priority, to pay Pre-07 S-1 Senior Bonds or Pre-07 S-1 Parity Debt then due and not otherwise provided for; (2) in the first month of each Collection Quarter, (a) to the School Bond Account, beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the month and (y) the day when the Unfunded Balance is zero; and (b) to the order of the City, if no transfer to the School Bond Account is required, beginning the first day when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and continuing until the end of the month; and (3) in the second and third months of each Collection Quarter, (a) to the School Bond Account, beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their Full Requirements and (ii) the Remaining Building Aid is not more than 110% of

the Unfunded Balance, and continuing until the earlier of (x) the end of the Collection Quarter and (y) the day when the Unfunded Balance is zero;

(b) to the order of the City, if no transfer to the School Bond Account is required, beginning when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount are funded to their Full Requirements and continuing until the end of the Collection Quarter; and

(c) on the last Business Day of the Collection Quarter, to the Pre-07 S-1 Senior Subaccount and then the Pre-07 S-1 Parity Subaccount until both of them have been funded to their Full Requirements; then to the School Bond Account, if the Remaining Building Aid is not more than 110% of the Unfunded Balance, until the Unfunded Balance is zero; and then to the order of the City.

Defeasance. . . . . The Authority will have the ability to defease any Bonds under the Indenture by depositing Defeasance Collateral with a trustee to provide for payment of principal, interest and premium, if any, thereon.

Tax Matters . . . . In the opinion of Sidley Austin LLP, Bond Counsel to the Authority, interest on the Series 2007 S-1 Bonds will be exempt from personal income taxes imposed by the State 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 Series 2007 S-1 Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION VII: TAX MATTERS."

Ratings. The Series 2007 S-1 Bonds have been rated "AA-" by Standard & Poor's Ratings Services ("Standard & Poor's"), "A1" by Moody's Investors Services, Inc. ("Moody's") and "A+" by Fitch Ratings ("Fitch"). The Authority expects that the Series 2007 S-1 Bonds maturing July 15, 2012 through July 15, 2036, inclusive (the "Insured Bonds"), will be rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "AAA" by Fitch based on the municipal bond insurance policy to be issued by Financial Guaranty Insurance Company. See "SECTION VIII: RATINGS."

Trustee . . . . The Bank of New York, New York, New York, acts as the Authority's trustee.

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SECTION I: INTRODUCTION

General

This Official Statement of the New York City Transitional Finance Authority (the "Authority") sets forth information concerning the Authority, The City of New York (the "City") and the State of New York (the "State") in connection with the sale of the Authority's $650,000,000 Building Aid Revenue Bonds, Fiscal 2007 Series S-1 (the "Series 2007 S-1 Bonds").

The Series 2007 S-1 Bonds constitute the first Series of Building Aid Revenue Bonds issued by the Authority under the Indenture. Provided certain statutory and contractual conditions are met, other series of Bonds on a parity with the Series 2007 S-1 Bonds may be issued. The Series 2007 S-1 Bonds together with other series of Building Aid Revenue Bonds issued under the Indenture are referred to as "Building Aid Revenue Bonds." In addition, the Indenture permits the Authority to issue Notes and to enter into other obligations on a parity with the Building Aid Revenue Bonds (collectively, the "School Obligations"). See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State. The Authority was created by Chapter 16 of the Laws of New York, 1997 (the "Enabling Act"). The Enabling Act became effective March 5, 1997, and provided for the issuance of Bonds for general capital purposes of the City, the payment of Bonds from the Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)), and statutory and contractual covenants of the Authority, the City and the State. The Enabling Act was amended in June 2000 and September 2001 to, among other things, increase the capacity of the Authority to issue Bonds for general City capital purposes. The amendment in September 2001 permitted the Authority to issue Bonds and Notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Obligations"). The Enabling Act was further amended in 2006 to increase the Authority's $11.5 billion statutory capacity to issue Bonds for general City capital purposes by $2 billion to $13.5 billion. The Authority has issued $12.3 billion of Bonds for general City capital purposes. The Authority has $9,638,045,000 of Outstanding Senior Bonds (including Bonds that have been economically defeased and the issuance amount of capital appreciation bonds). In addition, the Authority has $1,765,060,000 of Outstanding Recovery Obligations and $1,336,120,000 of Outstanding Subordinate Bonds issued on a parity with Recovery Obligations (collectively, "Parity Debt").

In 2006, the Enabling Act was further amended pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act"). The School Financing Act authorizes the Authority to issue bonds, notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's five-year educational facilities capital plan (the "Five-Year Plan") and authorizes the City to assign to the Authority all or any portion of the State aid payable to the City or its school district pursuant to subdivision 6 of Section 3602 of the State Education Law, or any successor provision of State law ("State Building Aid"). The City has assigned all the State Building Aid to the Authority.

The Series 2007 S-1 Bonds are being issued by the Authority pursuant to the School Financing Act and the Enabling Act, as amended (collectively, the "Act"), and an Amended and Restated Original Indenture, to be dated November 16, 2006 as supplemented (the "Indenture"), by and between the Authority and The Bank of New York, as Trustee (the "Trustee"). The Series 2007 S-1 Bonds (along with all other Building Aid Revenue Bonds hereafter issued under the Indenture) are payable from the State Building Aid, subject to annual appropriation by the State, assigned by the City to the Authority and by the Authority to the Trustee. The payment of State education aid of which State Building Aid is a part is subject and subordinate to certain prior statutory claims and the payment of State Building Aid is dependent in part upon the financial condition of the State. See "SECTION II: SOURCES OF PAYMENT AND

Security for the Building Aid Revenue Bonds—Financial Condition of the State" and "Appendix C—Information Concerning the State of New York."

Pursuant to the Indenture, Senior Bonds and Parity Debt issued prior to the date of issuance of the Series 2007 S-1 Bonds will be secured in the first instance by Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)) and to the extent that Tax Revenues are insufficient, by State Building Aid. Senior Bonds and Parity Debt issued after the date of issuance of the Series 2007 S-1 Bonds are only secured by Tax Revenues and will have no claim on State Building Aid. In addition, certain operating expenses of the Authority are payable in the first instance from Tax Revenues, and, to the extent Tax Revenues are insufficient, from State Building Aid. The payment of the Building Aid Revenue Bonds is subordinate to (i) the payment of debt service on such Senior Bonds and Parity Debt issued prior to the date of issuance of the Series 2007 S-1 Bonds and (ii) such operating expenses of the Authority (collectively, the "Pre-07 S-1 Obligations"). If Tax Revenues are not sufficient to pay the Pre-07 S-1 Obligations as well as other Authority obligations payable from Tax Revenues issued after the date of issuance of the Series 2007 S-1 Bonds, State Building Aid on deposit in the Building Aid Subaccount of the Collection Account will be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for payment of the Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and other obligations payable from the Tax Revenues. See "Section III: Tax Revenues Available for Payment of Pre-07 S-1 Obligations—Debt Service Coverage."

Pursuant to an Assignment of State Aid (the "Assignment") dated October 19, 2006, as amended, the City, acting through the Mayor, has assigned to the Authority all of the State Building Aid, and, pursuant to the School Financing Act, State Building Aid and the right to receive the State Building Aid are now the property of the Authority. State Building Aid constitutes a portion of State education aid and assistance annually appropriated by the State of New York (the "State") to the City. Pursuant to a Memorandum of Understanding (the "MOU") dated as of October 26, 2006, among the City, the Authority, the New York State Education Department (the "SED") and the New York State Comptroller (the "State Comptroller"), the Authority will calculate and certify to the SED the amount of each payment of State education aid and assistance that is attributable to State Building Aid. In addition, the State Comptroller has agreed under the MOU, if permitted under applicable law, to pay competing claims from State education aid and assistance other than State Building Aid. A summary of certain provisions of the Indenture, the Assignment and the Agreement, together with certain defined terms used therein and in this Official Statement, is contained in "Appendix A—Summary of Indenture, Assignment and Agreement."

The factors affecting the Authority and the Building Aid Revenue Bonds described throughout this Official Statement are complex and are not intended to be described in this Introduction. This Official Statement should be read in its entirety. Capitalized terms not otherwise defined in this Official Statement are defined in "Appendix A—Summary of Indenture, Assignment and Agreement."

SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS

General

The Series 2007 S-1 Bonds are to be issued by the Authority as Building Aid Revenue Bonds. Interest on and principal of the Building Aid Revenue Bonds are payable from the State Building Aid assigned to the Authority, subordinate to the payment of the Pre-07 S-1 Obligations. State Building Aid shall only be applied to make payment of the Pre-07 S-1 Obligations in the event that Tax Revenues consisting of Personal Income Taxes and Sales Taxes are insufficient therefor. Building Aid Revenue Bonds are not secured by Tax Revenues. If Tax Revenues are not sufficient to pay Pre-07 S-1 Obligations as well as other Authority obligations payable from Tax Revenues, State Building Aid on deposit in the Collection Account will be applied to the payment of Pre-07 S-1 Obligations and the amount of State Building Aid available for the payment of the Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and other Authority obligations payable from the Tax Revenues. See "SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS—Tax Revenues and Debt Service Coverage."

The Authority does not have any significant assets or sources of funds other than Tax Revenues and State Building Aid and amounts on deposit pursuant to the Indenture. The Authority has no other source of payment for the Building Aid Revenue Bonds other than State Building Aid. See "—Financial Condition of the State."

Payment of State Building Aid is subject to annual appropriation by the State. If there is not sufficient money appropriated to enable the Building Aid Revenue Bonds to be paid on a timely basis, the State will not be liable to the Authority, the City or the Bondholders for any deficiency. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State Supported Debt" (commonly known as "State Appropriation Debt") within the meaning of the State Finance Law, therefore, the State will not be entering into any financing agreement or service contract in connection with the Building Aid Revenue Bonds.

Bonds of the Authority are not guaranteed by the City or the State. The Authority's bonds are not debt of the State or the City and neither the State nor the City shall be liable thereon.

Pursuant to Section 99-b of the State Finance Law, as amended by the School Financing Act, in the event a holder or owner of any Building Aid Revenue Bond shall file with the State Comptroller a verified statement describing such bond and alleging default in its payment, the State Comptroller shall immediately investigate the default and prepare and file in his office a certificate setting forth his determinations with respect thereto. Upon the filing of such a certificate, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of State education aid or assistance due to the City or its school district such amount thereof as may be required to make the payment of the principal of and interest on the Building Aid Revenue Bonds then in default. State education aid or assistance so withheld shall be transferred by the State Comptroller to the paying agent for the Building Aid Revenue Bonds. See "—99-b State Aid Intercept."

The Authority is not authorized by State law to file a petition in bankruptcy pursuant to Title 11 (the "Bankruptcy Code") of the United States Code. Based on State and federal constitutional, statutory and case law and the terms of the Indenture, the Assignment and the Agreement, Bond Counsel is of the opinion that if the debts of the City were adjusted under the Bankruptcy Code and the City or its creditors were to assert a right to the State Building Aid equal or prior to the rights of the Bondholders, such assertion would not succeed.

Assignment of State Building Aid

Pursuant to the School Financing Act, the State authorized the Authority to issue bonds, notes and other obligations in an amount outstanding up to $9.4 billion to finance a portion of the Five-Year Plan and authorized the City to assign to the Authority all or any portion of the State Building Aid. The City, acting through the Mayor, pursuant to the Assignment has assigned to the Authority all of the State Building Aid and, pursuant to the School Financing Act, the State Building Aid and the right to receive the State Building Aid are now the property of the Authority.

Under the provisions of the Assignment, the City has covenanted to preserve, protect and confirm the interest of the Authority and the Trustee (for the benefit of Bondholders) in the State Building Aid. Furthermore, under the Assignment, the City has covenanted to comply and cause the SCA (herein defined) to comply with the State Education Law (the "Education Law") in all respects material to State Building Aid, or in the event of a claim by Bondholders pursuant to Section 99-b of the State Finance Law, to State education aid or assistance. See "—State Building Aid" and "—99-b State Aid Intercept," herein. The City has also agreed under the Assignment to file or cause to be filed timely and appropriate claims of State Building Aid in respect of all material aidable outlays and diligently prosecute such claims on behalf of the Authority. Furthermore, under the Assignment, the City has agreed to cooperate with the Authority and the Trustee in contesting any competing claim to any portion of the State Building Aid, or the Bondholders (if proceeding under Section 99-b of the State Finance Law) against any competing claim based (i) under the Education Law, (ii) on disallowance regarding prior aid funds distributed to the City or (iii) the City's failure to make any payments or comply with other constitutional or statutory mandate. The City has also agreed to promptly pay over to the Trustee any State Building Aid received by the City and any material amount of State Building Aid diverted from the Authority on account of certain competing claims. See "—Competing Claims to State Aid," herein and see "Appendix A—Summary of Indenture, Assignment and Agreement."

Memorandum of Understanding

Each year the State annually appropriates money to pay for educational needs of the City's students ("Education Aid") pursuant to Section 3602 of the Education Law. A portion of such Education Aid constitutes State Building Aid apportioned pursuant to subdivision 6 of Section 3602 of the Education Law which is paid, together with certain other Education Aid, pursuant to Section 3609-a of the Education Law (the "General Education Aid Payments"). The State has not previously distinguished payments of State Building Aid from General Education Aid Payments to the City. The City, the Authority, New York State Education Department (the "SED") and the State Comptroller have entered into the MOU to determine the amount included in each General Education Aid Payment that is attributable to State Building Aid (the "Building Aid Payment").

Under the MOU, the SED shall provide to the Authority, on each date that the SED provides vouchers to the State Comptroller for a General Education Aid Payment to the City (the date of such payment being a "Payment Date"), a schedule (the "Schedule") setting forth the apportionment of Education Aid calculated by the SED pursuant to the opening paragraph of Section 3609-a of the Education Law ("Money Apportioned"), the total apportionment of State Building Aid for the then-current school year and the amount of the General Education Aid Payment payable to the City or the Authority on the Payment Date. Upon receipt of the Schedule, the Authority shall deliver to the SED, the State Comptroller and the director of the Division of the Budget of the State, a certification (the "TFA Certification") specifying the amount of the Building Aid Payment attributable to the then-current school year to be paid to the Authority on the Payment Date and for the first TFA Certification in the 2007 school year, specifying the amount of the General Education Aid Payment(s) paid to the City in the 2007 school year prior to the date of the Assignment that constitutes the Building Aid Payment(s), based on the information provided in the first schedule or as otherwise provided in this paragraph (the "Pre-Assignment Building Aid Payment").

For each General Education Aid Payment payable to the City prior to June 1 of the then-current school year, the Authority shall determine the amount of the Building Aid Payment due on any Payment Date by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority during such school year prior to such Payment Date (plus, for the 2007 school year only, the Pre-Assignment Building Aid Payment) from an amount calculated by multiplying (x) the percentage that total annual State Building Aid bears to the Money Apportioned for such school year by (y) the total of the General Education Aid Payments payable to the City or the Authority for the then-current school year paid and payable to the Authority and the City during such school year up to and including such Payment Date. The calculations described in the previous sentence will be based on the information provided by the SED in the Schedule. For the General Education Aid Payment payable to the City in June of the then-current school year, the Authority shall determine the amount of the Building Aid Payment attributable to the then-current school year due on such Payment Date by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority during such school year prior to such Payment Date (plus, for the 2007 school year only, the Pre-Assignment Building Aid Payment) from the State Building Aid for such school year.

After the Authority delivers the TFA Certification to the SED, the SED shall deliver to the State Comptroller the Certification together with a written certificate (the "SED Certification") (i) that the sum of the Building Aid Payments attributable to the then-current school year paid or to be paid to the Authority through the Payment Date (plus, for the 2007 school year only, the Pre-Assignment Building Aid Payment), as set forth in the TFA Certification, does not exceed the total amount of State Building Aid apportioned on account of City educational facilities for the then-current school year and (ii) that the Building Aid Payment has been calculated in a manner consistent with the above paragraph. If the SED is unable to make the SED Certification, it will deliver an alternative written certification ("the SED Alternate Certification") to the State Comptroller specifying the amount of such State Building Aid payable for the then-current school year by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority prior to such Payment Date (plus, for the 2007 school year only, the Pre-Assignment Building Aid Payment) from the State Building Aid for such school year (the "Remaining Building Aid Payment").

Upon receipt at least one business day prior to the Payment Date of (i) the TFA Certification and the Adjustment Certification (if any) described below and (ii) the SED Certification or SED Alternative Certification, and if funds are available and payment is authorized by law, such Building Aid Payment or Remaining Building Aid Payment, as the case may be, adjusted in accordance with the Adjustment Certificate, if any, shall be paid by the State Comptroller to the Authority's trustee, and the State Comptroller shall provide notice of such payment to the SED. If the TFA Certification and either the SED Certification or the SED Alternative Certification are not received prior to the Payment Date, then the entire amount of the General Education Aid Payment (less any adjustments unrelated to the MOU) shall be paid to the City.

If at the end of any school year, Building Aid Payments calculated to be payable to the Authority remain unpaid, such Building Aid Payments shall be paid from the next General Education Aid Payment.

After final review by the SED of the City's apportionment for State Building Aid for any school year, the SED shall notify the City and the Authority of the amount of such State Building Aid for such School Year.

If unpaid Building Aid Payments for a school year are payable in the next school year or if the amount specified by the SED pursuant to the preceding paragraph is not equal to the amount of total annual State Building Aid verified to the Authority in June of such school year, the Authority shall deliver a certification to the SED (the "Adjustment Certification") stating the amount of increase or decrease in the next Building Aid Payment calculated for the then-current school year necessary to reflect such change, and shall identify the school year to which each such increase or decrease is attributable. The SED shall deliver to the State Comptroller, at least one business day prior to the next Payment Date, the Adjustment Certification together with a SED Certification that the increase or decrease in the Building Aid Payment set forth in the Adjustment Certification has been calculated in a manner that is consistent with the MOU.

In addition, the MOU will provide that if permitted by applicable law, the State Comptroller shall satisfy any Competing Claims to Education Aid from Education Aid other than State Building Aid ("Other School Aid") first and, thereafter, from State Building Aid if the expected sources of funds for the payment of the competing claims from Other School Aid are unavailable or insufficient. "Competing

Claims" include all claims to, and diversions, reductions and withholdings of, Education Aid adverse to the Authority, such as: (x) claims of (i) holders of general obligation bonds of the City issued for school purposes; (ii) holders of the State of New York Municipal Bond Bank Agency Special School Purpose Revenue Bonds; and (iii) holders of the New York City Educational Construction Fund Revenue Bonds; and (y) State withholdings or recoveries of Education Aid for the City's failure to provide certain educational services (e.g., courses in special areas, a certain number of instructional days, certain health services, services for handicapped students, administrative practices or willful disobedience of certain laws or directives) or to otherwise correct errors or omissions in the apportionments of Education Aid pursuant to subdivision 5 of section 3604 of the Education Law, as statutorily mandated. See "—Competing Claims to State Aid."

Although the MOU sets forth the understanding of the City, the Authority, the SED and the State Comptroller as to the payment of State Building Aid, the MOU will not be assigned to the Trustee or pledged as security for the Building Aid Revenue Bonds. While no assurance can be given that the MOU will be legally enforceable, the School Financing Act authorizes the assignment of State Building Aid by the City to the Authority and requires the payment of State Building Aid to the Authority following such assignment.

State Building Aid

General

Pursuant to Article XI of the New York State Constitution, the State is obligated to provide for maintenance and support of a system of free common schools, wherein all the children of the State may be educated.

State Building Aid is provided, in accordance with subdivision 6 of Section 3602 of the Education Law, as a means for assisting local school districts with the cost of constructing and improving suitable and adequate elementary and/or secondary education facilities. To this end, new facilities, additions and major alterations eligible for State Building Aid must meet specific standards pertaining to functionality, building code requirements, and health and safety regulations.

The following table shows the City's historic State Building Aid for fiscal years 1997 through 2006:

HISTORIC STATE BUILDING AID

Fiscal Years	State Building Aid
1997	$163,252,183
1998	217,870,419
1999	216,214,452
2000	249,698,471
2001	391,494,195[(1)]
2002	425,227,373[(1)]
2003	389,681,770
2004	410,785,177
2005	440,124,844
2006	499,317,025

(1) The increase in State Building Aid in fiscal years 2001 and 2002 is largely attributable to the City's use of pay-as-you-go capital in fiscal years 2000 through 2002, the full amount of which was aided in fiscal years 2001 and 2002. Subsequently, the Education Law was changed to provide that projects paid for with pay-as-you-go capital would be aided over a 30-year period rather than in one fiscal year.

Aidable Debt Service

The City, acting through the SCA, submits projects from its educational facilities capital plan to the SED for review and approval on a project-by-project basis. The SED approval process establishes the amount of project costs that qualify for State Building Aid reimbursement and establishes, for approved projects, a schedule of "Aidable Debt Service" based on an assumed amortization schedule. For projects that are funded from bond financing or "pay-as-you-go" capital, the Aidable Debt Service schedule represents an amortization of the qualified project cost over a 30-year period with level annual debt service payments based upon an assumed interest rate. For leased facilities, the Aidable Debt Service schedule represents the actual lease payments for the actual term of the lease. No later than September 1st of each year, the City Comptroller provides to the SED the average interest rate on all capital debt incurred by the City for school purposes (or the Authority if no such capital debt is incurred by the City) during the prior fiscal year. This rate serves as the final assumed interest rate used by the SED to recalculate the Aidable Debt Service for projects approved in the prior fiscal year, as well as the preliminary assumed interest rate used to calculate Aidable Debt Service for projects approved in the then-current fiscal year.

The SED determines the amount of State Building Aid apportioned and payable to the City every year for approved projects by multiplying the applicable building aid ratio (the "Selected Building Aid Ratio") for such year, as described below, by such projects' Aidable Debt Service for such year. The Selected Building Aid Ratios vary depending on when particular groups of projects were approved by the Chancellor of Education of the City (the "Chancellor"). Various factors are taken into account by the SED in determining the Selected Building Aid Ratios, including the Calculated Building Aid Ratio and the Incentive Aid Ratio as described below.

Building Aid Ratios

Calculated Building Aid Ratio. Pursuant to subdivision 6 of Section 3602 of the State Education Law, the SED calculates a new building aid ratio for every year for each school district in the State (the "Calculated Building Aid Ratio"). The Calculated Building Aid Ratio determined every year is derived from a formula based largely upon school district wealth factors that are determined based on a school district's property value per pupil in relation to the Statewide property value per pupil. Wealth equalizing features of the formula cause a school district's Calculated Building Aid Ratio to increase as its property value per pupil decreases. As detailed in the following table, the City's Calculated Building Aid Ratio has historically been very stable and is expected to continue to be stable.

Fiscal Year	Calculated Building Aid Ratio
1999	54.0%
2000	52.6
2001	53.2
2002	52.3
2003	52.2
2004	51.7
2005	50.8
2006	52.2

One factor contributing to this stability is the fact that the City and its suburban ring account for approximately 80% of all property value in the State. In addition, there is a high correlation between property values in the City and property values in the surrounding suburban ring. As a result, changes in the City's property values are consistent with changes in the Statewide total.

Projects may also qualify each year for additional apportionment of State Building Aid in the form of Incentive Aid and/or through the application of a High Need Building Aid Ratio depending upon when such projects were first approved by the Chancellor.

Incentive Aid Ratio. All projects approved by the Chancellor on or after July 1, 1998 are eligible for an additional apportionment of State Building Aid ("Incentive Aid"). Incentive Aid equals the product of Aidable Debt Service and an incentive decimal computed for use in the year in which a project was approved. The incentive decimal (the "Incentive Aid Ratio") for the City is currently 10%.

High Need Building Aid Ratio. Projects approved by the Chancellor on or after July 1, 2005 qualify for additional apportionment of State Building Aid through the application of a high-need supplemental building aid ratio (the "High Need Building Aid Ratio"). The High Need Building Aid Ratio is equal to the lesser of (i) the product (computed to three decimals without rounding) of the Selected Building Aid Ratio (as described below) multiplied by five percent, or (ii) the positive remainder of ninety-eight one hundredths less the Selected Building Aid Ratio. For the City, the High Need Building Aid Ratio is equal to the product of the Selected Building Aid Ratio multiplied by five percent.

Selected Building Aid Ratio. Although the Calculated Building Aid Ratio is determined by the SED every year, the specific Selected Building Aid Ratio utilized to compute State Building Aid payable to the City in each year for projects is the higher of the Calculated Building Aid Ratio for such year (plus the Incentive Aid Ratio, if applicable) or a prior year building aid ratio applicable to the City (plus the Incentive Aid Ratio, if applicable). The particular prior year building aid ratio applicable to projects is dependent upon the year in which such projects were first approved by the Chancellor.

For projects approved by the Chancellor prior to fiscal year 1999, the Selected Building Aid Ratio applied every year is currently the higher of the City's Calculated Building Aid Ratio and the City's highest Calculated Building Aid Ratio since fiscal year 1982, which is 54.7%. The Selected Building Aid Ratio for such projects for fiscal year 2006 is 54.7%.

Projects approved by the Chancellor on or after July 1, 1998 qualify for an additional State Building Aid apportionment in the form of Incentive Aid, which is currently calculated each year by multiplying the Incentive Aid Ratio by Aidable Debt Service for such projects for such year. The Selected Building Aid Ratio currently applied every year for projects approved by the Chancellor in fiscal years 1999 and 2000 is the higher of (i) the City's Calculated Building Aid Ratio for such year plus the Incentive Aid Ratio and (ii) the City's highest Calculated Building Aid Ratio since fiscal year 1982 plus the Incentive Aid Ratio, which is 64.7%. The Selected Building Aid Ratio for such projects for fiscal year 2006 is 64.7%.

For projects approved by the Chancellor on or after July 1, 2000, the building aid ratio currently applied in each year to such projects is the higher of (i) the City's Calculated Building Aid Ratio for the year plus the Incentive Aid Ratio and (ii) the building aid ratio applied for the City's apportionment in fiscal year 2000, not including the additive Incentive Aid Ratio, which is 54.7%. The Selected Building Aid Ratio for such projects for fiscal year 2006 is 62.2%.

For projects approved by the Chancellor on or after July 1, 2005, the High Needs Building Aid Ratio will be applied to the Selected Building Aid Ratio. The Selected Building Aid Ratio for such projects for fiscal year 2006 is 64.8%.

Confirmed Building Aid

State Building Aid for projects not subject to any further statutory or administrative conditions or approvals (other than annual State appropriation), and which shall be calculated in accordance with the State covenant and the building aid ratios applicable to such projects at the date of calculation, constitutes "Confirmed Building Aid."

State Building Aid to be received for projects that are approved by the SED in the future constitutes "Incremental Building Aid." Pursuant to the Assignment, the City has assigned to the Authority Confirmed Building Aid and the right to receive Incremental Building Aid, and both Confirmed Building Aid and the right to receive Incremental Building Aid are now property of the Authority. The Authority receives, subject to annual State appropriation, State Building Aid regardless of the financing mechanism utilized to fund an eligible educational facility project. The City's financing of educational facilities eligible for State Building Aid is not restricted solely to the issuance of Building Aid Revenue Bonds.

The amount of Confirmed Building Aid payable to the Authority will vary in the future depending on, among other factors, the Selected Building Aid Ratio. Confirmed Building Aid for fiscal years 2007 to 2036 is shown in the following table and is calculated based on the assumption that State Building Aid will be computed using the Selected Building Aid Ratios for the 2006 fiscal year. In addition, an assumed interest rate of 4.375% has been used as the interest rate for projects approved in the 2006 fiscal year, which is subject to change. In the event the Calculated Building Aid Ratio for projects approved on or after July 1, 2000 is less than 52.2% and/or the Incentive Aid Ratio is reduced or eliminated, Confirmed Building Aid will be less than the amounts shown on the following table.

CONFIRMED BUILDING AID

Fiscal Year Ending June 30	Confirmed Building Aid (millions)
2007	$422.50[1]
2008	497.39
2009	491.65
2010	484.17
2011	479.85
2012	477.75
2013	474.51
2014	473.68
2015	473.32
2016	473.05
2017	471.36
2018	468.23
2019	463.40
2020	439.71
2021	411.49
2022	394.56
2023	378.67
2024	368.09
2025	358.03
2026	346.81
2027	329.37
2028	293.01
2029	246.73
2030	191.61
2031	131.29
2032	105.49
2033	101.93
2034	84.26
2035	57.82
2036	57.82

(1) Approximately $82.3 million was received by the City in fiscal year 2007 prior to execution of the Assignment and therefore is not included in 2007 Confirmed Building Aid.

Payment of State Building Aid

State Building Aid for all projects is aggregated by the State and paid to the City in accordance with Section 3609-a of the Education Law. The State does not distinguish payments of State Building Aid from General Education Aid Payments payable to the City. Pursuant to Section 3609-a of the Education Law, 25% of the lesser of (i) the General Education Aid Payments estimated by the SED to be payable to the City at the time of adoption of the State budget or (ii) the General Education Aid Payments estimated by the SED to be payable to the City at the time of payment are required to be paid by the State to the City no later than December 15 of each fiscal year, and the remaining amount of General Education Aid Payments must be paid to the City no later than the first business day of June of such fiscal year. The

General Education Aid Payments are conditioned upon the filing by the City of certain reports required under the Education Law. The City has covenanted in the Assignment to comply with the requirements of the Education Law in all respects material to the State Building Aid, which include the requirement to file such reports.

The amount of State Building Aid payable in each year to the Authority will vary depending on, among other factors, the Selected Building Aid Ratio. In addition, although the State has covenanted to continue to calculate State Building Aid in accordance with the formula used on the date an applicable project is approved for reimbursement, no assurance can be given that the Calculated Building Aid Ratio will remain stable in accordance with historic levels or that the Incentive Aid Ratio or the High Need Building Aid Ratio will continue. In addition, payment of State Building Aid is dependent in part upon the financial condition of the State. See "—Financial Condition of the State" and "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

The following table shows debt service coverage for the Series 2007 S-1 Bonds by Confirmed Building Aid.

DEBT SERVICE COVERAGE FOR SERIES 2007 S-1 BONDS BY CONFIRMED BUILDING AID

Fiscal Year Ending June 30	Confirmed Building Aid (millions)	Debt Service[1] (millions)	Coverage
2007	$422.50[2]	$36.66	11.52x
2008	497.39	40.73	12.21x
2009	491.65	40.72	12.07x
2010	484.17	40.68	11.90x
2011	479.85	42.66	11.25x
2012	477.75	42.68	11.19x
2013	474.51	42.64	11.13x
2014	473.68	42.63	11.11x
2015	473.32	42.60	11.11x
2016	473.05	42.58	11.11x
2017	471.36	42.54	11.08x
2018	468.23	42.52	11.01x
2019	463.40	42.50	10.90x
2020	439.71	42.50	10.35x
2021	411.49	42.46	9.69x
2022	394.56	42.43	9.30x
2023	378.67	42.40	8.93x
2024	368.09	42.37	8.69x
2025	358.03	42.35	8.45x
2026	346.81	42.32	8.19x
2027	329.37	42.28	7.79x
2028	293.01	42.25	6.94x
2029	246.73	42.21	5.84x
2030	191.61	42.18	4.54x
2031	131.29	42.14	3.12x
2032	105.49	42.11	2.51x
2033	101.93	42.07	2.42x
2034	84.26	42.02	2.01x
2035	57.82	41.97	1.38x
2036	57.82	41.91	1.38x

(1) Series 2007 S-1 debt service is shown in the year retained, rather than in the year paid.
(2) Approximately $82.3 million was received by the City in fiscal year 2007 prior to execution of the Assignment and therefore is not included in Confirmed Building Aid.

Additional Building Aid Revenue Bonds

The School Financing Act authorizes the issuance of Bonds, Notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of one or more of the Five-Year Plans. The Series 2007 S-1 Bonds constitute the first Series of Building Aid Revenue Bonds issued by the Authority. The Authority expects that it will issue other Building Aid Revenue Bonds in the future. The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds by providing to the Trustee, among other documents, an Officer's Certificate setting forth:

(i) Annual School Bond Debt Service, including debt service on such Series of Building Aid Revenue Bonds in each Series Fiscal Year; and

(ii) the Confirmed Building Aid payable in the fiscal year preceding each Series Fiscal Year, which shall at least be equal to the amount set forth in clause (i) for each Series Fiscal Year.

For purposes of the above certificate, each interest rate on Outstanding and proposed variable-rate Building Aid Revenue Bonds (if not economically fixed by a Qualified Swap, a liquidity account, or otherwise with Rating Confirmation) shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

Incremental Building Aid

General

Additional Building Aid Revenue Bonds will be payable as described herein from State Building Aid assigned to the Authority by the City under the Assignment. It is anticipated that the City will continue adopting Five-Year Plans and making expenditures thereunder that are eligible for State Building Aid in the future. It is also anticipated that the City, through SCA, will continue to make application to the SED for Incremental Building Aid, and that Incremental Building Aid will be approved by the SED as future projects under the current and future Five-Year Plans are undertaken.

Eligibility for State Building Aid

Projects eligible for State Building Aid must be included in the Five-Year Plan. Eligible projects include, among others, new construction, building additions, major modernizations, rehabilitations, and system replacements. Such projects must relate to educational instructional facilities or facilities otherwise related to educational instruction. Project costs eligible for State Building Aid funding may include direct construction and equipment acquisition costs as well as incidental project costs, including site purchase, preparation and development costs and professional service fees and insurance. Such costs may relate to facilities either owned or leased by the City. In addition, lease payments relating to such facilities are also eligible for State Building Aid.

SED Approval and Calculation of State Building Aid

The SED reviews each project and calculates the maximum amount of project costs that are eligible for State Building Aid (the "Maximum Cost Allowance" or "MCA"). Calculation of the MCA begins with a determination of a preliminary cost allowance, which is the product of the number of students the project will accommodate and State per pupil cost amounts by student type. To account for variations in construction labor costs throughout the State, the SED then applies a regional cost factor to each project. For certain projects in the City started after July 1, 2004, the MCA then receives an additional upward adjustment called the "Urban Cost Factor," which is designed to reflect the higher costs of construction in a dense urban environment, as well as an extraordinary site acquisition cost adjustment. Once the MCA is calculated, the SED determines the aidable cost ("Aidable Cost") of a project as the lesser of the MCA and the approved project cost.

Every year, the SED determines the amount of State Building Aid payable for projects as described above under "State Building Aid."

The following table shows Confirmed Building Aid, Incremental Building Aid and total State Building Aid based upon planned expenditures under the Five-Year Plan for the fiscal years 2005 through 2009 (the "Current Five-Year Plan").

TOTAL BUILDING AID RELATING TO EXPENDITURES FOR THE CURRENT FIVE-YEAR PLAN THROUGH JUNE 30, 2009

Fiscal Year Ending June 30	Confirmed Building Aid (millions)	Incremental Building Aid[(1)] (millions)	Total Building Aid[(2)] (millions)
2007	$422.50[(3)]	$ 15.66	$438.16
2008	497.39	77.12	574.50
2009	491.65	135.73	627.39
2010	484.17	181.29	665.46
2011	479.85	181.29	661.14
2012	477.75	181.29	659.03
2013	474.51	181.29	655.79
2014	473.68	181.29	654.96
2015	473.32	181.29	654.60
2016	473.05	181.29	654.34
2017	471.36	181.29	652.64
2018	468.23	181.29	649.51
2019	463.40	181.29	644.69
2020	439.71	181.29	620.99
2021	411.49	181.29	592.77
2022	394.56	181.29	575.85
2023	378.67	181.29	559.95
2024	368.09	181.29	549.38
2025	358.03	181.29	539.31
2026	346.81	181.29	528.10
2027	329.37	181.29	510.66
2028	293.01	181.29	474.30
2029	246.73	181.29	428.02
2030	191.61	181.29	372.90
2031	131.29	181.29	312.57
2032	105.49	181.29	286.78
2033	101.93	181.29	283.21
2034	84.26	181.29	265.55
2035	57.82	181.29	239.11
2036	57.82	181.29	239.11

(1) Based on projections by SCA for the Current Five-Year Plan.
(2) Subject to annual change in the Selected Building Aid Ratio and assumed interest rate. Total State Building Aid may not add due to rounding.
(3) Approximately $82.3 million was received by the City in fiscal year 2007 prior to execution of the Assignment and therefore is not included in Confirmed Building Aid.

Five-Year Plan

The Five-Year Plan is the mechanism by which the City plans, funds and manages all capital investments in its public school facilities. The rules governing the preparation and maintenance of each Five-Year Plan are established pursuant to the Education Law. The Current Five-Year Plan covers fiscal years 2005 though 2009 and totals over $13.4 billion. The next Five-Year Plan is expected to be adopted by July 1, 2009.

The school system of the State is divided into school districts. The school district of the City is known as the Department of Education, which is a corporate body separate from the City (the "DOE"). The DOE is overseen by the Panel for Educational Policy, which is chaired by the Chancellor and includes seven additional members who are appointed by the Mayor of the City and five additional members, each appointed by one of the Borough Presidents of the City. Each Five-Year Plan, which is amended from time to time, is prepared by the Chancellor and contains the following categories of work: new construction; building additions; major modernization and rehabilitation; athletic fields, playgrounds and pools; system replacements; security and educational enhancements; and emergency, unspecified and miscellaneous. The Five-Year Plan must describe each of these categories and estimate the cost of each category, the capital funding required each year and the expected sources of such funding. The Five-Year Plan must also set forth an estimate of the cost of each project identified in the Five-Year Plan and state the year in which each such project is to be initiated.

Each Five-Year Plan is managed and administered by the SCA pursuant to the New York State Public Authorities Law. The SCA has the duty to: design, construct, reconstruct, improve, rehabilitate, maintain, furnish, repair, equip and otherwise provide for educational facilities as defined under State Education Law and acquire property through purchase or condemnation therefor. The three-member SCA Board consists of the Chancellor and two other members appointed by the Mayor.

All State Building Aid is payable by the State, subject to annual appropriation, regardless of how approved project costs are financed. Capital expenditures under the Five-Year Plan may be financed using different obligations, such as (i) general obligation bonds issued by the City, (ii) bonds or notes issued by the Authority for general City capital purposes or (iii) Building Aid Revenue Bonds issued by the Authority. Pursuant to the Assignment, all State Building Aid payable in respect of all approved education projects is payable to the Authority regardless of whether such projects are financed through general obligation bonds of the City, bonds of the Authority for general City capital purposes, Building Aid Revenue Bonds, or any other method.

99-b State Aid Intercept

Section 99-b of the State Finance Law provides that in the event a holder or owner of any Building Aid Revenue Bond shall file with the State Comptroller a verified statement describing such bond and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and serve a copy thereof by registered mail upon the Comptroller of the City, the Chancellor and the chief fiscal officer of the Authority. Such investigation by the State Comptroller shall cover the current status with respect to the payment of principal of and interest on all outstanding Building Aid Revenue Bonds, and the statement prepared and filed by the State Comptroller pursuant to the foregoing shall set forth a description of all Building Aid Revenue Bonds of the Authority found to be in default and the amount of principal and interest thereon past due. Upon the filing of such a certificate in the office of the State Comptroller, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of Education Aid due to the City or its school district such amount thereof as may be required to pay the principal of and interest on the Building Aid Revenue Bonds then in default. Education Aid so withheld shall be transferred by the State Comptroller to the paying agent for the Building Aid Revenue Bonds so in default.

In the event such Education Aid so withheld shall be insufficient to pay all of the principal of and interest on the Building Aid Revenue Bonds so in default, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such Education Aid due the City or its school district, such amount or amounts thereof as may be required to pay all of the principal of and interest on the Building Aid Revenue Bonds then in default and to cure such default. Allotments, apportionments and payments of such Education Aid so deducted or withheld by the State Comptroller shall be forwarded promptly to the Trustee as paying agent for the sole purpose of the payment of defaulted principal of and interest on Building Aid Revenue Bonds; provided, however, that in the event any such allotment, apportionment or payment of such Education Aid so deducted or withheld shall be less than the total amount of all principal and interest on the Building Aid Revenue Bonds in default with respect to which the same was so deducted or withheld, then the State Comptroller shall forward to the paying agent an amount in the proportion that the amount of such Building Aid Revenue Bonds in default bears to the total amount of principal of and interest then in default on such bonds.

Total Education Aid to the City was $6,366,884,334 in fiscal year 2006. Education Aid so applied pursuant to Section 99-b of the State Finance Law secures only the Bonds or Notes issued for school purposes and does not secure other obligations of the Authority. The payment of Education Aid to the City is subject to annual appropriation by the State. In addition, no assurance can be given that, in the event of the State's failure to appropriate Education Aid in amounts sufficient to pay State Building Aid, that Education Aid would be sufficient to cure a deficiency pursuant to Section 99-b of State Finance Law.

The State covenants with the Holders of the Building Aid Revenue Bonds that it will not repeal, revoke or rescind the provisions of Section 99-b or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby; but nothing in Section 99-b shall be deemed or construed as requiring the State to continue the payment of Education Aid to the City or as limiting or prohibiting the State from repealing or amending any law relating to Education Aid, the manner and time of payment or apportionment thereof, or the amount thereof.

Set forth is the total amount of Education Aid paid to the City for fiscal years 1997 through 2006.

Fiscal Year	Education Aid
1997	$3,682,211,064
1998	3,899,364,196
1999	4,276,615,016
2000	4,659,619,793
2001	5,170,289,234
2002	5,491,684,438
2003	5,215,812,293
2004	5,366,785,148
2005	5,851,170,972
2006	6,366,884,334

Competing Claims to State Aid

Prior Claims Under the Act. The Authority's receipt of Education Aid, of which State Building Aid is a part, is expressly subject and subordinate under the School Financing Act to payment of Education Aid to the State of New York Municipal Bond Bank Agency (the "MBBA") for certain MBBA bonds payable directly from Education Aid due to the City and to the payment of contingent statutory claims of (i) the holders of any defaulted bonds of the City issued for school purposes and (ii) the New York City Educational Construction Fund.

Direct Claims

MBBA Bonds. Bonds have been issued by the MBBA pursuant to the State of New York Municipal Bond Bank Agency Act, Title 18 of Article VIII of the Public Authorities Law of the State of New York, as amended (the "MBBA Act"), to fund the cost of making a payment to the City in satisfaction of prior year claims owed to the City under Section 3604 of the Education Law. Pursuant to the MBBA Act, the Chairman of the MBBA is required to deliver annually a certificate to the State Comptroller and the Director of the Budget of the State, certifying the amount of public funds apportioned or otherwise made payable by the State to the City as provided in Article 73 of the Education Law necessary for payment of (i) interest, principal and redemption premium, if any, maturing or otherwise becoming due during the subsequent State fiscal year on the MBBA Bonds; (ii) the amounts required to be deposited to the Debt Service Reserve Fund with respect to the MBBA Bonds; and (iii) any and all amounts required for the purpose of satisfying any rebate obligation to the Federal government. Upon receipt of such certification, the State Comptroller is required to transfer to the MBBA such Education Aid to the extent so stated in such certificate. The payments of Education Aid to the MBBA are not dependent upon annual appropriation by the City. Principal of the MBBA Bonds is amortized over the period beginning June 1, 2006, and ending December 1, 2023. The maximum annual debt service on the MBBA Bonds is approximately $41 million.

Expenses for Handicapped Children. In addition, the State Comptroller deducts from Education Aid to the City amounts required by statute to reimburse the State for certain expenditures made by the State for the education of certain blind, deaf and handicapped children in the City. Such expenditures for the City's 2006 fiscal year were approximately $10 million.

Contingent Claims

City General Obligation Bonds. The State Finance Law Section 99-b provides protection against any default on debt issued for school purposes by the Authority and any city, city school district or school district of the State up to the limits of that entity's Education Aid. If a city, city school district or school district of the State defaults in the payment of the principal of its bonds and notes issued for school purposes, the State is to withhold from the next payment of Education Aid made to such entity, an amount required to cure such default in the payment of such bonds. The City issues bonds for school purposes as part of bond issues that also finance many other purposes of the City. If the City should default on any bond issue that includes financing for school purposes, there would be withheld from the Education Aid payable to the City an amount sufficient to cure such default on the bonds issued for school purposes, and any such amount so withheld could reduce the amount of available Education Aid (of which State Building Aid is a part) to pay the Building Aid Revenue Bonds. Projected debt service for fiscal year 2007 on City bonds issued for school purposes outstanding as of June 30, 2006, is approximately $711 million, without reflecting prepayments by the City.

New York City Educational Construction Fund. Bonds have been issued by the New York City Educational Construction Fund (the "ECF") pursuant to Article 10 of the Education Law (the "ECF Act") to fund the cost of combined occupancy structures consisting of improvements to real property containing school accommodations or other facilities of the DOE with compatible and lawful non-school uses. Bonds of the ECF are secured by a debt service reserve fund (the "ECF Debt Service Reserve Fund") in an amount equal to the maximum amount of principal and sinking fund installments of and interest on outstanding bonds issued by the ECF becoming due in the then-current or any succeeding calendar year.

To further assure maintenance of the ECF Debt Service Reserve Fund, the ECF Act requires the DOE to pay to the ECF for deposit in the ECF Debt Service Reserve Fund such sum, if any, as has been certified by the Chairman of the ECF to the DOE, the Mayor and the Director of Management and Budget of the City as necessary to restore the ECF Debt Service Reserve Fund to the ECF Debt Service Reserve Requirement. Such sum is to be paid from moneys appropriated and paid by the City to the DOE or from moneys otherwise lawfully available to the DOE for such purpose. The Chairman of the ECF annually, not later than February 1 in each calendar year, is to make and deliver to the DOE, the Mayor and the Director of Management and Budget of the City a certificate stating the amount, if any, required to restore the ECF Debt Service Reserve Fund to the required amount, and the amount so stated is to be paid to the ECF by the DOE during the then-current fiscal year of the ECF. In the event of the failure or inability of the DOE to pay over the stated amount to the ECF on or before August 1 of the same calendar year, the Chairman of the ECF is to make and deliver to the State Comptroller a further certificate restating the amount so required and, after the State Comptroller has given written notice to the Commissioner of Education of the State, the Mayor and the Director of Management and Budget of the City, such amount is to be paid over to the ECF by the State Comptroller out of the next payment of Education Aid apportioned to the City for the support of common schools or such other aid or assistance payable in support of common schools as may have superseded or supplemented such State aid for the support of common schools, including federal moneys apportioned by the State to the City for the support of common schools. The maximum annual debt service on outstanding ECF Bonds is approximately $16.6 million. ECF expects to issue additional bonds in December 2006, the annual debt service on which is estimated to be approximately $3 million.

Other Competing Claims

Certain State programs provide for statutory application or withholding of State aid and local assistance as security for the repayment of obligations of, or the repayment of financial assistance provided to, the City including but not limited to the following relating to: loan agreements with the Environmental Facilities Corporation ("EFC") for water pollution control projects under Section 1285-j(11) of the Public Authorities Law; financing agreements with the EFC with respect to the Drinking Water Revolving Fund program under Section 1285-m of the Public Authorities Law; the MBBA under Section 2436 of the Public Authorities Law; the New York State Sports Authority under Section 2473 of the Public Authorities Law; acquisition, construction or maintenance costs of alternative correctional facilities under Section 89-h of the Corrections Law; and failure of the City to make a payment due to the Design and Construction Account of the Hazardous Waste Remedial Fund under Section 97-b of the State Finance Law. The City does not currently participate in the foregoing programs and does not currently expect to participate in such programs in the future. Also, Section 54-a of the State Finance Law provides that, if the City levies or causes to be levied taxes upon real property in excess of constitutional limitations, the State Comptroller may withhold local assistance by the State to the City to the extent of such excess.

In addition, the State may withhold or reduce Education Aid, and in certain cases must withhold or reduce such aid, upon the City's failure to provide statutorily mandated courses of instruction in a number of special areas, upon the City's failure to provide the statutorily required number of instructional days, upon the City's failure to provide certain health services, upon the City's failure to provide certain statutorily mandated services for handicapped students, upon the City's failure to make any required payment for the maintenance or operation of charter schools in the City, upon the City's noncompliance with certain other statutorily mandated administrative practices or upon the City's willful disobedience of certain laws or directives. During the last 10 years, no Education Aid has been withheld from the City for failure to meet the above-mentioned requirements.

The Authority's receipt of the State Building Aid could also be affected by withholding of Education Aid, of which State Building Aid is a part, in satisfaction of any disallowance regarding prior aid funds distributed to the City. The City and the Authority expect that any assertion of a disallowance that might otherwise materially affect the Education Aid would be satisfied either by the State's withholding of aid payments other than the State Building Aid or by repayment by the City to the State of the amount of the disallowance.

On June 16, 2005, the Office of the Inspector General of the United States Department of Health and Human Services ("HHS") issued its audit report on claims for the 1993-2001 period submitted to the New York State Medicaid program by the DOE with respect to speech services for students with disabilities. The audit states generally that the State improperly billed HHS nearly $436 million in Federal Financial Participation ("FFP") for State Medicaid expenditures for speech services that were not sufficiently supported by documentation establishing the provision of such services in accordance with applicable standards. The State Department of Health has formally submitted a response to the Centers for Medicare and Medicaid Services raising objections, based in law and policy, to the audit findings and requesting that the Centers for Medicare and Medicaid Services take no action to disallow Medicaid funding on the basis of the audit report of the Office of the Inspector General of HHS. The Centers for Medicare and Medicaid Services have not yet responded to the response of the State Department of Health. In addition, on September 15, 2005, the Office of the Inspector General of HHS issued its audit report on claims submitted to the New York State Medicaid program by the DOE with respect to transportation services for students with disabilities for the period 1993 through 2001. The audit states that none of the claims in the statistical sample of 120 claims complied with laws and regulations generally relating to documentation of services; it concludes that approximately $96 million in claims improperly billed to HHS should be refunded, and that the State should work with the Centers for Medicare and Medicaid Services to resolve approximately $12 million in additional claims. The State Department of Health and the City have formally submitted responses to the transportation audit to the Centers of Medicare and Medicaid Services; the responses take the position that the audit was flawed and unlawfully conducted and, as in the case of the speech audit, request that the Centers for Medicare and Medicaid Services take no further action with respect to the audit. The Centers for Medicare and Medicaid Services have not yet responded to the responses of the State Department of Health and the City. Both the speech and transportation audits may be the subject of further administrative or judicial review that may result in changes in amounts alleged to be owed by the State. In the event that FFP is ultimately disallowed and found to be owed by the State to HHS, the State may in turn seek to collect amounts received by the DOE for services that are the subject of such disallowances, or may offset payments of Education Aid, including State Building Aid, payable to the City or the Authority.

On November 3, 2006, the inspector general of the United States Department of Education released an audit of the federal Reading First program which found that SED had improperly awarded more than $118 million in federal grants under that program, $106 million of which was awarded to the City. SED is disputing the inspector general's findings. The inspector general recommended that the $118 million be recovered from the State. In the event that such amount is recovered from the State, the State may in turn seek to recover the $106 million received by the City under the Reading First program, or may offset payments of Education Aid, including State Building Aid, payable to the City or the Authority.

Effect of Claims on State Building Aid

Statutory application and intercept of Education Aid for any of the above purposes or any other purpose could have the result of diminishing the amount of State Building Aid paid to the Authority as well as diminishing Education Aid subject to be intercepted by the State Comptroller under Section 99-b of the State Finance Law. Furthermore, the City may in the future participate in financing programs incorporating procedures for the application or withholding of Education Aid for the repayment of obligations of, or the repayment of financial assistance provided to, the City. In addition, the State may institute, with or without the consent of the City or the Authority, programs for the diversion or withholding of Education Aid otherwise payable to the City. Any such future application or diversion of Education Aid could also affect the flow of State Building Aid to the Authority. Notwithstanding the foregoing, pursuant to the MOU, the State Comptroller has agreed, if permitted by applicable law, to apply Competing Claims, if any are exercised, against Education Aid payable to the City rather than against State Building Aid payable to the Authority. No assurance can be given that the MOU will be legally enforceable. The City has also agreed under the Assignment to promptly pay any material amount of State Building Aid diverted from the Authority on account of the Competing Claims described under the headings "*Direct Claims*" and "*Contingent Claims*" above and in the last two paragraphs under the heading "*Other Competing Claims.*" See "—Assignment of State Building Aid."

Financial Condition of the State

The payment of State Building Aid to the Authority is dependent in part upon the financial condition of the State. Future State budgetary restrictions could result in delays or reductions in State Building Aid to the Authority. In the event that Education Aid is reduced by the State in the future, such reduction could result in a diminished flow of State Building Aid to the Authority.

State Building Aid is paid from the State's General Fund, upon which there are potential prior State constitutional and statutory claims.

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

The State Legislature completed action on the budget for fiscal year 2006-2007 on April 26, 2006 (the "Enacted Budget"). The State released its Annual Information Statement on June 12, 2006 (the "AIS"), which reflected the State Legislature's modifications, gubernatorial vetoes and legislative overrides to the Enacted Budget through May 12, 2006, the date of the State financial plan. In the AIS, the State Division of the Budget (the "State DOB") noted that, in comparison to the Executive Budget, the Enacted Budget was also balanced in fiscal year 2006-2007, but projected a closing fund balance in the General Fund of $3.3 billion and gaps of approximately $3.7 billion in fiscal year 2007-2008 and $4.3 billion in fiscal year 2008-2009.

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

The AIS and the AIS Updates identify a number of substantive fiscal and policy actions since the adoption of the Enacted Budget, including the use of a $787 million spending stabilization reserve (funded with the fiscal year 2005-2006 surplus) to lower the projected budget gap for fiscal year 2007-2008 to the indicated projected level; a new statewide school construction grant program totaling $2.6 billion with $1.8 billion for the City; authorization for the Authority to issue the Building Aid Revenue Bonds; Medicaid and health care cost containment; a $250 million deposit to the State's debt reduction reserve that was used to eliminate high cost debt; an expansion of local property tax relief initiatives; a cap on the State sales tax on gasoline; and authorization for new State debt for economic development projects. The

AIS Updates include information from a preliminary report by the State's consultants on liabilities for retiree health care costs that will be reported starting with fiscal year 2007-2008 under Governmental Accounting Standards Board Statement 45. According to that preliminary report, the State's total unfunded long-term liability could be roughly $47 billion based on several actuarial cost methods or up to $54 billion based on one method, with the liability amortized over a period of up to 30 years.

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

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

In addition to the November AIS Update, financial information relating to the State is also contained in the Comprehensive Annual Financial Report for Fiscal Year Ended March 31, 2006 of the New York State Comptroller dated September 2006 (the "CAFR"). The CAFR is included herein by specific reference. Copies of the CAFR may be obtained from the Office of the New York State Comptroller, 110 State Street, Albany, NY 12236 or from the New York State Comptroller's web site (www.osc.state.ny.us).

The Authority did not prepare the information contained in the AIS, the AIS Updates or the CAFR. The State is not expected to certify to the Authority the accuracy of the information contained or included by specific reference herein.

For additional information, see "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

Agreements of the State and the City

The Act and the Indenture contain the covenant of the State with the Bondholders that the State shall not limit or alter the rights vested in the Authority by the Act to fulfill the terms of the Indenture or in any way impair the rights and remedies of such holders or the security for the Bonds until such Bonds, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders of the Bonds, are fully paid and discharged. This covenant does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes relating to State Building Aid subject to the Assignment. However, the State, under the School Financing Act and under the Indenture, covenants that State Building Aid shall in all events (i) continue to be so payable, as assigned to the Authority, so long as the State Building Aid is paid, and (ii) continue to be calculated in accordance with the same formula used for such calculation, and otherwise on the same basis as such aid is calculated, on the date that an applicable project is approved for reimbursement from State Building Aid.

The Bonds are not a debt of either the State or the City, and neither the State nor the City is liable thereon. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State supported debt" within the meaning of the State Finance Law. The State will not be entering into a continuing disclosure agreement with respect to the Building Aid Revenue Bonds.

The covenants of the City and the State described above shall be of no force and effect with respect to any State Building Aid Bond if there is on deposit in trust with a bank or trust company sufficient cash or Defeasance Collateral to pay when due all principal of, applicable redemption premium, if any, for and interest on, such State Building Aid Bond.

Application of Revenues

Upon receipt of (i) Personal Income Tax Revenues, (ii) Sales Tax Revenues, if any are required to be paid to the Authority, and (iii) State Building Aid, the Trustee must deposit such amounts into the Collection Account held by the Trustee.

Tax Revenue shall be deposited in the Tax Revenue Subaccount of the Collection Account and applied upon receipt by the Trustee in the following order of priority: first, to the Bond Account to pay Senior Debt Service in accordance with the Retention Procedures described below; second, to the Authority's operating expenses, including deposits to the Redemption Account for optional redemption of the Senior Bonds, if any, and any reserves held by the Authority for payment of operating expenses; third, pursuant to Supplemental Indentures to the Recovery and Parity Debt Account or otherwise for the benefit of Noteholders, Subordinate Bondholders and parties to ancillary and swap contracts (other than Senior Agreements), to the extent such Supplemental Indentures may require application of Revenues to pay items after payments of Senior Debt Service and operating expenses; fourth, pursuant to each Officer's Certificate making reference to this level of priority in accordance with the Indenture; and fifth, to the City as soon as available but not later than the last day of each month, excess Revenues, free and clear of the lien of the Indenture.

State Building Aid shall be deposited in the Building Aid Subaccount of the Collection Account and applied in the following order of priority, as implemented in part by the Retention Procedures (set forth below); first, to Pre-07 S-1 Senior Debt; second, to the Authority's operating expenses, which may include reserves but excluding operating expenses properly allocable to Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt; third, to Pre-07 S-1 Parity Debt and then to the payment of Building Aid Revenue Bonds and other School Obligations; and fourth, daily or as soon as practicable but not later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.

Retention Procedures

A quarterly retention mechanism has been adopted by the Authority to provide for payment of debt service.

For each three-month period commencing August, November, February and May (each such period, a "Collection Quarter"), the Trustee shall begin on the first business day of the first month of each Collection Quarter to transfer Tax Revenues from the Tax Revenue Subaccount to each subaccount of the Bond Account in proportion to the unfunded balance of each First-Month Requirement, and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement. On the first day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount.

After all payments are made to the Bond Account, as described above, and for Authority operating expenses, money on deposit in the Tax Revenue Subaccount will be applied in accordance with a quarterly retention method adopted by the Authority to provide for payment of debt service on Parity Debt. The Pre-07 S-1 Parity Subaccount and the Post-07 S-1 Parity Subaccount are subaccounts in the Recovery Account. At the beginning of each Collection Quarter, the Trustee shall begin to transfer Tax Revenues to each subaccount in the Recovery Account in proportion to the unfunded balance of each First-Month Requirement and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement and on the first Business Day of the second month of each Collection

Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount.

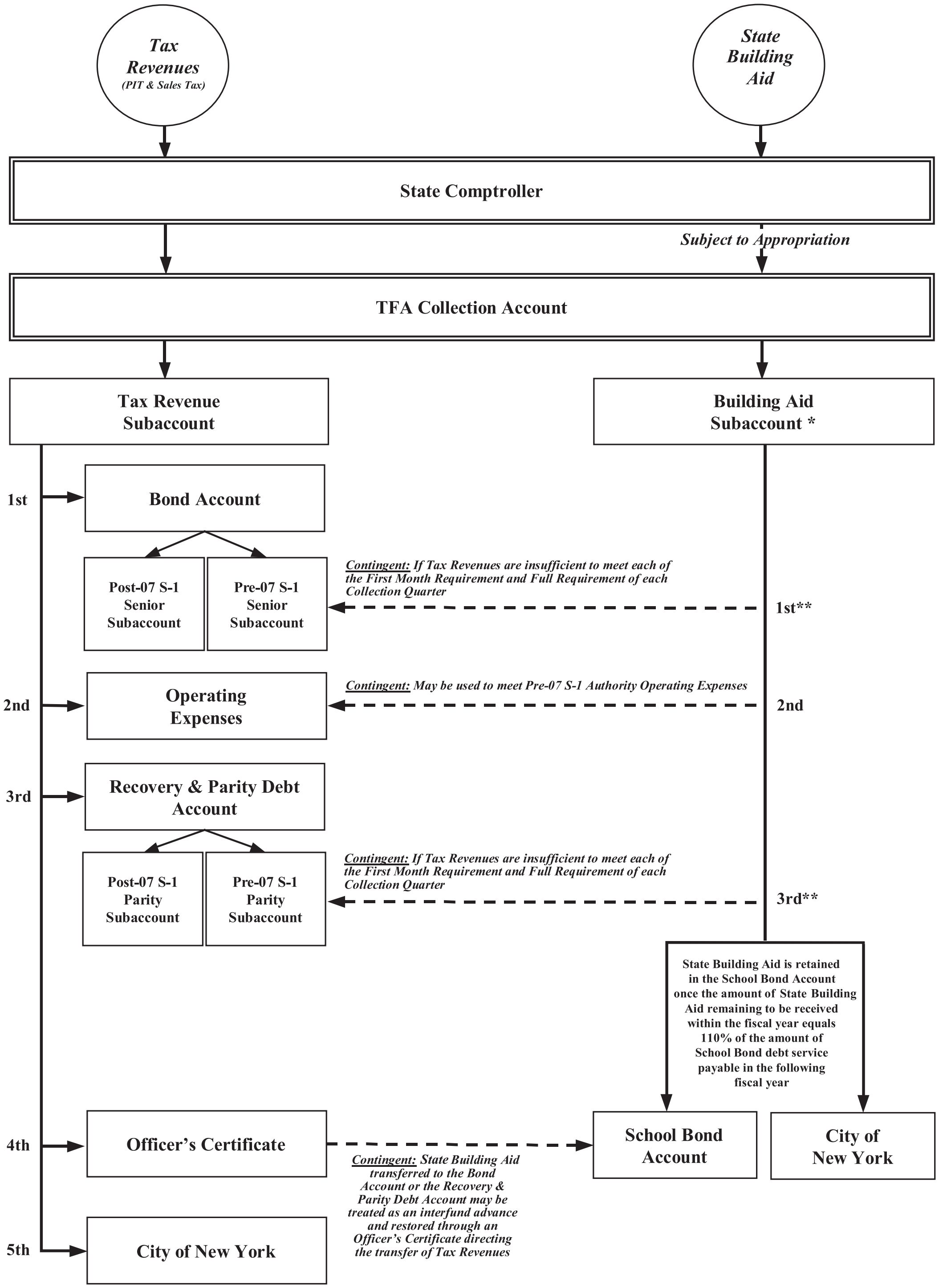
To provide for the timely payment of School Obligations subject to the rights of the Holders of Pre-07 S-1 Senior Debt and Pre-07 S-1 Parity Debt, money in the Building Aid Subaccount shall be retained therein until transferred as follows:

(1) at any time, to the Pre-07 S-1 Senior Subaccount or the Pre-07 S-1 Parity Subaccount, in that order of priority, to pay Pre-07 S-1 Senior Bonds or Pre-07 S-1 Parity Debt then due and not otherwise provided for;

(2) in the first month of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and (ii) the Remaining Building Aid not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the month and (y) the day when the Unfunded Balance is zero; and (b) to the order of the City, if no transfer to the School Bond Account is required, beginning the first day when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and continuing until the end of the month; and

(3) in the second and third months of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their Full Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the Collection Quarter and (y) the day when the Unfunded Balance is zero; (b) to the order of the City, if no transfer to the School Bond Account is required, beginning when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount are funded to their Full Requirements and continuing until the end of the Collection Quarter; and (c) on the last Business Day of the Collection Quarter, to the Pre-07 S-1 Senior Subaccount and then the Pre-07 S-1 Parity Subaccount until both of them have been funded to their Full Requirements; then to the School Bond Account, if the Remaining State Aid is not more than 110% of the Unfunded Balance, until the Unfunded Balance is zero; and then to the order of the City.

SUMMARY OF COLLECTION AND APPLICATION OF REVENUES



* State Building Aid is initially available to pay debt service coming due and payable but not already provided for with respect to Senior Bonds and Parity Debt, issued prior to the Fiscal 2007 Series S-1 Building Aid Revenue Bonds.

** Within the respective retention period, once each of the First-Month and Full Requirement is satisfied, State Building Aid flows to either the School Bond Account or the City of New York.

SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS

Tax Revenues

Pursuant to the Indenture, the Building Aid Revenue Bonds are payable only from the State Building Aid and not from the Tax Revenues. Accordingly, the application of State Building Aid to pay the Building Aid Revenue Bonds is subject to priorities under the Indenture in favor of the Pre-07 S-1 Obligations. Therefore, if Tax Revenues are not sufficient to pay Pre-07 S-1 Obligations, as well as other Authority obligations payable from the Tax Revenues issued by the Authority after the date of issuance of the Series 2007 S-1 Bonds, State Building Aid on deposit in the Collection Account will be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for payment of the Building Aid Revenue Bonds will be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligation and other obligations payable therefrom. See "Debt Service Coverage" herein.

Tax Revenues consist primarily of Personal Income Tax Revenues and Sales Tax Revenues. Personal Income Tax Revenues are the revenues collected from the Personal Income Tax less overpayments and costs of administration. The Personal Income Tax is the tax imposed by the City as authorized by the State on the income of City residents and, while applicable, on nonresident earnings in the City. The Personal Income Tax is composed of several components, which State law authorizes the City to impose. Some of these components have required renewals in the past and will require renewals in the future. The Act provides that nothing contained therein restricts the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Tax, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed.

Sales Tax Revenues are the revenues collected from the Sales Tax less (i) administrative expenses of the Municipal Assistance Corporation for the City of New York ("MAC Funding Requirements"), and (ii) State administrative costs. MAC Funding Requirements were $10 million in fiscal year 2006. The Sales Tax is the tax currently imposed by the State on the sale and use of tangible personal property and services in the City until July 1, 2008 and thereafter means a similar tax imposed by the City. The term "Sales Tax" also includes certain amounts collected from a sales and compensating use tax imposed by the City as authorized by the State. Prior to July 1, 2008, Sales Tax Revenues (except for the collections derived from the Sales Tax imposed by the City) are subject to appropriation by the State Legislature. Sales Tax Revenues are not subject to City appropriation. The obligation of the State to pay such amounts is subject to, and dependent upon, the making of annual appropriations therefor by the State Legislature and the availability of money to fund such payments. Commencing July 1, 2008, Sales Tax collections will not be subject to the pledge of the Municipal Assistance Corporation for the City of New York and will not be subject to appropriation by the State or City.

Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Pre-07 S-1 Obligations (and other obligations of the Authority payable from Tax Revenues) if Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds. Notwithstanding the foregoing, Building Aid Revenue Bonds are not payable from Tax Revenues.

Historical collections of Tax Revenues for fiscal years 1990 to 2006 and forecasted collections of Tax Revenues for fiscal years 2007 through and including 2010 are shown in the following table. Forecasted collections of Tax Revenues included in this Official Statement are as forecasted by the New York City Office of Management and Budget ("NYC OMB") as set forth in the City Financial Plan Modification dated November 1, 2006 (the "City Financial Plan").

HISTORICAL AND FORECASTED AMOUNTS OF TAX REVENUES

(millions)

Fiscal Year Ending June 30	Tax Revenues	Fiscal Year Ending June 30	Tax Revenues
1990	$4,475	2000	$ 8,961
1991	4,720	2001	9,485
1992	5,028	2002	7,908
1993	5,444	2003	7,785
1994	5,702	2004	9,037
1995	6,202	2005	10,873
1996	6,533	2006	11,756
1997	7,048	2007[1]	11,797
1998	7,816	2008[1]	11,966
1999	8,639	2009[1][2]	12,348
		2010[1][2]	13,014

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

(1) Forecast. Figures do not reflect deductions for MAC Funding Requirements.

(2) Amount shown assumes that the City will be authorized to impose the Sales Tax after July 1, 2008 at the rate of 4%, which will require legislation.

If Tax Revenues are not sufficient to pay Pre-07 S-1 Obligations, as well as other obligations payable from the Tax Revenues issued after the issuance of the Series 2007 S-1 Bonds, State Building Aid on deposit in the Collection Account will be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for the payment of Building Aid Revenue Bonds will be reduced. Under the Act the Authority may issue: (i) Senior Bonds (or Notes in anticipation thereof) to pay or reimburse Project Capital Costs or refund or renew such Bonds or Notes, but not to exceed $12 billion in Outstanding principal amount, and subject to a $330 million limit on Quarterly Debt Service to be payable; or (ii) as Subordinate Bonds (or Notes in anticipation thereof), with Rating Confirmation; but (iii) no Series of Senior Bonds shall be authenticated and delivered without Rating Confirmation unless the amount of collections of Tax Revenues for the twelve consecutive calendar months ended not more than two months prior to the calculation date less the aggregate amount of operating expenses of the Authority for the current fiscal year is at least three times the amount of annual Senior Debt Service, including debt service on the Series of Bonds proposed to be issued, for each fiscal year Bonds will be Outstanding. See "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT" included herein by specific reference.

Parity Debt (or Notes in anticipation thereof) may be issued, provided that collections of Tax Revenues for the most recent fiscal year ended at least two months prior to the date of such issuance are for each fiscal year during which such proposed Parity Debt is to be outstanding at least three times the sum of $1.32 billion (Covenanted Maximum Annual Debt Service for Senior Bonds) and annual debt service on Outstanding Recovery Obligations and other Parity Debt, together with the Series proposed to be issued, as estimated in accordance with the Indenture.

The amount of future Tax Revenues to be collected depends upon various factors including the economic conditions in the City. The forecasts of Tax Revenues are not intended to be guarantees of actual collections and results may vary from forecasts. Economic conditions in the City have reflected numerous cycles of growth and recession. There can be no assurance that historical data relating to economic conditions in the City are predictive of future trends or that forecasts of future economic developments will be realized.

Debt Service Coverage

The following table shows debt service coverage for Bonds of the Authority secured by Tax Revenues ("Tax Secured Bonds") by historical and forecasted Tax Revenues.

DEBT SERVICE COVERAGE FOR TAX SECURED BONDS BY HISTORICAL AND FORECASTED TAX REVENUES

Fiscal Year Ending June 30	Tax Revenues (millions)	Pro Forma Coverage[1]
1990	$ 4,475	2.62x
1991	4,720	2.76x
1992	5,028	2.94x
1993	5,444	3.18x
1994	5,702	3.33x
1995	6,202	3.63x
1996	6,533	3.82x
1997	7,048	4.12x
1998	7,816	4.57x
1999	8,639	5.05x
2000	8,961	5.24x
2001	9,485	5.54x
2002	7,908	4.62x
2003	7,785	4.55x
2004	9,037	5.28x
2005	10,873	6.36x
2006	11,756	6.87x
2007[2]	11,797	6.90x
2008[2]	11,966	6.99x
2009[2][3]	12,348	7.22x
2010[2][3]	13,014	7.61x

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

(1) Calculated assuming that a total of approximately $1,711 million in maximum annual debt service is paid by the Authority starting in fiscal year 1990. Assumed debt service consists of the Covenanted Maximum Annual Debt Service on Senior Bonds of $1,320 million and projected maximum annual debt service on Outstanding Parity Debt (assuming an interest rate on 9% on variable rate Bonds).

(2) As forecasted by NYC OMB in the City Financial Plan. Figures do not reflect deductions for MAC Funding Requirements. For information regarding MAC Funding Requirements, see "—Tax Revenues."

(3) Amounts shown assume that the City will be authorized to impose the Sales Tax after July 1, 2008 at the rate of 4%, which will require legislation.

SECTION IV: THE BONDS

General

The Series 2007 S-1 Bonds will be dated, will bear interest at the rates and will mature on the dates as set forth on the inside cover page of this Official Statement unless redeemed prior to maturity. All of the Series 2007 S-1 Bonds will be issued in book-entry only form. The Series 2007 S-1 Bonds are payable from State Building Aid, subordinate to payment of the Pre-07 S-1 Obligations. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS."

The Series 2007 S-1 Bonds will be issued in denominations of $5,000 or any integral multiple thereof, and will bear interest calculated on the basis of a 360-day year of 30-day months.

The Series 2007 S-1 Bonds are subject to defeasance in accordance with the Indenture. See "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT—The Indenture—*Defeasance*."

Optional Redemption

The Series 2007 S-1 Bonds maturing on or before July 15, 2016 are not subject to optional redemption prior to maturity. The Series 2007 S-1 Bonds maturing after July 15, 2016 are subject to optional redemption prior to maturity on 30 days notice beginning on January 15, 2017 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

Mandatory Redemption

The Series 2007 S-1 Bonds maturing on July 15, 2031 and the Series 2007 S-1 Bonds bearing a 4.75% or 5.00% rate of interest and maturing on July 15, 2036 are subject to mandatory redemption, by lot within such maturity, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, without premium, on the dates and in the amounts set forth below:

	Principal Amount to be Redeemed		
July 15	2031 Maturity	2036 Maturity (4.75% coupon)	2036 Maturity (5% coupon)
2030	$30,585,000	$ —	$ —
2031	32,115,000[(1)]	—	—
2032	—	6,000,000	27,720,000
2033	—	6,000,000	29,390,000
2034	—	6,000,000	31,145,000
2035	—	6,000,000	32,985,000
2036	—	6,000,000[(1)]	33,940,000[(1)]

(1) Stated Maturity

At the option of the Authority, there shall be applied to or credited against any of the required amounts subject to mandatory redemption the principal amount of any such Series 2007 S-1 Bonds that have been defeased, purchased or redeemed and not previously so applied or credited.

Defeased Series 2007 S-1 Bonds shall at the option of the Authority no longer be entitled, but may be subject, to the provisions thereof for mandatory redemption.

Bond Insurance

Payment of regularly scheduled principal of and interest on the Series 2007 S-1 Bonds maturing on July 15, 2012 through July 15, 2036, inclusive (the "Insured Bonds"), will be insured by Financial Guaranty Insurance Company ("Financial Guaranty"). Information about Financial Guaranty is set forth in Appendix E hereto. A specimen Financial Guaranty Insurance Policy is set forth in Appendix F hereto.

Notice of Redemption

Upon receipt of notice from the Authority of its election to redeem Bonds or when redemption of Bonds is required pursuant to the Indenture, the Trustee is to give notice of such redemption by mail to the Holders of Bonds to be redeemed at least 30 days prior to the date set for redemption. Failure by a particular Holder to receive notice, or any defect in the notice to such Holder, will not affect the redemption of any other Bond.

Other Series

The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

Debt Service Requirements

The following schedule sets forth, for each 12-month period ending June 30 of the years shown, the amounts required to be paid by the Authority for the payment of debt service on the Series 2007 S-1 Bonds and on all Outstanding Tax Secured Bonds during such period.

	Series 2007 S-1 Bonds Debt Service				
Fiscal Year Ending June 30	**Principal and Sinking Fund Installments**	**Interest**	**Total**	**Debt Service on Outstanding Tax Secured Bonds[1]**	**Total Debt Service on Series 2007 S-1 Bonds and Outstanding Tax Secured Bonds[1]**
2007	$ —	$ —	$ —	$ 983,978,276[2]	$ 983,978,276[2]
2008	—	36,659,939	36,659,939	738,761,174	775,421,113
2009	9,405,000	31,322,850	40,727,850	1,080,273,507	1,121,001,357
2010	9,755,000	30,964,994	40,719,994	1,094,829,478	1,135,549,472
2011	10,120,000	30,564,119	40,684,119	1,073,141,188	1,113,825,307
2012	12,590,000	30,070,400	42,660,400	1,114,692,379	1,157,352,779
2013	13,145,000	29,531,750	42,676,750	1,139,626,907	1,182,303,657
2014	13,675,000	28,967,450	42,642,450	1,115,352,071	1,157,994,521
2015	14,275,000	28,351,850	42,626,850	1,092,848,039	1,135,474,889
2016	14,905,000	27,694,475	42,599,475	1,070,464,559	1,113,064,034
2017	15,590,000	26,994,275	42,584,275	1,051,002,422	1,093,586,697
2018	16,305,000	26,238,531	42,543,531	1,028,919,464	1,071,462,995
2019	17,105,000	25,412,188	42,517,188	1,009,490,146	1,052,007,334
2020	17,960,000	24,535,563	42,495,563	983,324,336	1,025,819,899
2021	18,855,000	23,643,738	42,498,738	928,689,952	971,188,690
2022	19,740,000	22,715,788	42,455,788	889,238,760	931,694,548
2023	20,715,000	21,712,788	42,427,788	862,098,324	904,526,112
2024	21,750,000	20,651,163	42,401,163	665,485,523	707,886,686
2025	22,835,000	19,536,538	42,371,538	577,022,117	619,393,655
2026	23,980,000	18,366,163	42,346,163	564,991,720	607,337,883
2027	25,175,000	17,145,250	42,320,250	556,558,391	598,878,641
2028	26,420,000	15,863,338	42,283,338	514,903,480	557,186,818
2029	27,740,000	14,509,338	42,249,338	407,101,453	449,350,791
2030	29,125,000	13,087,713	42,212,713	272,035,092	314,247,805
2031	30,585,000	11,594,963	42,179,963	187,299,545	229,479,508
2032	32,115,000	10,027,463	42,142,463	116,172,794	158,315,257
2033	33,720,000	8,389,088	42,109,088	77,179,736	119,288,824
2034	35,390,000	6,676,338	42,066,338	7,671,675	49,738,013
2035	37,145,000	4,877,963	42,022,963	___	42,022,963
2036	38,985,000	2,989,713	41,974,713	___	41,974,713
2037	40,895,000	1,011,294	41,906,294	___	41,906,294

Totals may not add due to rounding.

(1) Figures reflect estimated debt service on tax-exempt adjustable rate bonds calculated at an assumed interest rate of 5% per annum and on taxable adjustable rate bonds at an assumed rate of 7% per annum. Interest on Fiscal 2003 Series A Future Tax Secured Bonds maturing after 2014 is assumed to be 5% after November 15, 2011. Interest on Fiscal 2003 Series B Future Tax Secured Bonds maturing after 2015 is assumed to be 5% after February 1, 2011. Figures include debt service on defeased bonds and include debt service on economically defeased bonds.

(2) A portion of the debt service on Outstanding Tax Secured Bonds shown above in fiscal year 2007 is expected to be paid from funds that have been paid to the Authority by the City from surplus revenues generated in fiscal year 2005.

Use of Proceeds

The proceeds of the Series 2007 S-1 Bonds will be used to finance a portion of the costs of one or more Five-Year Plans. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 2007 S-1 Bonds will be paid from the proceeds of the Series 2007 S-1 Bonds.

Book-Entry Only System

Beneficial ownership interests in the Authority's bonds and notes (the "Securities") will be available in book-entry only form. Purchasers of beneficial ownership interests in the Securities will not receive certificates representing their interests in the Securities purchased.

DTC, New York, New York, will act as securities depository for the Securities. The Securities will be issued as fully registered securities 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 or more fully registered bond certificates will be issued for each principal amount of Securities of each series maturing on a specified date and bearing interest at a specified interest rate, each in the aggregate principal amount of such quantity of Securities, and will be deposited with DTC.

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

Purchases of the Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of such Securities ("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. Beneficial Owners are, however, 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 Securities 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 bond certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts the Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities 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 Authority or the Trustee on the payable 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 Participants and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

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

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information furnished by DTC. Neither the Authority 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.

Other Information

For additional information regarding the Series 2007 S-1 Bonds and the Indenture, see "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT."

SECTION V: THE AUTHORITY

Purpose and Operations

The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State created to issue and sell its Bonds and Notes to fund a portion of the capital program of the City including the Five-Year Plan, as requested by the Mayor.

The Authority does not have any significant assets or sources of funds other than the Tax Revenues and State Building Aid and amounts on deposit pursuant to the Indenture. The Bonds will not be insured or guaranteed by the City or the State. Consequently, holders of the Bonds must rely for repayment solely upon the sources of payment described herein.

The Authority is not authorized by State law to file a petition in bankruptcy.

Directors and Management

The Authority is administered by five directors, consisting of the Director of Management and Budget of the City, the Comptroller of the City, the Speaker of the City Council, the Commissioner of Finance of the City and the Commissioner of the Department of Design and Construction of the City. Three directors constitute a quorum for the transaction of business or the exercise of any power of the Authority. A favorable vote of at least three directors present at a meeting where such action is taken is necessary to approve any action, including the issuance of Bonds or Notes of the Authority or to authorize any amendatory or supplemental indenture or financing agreement of the Authority relating to such issuance. The current directors of the Authority, each of whom serves in an *ex-officio* capacity, are:

Mark Page, Chairperson	—	Director of Management and Budget of the City
Martha E. Stark	—	Commissioner of Finance of the City
William C. Thompson, Jr.	—	Comptroller of the City
David Burney	—	Commissioner of the Department of Design and Construction of the City
Christine Quinn	—	Speaker of the City Council

The following is a brief description of certain officers and staff members of the Authority:

Alan L. Anders, Executive Director

Mr. Anders was appointed Treasurer in April 1997 and subsequently was appointed Executive Director in June 2006. Mr. Anders also serves as Deputy Director for Finance of the Office of Management and Budget of the City. Prior to joining the City in September 1990, Mr. Anders was a senior investment banker for J.P. Morgan Securities since 1977 and prior to that date was Executive Director of the Commission on Governmental Efficiency and Economy in Baltimore, Maryland. Mr. Anders is a graduate of the University of Pennsylvania and the University of Maryland Law School.

Marjorie E. Henning, Secretary

Ms. Henning was appointed Secretary in April 1997. Ms. Henning also serves as General Counsel to the Office of Management and Budget of the City. Ms. Henning is a graduate of the State University of New York at Buffalo and the Harvard Law School.

F. Jay Olson, CTP, Treasurer

Mr. Olson was appointed Assistant Treasurer in October 2000 and subsequently was appointed Treasurer in June 2006. Mr. Olson is a graduate of Northwestern University, the University of Texas at Austin, and the John F. Kennedy School of Government at Harvard University. He is a certified treasury professional.

Prescott D. Ulrey, General Counsel

Mr. Ulrey was appointed Assistant Secretary in 1998 and subsequently was appointed General Counsel in 2000. He is a graduate of the University of California at Berkeley, the Fletcher School of Law and Diplomacy at Tufts University and Columbia Law School. He also serves as Counsel to the Office of Management and Budget of the City.

Lawrence R. Glantz, Comptroller

Mr. Glantz was appointed Comptroller in January 2000. He is a graduate of Hofstra University.

Michele Mark Levine, Assistant Comptroller

Ms. Levine was appointed Assistant Comptroller in March 2005. She is a graduate of the State University of New York at Binghamton and the Maxwell School of Citizenship and Public Administration at Syracuse University.

Sanna Wong-Chen, Assistant Treasurer

Ms. Wong-Chen was appointed Assistant Treasurer in June 2006. She is a graduate of Cornell University.

Albert F. Moncure, Jr., Assistant Secretary

Mr. Moncure was appointed Assistant Secretary in 1998. He is a graduate of Dartmouth College and the Yale Law School. He also serves as Chief of the Municipal Finance Division of the New York City Law Department, where he has worked since 1986.

Other Authority Obligations

Assuming conditions specified in the Act and the Indenture are met, the Act authorizes the Authority to issue Bonds and Notes for capital purposes (up to $13.5 billion) of the City and for refunding of Bonds and Notes. The Act permits the Authority to have outstanding $2.5 billion of Recovery Obligations. The Act was further amended in 2006 by the School Financing Act to authorize the issuance of bonds, notes and other obligations in an amount outstanding of up to $9.4 billion to finance portions of the Five-Year Plan. In addition, the Act was further amended in 2006 to increase the Authority's statutory capacity to issue Bonds for general City capital purposes by $2 billion to $13.5 billion. The Authority has previously issued $12.3 billion of Bonds and Notes for general City capital purposes. The Authority currently has Outstanding $9,638,045,000 of Senior Bonds (including both the issuance amount of capital appreciation bonds and bonds that have been economically defeased). The Indenture permits up to $12 billion principal amount of Senior Bonds (not including Refunding Bonds) to be Outstanding. The

Authority has Outstanding $1,765,060,000 of Recovery Obligations and $1,336,120,000 of other Outstanding Subordinate Bonds issued on a parity with Recovery Obligations.

The Authority expects to issue $1.2 billion aggregate principal amount of Future Tax Secured Bonds or Notes for general City capital purposes in the Authority's 2007 fiscal year inclusive of the $600,000,000 aggregate principal amount of the Authority's General Capital Purpose Bond Anticipation Notes, Fiscal 2007 Series 1 expected to be issued on November 29, 2006 (the "Series 1 Notes"). The Series 1 Notes constitute Post-07 S-1 Obligations and are not secured by State Building Aid. In addition, the Authority expects that it will issue other Bonds for refunding purposes from time to time. Furthermore, the City expects to annually seek legislation amending the Act to increase the statutory cap on the Authority's Bonds for general City capital purposes. If the Act is so amended, the Authority expects to issue such Bonds from time to time, but will continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein. See "Appendix A—Summary of Indenture, Assignment, and Agreement." Any such additional Bonds issued for general capital purposes of the City subsequent to the issuance of the Series 2007 S-1 Bonds will not constitute Pre-07 S-1 Obligations and will not be secured by State Building Aid.

Financial Emergency Act

The Authority is a "covered organization" under the New York State Financial Emergency Act for The City of New York, as amended (the "Financial Emergency Act"), and, as such, its operations are included in the City Financial Plan. Under the Financial Emergency Act, the Financial Plan would have to be approved by the New York State Financial Control Board (the "Control Board") in the event that a Control Period (as defined in the Financial Emergency Act) were imposed. During a Control Period, the Tax Revenues will continue to be paid to the Authority and the State and City covenants described herein will remain in full force and effect. The Financial Emergency Act requires outstanding debt obligations of the Authority to be paid. A Control Period would allow the Control Board to prohibit the Authority from issuing other Series of Bonds if such issuance would be inconsistent with the Financial Plan or objectives and purposes of the Financial Emergency Act. No Control Period has been in effect since 1986. In the absence of a Control Period, the Control Board retains certain powers of review over the financial plans that the City is required to submit periodically. The Control Board's authority to impose a Control Period terminates July 1, 2008.

SECTION VI: LITIGATION

There is not now pending any litigation (i) restraining or enjoining the issuance or delivery of the Series 2007 S-1 Bonds or questioning or affecting the validity of the Series 2007 S-1 Bonds or the proceedings and authority under which they are issued; (ii) contesting the creation, organization or existence of the Authority, or the title of the directors or officers of the Authority to their respective offices; (iii) questioning the right of the Authority to enter into the Indenture, the Assignment Agreement or the Agreement and to pledge the State Building Aid and funds and other moneys and securities purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture and State Aid or (iv) questioning or affecting the levy or collection of the Personal Income Tax, Sales Tax and State Aid in any material respect, or the application of the Personal Income Tax, Sales Tax and State Aid for the purposes contemplated by the Act, or the procedure thereunder.

SECTION VII: TAX MATTERS

In the opinion of Sidley Austin LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Series 2007 S-1 Bonds will not be includable in the gross income of the owners of the Series 2007 S-1 Bonds for purposes of federal income taxation under existing law. Interest on the Series 2007 S-1 Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2007 S-1 Bonds in the event of a failure by the Authority or the City to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and their respective covenants regarding use, expenditure and investment of the proceeds of the Series 2007 S-1 Bonds and the timely payment of certain investment earnings to the United States Treasury; and no opinion is rendered by Sidley Austin LLP as to the exclusion from gross income of the interest on the Series 2007 S-1 Bonds for federal income tax purposes on or after the date on which any action is taken under the Indenture or related proceedings upon the approval of counsel other than such firm.

In the opinion of Bond Counsel, interest on the Series 2007 S-1 Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City. In the opinion of Bond Counsel, interest on the Series 2007 S-1 Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which Sidley Austin LLP renders no opinion, as a result of ownership of such Series 2007 S-1 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 Series 2007 S-1 Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

The excess, if any, of the stated redemption price at maturity of any maturity of the Series 2007 S-1 Bonds 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 Series 2007 S-1 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 Series 2007 S-1 Bonds. In general, the issue price of a maturity of the Series 2007 S-1 Bonds is the first price at which a substantial amount of Series 2007 S-1 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 Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed below. 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 subject to redemption prior to its stated maturity, or a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such Bonds is sold to the public, may be determined according to rules that differ from those described above. An owner of a

Discount Bond should consult his tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

The excess, if any, of the tax basis of Series 2007 S-1 Bonds to a purchaser (other than a purchaser who holds such Series 2007 S-1 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 such Series 2007 S-1 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 such Series 2007 S-1 Bonds are required to decrease their adjusted basis in such Series 2007 S-1 Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2007 S-1 Bonds are held. The amortizable bond premium on such Series 2007 S-1 Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, U.S. Treasury regulations provide that bond premium is treated as an offset to qualified stated interest received on such Series 2007 S-1 Bonds. Owners of such Series 2007 S-1 Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Series 2007 S-1 Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2007 S-1 Bonds.

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 Series 2007 S-1 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 2007 S-1 Bonds will not have an adverse effect on the status of the Series 2007 S-1 Bonds. Legislative or regulatory actions and proposals may also affect the economic value of the tax exemption or the market price of the Series 2007 S-1 Bonds.

Backup Withholding

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Bonds made after March 31, 2007 to be subject to backup withholding if such interest is paid to 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 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.

SECTION VIII: RATINGS

The Series 2007 S-1 Bonds have been rated "AA-" by Standard & Poor's, "A1" by Moody's and "A+" by Fitch. Such ratings reflect only the views of Standard & Poor's, Moody's and Fitch, from which an explanation of the significance of such ratings may be obtained. The Authority expects that the Insured Bonds will be rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "AAA" by Fitch based on the municipal bond insurance policy to be issued by Financial Guaranty. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of the Rating Agency originally establishing the rating, circumstances so warrant. A downward revision or withdrawal of such ratings, or any of them, may have an effect on the market price of the Series 2007 S-1 Bonds.

SECTION IX: APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance and delivery of the Series 2007 S-1 Bonds are subject to the approval of Sidley Austin LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters are subject to the approval of the New York City Corporation Counsel, counsel to the Authority and the City, and of Winston & Strawn LLP, New York, New York, counsel to the Underwriters.

SECTION X: FINANCIAL ADVISORS

Public Resources Advisory Group, New York, New York and A.C. Advisory, Inc., Chicago, Illinois are acting as financial advisors to the Authority in connection with the issuance of the Series 2007 S-1 Bonds.

SECTION XI: FINANCIAL STATEMENTS

The Authority's financial statements for the fiscal years ended June 30, 2006 and June 30, 2005, included in Appendix B to this Official Statement, have been audited by Grant Thornton LLP, independent certified public accountants, to the extent and for the periods indicated in their report thereon.

SECTION XII: CONTINUING DISCLOSURE UNDERTAKING

To the extent that Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC") promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act"), requires underwriters (as defined in the Rule) to determine, as a condition to purchasing the securities, that the Authority will make such covenants, the Authority will covenant as follows:

The Authority shall provide

(a) within 185 days after the end of each fiscal year, to each nationally recognized municipal securities information repository and to any State information depository, core financial information and operating data for the prior fiscal year, including (i) the Authority's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the Authority's revenues, expenditures, financial operations and indebtedness, generally of the types found under "Sections II and III" herein and (iii) information generally of the type contained in Appendix C herein; and

(b) in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to any New York State information depository, notice of any of the following events with respect to the Building Aid Revenue Bonds, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the Building Aid Revenue Bonds;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities;

(11) rating changes; and

(12) failure by the Authority to comply with clause (a) above.

The Authority will not undertake to provide any notice with respect to (1) credit enhancement if the credit enhancement is added after the primary offering of the Building Aid Revenue Bonds, the Authority does not apply for or participate in obtaining the enhancement and the enhancement is not described in the applicable Official Statement; (2) a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if (a) the terms, dates and amounts of redemption are set forth in detail in the applicable offering circular, (b) the only open issue is which securities will be redeemed in the case of a partial redemption, (c) notice of redemption is given to the Holders as required under the terms of the Indenture and (d) public notice of the redemption is given pursuant to Release No. 23856 of the SEC under the 1934 Act, even if the originally scheduled amounts may be reduced by prior optional redemptions or purchases; or (3) tax exemption other than pursuant to the Act or § 103 of the Code.

No Holder of Securities may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the continuing disclosure undertaking (the "Undertaking") or for any remedy for breach thereof, unless such Holder of Securities shall have filed with the Authority evidence of ownership and a written notice of and request to cure such breach, the Authority shall have refused to comply within a reasonable time and such Holder stipulates that (a) no challenge is made to the adequacy of any information provided in accordance with the Undertaking and (b) no remedy is sought other than substantial performance of the Undertaking. 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 then outstanding bonds benefited 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.

An 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 Authority, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of award of a series of bonds, 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 Holders of bonds, as determined by parties unaffiliated with the Authority (such as, but without limitation, the Authority'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 SEC staff 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 issue of a series of bonds ceases to be in effect for any reason, and the Authority 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 bond 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 bond, subject to certain exceptions as set forth in the Undertaking. Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

The State has not agreed to provide continuing disclosure regarding the Building Aid Revenue Bonds. However, the Authority has agreed to provide continuing disclosure with respect to information relating to the State.

SECTION XIII: UNDERWRIT1NG

The Series 2007 S-1 Bonds are being purchased for reoffering by the Underwriters, for whom Bear, Stearns & Co. Inc. is acting as Lead Manager. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2007 S-1 Bonds from the Authority at an aggregate underwriters' discount of $4,591,593.58 to make an initial public offering of the Series 2007 S-1 Bonds at prices that are not in excess of the initial public offering prices set forth on the inside cover page of this Official Statement, plus accrued interest, if any. The Underwriters will be obligated to purchase all the Series 2007 S-1 Bonds if any Series 2007 S-1 Bonds are purchased.

The Series 2007 S-1 Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriters.

SECTION XIV: LEGAL INVESTMENT

Pursuant to the Act, the Bonds and Notes of the Authority are securities in which all public officers and bodies of the State and all public corporations, municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, conservators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or in other obligations of the

State, may properly and legally invest funds, including capital, in their control or belonging to them. Pursuant to the Act, the Bonds and Notes may be deposited with and may be received by all public officers and bodies of the State and all municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

SECTION XV: MISCELLANEOUS

The references herein to the Act, the Indenture, the Assignment, the MOU and the Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Act, the Indenture, the Assignment, the MOU and the Agreement for full and complete statements of such provisions. Copies of the Act, the Indenture, the Assignment, the MOU and the Agreement are available at the offices of the Trustee.

The agreements of the Authority with holders of the Series 2007 S-1 Bonds are fully set forth in the Indenture. Neither any advertisement of the Series 2007 S-1 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2007 S-1 Bonds.

The delivery of this Official Statement has been duly authorized by the Authority.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

Appendix A

SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT

This summary of the Indenture, the Assignment and the Agreement, each as proposed to be in effect upon the delivery of the Series 2007 S-1 Bonds, is qualified in its entirety by reference to such documents, copies of which are available from the Authority.

Definitions. The following terms, among others, are defined in the Indenture, the Assignment or the Agreement:

"Accounts" means the School Bond Account, the Recovery and Parity Debt Account, the Collection Account, the Bond Account, the Redemption Account and such other Accounts as may be established and so designated pursuant to the Indenture.

"Act" means the New York City Transitional Finance Authority Act, as in effect from time to time, and as the context requires, other provisions of Chapter 16 of the laws of New York 1997, as amended, and the School Financing Act.

"Agreement" means the Financing Agreement dated October 1, 1997, between the Authority and the City as amended, supplemented and in effect from time to time.

The term **"ancillary contracts"** means contracts entered into pursuant to law by the Authority or for its benefit or the benefit of any of the Beneficiaries to facilitate the issuance, sale, resale, purchase, repurchase or payment of Bonds or Notes, including bond insurance, letters of credit and liquidity facilities.

"Annual School Bond Debt Service" means the total amount required to be paid from the School Bond Account in a Fiscal Year, based on School Bonds Outstanding and to be issued.

"Assignment" means the Assignment of State Aid dated October 19, 2006, as amended, and includes each further assignment of State aid by the City to the Authority pursuant to the School Financing Act.

"Beneficiaries" means Bondholders and, to the extent specified in the Indenture, Noteholders and the parties to and beneficiaries of ancillary and swap contracts.

"Bondholders," "Noteholders" and similar terms mean the registered owners of the Bonds and Notes from time to time as shown on the books of the Authority, and, to the extent specified by Series Resolution, the owners of bearer Bonds and Notes.

"Bonds" means all obligations issued by the Authority as bonds.

"Building Aid" means the State school building aid described in the Assignment.

"Building Aid Subaccount" means the subaccount of the Collection Account so designated and held by the Trustee pursuant to the Indenture.

"Capital Financing Need" means a period during which and only the extent to which the issuance of Bonds or Notes in accordance with the Act would assist the City in meeting its capital needs as determined by the Mayor pursuant to the Act.

"Chapter 297" means Chapter 297 of the Laws of 2001 of the State, as it may be amended and in effect from time to time.

"Collection Quarter" means the three months beginning each August, November, February and May.

"Competing Claims" include all claims to, and diversions, reductions and withholdings of, Education Aid adverse to the Authority, such as: (x) claims of (i) holders of general obligation bonds of the City issued for school purposes; (ii) holders of the State of New York Municipal Bond Bank Agency Special School Purpose Revenue Bonds (Prior Year Claims), 2003 Series C; and (iii) holders of the New York City Educational Construction Fund Revenue Bonds, 2005 Series A; and (y) State withholdings or recoveries of Education Aid for the City's failure to provide certain educational services (e.g., courses in special areas, certain number of instructional days, certain health services, services for handicapped students, administrative practices or willful disobedience of certain laws or directives) or to otherwise correct errors or omissions in the apportionments of Education Aid pursuant to Subdivision 5 of Section 3604 of the Education Law, as statutorily mandated.

"Confirmed Building Aid" means Building Aid statutorily required to be paid to the Authority with respect to approved projects, subject to appropriation, but not to any other statutory or administrative conditions or approvals, and which shall be calculated in accordance with the State Covenant and with the building aid ratios applicable to such projects at the date of calculation.

"Counsel" means nationally recognized bond counsel or such other counsel as may be selected by the Authority for a specific purpose.

"Debt Service" or **"Senior Debt Service"** means interest, redemption premium, purchase price to the extent provided by Officer's Certificate of the Authority, principal and sinking fund payments due on Outstanding Senior Bonds and (to the extent provided by Series Resolution) Notes and amounts payable from the Bond Account on Senior Agreements. Principal of Notes and termination payments on swap contracts shall be deemed Debt Service only to the extent expressly specified in the text of a Series Resolution.

"Deductions" refers to (i) the practice in effect at the date hereof under which, pursuant to the Education Law, the State Comptroller deducts from Education Aid amounts required to reimburse the State for certain expenditures made by the State for the education of blind, deaf and handicapped children resident in the City and (ii) withholdings, disallowances or recoveries of Education Aid as a result of administrative reviews, audits or other procedures relating to such Education Aid, other than administrative reviews, audits or other procedures relating to Building Aid.

"Defeasance Collateral" means money and (A) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Authority obtains Rating Confirmation with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

(B) obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof);

(C) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (B), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated trust account in the trust department separate from the general assets of such custodian;

(D) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, and (ii) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (A), (B), (C) or (E) which fund may be applied only to the payment when due of such bonds or other obligations; and

(E) with respect to Bonds issued on and after March 24, 2004, obligations described in clause (ii) of the definition of Eligible Investments.

"Defeased Bonds" means legally defeased Bonds or Notes and other Bonds or Notes that remain in the hands of their Holders but are no longer deemed Outstanding.

"Education Aid" means all State aid that may be forwarded to the Paying Agent for the benefit of the Holders of School Bonds and School Notes pursuant to § 99-b of the State Finance Law.

"Eligible Investments" means the following obligations to the extent they are legal for investment of money under the Indenture pursuant to any applicable provision of the Act:

(i) Defeasance Collateral;

(ii) direct obligations of, or obligations guaranteed as to timely payment of principal and interest by, FHLMC, FNMA or the Federal Farm Credit System;

(iii) demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any bank or trust company, savings and loan association or savings bank, if such deposits or instruments are rated A-1+ by Standard & Poor's and the long-term unsecured debt obligations of the institution holding the related account has one of the two highest ratings available for such securities by Moody's;

(iv) general obligations of, or obligations guaranteed by, any state of the United States or the District of Columbia receiving one of the two highest long-term unsecured debt ratings available for such securities by Moody's and Standard & Poor's;

(v) commercial or finance company paper (including both non-interest-bearing discount obligations and interest-bearing obligations payable on demand or on a specified date not more than one year after the date of issuance thereof) that is rated A-1+ by Standard & Poor's and in one of the two highest categories by Moody's;

(vi) repurchase obligations with respect to any security described in clause (i) or (ii) above entered into with a broker/dealer, depository institution or trust company (acting as principal) meeting the rating standards described in clause (iii) above;

(vii) securities bearing interest or sold at a discount that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated in one of the two highest categories by Moody's and either A-1+ or in one of the two highest long-term categories by Standard & Poor's at the time of such investment or contractual commitment providing for such investment; provided, however, that securities issued by any such corporation will not be Eligible Investments to the extent that investment therein would cause the then outstanding principal amount of securities issued by such corporation that are then held to exceed 20% of the aggregate principal amount of all Eligible Investments then held;

(viii) units of taxable money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated in one of the two highest categories by Moody's and at least AAm or AAm-G by Standard & Poor's, including if so rated the VISTA Money Market Funds or any other fund which the Trustee or an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or sub-custodian, notwithstanding that (a) the Trustee or an affiliate of the Trustee charges and collects fees and expenses (not exceeding current income) from such funds for services rendered, (b) the Trustee charges and collects fees and expenses for services rendered pursuant to the Indenture, and (c) services performed for such funds and pursuant to the Indenture may converge at any time (the Authority specifically authorizes the Trustee or an affiliate of the Trustee to charge and collect all fees and expenses from such funds for services rendered to such funds, in addition to any fees and expenses the Trustee may charge and collect for services rendered pursuant to the Indenture);

(ix) investment agreements or guaranteed investment contracts rated, or with any financial institution whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, in one of its two highest rating categories for comparable types of obligations by Moody's and Standard & Poor's; or

(x) investment agreements with a corporation whose principal business is to enter into such agreements if (a) such corporation has been assigned a counterparty rating by Moody's in one of the two highest categories and Standard & Poor's has rated the investment agreements of such corporation in one of the two highest categories and (b) the Authority has an option to terminate each agreement in the event that such counterparty rating is downgraded below the two highest categories by Moody's or the investment agreements of such corporation are downgraded below the two highest categories by Standard & Poor's;

provided that no Eligible Investment may evidence the right to receive only interest with respect to prepayable obligations underlying such instrument or be purchased at a price greater than par if such instrument may be prepaid or called at a price less than its purchase price prior to its stated maturity.

"FHLMC" means the Federal Home Loan Mortgage Corporation.

"Fiduciary" means the Trustee, any representative of the Holders of Notes or Subordinate Bonds appointed by Series Resolution, or any Paying Agent, including each fiscal agent.

"First-Month Requirement" means, for any subaccount funded by Tax Revenues, one-half of Quarterly Senior Debt Service or one-half of Quarterly Subordinate Debt Service payable therefrom, plus any amount payable therefrom in the current Payment Period.

The term **"fiscal agent"** means each Paying Agent (initially the Trustee) designated by the Authority to act as registrar and transfer agent.

"Fiscal Year" means each 12-month period beginning July 1.

"FNMA" means the Federal National Mortgage Association.

"Full Requirement" means, for any subaccount funded by Tax Revenues, the Quarterly Senior Debt Service or Quarterly Subordinate Debt Service payable therefrom, plus any amount payable therefrom in the current Payment Period.

"HYIC" means the Hudson Yards Infrastructure Corporation, a local development corporation organized under the Not-For-Profit Corporation Law of the State.

"Indenture" means the Amended and Restated Original Indenture entered into as of October 1, 1997, as supplemented, and as amended and restated November 16, 2006.

"LFL" means the Local Finance Law of the State, as amended from time to time.

“MAC” means the Municipal Assistance Corporation for The City of New York.

“Majority in Interest” means the Holders of a majority of the Outstanding Bonds or Notes eligible to act on a matter, measured by face value at maturity unless otherwise specified in a Series Resolution.

The term **“maximum annual debt service on the Bonds”** means the greatest amount of interest, principal and sinking fund payments on Outstanding Bonds (including payment on Subordinate Bonds and Senior Bonds but excluding payments on Notes and ancillary and swap contracts, whether or not such payments are Debt Service) payable in the current or any future fiscal year.

“Moody’s” means Moody’s Investors Service; references to Moody’s are effective so long as Moody’s is a Rating Agency.

“MOU” means the Memorandum of Understanding relating to the Education Aid, dated as of October 26, 2006, among the Authority, the City, the State Comptroller and the State Education Department.

“Net Building Aid” means Confirmed Building Aid, net of any Competing Claims that the Authority expects to be applied against the Building Aid.

“Notes” means all obligations issued by the Authority as notes.

The term **“operating expenses”** means all expenses incurred by the Authority in the administration of the Authority including but not limited to salaries, administrative expenses, insurance premiums, auditing and legal expenses, fees and expenses incurred for professional consultants and fiduciaries, payments on Notes and swap and ancillary contracts not paid as Costs or from the Bond Account, transfers to pay or service Subordinate Bonds, and all operating expenses so identified by Supplemental Indenture.

“Outstanding,” when used to modify Bonds or Notes, refers to Bonds or Notes issued under the Indenture, excluding: (i) Bonds or Notes which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment; (ii) Bonds or Notes which have been paid; (iii) Bonds or Notes which have become due and for the payment of which money has been duly provided; (iv) Bonds or Notes for which there have been irrevocably set aside sufficient Defeasance Collateral timely maturing and bearing interest, to pay or redeem them; and if any such Bonds or Notes are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds or Notes and notice of such redemption shall have been duly mailed in accordance with the Indenture or irrevocable instructions so to mail shall have been given to the Trustee; (v) Bonds and Notes the payment of which shall have been provided for pursuant to the defeasance provisions of the Indenture; and (vi) for purposes of any consent or other action to be taken by the Holders of a Majority in Interest or specified percentage of Bonds or Notes, Bonds or Notes held by or for the account of the Authority, the City or any person controlling, controlled by or under common control with either of them.

“Parity Debt” means Recovery Obligations and Bonds or Notes payable from the Recovery and Parity Debt Account on a parity with the Recovery Bonds or Recovery Notes, respectively.

“Payment Period” means the three months following each Collection Quarter.

“Personal Income Taxes” means the taxes paid or payable to the Authority pursuant to §1313 of the Tax Law or a successor statute.

“Post-07 S-1 Parity Debt” means Parity Debt issued after November 16, 2006, or so identified pursuant to a Series Resolution.

"Post-07 S-1 Parity Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Post-07 Parity Debt.

"Post-07 S-1 Senior Debt" means obligations payable from the Bond Account that are either incurred after November 16, 2006, or identified as Post-07 S-1 Senior Debt pursuant to a Series Resolution.

"Post-07 S-1 Senior Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Post-07 S-1 Senior Debt.

"Pre-07 S-1 Parity Debt" means Parity Debt that is not Post-07 Parity Debt.

"Pre-07 S-1 Parity Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Pre-07 S-1 Parity Debt.

"Pre-07 S-1 Senior Bonds" means Senior Bonds that are not Post-07 S-1 Senior Debt.

"Pre-07 S-1 Senior Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Pre-07 S-1 Senior Bonds.

"Prior Claims" means the Competing Claims to which the Authority's right to the Building Aid is subordinated by the School Financing Act.

"Project Capital Costs" or **"Costs"** means (i) costs, appropriated in the capital budget of the City pursuant to Chapters 9 and 10 of the City Charter, as amended from time to time, providing for the construction, reconstruction, acquisition or installation of physical public betterments or improvements which would be classified as capital assets under generally accepted accounting principles for municipalities, or (ii) the costs of any preliminary studies, surveys, maps, plans, estimates and hearings, or (iii) incidental costs, including legal fees, printing or engraving, publication of notices, taking of title, apportionment of costs, and interest during construction, or (iv) any underwriting or other costs incurred in connection with the financing thereof, or (v) to the extent financed by Recovery Obligations, Recovery Costs (the financing of which is not limited by references to the Capital Financing Need), but (vi) to the extent financed by School Bonds or School Notes, only School Capital Costs.

"Projects" means the projects identified in Exhibit A to the Agreement and all other projects, any costs of which are included in a Transitional Capital Plan pursuant to the Act or are Recovery Costs, and financed, by payment or reimbursement, with the proceeds of Bonds or Notes.

"Qualified Swap" means an ancillary or swap contract with a counterparty (i) the debt securities of which are rated in one of the two highest long-term debt rating categories by S&P or (ii) the obligations of which under the contract are either guaranteed or insured by an entity the debt securities or insurance policies of which are so rated or (iii) the debt securities of which are rated in the third highest long-term debt rating category by S&P or whose obligations are guaranteed or insured by an entity so rated, in either case the obligations of which under the contract are continuously and fully secured by Eligible Investments meeting criteria provided by S&P to the Authority and then in effect.

"Quarterly Debt Service" or **"Quarterly Senior Debt Service"** means Senior Debt Service payable in the following Payment Period, as certified to the Trustee by Officer's Certificate of the Authority.

"Quarterly Subordinate Debt Service" means amounts payable in the following Payment Period from the Recovery and Parity Debt Account pursuant to supplemental indentures, including interest on and principal of Recovery Obligations and Parity Debt issued as Bonds and interest on Recovery Obligations and Parity Debt issued as Notes, as certified to the Trustee by an Officer's Certificate.

"Rating Agency" means each nationally recognized statistical rating organization that has, at the request of the Authority, a rating in effect for the unenhanced Senior Bonds.

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

"Rating Confirmation" means evidence that no Senior Bond rating in effect from a Rating Agency will be withdrawn or reduced solely as a result of an action to be taken under the Indenture.

"Recovery and Parity Debt Account" or **"Recovery Account"** means the Account established under the Indenture to provide for the payment of debt service on Recovery Obligations and Parity Debt.

"Recovery Bonds" means Recovery Obligations issued as Bonds.

"Recovery Costs" means costs described in Chapter 297.

"Recovery Notes" means Recovery Obligations issued as Notes.

"Recovery Obligations" means bonds, notes or other obligations described in Chapter 297.

"Remaining Building Aid" means the Authority's projection of the balance of Net Building Aid to be received in the current Fiscal Year, based on the latest estimates from the State and such other information as the Authority deems relevant.

"Revenues" means the Tax Revenues (including Alternative Revenues paid or payable to the Authority), the Building Aid and all aid, rents, fees, charges, payments and other income and receipts (other than Note or Bond proceeds) paid or payable to the Authority or the Trustee for the account of the Authority.

"Sales Taxes" means Alternative Revenues as defined in the Act; that is, (i) sales and compensating use taxes that the City is authorized by the State to impose and (ii) taxes imposed pursuant to § 1107 of the Tax Law; and successor taxes.

"School Bond Account" means the account so designated and held by the Trustee pursuant to the Indenture.

"School Bond Rating Confirmation" means evidence that no School Bond rating in effect at the request of the Authority from a nationally recognized statistical rating organization will be withdrawn or reduced in Rating Category solely as a result of an action to be taken under the Indenture.

"School Bonds" means School Obligations issued as Bonds.

"School Capital Costs" means Costs referred to in the School Financing Act.

"School Financing Act" means part A-3 of chapter 58 of the laws of New York, 2006, as it may be amended and in effect from time to time.

"School Notes" means School Obligations issued as Notes, which shall mature within 13 months from their date of issue.

"School Obligations" means bonds, notes, swaps and ancillary contracts payable from the School Bond Account.

"Senior Agreements" means ancillary and swap contracts to the extent that amounts are payable thereon from the Bond Account pursuant to a Series Resolution.

"Senior Bonds" means all Bonds issued as Senior Bonds.

“Series” means all Notes or Bonds so identified in a Series Resolution, regardless of variations in maturity, interest rate or other provisions, and any Notes or Bonds thereafter delivered in exchange or replacement therefor.

“Series Fiscal Year” means each Fiscal Year in which School Bonds of a Series are scheduled to be Outstanding; in which, unless otherwise specified by Series Resolution, each payment of principal or interest shall be made on July 15 or January 15.

“Standard & Poor’s” or **“S&P”** means Standard & Poor’s Ratings Services; references to Standard & Poor’s are effective so long as Standard & Poor’s is a Rating Agency.

“State” means the State of New York.

“Statutory Revenues” means Personal Income Taxes and Sales Taxes.

“Subordinate Agreements” means ancillary and swap contracts to the extent that such contracts are not Senior Agreements.

“Subordinate Bonds” means all Bonds but Senior Bonds.

The term **“swap contract”** or **“swap”** means an interest rate exchange or similar agreement entered into by the Authority with Rating Confirmation by Standard & Poor’s pursuant to the Act and any appropriate provisions of the LFL that are applicable to the City and made applicable to the Authority by the Act.

“Tax-Exempt Bonds” or **“Tax-Exempt Notes”** means all Bonds or Notes so identified in any Series Resolution.

“Tax Revenue Subaccount” means the subaccount of the Collection Account so designated and held by the Trustee pursuant to the Indenture.

“Tax Revenues” means the Personal Income Taxes and such other revenues, including Sales Taxes (but excluding Building Aid), as the Authority may derive directly from the State from taxes imposed by the City or the State and collected by the State.

“Transitional Capital Plan” means such plan in effect pursuant to the Act.

“Unfunded Balance”, with respect to the Building Aid, means Annual School Bond Debt Service remaining to be paid in a Fiscal Year, plus Annual School Bond Debt Service for the following Fiscal Year, minus the amount held in the School Bond Account, but not less than zero.

THE INDENTURE

Directors, State and City Not Liable on Notes or Bonds. Neither the Directors of the Authority nor any person executing Notes, Bonds or other obligations of the Authority shall be liable personally thereon or be subject to any personal liability or accountability solely by reason of the issuance thereof.

The Notes, Bonds and other obligations of the Authority shall not be a debt of either the State or the City, and neither the State nor the City shall be liable thereon, nor shall they be payable out of any funds other than those of the Authority; and the Notes and Bonds shall contain on the face thereof a statement to such effect.

Security and Pledge. Pursuant to the Act, the Authority assigns and pledges to the Trustee (a) the Revenues, (b) all rights to receive the Revenues and the proceeds of such rights, (c) all money and Accounts held by the Trustee, (d) the covenants of the City and the State and (e) any and all other property of every kind and nature from time to time, by delivery or by writing of any kind, pledged, assigned or transferred as and for additional security. Except as specifically provided, this assignment and pledge does not include: (i) the rights of the Authority pursuant to provisions for consent or other action by the Authority, notice to the Authority, indemnity or the filing of documents with the Authority, or otherwise for its benefit and not for that of the Beneficiaries, or (ii) any right or power reserved to the Authority pursuant to the Act or other law. The Authority will implement, protect and defend this pledge by all appropriate legal action, the cost thereof to be an operating expense. The preceding, and all pledges and security interests made and granted by the Authority pursuant hereto, are immediately valid, binding and perfected to the full extent provided by the Act. The foregoing collateral is pledged and a security interest is therein granted, to secure the payment of Bonds, Notes, and payments in respect of Senior Agreements and Subordinate Agreements; provided, however, that the pledge and security interest granted to secure the Authority's obligation to pay Subordinate Bonds and Subordinate Agreements shall be subject and subordinate to the pledge and security interest granted to secure Debt Service, and all Revenues, including the Building Aid, shall be applied in accordance with the Indenture. The lien of such pledge and the obligation to perform the contractual provisions shall have priority over any or all other obligations and liabilities of the Authority secured by the Revenues. The Authority shall not incur any obligations, except as authorized by the Indenture, secured by a lien on the Revenues or Accounts equal or prior to the lien of the Indenture.

Defeasance of the Indenture. When (a) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem all obligations to Beneficiaries in full, (b) if any Bonds or Notes are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds or Notes and notice of such redemption shall have been duly given or irrevocable instructions to give notice shall have been given to the Trustee, and (c) all the rights of the Authority and the Trustee have been provided for, then upon written notice from the Authority to the Trustee, the Beneficiaries shall cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds so held and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien, the security interests created by the Indenture (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien and security interests.

Legal Defeasance of Particular Bonds. If (a) any Bonds or Notes are identified as legally defeased in a Series Resolution pursuant to the Indenture, (b) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing fixed interest at such rates and with such maturities as will provide sufficient funds to pay or redeem all obligations to the Holders of such Bonds in full (to be verified by a nationally recognized firm of independent certified public accountants), (c) the Authority has taken all action necessary to redeem any such Bonds or Notes to be redeemed prior to maturity and notice of such redemption has been duly given or irrevocable instructions to give notice have been given to the Trustee, and (d) unless otherwise specified by Series Resolution at issuance of the Bonds or Notes to be defeased, the Authority has delivered to the Trustee an opinion of Counsel to the effect that the Holders 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 (if any), in the same manner and at the same times as would have been the case if such legal defeasance had not occurred, *then* the Authority's obligations under the Indenture with respect to such Bonds or Notes shall terminate, the debt represented thereby shall be legally satisfied, and the Holders shall cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds so held and other rights which by their nature cannot be satisfied until such Bonds or Notes are actually paid. Upon such defeasance, the funds and investments required to pay or redeem the Bonds or Notes shall be irrevocably set aside for that purpose, and money held for defeasance shall be invested only as described above and applied to the retirement of the Bonds or Notes.

Notes and Bonds of the Authority. By Series Resolution complying procedurally and in substance with the Act and the Indenture, the Authority may authorize, issue, sell and deliver (i) Bonds or (ii) Notes in anticipation thereof, from time to time in such principal amounts as the Authority shall determine to be necessary, to provide sufficient funds to meet a Capital Financing Need, including paying and reimbursing Project Capital Costs, and funding reserves to secure Notes or Bonds; and may issue Notes or Bonds to renew or refund Notes or Bonds, by exchange, purchase, redemption or payment, and establish such escrows therefor as it may determine.

Bonds and Notes may be issued only:

(i) as Senior Bonds (or Notes in anticipation thereof) to pay or reimburse Project Capital Costs or refund or renew such Bonds or Notes, but not to exceed $12 billion in Outstanding principal amount, and

subject to a $330 million limit on Quarterly Debt Service to be payable, or

(ii) as Subordinate Bonds (or Notes in anticipation thereof), with Rating Confirmation; but

(iii) no Series of Senior Bonds shall be authenticated and delivered without Rating Confirmation except upon receipt by the Trustee of the following:

(w) a certificate by the Director of Management and Budget setting forth the most recent collections for the 12 consecutive calendar months ended not more than two months prior to the date of such certificate, of the Statutory Revenues, in effect at the date of issuance of such Series of Bonds, collected by the State and to be payable to the Authority; and

(x) an Officer's Certificate of the Authority setting forth

(I) the aggregate amount of Debt Service (excluding any accrued or capitalized interest), including such series of Bonds, for each Fiscal Year such Bonds will be Outstanding,

(II) the aggregate amount of operating expenses as estimated by an Authorized Officer of the Authority for the current Fiscal Year, and

(III) that the amounts set forth pursuant to clause (w) after deducting the operating expenses set forth pursuant to clause (x)(II), will be at least three times such aggregate amount set forth in clause (x)(I) for each Fiscal Year set forth pursuant to clause (x)(I).

Each interest rate on Outstanding and proposed variable-rate Bonds or Notes (if not economically fixed), shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

The Notes and Bonds shall bear such dates and shall mature at such times as the Authority may provide pursuant to the Act. The Notes and Bonds shall bear interest at such fixed or variable rates, and shall be in such denomination, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, be payable in such medium of payment, at such place and be subject to such terms of redemption as the Authority may provide pursuant to the Act. The Notes and Bonds may be sold by the Authority at public or private sale pursuant to the Act.

Documents to be Delivered to Trustee. The Authority may from time to time request the authentication and delivery of a Series of Bonds or Notes by providing to the Trustee (among other things) the following:

(a) an Officer's Certificate to the effect that there is no default that will remain uncured immediately following such delivery, nor an uncured failure of the State or the City to comply with their respective agreements provided for in the Act, as in effect at the date of the Indenture;

(b) an opinion of Counsel as to the due authorization, execution and delivery by the Authority of the Indenture and each relevant Supplemental Indenture; to the effect that the Series Resolution is in full force and effect and that the Bonds or Notes are valid and binding; and after delivery of the first series of Bonds, to the effect that the issuance of the Bonds or Notes will not adversely affect the exclusion from gross income for federal income tax purposes of interest on Tax-Exempt Bonds or Tax-Exempt Notes theretofore issued (as set forth in the opinions delivered with such prior Bonds or Notes).

Ancillary and Swap Contracts. Pursuant to the Act, the Authority may enter into, amend or terminate, as it determines to be necessary or appropriate, any ancillary or swap contracts, including Senior Agreements to facilitate the issuance, sale, resale, purchase, repurchase or payment of Bonds or Notes. The Authority may by Series Resolution provide for the payment through the Bond Account of amounts due on ancillary and swap contracts.

Bond Anticipation Notes. Whenever the Authority shall authorize the issuance of a Series of Bonds, the Authority may, by Series Resolution, authorize the issuance of Notes and renewals thereof in anticipation of such Series. The interest on such Notes and renewals thereof may be made payable from the proceeds of such Notes, from the Bond Account, from the Recovery Account, from the School Bond Account or from the proceeds of renewal notes or the Series of Bonds in anticipation of which such Notes are issued. The proceeds of such renewal notes or Bonds may be pledged for the payment of the principal of or interest on such Notes, and any such pledge shall have a priority over any other pledge of such proceeds created by the Indenture. The Authority may also pledge the Revenues and, subject to the Indenture, the Accounts to the payment of the principal of such Notes.

Recovery Obligations and Other Parity Debt. The Authority may from time to time request the authentication and delivery of a Series of Recovery Obligations or other Parity Debt by providing to the Trustee (among other things) the following at the delivery of Bonds or of Notes in anticipation thereof (but not both):

(i) a certificate by the Director of Management and Budget setting forth the collections for the most recent Fiscal Year ended at least two months prior to the date of such certificate, of the Statutory Revenues collected by the State and to be payable to the Authority; and

(ii) an Officer's Certificate of the Authority setting forth (x) the sum of $1.32 billion and the aggregate amount payable from the Recovery and Parity Debt Account, including such Series of Bonds (assumed, at the delivery of Notes, to be issued at the Note maturity and to amortize over 30 years at an interest rate of 7%, with level debt service), for each Fiscal Year such Bonds will be Outstanding and (y) that the amounts set forth pursuant to clause (i) will be at least 3 times the sum set forth in clause (ii)(x) for each Fiscal Year set forth pursuant to clause (ii)(x).

School Bonds and School Notes. The Authority may from time to time request the authentication and delivery of a Series of School Bonds or School Notes by providing to the Trustee (among other things) the following at the delivery of such Bonds or of Notes in anticipation thereof (but not both) an Officer's Certificate setting forth:

(i) Annual School Bond Debt Service, including debt service on such Series of Bonds (assumed, at the delivery of Notes, to be issued at or prior to the Note maturity and to amortize and bear interest as specified in such Officer's Certificate) in each Series Fiscal Year, and

(ii) the Confirmed Building Aid payable in the Fiscal Year preceding each Series Fiscal Year, which shall be at least equal to the amount set forth in clause (i) for each Series Fiscal Year.

Each interest rate on Outstanding and proposed variable-rate Bonds or Notes (if not offset or economically fixed by a Qualified Swap, a liquidity account, or otherwise with School Bond Rating Confirmation), shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

Project Capital Costs. Proceeds of the sale of the Bonds and Notes issued for capital purposes shall be promptly deposited in the Project Fund established under the Agreement to the extent set forth by Series Resolution, and applied to finance Project Capital Costs. The Authority shall transfer its earnings on the Project Fund to the Collection Account as Building Aid or Tax Revenues, or otherwise apply such earnings in accordance with the Tax Code pursuant to Officer's Certificate.

Limited Purpose of Indenture. The Indenture provides for the issuance and payment of the Authority's obligations and the financing and refinancing of Project Capital Costs. Except as set forth in the Agreement, the Authority, the City and the Trustee shall have no liability to each other or to the Beneficiaries for the construction, reconstruction, acquisition, installation, physical condition, ownership or operation of any Project.

Application of Revenues. Provision is made in the Act for the payment to the Authority of the Revenues, and the Authority has requested the State Comptroller to make such payments to the Collection Account to be held by the Trustee. Any Revenues received by the Authority shall be promptly deposited in the Collection Account. Two subaccounts are established in the Collection Account: the Tax Revenue Subaccount and the Building Aid Subaccount. Building Aid transferred to the Bond Account or the Recovery Account may be treated as an interfund advance and transferred to the School Bond Account or restored to the Building Aid Subaccount through an Officer's Certificate directing the transfer of Tax Revenues at the *fourth* level of priority. The transfers and payments of Revenues shall be appropriately adjusted by Officer's Certificate to reflect the date of issue of Notes or Bonds, any accrued or capitalized interest deposited in the Bond Account, actual rates of interest, any amount needed or held in the Accounts for Debt Service, and any purchase or redemption of Notes or Bonds, so that there will be available on each payment date the amount necessary to pay Debt Service and so that accrued or capitalized interest will be applied to the installments of interest to which it is applicable.

Bond Account. A Bond Account is established with the Trustee and money shall be deposited therein as provided in the Indenture. Accrued interest received upon the sale of Notes (if so specified by Series Resolution) or Senior Bonds shall be deposited in the Bond Account. Two subaccounts are hereby established in the Bond Account: the Pre-07 S-1 Senior Subaccount and the Post-07 S-1 Senior Subaccount. The money in the Bond Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of Debt Service. If at any time the amount held in either subaccount exceeds the Full Requirement, the Trustee shall transfer such excess to the Collection Account as Tax Revenues. The Trustee shall pay, or transfer money from the applicable subaccount of the Bond Account to a Paying Agent in time for the Paying Agent to pay, Debt Service when due in same-day funds.

Redemption Account. A Redemption Account is established with the Trustee and money shall be deposited therein as provided in the Indenture. The money and investments in such Account shall be held in trust and, except as otherwise specified, shall be applied by the Trustee to the redemption of Bonds and Notes. Upon direction by Officer's Certificate of the Authority, the Trustee shall apply money in the Redemption Account to the purchase of Bonds and Notes for cancellation at prices not exceeding (unless so directed by Officer's Certificate of the Authority) the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not with money required to pay Bonds or Notes for which notice of redemption has been given. Accrued interest on the purchase of Bonds and Notes may be paid from the Bond Account (if so payable under the Indenture) or as directed by Officer's Certificate of the Authority.

When money in the Redemption Account is to be applied to the redemption of Notes or Bonds, the Trustee shall pay, or transfer such money to a Paying Agent in time for the Paying Agent to pay, such Notes or Bonds when due in same-day funds.

If on any date the amount in the Bond Account is less than the amount then required to be applied to pay Debt Service then due, the Trustee shall apply the amount in the Redemption Account (other than any sum irrevocably set aside for particular Notes or Bonds no longer Outstanding) to the extent necessary to meet the deficiency.

Redemption of the Bonds and Notes. The Authority may redeem Bonds and Notes at its option in accordance with their terms and shall redeem Bonds and Notes in accordance with their terms pursuant to any mandatory redemption ("sinking fund") requirements established by Series Resolution. When Bonds or Notes are called for redemption, the accrued interest thereon shall become due on the redemption date. To the extent not otherwise provided, the Authority shall deposit with the Trustee on or prior to the redemption date a sufficient sum to pay the redemption price and accrued interest.

The Authority shall not by purchase or optional redemption cause Quarterly Debt Service to exceed $330 million unless either cash is on hand therefor, held by the Authority or in the Redemption Account, or this limit has been modified by Officer's Certificate of the Authority with Rating Confirmation.

Unless otherwise specified by Series Resolution, there shall, at the option of the Authority, be applied to or credited against any sinking fund requirement the principal amount of any such Bonds that have been defeased, purchased or redeemed and not previously so applied or credited. Defeased Bonds shall, at the option of the Authority, no longer be entitled, but may be subject, to the provisions thereof for mandatory redemption.

When Bonds or Notes are to be redeemed prior to maturity, the Trustee shall give notice in the name of the Authority, which notice shall identify the Bonds or Notes to be redeemed, state the date fixed for redemption and state that such Bonds or Notes will be redeemed at the corporate trust office of the Trustee or a Paying Agent. The notice shall further state that on such date there shall become due and payable upon each Bond or Note to be redeemed the redemption price thereof, together with interest accrued to the redemption date, and that money therefor having been deposited with the Trustee or Paying Agent, from and after such date, interest thereon shall cease to accrue. The Trustee shall give 30 days' notice by mail, or otherwise transmit the redemption notice in accordance with the Indenture and any appropriate provisions of the LFL, to the registered owners of any Bonds or Notes which are to be redeemed, at their addresses shown on the registration books of the Authority. Such notice may be waived by any Holder of Bonds or Notes to be redeemed. Failure to transmit notice to a particular Holder, or any defect in the notice to such Holder, shall not affect the redemption of any other Bond or Note.

No Bonds or Notes may be optionally redeemed from the Building Aid unless the Unfunded Balance is zero.

Investments. Pending its use, money in the Accounts may be invested by the Trustee in Eligible Investments maturing or redeemable at the option of the holder at or before the time when such money is expected to be needed and shall be so invested pursuant to written direction of the Authority if there is not then an Event of Default known to the Trustee. Investments shall be held by the Trustee in the respective Accounts and shall be sold or redeemed to the extent necessary to make payments or transfers from each Account.

Except as otherwise specified, any interest realized on investments in any Account and any profit realized upon the sale or other disposition thereof shall be credited to the Collection Account.

The Trustee may hold undivided interests in Eligible Investments for more than one Account (for which they are eligible) and may make interfund transfers in kind.

If any money is invested under the Indenture and a loss results therefrom so that there are insufficient funds to pay Debt Service or to redeem Bonds or Notes called for redemption, then the deficiency shall be timely filled from Revenues (as Debt Service if so payable under the Indenture).

Unclaimed Money. Except as may otherwise be required by applicable law, in case any money deposited with the Trustee or a Paying Agent for the payment of the principal of, or interest or premium, if any, on any Bond or Note remains unclaimed for two years after such principal, interest or premium has become due and payable, the Fiduciary may and upon receipt of a written request of the Authority will pay over to the Authority the amount so deposited and the owner of such Bond or Note shall be entitled (subject to any applicable statute of limitations) to look only to the Authority as an unsecured creditor for the payment thereof.

Recovery and Parity Debt Account. A Recovery and Parity Debt Account is established with the Trustee and money shall be deposited therein as provided in the Indenture or by Officer's Certificate. The Pre-07 S-1 Parity Subaccount and the Post-07 S-1 Parity Subaccount are established as subaccounts in the Recovery Account. The money in the Recovery and Parity Debt Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payments of Recovery Obligations and Parity Debt payable therefrom. If at any time the amount held in either subaccount exceeds the Full Requirement, the Trustee shall transfer such excess to the Collection Account as Tax Revenues. The Trustee shall pay, or transfer money from the applicable subaccount of the Recovery and Parity Debt Account to a Paying Agent in time for such Paying Agent to pay, Recovery Obligations and Parity Debt when due in same-day funds.

School Bond Account. A School Bond Account is established with the Trustee and money shall be deposited therein as provided in the Indenture or by Officer's Certificate. The money in the School Bond Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of School Obligations. If at any time the Unfunded Balance is zero, the Trustee shall transfer any amount in the School Bond Account to the Collection Account as Building Aid. The Trustee shall pay, or transfer money from the School Bond Account to a Paying Agent in time for such Paying Agent to pay, School Obligations when due in same-day funds.

Application of Tax Revenues. (a) Provision is made in the Act for the payment to the Authority of the Tax Revenues, and the Authority has requested the State Comptroller to make such payments to the Collection Account. Any Tax Revenues received by the Authority or the Trustee shall be promptly deposited in the Tax Revenue Subaccount and shall be applied upon receipt by the Trustee, in the following order of priority: *first* to the Bond Account to pay Debt Service pursuant to the Indenture; *second* to the Authority's operating expenses, which may include deposits to the Redemption Account for optional redemption and reserves to be held by the Authority for payment of operating expenses, in such amounts as may be determined by Officer's Certificate; *third* pursuant to Supplemental Indentures for the benefit of Noteholders, Subordinate Bondholders and parties to ancillary and swap contracts, to the extent such Supplemental Indentures may require application of Tax Revenues to pay items after payment of Debt Service and operating expenses; *fourth* pursuant to each Officer's Certificate making reference to this level of priority in accordance with the Indenture; and *fifth* daily or as soon as practicable but not later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.

(b) At the beginning of each Collection Quarter, the Trustee shall begin to transfer all Tax Revenues from the Tax Revenue Subaccount to each subaccount of the Bond Account in proportion to the unfunded balance of each First-Month Requirement, and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement. On the first day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount. To the extent that Quarterly Debt Service includes principal, interest or premium on Bonds or Notes to be purchased or redeemed prior to maturity, such Debt Service may be paid through the Redemption Account, and the Authority may by Officer's Certificate direct the Trustee in writing to transfer Revenues thereto, rather than to the Bond Account.

(c) Pursuant to the *third* level of priority: at the beginning of each Collection Quarter, the Trustee shall begin to transfer all Tax Revenues to each subaccount of the Recovery Account in proportion to the unfunded balance of each First-Month Requirement, and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement; and on the first Business Day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount. To the extent that Quarterly Subordinate Debt Service includes principal, interest or premium on Bonds or Notes to be purchased or redeemed prior to maturity, or Revenues are available to pay principal of Notes, such amounts may be paid through the Redemption Account or an escrow fund, and the Authority may by Officer's Certificate direct the Trustee to transfer Revenues thereto.

(d) The Authority may by Officer's Certificate estimate interest payable at a variable rate; or treat anticipated receipts from a Qualified Swap as offsets thereto.

Application of Building Aid. (A) Provision is made by the Act and the Assignment for the payment to the Authority of the Building Aid, and the Authority has requested the State Comptroller to make such payments to the Collection Account. Any Building Aid received by the Authority or the Trustee shall be promptly deposited in the Building Aid Subaccount and shall be applied by the Trustee pursuant hereto, in the following order of priority, as implemented in part by provisions described below: *first* to Pre-07 S-1 Senior Bonds; *second* to the Authority's operating expenses, which may include reserves to be held by the Authority for payment of operating expenses, in such amounts as may be determined by Officer's Certificate, but excluding operating expenses properly allocable to Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt; *third* to Pre-07 S-1 Parity Debt and then to School Obligations; and *fourth* daily or as soon as practicable but not later than the last day of each month, to the order of the City, free and clear of the lien hereof.

(B) To provide for the timely payment of School Obligations subject to the rights of the Holders of Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt, money in the Building Aid Subaccount shall be retained therein until transferred as follows:

(1) at any time, to the Pre-07 S-1 Senior Subaccount or the Pre-07 S-1 Parity Subaccount, in that order of priority, to pay Pre-07 S-1 Senior Bonds or Pre-07 S-1 Parity Debt then due and not otherwise provided for;

(2) in the first month of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the month and (y) the day when the Unfunded Balance is zero; and (b) to the order of the City, if no transfer to the School Bond Account is required, beginning the first day when both the Pre-07 Senior Subaccount and the Pre-07 Parity Subaccount have been funded to their First-Month Requirements and continuing until the end of the month; and

(3) in the second and third months of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their Full Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the Collection

Quarter and (y) the day when the Unfunded Balance is zero; (b) to the order of the City, if no transfer to the School Bond Account is required, beginning when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount are funded to their Full Requirements and continuing until the end of the Collection Quarter; and (c) on the last Business Day of the Collection Quarter, to the Pre-07 S-1 Senior Subaccount and then the Pre-07 S-1 Parity Subaccount until both of them have been funded to their Full Requirements; then to the School Bond Account, if the Remaining Building Aid is not more than 110% of the Unfunded Balance, until the Unfunded Balance is zero; and then to the order of the City.

Purchase of HYIC Obligations. The Authority may apply Tax Revenues available at the *fourth* level of priority to the purchase of obligations of HYIC (not exceeding the amounts specified by Supplemental Indentures approved by unanimous vote of the Directors of the Authority), which HYIC obligations shall be held by the Authority.

Contract; Obligations to Beneficiaries. In consideration of the purchase and acceptance of any or all of the Bonds and Notes and ancillary and swap contracts by those who shall hold the same from time to time, the provisions of the Indenture shall be a part of the contract of the Authority with the Beneficiaries, and shall be deemed to be and shall constitute contracts among the Authority, the Trustee, the City to the extent specified in the Agreement, the Beneficiaries from time to time and, to the extent specified in the Act, the State. The pledge made in the Indenture and the covenants set forth to be performed by the Authority, the City and the State shall be for the equal benefit, protection and security of the Beneficiaries of the same priority. All of the Outstanding Bonds or Notes or ancillary or swap contracts of the same priority, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any thereof over any other except as expressly provided pursuant to the Indenture and the Act.

The Authority shall pay when due all sums payable on the Bonds and Notes, from the Revenues and money designated in the Indenture, subject only to (i) the Act and the Indenture, and (ii) to the extent permitted by the Act and the Indenture, (x) agreements with Holders of Outstanding Bonds and Notes pledging particular collateral for the payment thereof and (y) the rights of Beneficiaries under ancillary and swap contracts. The obligation of the Authority to pay principal, interest and redemption premium, if any, to the Holders of Bonds and Notes shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, and shall not be subject to setoff, recoupment or counterclaim. The Authority shall also pay its operating expenses.

Enforcement. The Authority shall enforce or cause the Trustee to enforce by appropriate legal proceedings, each covenant, pledge or agreement made by the City or the State in the Indenture or in or pursuant to the Act for the benefit of any of the Beneficiaries, including the Assignment and the related provisions of the School Financing Act.

The Authority shall (1) protect and defend, as an operating expense, its and the Trustee's claim to every material portion of the Building Aid, and the Fiduciaries shall cooperate therein at the Authority's expense;

(2) with the Fiduciaries, as aforesaid, and the City pursuant to the Assignment (a) contest any Competing Claim to any material portion of the Building Aid that (i) it deems factually or legally unfounded, or (ii) is based on constitutional, statutory or regulatory ambiguity, on any provision of the Education Law, or on any action or failure to act of the City;

(b) and cooperate with the Holders in filing and prosecuting any claim made by Holders under § 99-b of the State Finance Law and in opposing any Competing Claim;

(3) provide the calculations contemplated by the MOU; and

(4) not agree to any modification of the MOU that is materially adverse to the Holders of the School Bonds. Without limitation, a modification that receives School Bond Rating Confirmation is not materially adverse to such Holders.

Sales Taxes. For each fiscal year of the City for which the Mayor has given a notice to the State Comptroller pursuant to the State Covenant, the Authority shall request the State Comptroller to schedule payments of Sales Taxes to the Authority, based on the Authority's projections of Personal Income Taxes and debt service, so that the Authority will receive Tax Revenues in each Collection Quarter sufficient to pay its obligations but in all events at least equal to the Quarterly Payment Requirement. Such requests shall be modified, as often as necessary, to reflect experience and revised projections.

Tax Covenant. The Authority shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on Tax-Exempt Bonds and Tax-Exempt Notes shall be excludable from gross income for federal income tax purposes pursuant to § 103(a) of the Tax Code; and no funds of the Authority shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Tax-Exempt Bond or Tax-Exempt Note to be an arbitrage bond as defined in such Code and any applicable Regulations issued thereunder. If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, pay from the Project Fund or as an operating expense the amount, if any, required by the Code to be rebated thereto or paid as a related penalty.

Accounts and Reports. (a) The Authority shall (1) cause to be kept books of account in which complete and accurate entries shall be made of its transactions relating to all funds and accounts under the Indenture, which books shall at all reasonable times be subject to the inspection of the City, the Trustee and the Holders of an aggregate of not less than 25% in principal amount of Bonds and Notes then Outstanding or their representatives duly authorized in writing;

(2) annually, within 185 days after the close of each fiscal year, deliver to the Trustee and each Rating Agency, a copy of its audited financial statements for such fiscal year;

(3) keep in effect at all times an accurate and current schedule of all Quarterly Debt Service to be payable during the life of then Outstanding Bonds, Notes and Senior Agreements secured by the Bond Account; of Remaining Building Aid, and of amounts payable from the Recovery Account and the School Bond Account; certifying for the purpose such estimates as may be necessary; and

(4) deliver to each Rating Agency a quarterly statement of cash flows, including Revenues received, transfers to the Accounts, Bonds and Notes issued, and payments of principal and interest, and an annual statement of the State's costs in administering, collecting and distributing the Tax Revenues.

(b) To implement the State Covenant, the Chairperson of the Authority shall, not less than 30 days prior to the beginning of each fiscal year, certify to the State Comptroller, the Governor, and the Directors of the Authority a schedule of maximum annual debt service payments due on the Bonds and Notes respectively then Outstanding.

(c) The Authority shall deliver to the Trustee and each Rating Agency, not less often than quarterly, an Officer's Certificate showing (i) Revenues on a pro-forma basis for the current fiscal year and each of the two preceding fiscal years, as received, expected and adjusted as if current statutes had been in effect for the three-year period; (ii) Debt Service to be paid in the next three fiscal years; and (iii) whether such Revenues are at least 150% of such Debt Service.

Ratings. Unless otherwise specified by Series Resolution, the Authority shall pay such reasonable fees and provide such available information as may be necessary to obtain and keep in effect ratings on all the Senior Bonds and the School Bonds from at least two nationally recognized statistical rating organizations.

No Other Business. The Authority shall not engage in any line of business not contemplated by the Act.

No Indebtedness or Funds of City. The Indenture does not constitute indebtedness of the City for purposes of § 20.00 of the LFL or any constitutional or statutory limitation. The Authority's revenues are not funds of the City.

State Covenants and Tax Contract. The Authority includes in the Indenture: (a) the State's pledge and agreement with the Holders of Outstanding Bonds and Notes that the State will not limit or alter the rights vested in the Authority by the Act to fulfill the terms of any agreements made with the Holders, or in any way impair the rights and remedies of such Holders or the security for the Bonds and Notes until such Bonds and Notes, together with the interest thereon, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged; (b) the further terms of § 2799-ii of the Act to the effect that: Nothing contained in this covenant shall be deemed to restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Taxes, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed. Not less than 30 days prior to the beginning of each fiscal year, the Chairperson of the Authority shall certify to the State Comptroller, the Governor, and the members of the Board of Directors of the Authority a schedule of maximum annual debt service payments due on the Bonds and Notes then Outstanding. To the extent that Personal Income Taxes payable to the Authority during such fiscal year are projected by the Mayor to be insufficient to meet at least 150% of maximum annual debt service on the Bonds then Outstanding, the Mayor shall so notify the State Comptroller and the State Comptroller shall pay to the Authority from Sales Taxes such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds; provided, however, that for so long as any indebtedness of MAC remains outstanding no Sales Taxes that are, as of March 5, 1997, or may in the future be, required to be deposited in the Municipal Assistance Tax Fund established under § 92-d of the State Finance Law shall be paid to the Authority except out of funds that are otherwise required to be paid to the City under that section. Nothing in this covenant shall be deemed to obligate the State to make any additional payments or impose any taxes to satisfy the obligations of the Authority; (c) subdivision 4 of § 2799-tt of the Act (added by the School Financing Act) to the effect that: The State Covenant shall be fully applicable to School Bonds and School Notes and may be included in any agreement with the Holders thereof. Nothing contained in this covenant shall be deemed to restrict the right of the State to amend, modify, repeal or otherwise alter statutes relating to the Building Aid, but such Building Aid shall in all events (i) continue to be so payable, as assigned, so long as any such Building Aid is paid and (ii) continue to be calculated in accordance with the same formula used for such calculation, and otherwise on the same basis as such aid is calculated, on the date that the applicable project is approved for reimbursement; (d) the last paragraph of § 99-b of the State Finance Law (as amended by the School Financing Act) to the effect that: The State hereby covenants with the Holders of the School Bonds and School Notes that it will not repeal, revoke or rescind the provisions of this section or amend or modify the same so as to limit, impair or impede the rights and remedies granted hereby; provided, however, that nothing in this section shall be deemed or construed as requiring the State to continue the payment of aid or assistance to any city, city school district or school district or as limiting or prohibiting the State from repealing or amending any law heretofore or hereafter enacted relating to aid or assistance, the manner and time of payment or apportionment thereof, or the amount thereof; and (e) the tax contract of the State in the Act.

Authority Acknowledgments. (a) The Authority acknowledges that the City's covenants and pledge and agreement for the benefit of the Holders and the State Covenant and Tax Contract constitute important security provisions of the Outstanding Bonds and Notes, and to the fullest extent permitted by applicable federal and State law, waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support the assertion by the City, the State or any other person of, any such claim to the contrary.

(b) By acknowledging that the City's covenants and pledge and agreement for the benefit of the Holders and the State Covenant and Tax Contract constitute important security provisions of the Outstanding Bonds and Notes, the Authority also acknowledges, to the fullest extent permitted by applicable federal and State law, that, in the event of any failure or refusal by the City or the State to comply therewith, the Holders of the Outstanding Bonds or Notes may have suffered monetary damages, the extent of the remedy for which may be, to the fullest extent permitted by applicable federal and State law, determined, in addition to any other remedy available at law or in equity, in the course of any action taken pursuant to the Indenture; and to the fullest extent permitted by applicable federal and State law, the Authority waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support the assertion by the City, the State or any other person of, any claim to the effect that no such monetary damages have been suffered.

(c) The Authority confirms that the acknowledgments and agreements summarized forth in paragraphs (a) and (b) above have been included as a result of negotiations with the underwriters of specified Bonds and may further acknowledge in any Series Resolution if and the extent to which any provision of the Resolution has been amended, or any provision of such Series Resolution has been included therein, as a result of the same or similar negotiations.

Rights and Duties of the Fiduciaries. The Fiduciaries shall not be required to monitor the financial condition of the Authority or the physical condition of any Project and, unless otherwise expressly provided, shall not have any responsibility with respect to reports, notices, certificates or other documents filed with them under the Indenture, except to make them available for inspection by Beneficiaries.

Upon a failure of the Authority to make a payment of Debt Service when due or a failure known to the Trustee to make any other required payment within 7 days after the same becomes due and payable, the Trustee shall give written notice thereof to the Authority. The Trustee shall give notices of default when instructed to do so by the written direction of another Fiduciary or the owners of at least 25% in principal amount of the Outstanding Senior Bonds or with respect to specified events, if actually known to an Authorized Officer of the Trustee. The Trustee shall proceed under the Indenture for the benefit of the Holders in accordance with the written directions of a Majority in Interest of the Outstanding Senior Bonds. The Trustee shall not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity is furnished for any expense or liability to be incurred.

Each Fiduciary shall be entitled to the advice of counsel (who may be counsel for any party) and shall not be liable for any action taken in good faith in reliance on such advice. Each Fiduciary may rely conclusively on any notice, certificate or other document furnished to it under the Indenture and reasonably believed by it to be genuine. A Fiduciary shall not be liable for any action taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under the Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or consent or other action by a Fiduciary is called for by the Indenture, the Fiduciary may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof. A permissive right or power to act shall not be construed as a requirement to act.

Any fees, expenses, reimbursements or other charges which any Fiduciary may be entitled to receive from the Authority, if not otherwise paid, shall be a first lien upon (but only upon) any funds held by the Trustee for payment of operating expenses.

Paying Agents. The Authority designates the Trustee a Paying Agent. The Authority may appoint additional Paying Agents, generally or for specific purposes, may discharge a Paying Agent from time to time and may appoint a successor. The Authority shall designate a successor if the Trustee ceases to serve as Paying Agent. Each Paying Agent shall be a bank or trust company eligible under the Act, and unless otherwise provided by Series Resolution shall have a capital and surplus of not less than $50,000,000 and be registered as a transfer agent with the Securities and Exchange Commission. The Authority shall give notice of the appointment of a successor to the Trustee as Paying Agent in writing to each Beneficiary shown on the books of the Trustee. A Paying Agent may but need not be the same person as the Trustee. Unless otherwise provided by the Authority, the Trustee as Paying Agent shall act as Bond and Note registrar and transfer agent. Each Paying Agent shall act as paying agent with respect to any allotments, apportionments or payments forwarded to it by the State pursuant to § 99-b of the State Finance Law.

Resignation or Removal of the Trustee. The Trustee may resign on not less than 30 days' written notice to the Authority and the Holders. The Trustee will promptly certify to the Authority that it has given written notice to all Holders and such certificate will be conclusive evidence that such notice was given as required by the Indenture. The Trustee may be removed by written notice from the Authority (if not in default) or a Majority in Interest of the Outstanding Senior Bonds to the Trustee and the Authority. Such resignation or removal shall not take effect until a successor has been appointed.

Successor Fiduciaries. Any corporation or association which succeeds to the municipal corporate trust business of a Fiduciary as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights, powers and duties thereof under the Indenture, without any further act or conveyance.

In case a Fiduciary resigns or is removed or becomes incapable of acting, or becomes bankrupt or insolvent, or if a receiver, liquidator or conservator of a Fiduciary or of its property is appointed, or if a public officer takes charge or control of a Fiduciary, or of its property or affairs, then such Fiduciary shall with due care terminate its activities and a successor may, or in the case of the Trustee shall, be appointed by the Authority. If no appointment of a successor Trustee is made within 45 days after the giving of written notice of resignation or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Trustee or any Holder may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor Trustee shall be a trust company or a bank having the powers of a trust company, located in the State, having a capital and surplus of not less than $50,000,000.

No Statutory Trustee. Pursuant to the Act, the rights of the Holders of Bonds and Notes to appoint a statutory trustee are abrogated.

Fiduciaries for Notes and Subordinate Bonds. The Authority may by Series Resolution provide for the appointment of a Fiduciary (which may be the Trustee) to represent the Holders of Notes or Subordinate Bonds, having powers and duties not inconsistent with the Indenture or the Act.

Registered Owners. The enumeration of certain provisions applicable to DTC as Holder of immobilized Notes and Bonds shall not be construed in limitation of the rights of the Authority and each Fiduciary to rely upon the registration books in all circumstances and to treat the registered owners of Notes and Bonds as the owners thereof for all purposes not otherwise specifically provided for. Notwithstanding any other provisions of the Indenture, any payment to the registered owner of a Note or Bond shall satisfy the Authority's obligations thereon to the extent of such payment.

Events of Default; Default. "Event of Default" in the Indenture means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice.

(a) The Authority shall fail to pay when due any interest, principal or redemption premium on a Note or Bond. (b) The Authority shall fail to make any other required payment to the Trustee or other Fiduciary and such failure is not remedied within 7 days after written notice thereof is given by the Trustee or other Fiduciary to the Authority. (c) The Authority shall fail to observe or perform any of its other agreements, covenants or obligations under the Indenture and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the Authority. (d) Specified events of insolvency. (e) The State shall (i) amend, alter, repeal or fail to comply with the State Covenant or its tax contract in the Act as in effect on the date of issuance of the first Series of Bonds or (ii) enact a moratorium or other similar law affecting the Bonds or Notes or (iii) amend, modify, repeal or otherwise alter, in any material respect, (y) the requirement of § 1313 of the Tax Law that: "The comptroller, after reserving such refund fund and such costs shall, commencing on or before the fifteenth day of each month, pay to the New York City transitional finance authority on a daily basis the balance of" Personal Income Taxes or (z) the requirement of § 2799-ii of the Act that: "To the extent that the tax revenues payable to the authority under section thirteen hundred thirteen of the tax law during such fiscal year are projected by the mayor to be insufficient to meet at least one hundred fifty percent of maximum annual debt service on authority bonds then outstanding, the mayor shall so notify the state comptroller and the state comptroller shall pay to the authority from" Alternative Revenues such amount as is necessary to provide at least 150% of the maximum annual debt service; subject to the proviso in effect at the date of the first series of Bonds recognizing the prior claim in favor of MAC. (f) The State Comptroller shall fail or refuse to comply with any provision of law in effect for the benefit of the Authority. (g) The City shall fail to observe or perform any of its agreements, covenants or obligations under the Agreement for the benefit of the Holders and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the City and the Authority or by the Authority to the Trustee and the City. (h) Any Officer's Certificate delivered pursuant to paragraph (c) of "Accounts and Reports" above shall show estimated Revenues to be less than 150% of Debt Service.

Remedies of the Trustee. If an Event of Default occurs and is continuing: (1) The Trustee may, and upon written request of the Holders of 25% in principal amount of the Senior Bonds Outstanding shall, in its own name by action or proceeding in accordance with the Civil Practice Law and Rules: (a) enforce all rights of the Holders and require the Authority or, to the extent permitted by law, the State or the City to carry out its agreements with the Holders and to perform its duties under the Act; (b) sue upon such Bonds and Notes; (c) require the Authority to account as if it were the trustee of an express trust for the Holders of such Bonds and Notes; and (d) enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds and Notes. (2) The Trustee shall, in addition, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in the Act or incident to the general representation of Holders in the enforcement and protection of their rights. (3) If such Event of Default is described in clause (a), (d), (e)(iii) or (h) under "Events of Default" above, the Trustee shall (a) give written notice thereof to the Authority, the Holders, the Mayor, the City Comptroller, the Speaker of the Council, the Governor, the State Comptroller, the chair and ranking minority member of the Senate Finance Committee, the chair and ranking minority member of the Assembly Ways and Means Committee, and the State Financial Control Board for the City, and (b) if so directed by a Majority in Interest of the Senior Bonds, and having given 30 days' notice to the Authority, declare the principal amount of all Bonds and Notes to be, and the same shall become, due and payable.

Note and Subordinate Bond Remedies. Subject to the prior application of the Accounts to pay Debt Service and to the Indenture, the Holders of Notes or Subordinate Bonds, other Beneficiaries or a Fiduciary appointed for them, may enforce the provisions of the Indenture for their benefit by appropriate legal proceedings.

School Bond Remedies. To the extent not inconsistent with the Act or the Indenture as in effect prior to the issuance of the first Series of School Bonds: if (i) there occurs and is continuing any Event of

Default, or (ii) the State shall amend, alter, repeal or fail to comply with its covenant respecting the Building Aid, or (iii) the City shall fail to observe or perform any of its agreements, covenants or obligations under the Assignment for the benefit of the Holders and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the City and the Authority or by the Authority to the Trustee and the City, then:

(a) The Trustee may, and upon written request of the Holders of 25% in principal amount of the School Bonds Outstanding shall, in its own name by action or proceeding in accordance with the Civil Practice Law and Rules;

(1) enforce all rights of the Holders and require the Authority or, to the extent permitted by law, the State or the City to carry out its agreements with the Holders and to perform its duties under the Act;

(2) sue upon such Bonds and Notes;

(3) require the Authority to account as if it were the trustee of an express trust for the Holders of such Bonds and Notes; and

(4) enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds and Notes.

(b) The Trustee shall have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in the Act or incident to the general representation of Holders of School Bonds and School Notes in the enforcement and protection of their rights.

Individual Remedies. No one or more Holders shall by his or their action affect, disturb or prejudice the pledge created by the Indenture, or enforce any right under the Indenture, except in the manner therein provided; and all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided therein and for the equal benefit of all Beneficiaries of the same class; but nothing in the Indenture shall affect or impair the right of any Holder of any Bond or Note to enforce payment of the principal thereof, premium, if any, or interest thereon at and after the maturity thereof, or the obligation of the Authority to pay such principal, premium, if any, and interest on each of the Bonds and Notes to the respective Holders thereof at the time, place, from the source and in the manner expressed in the Indenture and in the Bonds and Notes.

Venue. The venue of every action, suit or special proceeding against the Authority shall be laid in the County of New York.

Waiver. If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, by written notice to the Authority, and shall do so upon written instruction of the Holders of at least 25% in principal amount of the Outstanding Senior Bonds.

Application of Money. If available money in the Accounts is not sufficient on any day to pay all Debt Service, Subordinate Bonds and Subordinate Agreements then due or overdue, such money (subject to the payment of fees and expenses necessary to collect Revenues and distribute Debt Service and to provisions theretofore made for the payment of Bonds or Notes no longer Outstanding and to the priorities established by the Indenture) shall be applied *first* to the Trustee's fees and other costs of collecting and applying the Revenues and administering the accounts, *second* to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time), and if the amount available shall not be sufficient to pay in full any installment or installments of interest or obligations with respect to Senior Agreements maturing on the same date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service without priority or preference of any item over any other; and *third* to the payment of principal (including sinking fund installments) and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due), and if the amount available shall not be sufficient to pay in full all principal, premium or obligations with respect to Senior Agreements maturing on the same date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service without priority or preference of any item over any other and, if the amount available shall not be sufficient to pay in full all principal due on any date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service, without priority or preference of any Bond over any other; and *fourth* to the payment of any Notes (to the extent not paid as Debt Service), Subordinate Bonds and Subordinate Agreements then due and, if the amounts available are insufficient to pay in full all such subordinated payment obligations, then to the payment thereof ratably, in accordance with the priorities established by the Indenture but otherwise without preference or priority of any such item over any other. For this purpose Debt Service on Senior Agreements shall be characterized in accordance with their financial terms and interest on overdue principal shall be treated as coming due on the first day of each month. Whenever money is to be applied pursuant to this section, such money shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such money available for application and the likelihood of additional money becoming available for such application in the future.

Supplements and Amendments. (A) The Indenture may be (1) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority and executed or approved by the Mayor and Comptroller to the extent, if any, required by the Act, to (a) provide for earlier or greater deposits into the Bond Account, (b) subject any property to the lien of the Indenture, (c) add to the covenants and agreements of the Authority or surrender or limit any right or power of the Authority, (d) identify particular Notes or Bonds for purposes not inconsistent with the Indenture including credit or liquidity support, remarketing, serialization and defeasance, or (e) authorize Bonds or Notes of a Series and in connection therewith determine the matters referred to in the Indenture and any other things relative to such Bonds or Notes that are not prejudicial to the Holders, or to modify or rescind any such authorization or determination at any time prior to the first authentication and delivery of such Series of Bonds or Notes; or

(2) amended by the Authority and the Trustee with the approval of the Mayor and Comptroller to the extent, if any, required by the Act, (a) to cure any ambiguity or defect, (b) to add provisions that are not prejudicial to the Holders, (c) to adopt amendments that do not take effect unless and until (i) no Bonds or Notes Outstanding prior to the adoption of such amendment remain Outstanding or (ii) such amendment is consented to by the Holders of such Bonds or Notes in accordance with the Indenture, or (d) pursuant to paragraph (B) summarized below.

(B) Except as described in the foregoing paragraph (A), the Indenture may be amended (1) only with the written consent of a Majority in Interest of the Recovery Bonds and Bonds issued as Parity Debt, the School Bonds, the Senior Bonds and the Notes of each category (each acting as a separate class) to be Outstanding at the effective date thereof and affected thereby; but (2) only with the unanimous written consent of the affected Holders for any of the following purposes: (a) to extend the maturity of any Bond or Note, (b) to reduce the principal amount or interest rate of any Bond or Note, (c) to make any Bond or Note redeemable other than in accordance with its terms, (d) to create a preference or priority of any Bond or Note over any other Bond or Note of the same class or (e) to reduce the percentage of the Bonds and Notes required to be represented by the Holders giving their consent to any amendment. If their interests differ materially, the Holders of the Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt shall vote as separate classes from the Holders of Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt.

(C) Any amendment of the Indenture shall be accompanied by a Counsel's Opinion to the effect that the amendment is permitted by law and does not adversely affect the exclusion of interest on the Tax-Exempt Bonds and Tax-Exempt Notes from gross income for federal income tax purposes.

Beneficiaries. The Indenture is not intended for the benefit of and shall not be construed to create rights in parties other than the City, the Authority, the Fiduciaries, the Holders of Notes and Senior Bonds, and the other Beneficiaries to the extent specified therein.

Covenant. The City and the Authority covenant with the Holders of the Outstanding Bonds offered hereby to comply with the financial reporting requirements of the Financial Emergency Act For The City of New York and the Act, respectively, each as in effect from time to time.

THE ASSIGNMENT

Assignment to Authority. In consideration of the Authority's acceptance of the Assignment, the City assigns to the Authority, and disclaims ownership of, irrevocably and without recourse (subject to the City's obligations in the Assignment), all right, title and interest of the City in and to the Building Aid. The Assignment is, pursuant to the Act, a present assignment of the right to receive future Building Aid, including Building Aid not yet appropriated by the State.

Assignment to Trustee. The City acknowledges and consents to any pledge, assignment and grant of a security interest by the Authority to the Trustee pursuant to the Indenture for the benefit of the Beneficiaries of any or all right, title and interest of the Authority in and to the Building Aid and the assignment of any or all of the Authority's rights and obligations in the Assignment to the Trustee.

Protection of Title; Claims.

(a) The City shall take all actions as may be required by law fully to preserve, maintain, defend, protect and confirm the interest of the Authority and the interests of the Trustee on behalf of the Beneficiaries in the Building Aid and in the proceeds thereof. The City will not take any action that will adversely affect the Authority's ability to receive the Building Aid. The City will promptly pay over to the Trustee any Building Aid received by the City and, for purposes of this provision, any material amount of Building Aid diverted from the Authority on account of a Prior Claim or Deductions shall be deemed to have been received by the City.

(b) The City will, at the request of the Authority and at its own expense, join in any action or proceeding at law or in equity before any court, regulatory body, administrative agency or other governmental instrumentality in which the Authority is a party: (i) asserting the invalidity of any of the Transaction Documents to which it is a party, (ii) seeking to prevent the consummation in accordance with its terms of any Transaction Document to which it is a party, or (iii) seeking any determination or ruling that would materially and adversely affect the validity of enforceability of any of the Transaction Documents to which it is a party.

(c) The City will not, without the prior written consent of the Authority, settle, stipulate or otherwise waive or compromise any right or claim or any action or proceeding to which it is a party if the same would have the effect of: (i) agreeing that the Act, or any provision thereof material to the transactions contemplated by any of the Transaction Documents, is in conflict with or violate the constitution of the State or any statutory law of the State; (ii) agreeing that any provision of a Transaction Document to which it is a party is void, voidable or unenforceable; (iii) agreeing to a delay or reduction in any payment of Building Aid; (iv) in the event of a claim by Holders pursuant to § 99-b of the State Finance Law, agreeing to a delay or reduction in any payment of Education Aid; or (v) acquiescing in any of the foregoing.

(d) The City will (i) comply and cause the SCA to comply with the Education Law in all respects material to the Building Aid or, in the event of a claim by the Holders under § 99-b of the State Finance Law, to the Education Aid; (ii) file or cause to be filed timely and appropriate claims for the Building Aid in respect of all material aidable outlays and diligently prosecute such claims on behalf of the Authority; and (iii) not take or fail to take any action resulting in a material reduction or diversion of the Building Aid, or if the Holders are proceeding under § 99-b of the State Finance Law, the Education Aid.

(e) The City will cooperate with the Holders and the Paying Agent in filing and prosecuting any claim made by the Holders pursuant to § 99-b of the State Finance Law and, in the event of any such claim, will file or cause to be filed timely and appropriate claims for the Education Aid in respect of all material items and diligently prosecute such claims on behalf of the Holders.

Competing Claims. The City will (a) cooperate with the Authority and the Trustee in contesting any Competing Claim to any portion of the Building Aid, or with the Holders (if proceeding under § 99-b of the State Finance Law) in contesting any Competing Claim, (b) join any such contest that it deems meritorious and (c) defend, at its own expense, the Authority and the Trustee against any Competing Claim to the Building Aid, or the Holders (if proceeding under § 99-b of the State Finance Law) against any Competing Claim, based on: (i) the Education Law, (ii) disallowances regarding prior aid funds distributed to the City, or (iii) the City's alleged failure to make any payments or comply with other constitutional or statutory mandates.

City Acknowledgement. The City acknowledges that the City Covenant constitutes an important security provision of the School Bonds and School Notes, and to the fullest extent permitted by applicable federal and State law, waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support any assertion of any claim to the contrary.

Amendment. (A) The Assignment may be (1) supplemented by delivery to the Trustee of an instrument executed by the City and the Authority, to (a) correct or amplify the description of the Building Aid or (b) add to the covenants and agreements of the City or the Authority for the benefit of the Beneficiaries or surrender or limit for the benefit of the Beneficiaries any right or power of the City or the Authority; or (2) amended by the parties with notice to the Trustee but without Bondholder or Noteholder consent to (a) cure any ambiguity or defect or (b) make modifications that are not prejudicial to the Holders of the Bonds and Notes, including provisions that do not take effect unless and until (i) no Bonds or Notes Outstanding prior to the adoption of such amendment remain Outstanding or (ii) such amendment is consented to by Holders in accordance with the further provisions of the Assignment.

(B) Except as provided in the foregoing paragraph (A), the Assignment may be amended only by the City and the Authority with notice to the Trustee upon the written consent of a Majority in Interest of the School Bonds and School Notes (each acting as a separate class) to be Outstanding at the effective date thereof and affected thereby; but only with the unanimous written consent of the affected Holders to reduce the percentage of the Bonds or Notes required to be represented by the Holders giving their consent to any amendment. It shall not be necessary for the consent of Holders pursuant to this paragraph to approve the particular form of any proposed amendment or consent, but it shall be sufficient if such consent shall approve the substance thereof.

(C) Any amendment of this Assignment shall be accompanied by an Opinion of Counsel to the effect that the amendment is permitted by law and does not adversely affect the exclusion of interest on the Tax-Exempt Bonds and Tax-Exempt Notes from gross income for federal income tax purposes.

THE AGREEMENT

The Agreement, including the Transitional Capital Plan attached thereto:

(i) describes by reference to the capital budget of the City and the Act the particular Projects and Costs to be financed in whole or in part by the Authority;

(ii) describes the plan for the financing of the Costs or Projects;

(iii) sets forth the method for which and by whom and the terms and conditions upon which money provided by the Authority shall be distributed to the City, which disbursements shall occur, subject to receipt by the Authority of such documentation as to the costs being reimbursed as the Authority shall reasonably require, at least monthly;

(iv) provides for the payment of such Costs by the City under such contracts as shall be awarded by the City or for the City to make a capital contribution of such proceeds as City funds to another entity for the payment or reimbursement of such Costs;

(v) requires every contract entered into by the City, or another entity receiving funds from the City, for Projects or Costs to be financed in whole or in part by the Authority to be subject to the provisions of the City Charter and other applicable laws governing contracts of the City or such entity, as the case may be; and

(vi) authorizes the Authority's assignment and pledge to the Trustee in trust for the benefit and security of the Bondholders and, to the extent specified in the Indenture, of Noteholders and the parties to ancillary and swap contracts of rights of the Authority under the Agreement.

City's Further Assurances. Pursuant to the Act, the City acknowledges the State's grant to the Authority and the Authority's pledge and assignment to the Trustee of, and disclaims ownership of, all subject to the terms of the Act: the City's right, title and interest in and to the Personal Income Taxes and the Sales Taxes, and all rights to receive the same and the proceeds thereof; and the City will protect and defend the Trustee's title thereto.

Separate Accounts and Records. The Authority and the City represent and covenant, each for itself, that: (a) Each of them will maintain its books, financial records and accounts (including, without limitation, interentity transaction accounts) in a manner so as to identify separately the assets and liabilities of each such entity; each has observed and will observe all applicable corporate procedures and formalities, including, where applicable, the holding of regular periodic and special meetings of governing bodies, the recording and maintenance of minutes of such meetings, and the recording and maintenance of resolutions, if any, adopted at such meetings; and all transactions and agreements between and among the Authority, the City and the Trustee have reflected and will reflect the separate legal existence of each entity and have been and will be formally documented in writing. (b) Neither the Authority nor the City has commingled or will commingle any of its assets, funds or liabilities with the assets, funds or liabilities of any other person or entity. Each of them has conducted and will conduct all business between itself and third parties in its own name and separate and distinct from the other.

Project Fund. A Project Fund is established to be held by the Authority. Money shall be deposited therein as provided in the Indenture. The money and investments in the Project Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Authority as described below.

The Authority shall pay from the Project Fund the Costs of Issuance, including any expenses of the City in connection with the issuance of the Bonds and Notes that are approved by the Authority, and disburse funds to the City to finance, by payment or reimbursement, Project Capital Costs. When all Costs of Issuance and Project Capital Costs have been paid or reimbursed, as evidenced by Officer's Certificates of the Authority and the City, any excess in the Project Fund shall promptly be paid to the Trustee for deposit in the Collection Account.

The Authority and the City shall develop, and may from time to time modify, procedures for the disbursement, at least monthly, of money to the City from the Project Fund, upon terms, conditions and documentation providing for compliance with the Act, appropriate provisions of the LFL, the Transitional Capital Plan, the Agreement, the Indenture, and the advice of Counsel as to the application of proceeds of Tax-Exempt Notes and Tax-Exempt Bonds. The City shall pay Costs out of Note and Bond proceeds under such contracts as shall be awarded by the City or make a capital contribution of such proceeds as City funds to another entity for the payment or reimbursement of such Costs.

Money in the Project Fund shall be invested and reinvested in accordance with the Act. Earnings thereon shall be transferred to the Collection Account as Building Aid or Tax Revenues, or otherwise applied in accordance with the Tax Code pursuant to an Officer's Certificate.

Indemnity. The City shall indemnify the Authority and hold it harmless against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and disbursements) that the Authority incurs arising out of or in relation to any Project.

Limited Purpose of Agreement. The Agreement provides for the issuance and payment of the Authority's obligations and the financing and refinancing of Project Capital Costs. Except as specified in the Agreement, the Authority, the City, and the Trustee shall have no liability to each other or to the Beneficiaries for the construction, reconstruction, acquisition, installation, physical condition, ownership or operation of any Project. The specific Project Capital Costs to be paid or reimbursed by the Authority shall be determined by the City in accordance with the Act.

Covenants of the City. The City covenants with the Authority, and consents to the pledge and assignment to the Trustee of its covenants, that:

(A) The City will at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on Tax-Exempt Bonds and Tax-Exempt Notes shall be excludable from gross income for federal income tax purposes pursuant to § 103(a) of the Code; and no funds of the City shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Tax-Exempt Bond or Tax-Exempt Note to be an arbitrage bond as defined in the Code and any applicable Regulations issued thereunder.

(B) The City in its papers and in the statements of its officials has referred and will refer to the Authority as a separate and distinct legal entity; and the City will take no action that is inconsistent with the Agreement and that would give any creditor of the City cause to believe either that any such obligations incurred by the City would be not only the obligation of the City, but also of the Authority, or that the City were not or would not continue to remain an entity separate and distinct from the Authority.

(C) To implement the State Covenant, an Authorized Officer of the City shall, not less than 30 days prior to the beginning of each fiscal year, and as often as he deems necessary but at least quarterly thereafter, certify to the Authority and the Trustee the Mayor's projection of Personal Income Taxes payable to the Authority each month during such fiscal year; and if the projected Personal Income Taxes are insufficient to meet at least 150% of maximum annual debt service on the Bonds, as certified by the Chairperson of the Authority pursuant to the Indenture, then (1) the Mayor shall so notify the State Comptroller, and (2) an Authorized Officer of the City shall, not less than 30 days prior to the beginning of each fiscal year in which such projected Personal Income Taxes are insufficient to meet at least 150% of such maximum annual debt service, and as often as he deems necessary but at least quarterly thereafter, certify to the Authority and the Trustee (in addition to other required matters) the City's projection of Sales Taxes available to be paid to the Authority each month during such fiscal year.

Statutory Pledge and Agreement ("City Covenant"). The City pledges and agrees with the Holders of the Outstanding Bonds and Notes that the City will not limit or alter the rights vested in the Authority by the Act to fulfill the terms of any agreements made with such Holders pursuant to the Act, or in any way impair the rights and remedies of such Holders or the security for such Bonds and Notes until such Bonds and Notes, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged. This pledge and agreement shall not be deemed to restrict any right the City may have to amend, modify or otherwise alter local laws imposing or relating to the Personal Income Taxes so long as, after giving effect to such amendment, modification or other alteration, the amount of Tax Revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration shall be not less than 150% of maximum annual debt service on the Bonds.

Statutory Requirement. To the extent required by the Act, the City agrees that it shall require every contract entered into by the City, or another entity receiving funds from the City, for projects or costs to be financed in whole or in part by the Authority to be subject to the provisions of the City Charter and other applicable laws governing contracts of the City or such entity, as the case may be.

Transfers to City. Subject to the provisions of the Act and the Agreement, all money received by the Authority which, together with other money available for the purposes of the Indenture, exceeds the amount required for such purposes shall be transferred to the order of the City daily or as soon as practicable but not later than the last day of each month.

City Acknowledgments. (a) The City acknowledges that its covenants and pledge and agreement for the benefit of the Holders constitute important security provisions of the Bonds and Notes, and to the fullest extent permitted by applicable federal and State law, waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support any assertion of any claim to the contrary.

(b) By acknowledging that its covenants and pledge and agreement for the benefit of the Holders constitute important security provisions of the Bonds and Notes, the City also acknowledges, to the fullest extent permitted by applicable federal and State law, that, in the event of any failure or refusal by the City to comply therewith, the Holders of the Bonds or Notes may have suffered monetary damages, the extent of the remedy for which may be, to the fullest extent permitted by applicable federal and State law, determined, in addition to any other remedy available at law or in equity, in the course of any action taken pursuant to the Agreement; and to the fullest extent permitted by applicable federal and State law, the City waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support any assertion of any claim to the effect that no such monetary damages have been suffered.

(c) The City further acknowledges that the acknowledgments and agreements described in paragraphs (a) and (b) above have been included as a result of negotiations with the underwriters of the first series of Bonds and the first Series of School Bonds and may further acknowledge if and the extent to which any provision of the Agreement has been amended, or any provision of a Series Resolution has been included therein, as a result of the same or similar negotiations.

Amendment. (A) The Agreement may be (1) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority and executed or approved by the City to the extent required by the Agreement and the Act, to (a) update the Transitional Capital Plan or (b) add to the covenants and agreements of the City or the Authority for the benefit of the Holders or surrender or limit for the benefit of the Holders any right or power of the City or the Authority; or

(2) amended by the parties with notice to the Trustee but without Bondholder or Noteholder consent to (a) cure any ambiguity or defect or (b) add provisions that are not prejudicial to the Holders of the Bonds and Notes, including provisions that do not take effect unless and until (i) no Bonds or Notes Outstanding prior to the adoption of such amendment remain Outstanding or (ii) such amendment is consented to by Holders in accordance with the further provisions of the Agreement.

(B) Except as described in the foregoing paragraph (A), the Agreement may be amended only by the City and the Authority with the written consent of a Majority in Interest of the Senior Bonds, the Recovery Bonds and Bonds issued as Parity Debt, the School Bonds and the Notes of each category (each acting as a separate class) to be Outstanding at the effective date thereof and affected thereby; but only with the unanimous written consent of the affected Holders to reduce the percentage of the Bonds and Notes required to be represented by the Holders giving their consent to any amendment. If their interests differ materially, the Holders of the Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt shall vote as separate classes from the Holders of Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt.

(C) Any amendment of the Agreement shall be accompanied by a Counsel's Opinion to the effect that the amendment is permitted by law and does not adversely affect the exclusion of interest on the Tax-Exempt Bonds and Tax-Exempt Notes from gross income for federal income tax purposes.

Beneficiaries. The Agreement is not intended for the benefit of and shall not be construed to create rights in parties other than the City, the Authority, the Fiduciaries, the Holders of Notes and Senior Bonds, and the other Beneficiaries to the extent specified in the Agreement and the Indenture.

APPENDIX B

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**NEW YORK CITY TRANSITIONAL
FINANCE AUTHORITY**

June 30, 2006 and 2005

CONTENTS

Grant Thornton

Accountants and Business Advisors

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
New York City Transitional Finance Authority

We have audited the accompanying financial statements of the governmental activities, the capital projects fund and the debt service fund of the New York City Transitional Finance Authority (the "Authority"), a component unit of the City of New York, New York, as of and for the years ended June 30, 2006 and 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the capital projects fund and the debt service fund of the Authority as of June 30, 2006 and 2005, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

New York, New York
October 17, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

The annual financial statements of the New York City Transitional Finance Authority (the "Authority") consist of two parts - management's discussion and analysis (this section) and the basic financial statements.

Our discussion and analysis of the financial performance of the Authority provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion & Analysis for State and Local Governments,* as amended. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. All revenues and expenses are taken into account regardless of when cash is paid or received.

The Authority's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period.

The reconciliations of the statements of revenues, expenditures and changes in fund balances of governmental funds to the statements of activities are presented to assist the reader in understanding the differences between entity-wide and governmental funds financial statements.

The Authority is a component unit of New York City (the "City") and, accordingly, is included in the City's financial statements. The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for general City capital purposes ("Future Tax Secured Bonds") to $11.5 billion as of June 30, 2006, which limit was reached during the fiscal year ended June 30, 2004. In July 2006, legislation increased the limit by $2 billion to $13.5 billion.

In addition, legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system, which have not been issued as of June 30, 2006.

The Authority is also authorized to have outstanding $2.5 billion of bonds and notes ("Recovery Bonds") to pay costs related to or arising from the World Trade Center attack. The Authority had as of June 30, 2006 and 2005, $1.84 billion and $1.96 billion, respectively, of Recovery Bonds outstanding.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements

During fiscal year 2006, total assets decreased by $459 million. Restricted cash and cash equivalents decreased by $126 million, restricted investments increased by $361 million, unrestricted cash and cash equivalents decreased by $1,147 million, restricted investments held for economic defeasance decreased by $40 million, personal income taxes receivable increased by $499 million and other assets decreased by $6 million.

At June 30, 2006, a decrease of $126 million in restricted cash and cash equivalents from the June 30, 2005 balance reflects the longer term of securities held for restricted purposes, and is offset by an increase of $361 million in restricted investments, resulting in a net increase of $235 million in restricted assets. This net increase in restricted assets has occurred because the grant funds received at June 30, 2005 and remaining on hand at June 30, 2006 are restricted for debt service payments, whereas grant proceeds on hand at June 30, 2005 were unrestricted.

The $1,147 million decrease in unrestricted cash and cash equivalents reflects the decrease in unrestricted grant proceeds from the City held at year-end. The $40 million decrease in restricted investments held in the economic defeasance escrow resulted primarily from the payment of debt service on the economically defeased bonds.

Income taxes receivable at each fiscal year-end are based on estimates of taxable personal income earned during the fiscal year, including during the period January 1 to June 30, for which taxes will be collected after year-end. The $499 million increase in personal income taxes receivable at June 30, 2006 compared to 2005 is the result of higher estimated total taxable personal income for the fiscal year ended June 30, 2006 to be subsequently collected than was estimated as of the prior year-end.

Total liabilities decreased by $252 million in fiscal year 2006. The primary changes were that the long-term portion of bonds payable decreased by $739 million, the current portion of bonds payable decreased by $5 million and personal income taxes payable to the City increased by $505 million. The decrease in bonds payable reflects the principal payments of $724 million made on Future Tax Secured Bonds by the Authority during the fiscal year 2006 and the issuance of $597 million of Future Tax Secured Bonds during the fiscal year ended June 30, 2006 which was used for defeasance of Future Tax Secured Bonds totaling $617 million.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements (continued)

Total general revenues decreased by $1,286 million in fiscal 2006. The primary components of this decrease were a decrease of $1,147 million as no unrestricted grant was received from the City in fiscal 2006 and a $147 million decrease in personal income taxes retained by the Authority. The $147 million decrease in personal income taxes is primarily due to a $1,320 increase in personal income tax revenue and an increase of $1,467 of personal income taxes remitted to the City during the fiscal year ended 2006 As discussed above, personal income tax revenues include estimates of amounts earned during the period to be received after year-end. The Authority paid its debt service during the year ended June 30, 2006, using the unrestricted grant received from the City at June 30, 2005, and retained $350 million of personal income taxes to defease bonds on June 26, 2006.

Total program expenses increased by $35 million in fiscal 2006, primarily from increased variable rate interest expense.

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements

Total assets decreased by $453 million in fiscal 2006. Restricted cash and cash equivalents decreased by $126 million, restricted investments increased by $361 million, unrestricted cash and cash equivalents decreased by $1,147 million, restricted investments held for economic defeasance decreased by $40 million and personal income tax receivable increased by $499 million.

Total liabilities increased by $499 million in fiscal year 2006, which reflects the increase of $467 million of deferred personal income tax revenue and an increase of personal income taxes payable of $32 million at June 30, 2006.

Total revenues decreased by $1,275 million in fiscal year 2006. The primary components of the decrease was the $1,147 million unrestricted grant received from the City in fiscal 2005 but not in fiscal 2006, and a $147 million decrease in personal income taxes retained.

Expenditures increased by $352 million in fiscal year 2006. The primary components of this increase were interest expense increased by $20 million and principal amount of debt retired increased by $335 million.

New York City Transitional Finance Authority

STATEMENTS OF NET ASSETS (DEFICIT)

June 30,
(in thousands)

	2006	2005
ASSETS		
Restricted cash and cash equivalents	$ 4,041	$ 130,637
Restricted cash escrow for economic defeasance	681	681
Restricted investments	367,477	5,985
Restricted investments escrow for economic defeasance	266,351	306,332
Unrestricted cash and cash equivalents	-	1,147,242
Personal income tax receivable	505,475	-
Personal income tax receivable from New York City - net	-	6,301
Unamortized bond issuance costs	52,914	58,767
Total assets	1,196,939	1,655,945
LIABILITIES		
Personal income tax payable to New York City	505,475	-
Personal income tax refunds payable - net	-	6,301
Accrued expenses	1,657	2,034
Accrued interest payable	130,853	135,500
Interest rate cap obligation	-	6,140
Bonds payable		
Portion due within one year	368,660	373,245
Portion due after one year	11,863,885	12,603,370
Unamortized deferred bond refunding costs	(172,928)	(193,717)
Unamortized bond premium	301,735	318,406
Total liabilities	12,999,337	13,251,279
NET ASSETS (DEFICIT)		
Restricted for economic defeasance	1,640	11,484
Deficit	(11,804,038)	(11,606,818)
Total deficit	$(11,802,398)	$(11,595,334)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

STATEMENTS OF ACTIVITIES

Year ended June 30,
(in thousands)

	2006	2005
EXPENSES		
General and administrative expenses	$ 9,595	$ 11,509
Amortization of deferred bond refunding costs	31,198	30,677
Interest expense	544,379	507,636
Amortization of debt issuance costs	4,979	5,376
Total program expenses	590,151	555,198
GENERAL REVENUES		
Personal income tax revenue	7,800,813	6,480,398
Less remittances to New York City	(7,450,813)	(5,983,304)
Personal income tax revenue retained	350,000	497,094
Unrestricted grant from New York City	-	1,147,242
Unrealized loss on economic defeasance investments	(4,384)	(1,182)
Cost of rate cap termination	(1,135)	-
Change in value of interest rate cap obligation	-	9,920
Investment earnings	38,606	16,157
Total general revenues	383,087	1,669,231
Change in net assets	(207,064)	1,114,033
DEFICIT - beginning of year	(11,595,334)	(12,709,367)
DEFICIT - end of year	$(11,802,398)	$(11,595,334)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2006
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ -	$ 4,041	$ 4,041
Restricted cash escrow for economic defeasance	-	681	681
Unrestricted cash and cash equivalents	-	-	-
Restricted investments	-	367,477	367,477
Restricted investments escrow for economic defeasance	-	266,351	266,351
Personal income tax receivable	-	505,475	505,475
Total assets	$ -	$1,144,025	$1,144,025
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ -	$ 1,657	$ 1,657
Personal income tax payable to New York City	-	38,475	38,475
Deferred personal income tax revenue	-	467,000	467,000
Total liabilities	-	507,132	507,132
Fund balances			
Reserved for debt service	-	369,861	369,861
Reserved for economic defeasance	-	267,032	267,032
Unreserved funds	-	-	-
Total fund balances	-	636,893	636,893
Total liabilities and fund balances	$ -	$1,144,025	$1,144,025

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2005
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ -	$ 130,637	$ 130,637
Restricted cash escrow for economic defeasance	-	681	681
Unrestricted cash and cash equivalents	-	1,147,242	1,147,242
Restricted investments	-	5,985	5,985
Restricted investments escrow for economic defeasance	-	306,332	306,332
Personal income tax receivable from New York City - net	-	6,301	6,301
Total assets	$ -	$1,597,178	$1,597,178
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ -	$ 2,034	$ 2,034
Personal income tax refunds payable - net	-	6,301	6,301
Total liabilities	-	8,335	8,335
Fund balances			
Reserved for debt service	-	134,588	134,588
Reserved for economic defeasance	-	307,013	307,013
Unreserved funds	-	1,147,242	1,147,242
Total fund balances	-	1,588,843	1,588,843
Total liabilities and fund balances	$ -	$1,597,178	$1,597,178

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds

Year ended June 30, 2006
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ -	$ 7,333,813	$ 7,333,813
Less remittances to New York City	-	(6,983,813)	(6,983,813)
Personal income tax revenue retained	-	350,000	350,000
Investment earnings	-	38,606	38,606
Unrealized loss on economic defeasance investments	-	(4,384)	(4,384)
Total revenues	-	384,222	384,222
EXPENDITURES			
Interest expense	-	572,723	572,723
Principal amount of bonds retired	-	724,015	724,015
Refunding bond issuance costs	-	4,083	4,083
General and administrative expenses	-	9,595	9,595
Total expenditures	-	1,310,416	1,310,416
Excess of revenues over expenditures	-	(926,194)	(926,194)
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	-	627,984	627,984
Payments to refunded bond escrow holder	-	(646,465)	(646,465)
Cost of termination of rate cap obligation	-	(7,275)	(7,275)
Total other financing sources and uses	-	(25,756)	(25,756)
Net change in fund balances	-	(951,950)	(951,950)
FUND BALANCES - beginning of year	-	1,588,843	1,588,843
FUND BALANCES - end of year	$ -	$ 636,893	$ 636,893

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds

Year ended June 30, 2005
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ -	$ 6,521,398	$ 6,521,398
Less remittances to New York City	-	(6,024,304)	(6,024,304)
Personal income tax revenue retained	-	497,094	497,094
Unrestricted grant from New York City	-	1,147,242	1,147,242
Investment earnings	-	16,157	16,157
Unrealized loss on economic defeasance investments	-	(1,182)	(1,182)
Total revenues	-	1,659,311	1,659,311
EXPENDITURES			
Interest expense	-	552,283	552,283
Principal amount of bonds retired	-	389,260	389,260
Refunding bond issuance costs	-	5,601	5,601
General and administrative expenses	-	11,509	11,509
Total expenditures	-	958,653	958,653
Excess of revenues over expenditures	-	700,658	700,658
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	-	980,239	980,239
Payments to refunded bond escrow holder	-	(974,638)	(974,638)
Gain from restructure of 2004 defeasance escrow	-	1,435	1,435
Transfers in (out)	(2,539)	2,539	-
Total other financing sources and uses	(2,539)	9,575	7,036
Net change in fund balances	(2,539)	710,233	707,694
FUND BALANCES - beginning of year	2,539	878,610	881,149
FUND BALANCES - end of year	$ -	$ 1,588,843	$ 1,588,843

The accompanying notes are an integral part of this statement.

RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET ASSETS (DEFICIT)

June 30,
(in thousands)

	2006	2005
Total fund balance - governmental funds	$ 636,893	$ 1,588,843
Amounts reported for governmental activities in the statements of net assets (deficit) are different because:		
Costs of debt issuance are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), the costs of debt issuance are reported as capitalized assets and amortized over the lives of the debt.	52,914	58,767
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), bond premiums are reported as a component of bonds payable and amortized over the lives of the related debt.	(301,735)	(318,406)
Proceeds from interest rate cap agreements are currently available financial resources and are recognized as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), this amount is considered a liability and is reported at fair value.	-	(6,140)
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements but are reported in the statements of net assets (deficit). Those liabilities consist of:		
Bonds payable	(12,232,545)	(12,976,615)
Accrued interest on bonds	(130,853)	(135,500)
Costs of bond refunding are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	172,928	193,717
Personal income taxes due to the Authority at year-end but not collected within sixty days of year-end are recognized as deferred revenue in the governmental funds balance sheets. In the statements of net assets (deficit) and changes in net assets, all personal income tax receivables are recognized as revenue and are included in net assets. The corresponding amount of personal income taxes payable to the City of New York is higher in the statements of net assets (deficit) for this reason:		
Personal income tax payable to New York City	(467,000)	-
Deferred personal income tax revenue	467,000	-
Net assets (deficit) of government activities	$(11,802,398)	$(11,595,334)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES

Year ended June 30,
(in thousands)

	2006	2005
Net change in fund balances - total governmental funds	$(951,950)	$ 707,694
Amounts reported for governmental activities in the statements of activities are different because:		
Refunding bond proceeds and payments to refunded bond escrow holder are reported as other financing sources and uses in the governmental funds, but increase and decrease long-term liabilities in the statements of net assets (deficit).	18,480	(5,601)
Governmental funds report costs of bond refundings as expenditures. However, in the statements of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to advance refund the bonds.	(27,115)	(26,510)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statements of net assets (deficit).	724,015	389,260
Governmental funds report costs of debt issuance as expenditures. However, in the statements of activities, the cost of debt issuance is amortized over the lives of the debt.	(4,979)	(5,376)
Governmental funds report bond premiums/discounts as other financing sources/uses. However, in the statements of activities, bond premiums/discounts are amortized over the lives of the debt as interest expense.	29,929	32,316
Governmental funds report the cost of termination of the interest rate cap as other financing uses. However, the statements of activities report cost of the termination net of carrying fair value of the agreement.	6,140	9,920
Interest expense is reported in the statements of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required.	(1,584)	12,330
Change in net assets of governmental activities	$(207,064)	$1,114,033

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE A - ORGANIZATION

The New York City Transitional Finance Authority (the "Authority") is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State"). The Authority is governed by a Board of five directors, consisting of the following officials of the City of New York (the "City"): the Director of Management and Budget (who also serves as Chairperson), the Commissioner of Finance, the Commissioner of Design and Construction, the City Comptroller and the Speaker of the City Council. Although legally separate from the City, the Authority is a component unit of the City and, accordingly, is included in the City's financial statements.

The Authority was created by State legislation enacted in 1997 to issue and sell up to $7.5 billion in bonds and notes ("Future Tax Secured Bonds") to fund a portion of the capital program of the City, the purpose of which is to maintain, rebuild and expand the infrastructure of the City. In June 2000, the State Legislature increased to $11.5 billion the Authority's capacity to issue bonds and notes for general City capital purposes. In June 2000, the State Legislature also increased the amount of Future Tax Secured Bonds which may be issued as variable rate debt from $750 million to $2.3 billion. As of June 30, 2004, the Authority had issued its statutory limit of $11.5 billion of Future Tax Secured Bonds. Subsequent to June 30, 2006, the capacity limit to issue bonds and notes for general City capital purposes was increased by $2 billion to $13.5 billion and the limit on Future Tax Secured Bonds that may be issued as variable rate debt was increased to $2.7 billion.

On September 13, 2001, the State Legislature authorized the Authority to have outstanding an additional $2.5 billion of bonds and notes ("Recovery Bonds") to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center.

Legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system; none of those obligations have been issued as of June 30, 2006.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a

NOTE B (continued)

whole, in accordance with Governmental Accounting Standards Board Statement No. 34. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due. For the years ended June 30, 2006 and 2005, since the Authority issued its statutory limit of bonds and notes for general City capital purposes in 2004, the governmental fund consists only of the Debt Service Fund. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt and is used for the operations of the Authority.

Bond and bond anticipation note premiums, discounts and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the entity-wide financial statements. The governmental fund financial statements recognize the premiums, discounts, as well as debt issuance costs, during the current period. The face amount of debt issued and premium received are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred bond refunding costs represent the accounting loss incurred in advance refunding of outstanding bonds. The deferred bond refunding costs are amortized over the lesser of the remaining life of the old debt or the life of the new debt.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditure is recognized when paid in the governmental fund financial statements.

Interest rate cap obligations, which originated from the sale of interest rate cap agreements, were terminated during the year ended June 30, 2006. The amount paid, net of the obligation at June 30, 2005 in the statement of net assets (deficit), is reported in the statements of activities and is shown as an expenditure in the governmental funds statements of revenues, expenditures, and changes in fund balances. In years prior to June 30, 2006, the interest rate cap obligations were reported in the statements of net assets (deficit) and were adjusted to their fair value at June 30 each year and the change in their fair value was reported as revenue or expense in the statements of activities.

NOTE B (continued)

The Authority receives City personal income taxes, imposed pursuant to State law and collected on behalf of the Authority by the State, to service its debt and pay its administrative expenses. Funds for bond debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City. During the year ended June 30, 2006, debt service was funded by an Unrestricted Grant received from the City on June 30, 2005. The Authority retained $350,000,000 of personal income taxes for a cash defeasance on June 26, 2006.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), as amended subsequent to June 30, 2006, the Authority is authorized to issue $13.5 billion Future Tax Secured Bonds. The Authority had issued $11.5 billion Future Tax Secured Bonds as of June 30, 2004. As of June 30, 2006 and 2005, the Authority had outstanding debt of $10.4 billion and $11.0 billion of Future Tax Secured Bonds, respectively, including $260 million and $292 million of economically defeased Future Tax Secured Bonds, respectively. The Authority includes the escrow funds for the economically defeased bonds in its assets and those funds provide for all future debt service on the economically defeased bonds.

In addition, the Act permits the Authority to have outstanding $2.5 billion of Recovery Bonds. As of June 30, 2006 and 2005, the Authority had outstanding $1.84 billion and $1.96 billion of Recovery Bonds, respectively.

The Authority funds its debt service requirements for Future Tax Secured Bonds and Recovery Bonds and certain operating expenditures from personal income taxes collected on its behalf by the State and, under certain circumstances, sales taxes. Sales taxes are only available to the Authority after such amounts required by the Municipal Assistance Corporation for the City of New York are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. No sales tax revenues were received or required during fiscal years 2006 and 2005.

All City personal income tax is paid by the State to the Authority. The Authority has pledged the personal income tax as collateral to secure its Future Tax Secured Bonds and Recovery Bonds. The Authority retains personal income taxes in an amount sufficient to pay debt service on its Future Tax Secured Bonds and Recovery Bonds and pay certain operating expenditures, and remits the difference to the City. The Authority has no taxing power.

NOTE C (continued)

Bonds are recorded at the principal amount outstanding and consist of the following:

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	--------------------------(in thousands)--------------------------			
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 226,190	$ -	$ (35,705)	$ 190,485
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	483,665	-	(42,270)	441,395
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	357,675	-	(75,010)	282,665
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	63,000	-	-	63,000
Variable rate tax-exempt bonds due in 2028 (a)	100,000	-	-	100,000
1999 Fiscal Series A				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2016	91,850	-	(20,865)	70,985
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	12,710	-	(5,445)	7,265
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	222,500	-	(33,320)	189,180

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	--------------------------(in thousands)--------------------------			
1999 Fiscal Series A (continued)				
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	$ 277,500	$ -	$ -	$ 277,500
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	292,600	-	(22,050)	270,550
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	14,315	-	(11,760)	2,555
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	100,000	-	-	100,000
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	50,000	-	-	50,000
1999 Fiscal Series C				
3.50% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2028	188,820	-	(106,505)	82,315
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	28,125	-	-	28,125
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	55,005	-	(19,140)	35,865
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	15,815	-	(6,345)	9,470

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	--------------------------(in thousands)--------------------------			
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 127,055	$ -	$ (98,655)	$ 28,400
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005	1,650	-	(1,650)	-
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	187,685	-	(138,400)	49,285
Variable rate tax-exempt bonds maturing in varying installments through 2030 (a)	100,000	-	-	100,000
2001 Fiscal Series B				
3.75% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2020	264,475	-	(36,355)	228,120
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	100,000	-	-	100,000
2001 Fiscal Series C				
3.65% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2022	308,815	-	(34,120)	274,695
Variable rate tax-exempt bonds maturing in varying installments through 2032 (a)	100,000	-	-	100,000
2002 Fiscal Series A				
4.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2031	139,490	-	(31,905)	107,585

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	---------------------------(in thousands)---------------------------			
2002 Fiscal Series B				
3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 360,950	$ -	$ (34,515)	$ 326,435
Variable rate taxable bonds maturing in varying installments through 2030 (a)	181,350	-	(4,185)	177,165
2002 Fiscal Series C				
4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	230,190	-	(30,955)	199,235
2003 Fiscal Series A				
3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,208,215	-	(56,975)	1,151,240
2003 Fiscal Series B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	662,630	-	(12,270)	650,360
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	39,575	-	(23,675)	15,900
2003 Fiscal Series C				
2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	368,665	-	(12,315)	356,350
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	150,000	-	-	150,000

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	--------------------------(in thousands)--------------------------			
2003 Fiscal Series D				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 475,695	$ -	$ (8,635)	$ 467,060
2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013	103,215	-	(19,030)	84,185
2003 Fiscal Series E				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	537,965	-	(39,375)	498,590
2004 Fiscal Series A				
3.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	145,000	-	(6,040)	138,960
2004 Fiscal Series B				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2032	535,255	-	(39,120)	496,135
2004 Fiscal Series C				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	531,365	-	(39,045)	492,320
2004 Fiscal Series D				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2017	662,010	-	(103,600)	558,410
2005 Fiscal Series A				
2.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2024	913,110	-	(53,305)	859,805

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance At June 30, 2006
	---------------------------	(in thousands)	---------------------------	
2005 Fiscal Series B				
2.50% to 4.125% serial tax-exempt bonds maturing in varying installments through 2020	$ 7,535	$ -	$ (725)	$ 6,810
2006 Fiscal Series A				
3.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	-	597,235	(23,980)	573,255
Total bonds payable, excluding Recovery Bonds	11,021,665	597,235	(1,227,245)	10,391,655
2003 Series 1 Recovery Bonds				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	462,100	-	(37,500)	424,600
2003 Series 2 Recovery Bonds				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	500,200	-	(41,400)	458,800
2003 Series 3 Recovery Bonds				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	109,450	-	(35,160)	74,290
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	883,200	-	-	883,200
Total Recovery Bonds payable	1,954,950	-	(114,060)	1,840,890
Total bonds payable	12,976,615	$597,235	$(1,341,305)	12,232,545
Less current portion of bonds payable	373,245			368,660
Bonds payable due after one year	$12,603,370			$11,863,885

NOTE C (continued)

(a) Variable rates are adjusted daily or weekly and represent the lowest rate of interest that would cause the adjustable rate bonds to have a market value equal to the principal amount. The rates cannot exceed 9%.

(b) Fiscal 2003 Series A bonds include bonds callable on November 1, 2011. The callable term bonds are $659,770,000 maturing on November 1, 2026 and $122,500,000 maturing on November 1, 2028. Capital appreciation bonds (accreted value of $112,365,000 on November 1, 2011), maturing on November 1, 2029, are also callable. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 14% per annum. The callable bonds are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning November 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

(c) $482,490,000 of Fiscal 2003 Series B term bonds maturing on February 1, 2029 are callable on February 1, 2011. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 10% per annum. Other bonds in this series callable on February 1, 2012 or later are those that mature on February 1, 2013, 2014 and 2015 with no change to the interest rate if not called. The Fiscal 2003 Series B Bonds maturing on February 1, 2029 are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning on February 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

Included as outstanding on June 30, 2006 and 2005 were $260,655,000 and $292,755,000, respectively, of Future Tax Secured Bonds that were economically defeased on March 24, 2004, and included as an asset is the escrow account that is held by the Authority's Trustee, funded from the proceeds of the sale of Fiscal 2004 Series D Future Tax Secured Bonds.

On November 3, 2005, the Authority issued $597,235,000 of Fiscal 2006 Series A Future Tax Secured Bonds and made an equity contribution from current revenue of $22,560,000 to advance refund $617,290,000 of its outstanding Future Tax Secured Bonds. This advance refunding resulted in an accounting loss of $24.4 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by $31.5 million and obtained an economic benefit of $20.6 million. In this defeasance, the proceeds, net of costs of issuance, were invested in Defeasance Collateral (as defined in the Authority's indenture) that was deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the defeased

NOTE C (continued)

bonds. Refundings using Defeasance Collateral result in the refunded bonds being removed from bonds outstanding.

On June 26, 2006, the Authority advance refunded $310,270,000 of outstanding Future Tax Secured Bonds with current revenue of $311,473,000. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral. This refunding resulted in an accounting gain of $14 million.

On April 1, 2005, the Authority issued $913,111,000 and $7,535,000 of Fiscal 2005 Series A and B Future Tax Secured Bonds to advance refund $918,655,000 of its outstanding Future Tax Secured Bonds. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral. This advance refunding resulted in an accounting loss of $59.2 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by $34.7 million and obtained an economic benefit of $29.1 million.

Bonds economically defeased remain a liability and the escrow deposited with the Authority's Trustee is an asset on the Authority's records. The bonds refunded with Defeasance Collateral have been removed from the financial statements as a liability of the Authority. As of June 30, 2006 and 2005, the Authority had bonds refunded with Defeasance Collateral totaling $4,224,295,000 and $3,296,735,000, respectively, of which $3,885,205,000 and $3,041,695,000, respectively, are still to be paid from the Defeasance Collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

Debt service requirements at June 30, 2006, for bonds payable to their maturity are as follows:

	Principal	Interest (a)	Total
	(in thousands)		
Year ended June 30,			
2007	$ 368,660	$ 544,722	$ 913,382
2008	105,905	534,936	640,841
2009	425,175	526,165	951,340
2010	460,815	506,911	967,726
2011	462,285	485,756	948,041
2012 to 2016	2,875,890	2,529,911	5,405,801
2017 to 2021	3,102,540	1,785,078	4,887,618
2022 to 2026	2,546,940	961,393	3,508,333
2027 to 2031	1,694,795	265,344	1,960,139
2032 to 2034	189,540	11,011	200,551
	$12,232,545	$8,151,227	$20,383,772

NOTE C (continued)

(a) Interest on the callable Fiscal 2003 Series A and Fiscal 2003 Series B term bonds which would convert to 14% and 10%, respectively, on the call date if not called and interest on the callable Fiscal 2003 Series A capital appreciation bonds which would convert to 14% per annum if not called are computed in this table at the 14% or 10% rates, as if those bonds were not called. Actual variable rates at June 30, 2006 averaged approximately 2.928% on tax-exempt bonds and 4.291% on taxable bonds, which are the rates used in this table. If variable interest is calculated at 5.00% on tax-exempt and 7.00% on taxable per annum (which are the rates utilized for retention), total interest would be increased to $8,971,560 from the $8,151,227 in the above table.

Debt service accounts have been established under the Authority's indenture to provide security for the payment of interest on and principal of bonds outstanding. The principal and interest required to be paid are to be deposited into the applicable debt service account in the quarter preceding the payment due date. During the year ended June 30, 2006, debt service was funded by the Unrestricted Grant received from the City on June 30, 2005.

At June 30, 2006 and 2005, the Authority maintained its required debt service accounts totaling $123,480,000 and $133,285,000, respectively, of which $13,350,000 and $13,060,000 were for principal retirement, respectively, and $110,130,000 and $120,225,000 were for interest payments, respectively. The Authority held approximately $243,997,000 in excess of required retention at June 30, 2006.

NOTE D - CASH AND CASH EQUIVALENTS

The Authority's restricted cash and cash equivalents consisted of bank deposits, commercial paper and U.S Government securities held by the Authority's Trustee in the Authority's name. The Authority's restricted cash escrow was cash held by the escrow agent in the economic defeasance account.

NOTE D (continued)

	June 30, 2006	June 30, 2005
	(in thousands)	
Restricted cash and cash equivalents		
Cash	$ 16	$ 2,852
Commercial paper	-	127,785
U.S. Government securities	4,025	-
	$4,041	$ 130,637
Restricted cash in escrow for economic defeasance	$ 681	$ 681
Unrestricted cash	$ -	$1,147,242

All of the commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

At June 30, 2006 and 2005, the carrying amounts of bank deposits were $16,000 and $2,852,000, respectively, and the bank balances were $19,000 and $2,815,000, respectively. At June 30, 2006 and 2005, $19,000 and $100,000, respectively, of the bank deposits were insured by the Federal Deposit Insurance Corporation. The remaining balances were not collateralized.

The Authority's investments classified as cash and cash equivalents have an original maturity date of three months or less. The Authority values those investments at cost plus accrued interest, which approximates market. See Note E below for the Authority's investment policy.

NOTE E - RESTRICTED INVESTMENTS

Pursuant to its Indenture and Investment Guidelines, the Authority is generally permitted to invest in obligations of, or guaranteed by, the U.S. Government; certain highly rated certificates of deposit (or similar instruments); certain highly rated obligations of, or guaranteed by, a state; certain highly rated commercial paper (or similar instruments); certain investment agreements with highly rated institutions; certain repurchase obligations with highly rated institutions; certain highly rated corporate securities (that do not exceed 20% of its investments); and certain highly rated taxable money market funds. The

NOTE E (continued)

Authority is also authorized to make certain other investments authorized pursuant to a supplemental indenture and to enter into the interest rate cap agreement described below. All holdings having an original maturity of more than three months are carried as investments.

For an investment, custodial credit risk is that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are not collateralized. All investments are held in the Authority's name by the trustee.

The Authority values commercial paper at cost plus accrued interest, which approximates market. At June 30, 2005, the below-referenced commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

The Authority's restricted investments in the economic defeasance escrow account at the Authority's trustee were valued at market, which resulted in an unrealized loss of approximately $4,384,000 at June 30, 2006 and an unrealized loss of approximately $1,182,000 at June 30, 2005. The investments included purchases of securities at a premium, resulting in higher interest-bearing investments and this was included in the verification agent's computations to assure that the escrow fund provides for all future debt service on the economically defeased bonds.

The Authority's restricted investments are as follows:

	June 30,	
	2006	2005
	(in thousands)	
Restricted investments		
Commercial paper	$ -	$ 5,985
U.S. Government securities	367,477	-
	$367,477	$ 5,985
Restricted investments for economic defeasance		
Federal Home Mortgage Corporation and Federal National Mortgage Association bonds, notes and STRIPS; United States bonds, notes and STRIPS	$266,351	$306,332

NOTE F - INTEREST RATE CAP OBLIGATIONS

In June 2002, the Authority entered into three interest rate cap agreements (the "Interest Rate Cap Agreements") with the New York City Housing Development Corporation ("HDC") (a component unit of the City) relating to certain variable rate bonds issued by HDC. In December 2005, the Authority paid $7,274,400 to HDC to terminate three Interest Rate Cap Agreements. The cost of termination of $1,135,000 included in the statement of activities for the year ended June 30, 2006 consists of the $7,274,400 termination payment reduced by the elimination of the interest rate cap obligation liability of $6,140,000. The termination payment of $7,274,400 is shown as an expenditure in the governmental funds statement of revenues, expenditures, and changes in fund balances.

At June 30, 2005, the Interest Rate Cap Agreements were estimated by the Authority's Swap Advisor to have a market value of $6.14 million. The valuation was based on an option valuation model using market interest rates and volatilities as of June 30, 2005. The valuation at June 30, 2005 reduced the interest rate cap obligation in the statement of net assets (deficit) and was reported as revenue in the statement of activities.

NOTE G - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority did not receive a grant from the City during the year ended June 30, 2006.

The Authority received an unrestricted grant from the City of $1,147,242,000 on June 30, 2005. These funds were received by the Authority's Trustee too late on June 30 to be invested on June 30, 2005; thus, the funds were held as cash overnight. Those funds were invested in July 2005 and were used to fund debt service requirements and administrative expenses during the year ended June 30, 2006 and into the year ended June 30, 2007.

The Authority received an unrestricted grant from the City of $400,000,000 on June 29, 2004. The Authority used the entire unrestricted grant received from the City on June 29, 2004 to fund debt service and administrative expenses during the year ended June 30, 2005, rather than retaining personal income tax revenues for those purposes.

NOTE H - ADMINISTRATIVE COSTS

The Authority's salaries, rent and expenditures related to carrying out the Authority's duties, including remarketing and liquidity fees not funded from cost of issuance or investment earnings, are funded from the personal income taxes flowing through the Authority's accounts.

NOTE I - SUBSEQUENT EVENT

On October 16, 2006, the Authority issued $500,000,000 of Future Tax Secured Bonds, Series 2007 A-1, tax-exempt fixed rate; $200,000,000 Future Tax Secured Bonds, Series 2007 A-2, taxable fixed rate; and $100,000,000 Future Tax Secured Bonds, Series 2007 A-3, tax-exempt variable rate.

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Although certain information relating to the financial condition of the State is set forth in this Official Statement, the State has not reviewed or approved this Official Statement, nor is it passing upon the accuracy or adequacy of the information set forth in this Official Statement.

Extracts of information about the State and its financial condition contained in the State's November AIS Update are set forth in this Appendix C. The State has authorized only such extracts from the November AIS Update to be included in this Official Statement and the State expressly disclaims inclusion of any other portion of the AIS or the November AIS Update in this Official Statement. The State is not under any contractual or statutory obligation to provide continuing disclosure regarding the information included in this Official Statement and the State DOB, which is responsible for organizing and presenting the information that appears in the AIS on behalf of the State, has not undertaken any updating procedures regarding the issuance of the Building Aid Revenue Bonds or with respect to the extracts of the November AIS Update included in this Official Statement. The State DOB will not be providing the Authority with any certifications with respect to such information.

Update to the 2006-07 Financial Plan

The AIS is updated quarterly in conjunction with the State's quarterly revisions to the Financial Plan that are required under State Finance Law. Each update to the AIS includes extracts from the most recently revised Financial Plan. DOB issued the Updated Financial Plan on October 30, 2006, extracts of which are set forth below.

The Updated Financial Plan is based on (a) revised budgetary projections for the 2006-07 through 2008-09 fiscal years, (b) actual operating results through the second quarter of the 2006-07 fiscal year, (c) an updated economic forecast, and (d) a review of program trends. Except where noted, the Financial Plan extracts herein present information on a budgetary (cash) basis of accounting, in accordance with the State Constitution and State Finance Law.

In the extracts from the Updated Financial Plan, readers will find:

- *Updated projections for the 2006-07 through 2008-09 fiscal years;*
- *A review of mid-year revenue and spending results;*
- *A revised economic forecast for the nation and State;*
- *A summary of changes from the First Quarterly Financial Plan issued on July 31, 2006;*
- *A discussion of Financial Plan risks and reserves;*
- *Updated monthly General Fund cash flow projections for 2006-07;*
- *Revised GAAP projections;*
- *Updated 2006-07 receipts and disbursements estimates for programs budgeted as part of the Health Care Reform Act (HCRA);*
- *Updated information on the State's debt measures; and*
- *Financial Plan tables that summarize (a) the General Fund, State Funds, and All Funds Cash-basis Financial Plans, (b) the monthly General Fund cash flow projections, (c) All Funds spending by agency and major program, (d) the quarterly HCRA cash flow projections, and (e) GAAP Financial Plans.*

The Updated Financial Plan projections are subject to revision as additional information becomes available about, among other things, the national and State economies, financial sector activity, *entitlement spending and social service caseloads, and State reimbursement obligations that are driven by local government activity. Key factors include: business tax collections; calendar year economic results; year-end financial sector bonus income; periodic school aid database updates that affect the distribution of certain aid; and quarterly Medicaid and welfare cycle trend analyses. Historically, many of these factors have been subject to a high degree of fluctuation across the forecast period, and could produce results that differ from the current projections.*

The Updated Financial Plan contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained therein.

The State accounts for all of its spending and revenues by the fund in which the activity takes place (such as the General Fund), and the broad category or purpose of that activity (such as State Operations). The Financial Plan tables sort all State projections and results by fund and category. The State Constitution requires the Governor to submit an Executive Budget that is balanced on a cash basis in the General Fund, — the Fund that receives the majority of State taxes, and all income not earmarked for a particular program or activity. Since this is the fund that is required to be balanced, the focus of the State's budget discussion is often weighted toward the General Fund.

The State also reports spending and revenue activity by two other broad measures: State Funds, which includes the General Fund and funds specified for dedicated purposes, but excludes Federal Funds; and All Governmental Funds ("All Funds"), which includes both State and Federal Funds and provides the most comprehensive view of the financial operations of the State.

Fund types of the State include: the General Fund; State special revenue funds ("SRFs"), which receive certain dedicated taxes, fees and other revenues that are used for a specified purpose; Federal SRFs, which receive Federal grants; State and Federal Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

The Updated Financial Plan is available on the DOB website at www.budget.state.ny.us or by contacting the Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705.

2006-07 UPDATED FINANCIAL PLAN EXTRACTS

UPDATED FINANCIAL PLAN AT-A-GLANCE

2006-07 Financial Plan At-A-Glance: Impact on Key Measures (billions of dollars)					
	2005-06	2006-07			Change
	Results	Enacted	July Update	Mid-Year	from July
Receipts (All Funds)					
Taxes	53.6	56.9	57.1	57.8	0.7
Miscellaneous Receipts	18.3	18.7	18.3	18.8	0.5
Federal Grants	35.1	35.6	35.9	36.2	0.3
Disbursements					
General Fund	46.5	50.8	51.0	51.3	0.3
State Funds	69.7	77.1	78.1	78.1	0.0
All Funds	104.3	112.5	113.6	114.0	0.4
Outyear Gap Forecast					
2007-08	n/a	3.7	3.2	2.4	(0.8)
2008-09	n/a	4.3	5.4	4.5	(0.9)
Key Reserves					
Spending Stabilization Reserve	2.0	1.8	0.8	0.8	0.0
Rainy Day Reserve	0.9	0.9	0.9	1.0	0.1
Cash-basis Surplus	2.0	n/a	n/a	1.1	1.1
Debt					
Debt Service as % All Funds	4.0%	4.2%	4.2%	4.5%	0.3%
State-Related Debt Outstanding	46.9	50.7	51.0	48.8	(2.2)

- Current year operations have improved since the July Update Financial Plan, resulting in a $1.1 billion projected General Fund surplus, due to roughly $700 million in higher receipts and $400 million in lower spending that impact surplus results.

- Of the $1.1 billion surplus, $500 million is expected to be set aside to guard against risks[1], $81 million is expected to be deposited in the Rainy Day Reserve to bring the balance to its statutory maximum of 2 percent ($1.0 billion), and the remaining amount is expected to be used in equal installments to reduce the outyear gaps.

- The estimated 2007-08 General Fund budget gap has been reduced from $3.2 billion at the July Update Financial Plan to $2.4 billion, and the 2008-09 gap is down roughly $900 million to $4.5

[1] Risks are discussed in the section entitled "Risks to the Financial Plan."

billion. At this time, the 2007-08 gap of $2.4 billion reflects the use of the entire spending stabilization reserve ($787 million) and a portion of the 2006-07 surplus ($256 million) to support operations in 2007-08. In addition, the 2008-09 gap of $4.5 billion is also reduced by the use of a portion of the 2006-07 surplus ($255 million).

- The Health Care Reform Act (HCRA) outyear gap, which is in addition to the General Fund gap, has been reduced by roughly $300 million to an annual amount of $420 million in 2007-08 and $1.0 billion in 2008-09.

- Since the July Update Financial Plan, estimated All Governmental Funds[2] receipts have been adjusted upward by roughly $1.1 billion primarily in the personal income tax (PIT), business taxes, and miscellaneous receipts, reflecting an increase in estimated PIT payments, and audit collections, as well as a payment from New York City that is subject to ongoing negotiations.

- All Funds spending projections for 2006-07 have increased by roughly $400 million. The increase is primarily due to the full reimbursement to New York City for the City University of New York (CUNY) costs ($428 million), which is offset in the Mid-Year Financial Plan by expected higher receipts from New York City, and the use of moneys previously set aside to reduce outyear debt service costs ($250 million), partially offset by downward revisions to spending projections for Public Health/HCRA, employee benefits, Judiciary, and Medicaid.

- General reserves have increased by $1.1 billion from the July Update Financial Plan consistent with the projected surplus for 2006-07. Projected year-end General Fund reserves consist of $1.0 billion from the estimated 2006-07 surplus, $1.0 billion in the Rainy Day Reserve after a planned deposit of $81 million, which is available only for unforeseen shortfalls after the beginning of the fiscal year, and $787 million available in a spending stabilization reserve.

- Reserves set aside for designated purposes are projected to decline by $250 million from the July Update Financial Plan. The change reflects the use of the Debt Reduction Reserve Fund, as expected, to reduce outyear debt service costs by $380 million.

- The economic forecast is relatively unchanged from the July Update Financial Plan. Real U.S. Gross Domestic Product of 3.5 percent is now forecast for 2006, with the economy expected to lose considerable momentum over the course of the year. Growth of 2.7 percent is projected for 2007, with rates of economic expansion that are slightly below the nation's long-term trend rate projected for much of the forecast horizon.

- State debt outstanding is projected to total $48.8 billion at the end of 2006-07, with debt service equal to roughly 4.4 percent of All Funds receipts. The decline of $2.2 billion from the July Update Financial Plan reflects delays in the timing of bond sales primarily for the EXCEL and the Advance Micro Devices (AMD) initiatives.

- On a Generally Accepted Accounting Principles (GAAP) basis, the State expects to end 2006-07 with an accumulated General Fund surplus of roughly $1.4 billion, an increase of $800 million from the July Update Financial Plan primarily due to the projected cash-basis surplus.

[2] Hereafter "All Funds". Comprises the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

- The State reported $49.1 billion in net assets at the end of 2005-06 on a GAAP basis. This does not reflect liabilities for retiree health care costs that will be reported starting with 2007-08 GAAP results under a new accounting rule -- Governmental Accounting Standards Board Statement 45 (GASB 45). The State continues to review a preliminary report prepared by the State's consultants. The report indicates that as of April 1, 2006 the State's total unfunded long-term liability could be roughly $47 billion based on several actuarial cost methods, or up to $54 billion based on one method, with the liability amortized over a period of up to 30 years. Beginning with the fiscal year ending March 31, 2008, the total unfunded liability will be disclosed in the footnotes to the financial statements as a long-term obligation, but only the annual amortized value (currently projected at roughly $2.7 billion beyond the current pay-as-you-go amounts of $1 billion based on several actuarial methods and $5.1 billion based on one method) would be recognized in the financial statements.

- The State's risk profile remains similar to what was described in the July Update Financial Plan, with a payment agreement with New York City and School Supportive Health Services audits presenting the most significant risks in the current year, and school finance litigation, economic uncertainties, adverse Federal actions, and future labor settlements posing the greatest potential long-term fiscal risks. However, given the fact that the updated Financial Plan has been revised to include significant reductions in spending and increases in receipts, DOB believes it is prudent to create additional reserves of $500 million to guard against current-year transaction risks.

SUMMARY OF MULTI-YEAR CHANGES TO THE JULY UPDATE FINANCIAL PLAN (GENERAL FUND)

Since the July Update Financial Plan, DOB has revised its revenue and spending estimates based on actual operating results through the first six months of the 2006-07 fiscal year,[3] a review of program trends that affect current service costs, and a revised economic forecast. The table below summarizes the impact of these revisions on the three-year operating forecast for the General Fund.

Revisions to General Fund Operating Forecast for 2006-07 Through 2008-09
Savings/(Costs)
(millions of dollars)

	2006-07	2007-08	2008-09
July Update Surplus/(Gap) Estimate (after use of reserves)	**0**	**(3,166)**	**(5,405)**
Personal Income Tax Receipts	*225*	*412*	*412*
Personal Income Tax Receipts Tranferred from RBTF	*75*	*138*	*138*
Business Tax Receipts	*420*	*(248)*	*(231)*
Medicaid	*359*	*538*	*658*
State University	*(74)*	*2*	*(33)*
School Aid	*(65)*	*(161)*	*12*
Video Lottery Terminal Revenue Revision	*0*	*(247)*	*0*
Judiciary	*60*	*(44)*	*(52)*
Disaster Assistance	*(38)*	*(58)*	*(30)*
Child Welfare Adjustment	*(33)*	*(67)*	*(81)*
Mental Hygiene	*32*	*(47)*	*(82)*
Employee Benefits	*31*	*116*	*72*
Transportation	*(18)*	*(7)*	*(157)*
All Other	*118*	*134*	*38*
Net Impact of Revenue and Spending Changes	**1,092**	**461**	**664**
Mid-Year Surplus/(Gap) Estimate (before use of 2006-07 surplus)	**1,092**	**(2,705)**	**(4,741)**
Use Portion of 2006-07 Surplus to Reduce Outyear Gaps	*(511)*	*256*	*255*
Reserve Portion of 2006-07 Surplus for Risks	*(500)*		
Maximum Rainy Day Reserve Deposit	*(81)*		
Mid-Year Surplus/(Gap) Estimate (after use of reserve/surplus)	**0**	**(2,449)**	**(4,486)**

The updated Financial Plan projects that the State will end 2006-07 with a surplus of $1.1 billion on a budgetary (cash) basis of accounting. Improved operations are due primarily to an upward revision to the revenue forecast of roughly $700 million and lower expected spending of nearly $400 million in Medicaid that impact surplus results.

[3] Operating results through the first six months are discussed in the section entitled "Mid-year Operating Results."

The 2007-08 budget gap is roughly $700 million below the level projected in the July Update Financial Plan. The positive revision to the revenue and spending forecast and the use of $256 million from the 2006-07 surplus (for planning purposes) account for the reduction. In addition, the gap estimate reflects the use of $787 million from the stabilization reserve as reported previously in the July Update Financial Plan. The gap for 2008-09 has decreased by over $900 million as a result of an improved revenue forecast and lower estimated spending, primarily for slowed Medicaid spending growth consistent with national trends, and the planned use of the remaining $255 million from the 2006-07 surplus.

Below is a description of the substantive revisions since the July Update Financial Plan.

- **Personal Income Tax (PIT)**: Receipts have been revised upward by $300 million, including transfers, based on year-to-date results and DOB's latest economic forecast. The outyear estimates also reflect growth associated with an increase in extensions and final return payments related to the 2006 tax year.

- **Business Taxes**: The 2006-07 increase reflects stronger than anticipated tax base and audit collections. The decrease in the outyear estimates primarily reflect an increase in estimated refunds associated with the current year base increase, as well as a return to historical levels of audit collection results.

- **Medicaid**: Spending estimates have been revised downward by roughly $359 million in 2006-07 (growing to $538 million in 2007-08 and $658 million in 2008-09) due to $190 million in recurring a savings attributable to overall lower-than-expected trends in utilization, costs and Family Health Plus enrollment. In addition, the reconciliation of actual 2005 base year costs used to calculate the cap on local Medicaid costs resulted in lower local government costs and a resultant reduction in State costs ($198 million in 2006-07; $366 million in 2007-08; and $583 million in 2008-09). Local governments permanently benefit from lower cap payments attributed to slowed program growth and implementation of cost containment. These savings are partially offset by additional funding for bills passed at the end of the legislative session including funds for the Westchester Hospital ($19 million in 2006-07; $18 million in 2007-08; and $14 million in 2008-09)

- **State University (SUNY)**: Spending increases primarily reflect higher-than-expected energy costs and an earlier than planned payment of the State subsidy to SUNY hospitals.

- **School Aid**: The spending estimate has increased due to updates in expenditure estimates provided by the State Education Department and a projected shortfall in the receipt of Federal Medicaid reimbursement for certain special education costs.[4]

- **Video Lottery Terminals**: Outyear revenue projections for VLTs have been revised due to a delay in the anticipated opening of the Aqueduct VLT facility from October 2007 to April 2008, which results in an increase in General Fund support for Sound Basic Education (SBE) Aid in 2007-08.

[4] The Federal government's audit of School Supportive Health Services claims is discussed in the section entitled "Risks to the Financial Plan."

- **Judiciary**: Lower spending in 2006-07 primarily includes a revision in the timing of costs for the Court Facilities Incentive Aid (CFIA) Fund and personal service revisions due to slower than expected judgeship appointments.

- **Disaster Assistance**: Includes aid to the communities impacted by the summer flooding in Central New York and the early snow in Western New York. These amounts reflect direct aid to individuals, families and businesses, as well as assistance to localities in meeting the required match to Federal grants for repair, recovery, and future disaster mitigation.

- **Children and Family Services**: Reflects upward trends in local district claims for reimbursement for child welfare costs.

- **Mental Hygiene**: Includes delays in new local program initiatives and bed development, as well as additional operational efficiencies. Revised outyear costs are due to rising residential costs, Federal aid reductions, enhanced community development, and increased bed capacity for sexually violent predators confined in psychiatric centers.

- **Employee Benefits**: Costs have been revised downward based on actual experience to date, and updated information, primarily in the area of pensions, health insurance, and Social Security.

- **Transportation**: Includes General Fund support to eliminate projected outyear shortfalls in the Dedicated Highway and Bridge Trust Fund, which have increased by $150 million -- from $40 million to $190 million -- in 2008-09. The revisions reflect updated revenue estimates and General Fund support to close a $6 million deficit in the Public Transportation Operating Assistance Fund in 2006-07, and an additional $3 million in 2007-08.

- **Other changes**: These include lower debt service costs in 2007-08 ($189 million) consistent with revised spending patterns in New York City for the issuance of State bonds associated with the EXCEL program ($75 million) and a later than planned bond sale for the AMD project ($83 million). Other adjustments include lower than expected spending for public health, the new Office of the Medicaid Inspector General, Division of Probation and Correctional Alternatives, and Welfare.

The updated Financial Plan includes full reimbursement to New York City for CUNY related costs ($428 million). These costs are offset by higher expected miscellaneous receipts from New York City that are the subject of ongoing negotiations between the State and New York City.

In addition, reserves previously set aside for debt reduction purposes ($250 million) were transferred from the General Fund and used to defease debt and reduce long-term debt service costs by $380 million (net present value savings of 10.4 percent). The use of reserves to reduce debt is reflected as debt service spending in 2006-07.

2006-07 RECEIPTS IN THE MID-YEAR PLAN

Summary of All Funds Receipts Changes to the July Update

2006-2007 Budget Receipts Estimates, Revised for Mid-year Update (millions of dollars)				
			Change	
	July Update	Mid-Year	Dollar	Percent
General Fund	50,005	51,162	1,157	2.3%
State Funds	75,396	76,694	1,298	1.7%
All Funds	111,214	112,877	1,663	1.5%

General Fund receipts, including transfers from other funds, are now projected to total $51.2 billion in 2006-07, an upward revision of $1.2 billion from the July Update Financial Plan estimate. State Funds and All Funds receipts have increased by $1.3 billion and $1.7 billion, respectively. All Funds tax receipts are now projected to total $57.8 billion, an increase of nearly $800 million from the July Update Financial Plan, primarily due to upward revisions to projections for PIT and corporate franchise tax. In addition, miscellaneous receipts collections have also been revised upward to reflect an expected payment that is subject to ongoing negotiations with New York City, revisions to HCRA receipts, and a one-time fine collection.

Personal Income Tax (PIT)/Revenue Bond Tax Fund

All Funds PIT receipts for 2006-07 have been increased by $300 million, and is entirely due to stronger-than-expected results in estimated tax payments for the current 2006 tax year.

General Fund PIT receipts have been revised upward by $225 million from the July Update Financial Plan, which reflect an additional $300 million in current year estimated payments, which includes a $75 million increase in the amount of receipts deposited to the Revenue Bond Tax Fund (RBTF) that are transferred to the General Fund.

Projected General Fund PIT receipts for 2007-08 have been increased by $412 million (1.7 percent). The increase is attributable to higher current year (2007) estimated payments of $300 million, along with an increase in extension and final return payments on tax year 2006 liabilities of $125 million each, offset by an additional transfer to the RBTF of $138 million. Projected General Fund PIT receipts for 2008-09 have been similarly revised.

User Taxes and Fees

General Fund and All Funds user taxes and fees for 2006-07 are reduced by $31 million and $49 million, respectively, primarily due to the reduction in sales and use tax collections due to higher fuel prices and lower light truck sales offset by an alcohol and beverage license fee accounting adjustment.

All Funds receipts have been reduced in 2007-08 and 2008-09 by $73 million and $85 million, respectively, to reflect year-to-date collections and modestly weaker economic assumptions for the sales tax forecast partially offset by a slight increase in alcohol and beverage license fees.

Business Taxes

All Funds business tax receipts for 2006-07 are up $518 million or 6.9 percent, mainly due to higher-than-anticipated growth in audit collections and significant growth in corporate collections to date that together are estimated to increase corporate franchise tax receipts by $550 million from the July Update Financial Plan estimates. Estimated All Funds receipts for corporate and utilities taxes remain unchanged from the July Update Financial Plan, while estimated receipts for the bank tax and insurance taxes collectively increased by $10 million and estimated receipts from the petroleum business tax were revised downward by $42 million.

General Fund business tax receipts have been increased by $420 million in 2006-07, reflecting stronger-than-expected growth in corporate franchise tax receipts. Estimated General Fund receipts from the insurance taxes, the bank tax, and corporation and utilities taxes remain unchanged from the July Update Financial Plan.

Estimated General Fund corporate franchise tax receipts were decreased by $409 million over the 2007-08 and 2008-09 period, and bank tax receipts were reduced by $56 million over the two years combined. Projected General Fund receipts from insurance taxes are decreased by $14 million for 2007-08 and remain unchanged for 2008-09. Estimated corporation and utilities tax receipts for 2007-08 and 2008-09 remain unchanged from the July Update Financial Plan.

Other Taxes

General Fund and All Funds receipts estimates for other taxes are unchanged from the July Update Financial Plan, however the estate tax estimate has been revised up by $12 million which is entirely offset by an unexpected refund in the gift tax. Positive collection trends continue in the estate tax as well as the real estate transfer tax. However, the real estate market is exhibiting a modest leveling off.

Projected General Fund and All Funds receipts for 2007-08 and 2008-09 are unchanged from the July Update Financial Plan.

Miscellaneous Receipts

General Fund miscellaneous receipts estimates have been revised upward by $475 million in 2006-07 to reflect an expected payment from New York City and a one-time fine collected by the State. All Funds miscellaneous receipts are up $543 million, mainly due to increased HCRA receipts resulting from a revised forecast and collections to date in addition to the General Fund increases identified above.

Projected General Fund miscellaneous receipts increased by $2 million in 2007-08 and increased by $79 million in 2008-09 due to forecasted growth in fee income. All Funds receipts have been increased consistent with the HCRA revisions described above.

Summary of All Funds Annual Receipts Changes

Annual Growth in Receipts, 2005-06 Results to 2006-07 Current Forecast (millions of dollars)				
	2005-06	2006-07	Annual Change	
	Results	Mid-Year	Dollar	Percent
General Fund	47,206	51,162	3,956	8.4%
State Funds	71,728	76,694	4,966	6.9%
All Funds	107,027	112,877	5,850	5.5%

In 2006-07, General Fund receipts, including transfers from other funds, are projected to total $51.2 billion. State Funds receipts, which include receipts from both the General Fund and other funds where dedicated taxes, assessments, tuition revenues, HCRA resources and other non-Federal revenues are reflected, is projected to total $76.7 billion in 2006-07. All Funds receipts, which include Federal aid, is projected to total $112.9 billion in 2006-07.

Annual Receipts 2006-07 Budget Receipts Estimates - Annual Increases/(Decreases) (millions of dollars)			
	General Fund	State Funds	All Funds
2005-06 Receipts Results	**47,206**	**71,728**	**107,027**
Personal Income Tax	2,136	3,677	3,677
User Taxes and Fees	(423)	(282)	(282)
Business Taxes	815	907	907
Other Taxes	43	(46)	(46)
Miscellaneous Receipts	881	532	518
Federal Grants	180	178	1,076
Transfers From Other Funds	324	n/a	n/a
2006-07 Receipts Estimate	**51,162**	**76,694**	**112,877**
Annual $ Change	***3,956***	***4,966***	***5,850***
Annual % Change	***8.4%***	***6.9%***	***5.5%***

Personal Income Tax (PIT)

All Funds 2006-07 PIT receipts are projected to increase by just under $3.7 billion or 11.9 percent over the prior year, principally reflecting expected growth in withholding of $1.6 billion (6.7 percent), growth in estimated taxes of $1.3 billion (14.1 percent) and lower anticipated refunds of $435 million (7.6 percent). The decline in 2006-07 refunds is primarily attributable to the $552 million increase in 2005 tax year refunds paid in the last quarter of 2005-06.

Business Taxes

All Funds 2006-07 business tax receipts are projected to increase by $907 million or 12.8 percent over the prior year. The overall increase in the business tax category is due primarily to growth in the corporate franchise tax (31 percent) and insurance tax (10 percent), offset by declines in corporation and utilities taxes (5 percent), the bank tax (9.6 percent) and the petroleum business tax (1.8 percent).

User Taxes and Fees

All Funds 2006-07 user taxes and fees are projected to decrease by $282 million or 2.0 percent from 2005-06. The decline in 2006-07 is attributable to a decrease in sales and use tax collections from the enactment of the permanent exemption on clothing and footwear priced under $110, the tax law change of capping sales and compensating use taxes on motor fuel and diesel motor fuel at 8 cents per gallon and the increase in the vendor credit allowance.

Other Taxes

All Funds 2006-07 other tax receipts are projected to be $46 million or 2.5 percent less than the prior year. The year over year decline is attributable to the expected weakness in real estate transfer tax collections compared to last year.

Miscellaneous Receipts

All Funds miscellaneous receipts are projected to increase by $518 million from 2005-06. The growth is comprised of higher expected receipts in the General Fund ($881 million) offset by a net decline in other funds). General Fund growth primarily reflects the expected receipt of a $428 million payment from New York City in 2006-07 and one-time fines collected in 2006-07. Capital Projects receipts increase to finance higher spending on projects for transportation ($312 million), economic development ($152 million), SUNY ($84 million), and environment ($80 million), as well as timing related year-to-year shifts of authority bond proceeds reimbursements resulting from delayed or deferred 2005-06 bond sales. Special Revenue receipts decline due to the receipt of health care conversion proceeds in 2005-06 that are being used to support State Medicaid and other public health care costs in 2006-07 ($1.7 billion), partially offset by projected increases in provider assessments ($312 million), SUNY ($271 million), and lottery receipts, including VLT revenues ($136 million).

Federal Grants

All Funds Federal grants are projected to increase by $1.1 billion from 2005-06 to total $36.2 billion. Federal aid changes generally correspond to changes in federally-reimbursed spending and do not necessarily reflect changes in aid levels for New York authorized by Congress. The annual growth is largely due to increases in the areas of Medicaid ($747 million), Welfare ($480 million), Homeland Security ($229 million) and SUNY ($172 million). In addition, the State expects to receive Federal monies in 2006-07 related to Medicare Part D, including a $120 million one-time reimbursement for costs associated with initial implementation delays experiences nationwide ($180 million). These increase are partially offset by expected declines in Child and Family Services ($379 million) and other modest decreases in various agencies.

2006-07 SPENDING IN THE MID-YEAR PLAN

Summary of All Funds Changes to the July Update

2006-07 Spending Estimates, Revised for Mid-Year Plan (millions of dollars)				
			Change	
	July Update	Mid-Year	Dollar	Percent
General Fund	50,984	51,299	315	0.6%
State Funds	78,081	78,065	(16)	0.0%
All Funds	113,607	114,048	441	0.4%

The Mid-Year Plan projects General Fund spending in 2006-07 that is $315 million higher than forecast at the time of the July Update Financial Plan. State Funds spending is down by $16 million, mainly due to projected decreases in HCRA, including Family Health Plus, spending that is partially offset by the General Fund increases. All Funds spending is now estimated at $114.0 billion in 2006-07, an increase of $441 million over the last update, mainly due to increases in Federal Aid, primarily in Medicaid. The main revisions to 2006-07 All Funds spending estimates since the July Update Financial Plan are summarized in the following table.

Revisions to 2006-07 Spending Forecast July Update to Mid-Year Plan -- Increases/(Decreases) (millions of dollars)	General Fund	State Funds	All Funds
2006-07 July Update Estimate	**50,984**	**78,081**	**113,607**
Reimbursement to NYC for CUNY costs	428	428	428
Use of Reserves to reduce high cost debt	250	250	250
Medicaid reestimates	(359)	(440)	(23)
Public Health/HCRA	(6)	(79)	(79)
State University of New York	50	55	55
School Aid (excludes EXCEL)	52	52	52
Employee Benefits/Other	(38)	(39)	(44)
Judiciary Reestimates	(23)	(37)	(37)
All Other	(38)	(207)	(161)
2006-07 Mid-Year Estimate	**51,299**	**78,065**	**114,048**
$ Change	***315***	***(16)***	***441***
% Change	***0.6%***	***0.0%***	***0.4%***

Full reimbursement to New York City for CUNY-related costs, the use of debt reduction reserves to reduce long-term debt service costs, and Medicaid revisions are responsible for most of the General Fund spending change since the July Update Financial Plan. Other upward revisions reflect increased school aid costs based on revised spending projections from the Education Department and a projected decrease in

Federal Medicaid reimbursement used to offset school aid spending; and higher spending in SUNY primarily for energy costs. In addition, spending has been lowered in various other areas including Judiciary personal service due to slower than expected judgeship appointments, as well as employee benefit costs mainly for employee health insurance and social security.

The State Funds changes are consistent with the General Fund revisions described above, and include lower spending for various public health programs financed by HCRA including Elderly Pharmaceutical Insurance Coverage, Child Health Plus, and Family Health Plus.

In All Funds, in addition to the State Funds changes as noted above, Federal aid has been adjusted upward to reflect additional Federal Medicaid reimbursement ($400 million) and hospital grants under the Community Health Care Conversion Demonstration Project ($169 million) based on actual experience to date, which is partially offset by a reduction in estimated Family Health Plus spending.

Summary of All Funds Annual Spending Changes

Annual Growth in Spending, 2005-06 Results to 2006-07 Mid-Year Forecast (millions of dollars)				
	2005-06	2006-07	Annual Change	
	Results	Mid-Year	Dollar	Percent
General Fund	46,495	51,299	4,804	10.3%
State Funds	69,723	78,065	8,342	12.0%
All Funds	104,341	114,048	9,707	9.3%

In 2006-07, General Fund spending, including transfers to other funds, is projected to total $51.3 billion. State Funds spending, which includes spending from both the General Fund and other funds supported by dedicated taxes, assessments, tuition revenues, HCRA resources and other non-Federal revenues, is projected to total $78.1 billion in 2006-07. All Funds spending, the broadest measure of the State Budget that includes Federal aid, is projected to total $114.0 billion in 2006-07.

Size of the Budget 2006-07 Budget Spending Estimates - Annual Increases/(Decreases) (millions of dollars)			
	General Fund	State Funds	All Funds
2005-06 Actual Spending Results	**46,495**	**69,723**	**104,341**
Medicaid (including administrative costs)	538	1,012	1,688
Public Health (including HCRA)	59	518	454
School Aid (Excludes EXCEL)	1,087	1,470	1,486
Other Education Aid	252	271	323
Local Property Tax Relief/STAR	0	828	828
Higher Education	778	1,048	1,080
Social Services	135	145	199
Mental Hygiene	314	388	352
Transportation	(87)	179	333
General State Charges	388	428	450
Debt Service/Use of Debt Reduction Reserve	54	608	608
Correctional Services	466	458	487
Judiciary	182	203	206
Municipal Aid	158	158	158
All Other	481	629	1,054
2006-07 Mid-Year Spending Estimate	**51,299**	**78,065**	**114,048**
Annual $ Change	***4,804***	***8,342***	***9,707***
Annual % Change	***10.3%***	***12.0%***	***9.3%***

Medicaid: Higher State costs are driven by modest increases in utilization, the total number of recipients and medical inflation (roughly $700 million), the State cap on local Medicaid expenditures ($327 million), the

State takeover of Family Health Plus ($149 million), as well as program changes associated with Medicare Part D and HCRA. This growth is offset by the receipt of hospital assessment revenue used to finance a portion of General Fund costs ($212 million).

Public Health (HCRA): Increases are primarily the result of higher spending for Graduate Medical Education, Healthy New York, AIDS Drug Assistance Program and cancer services, as well as targeted investments for anti-tobacco programs, Physicians Excess Medical Malpractice, and stockpiling medications and supplies for Avian Flu.

School Aid: Reflects an increase of nearly $1.3 billion in school aid on a school year basis. Annual increases are provided for most categories of aid, including SBE Aid ($375 million), Supplemental Extraordinary Needs Aid ($136 million), Excess Cost Aid ($126 million), Transportation Aid ($100 million), Building Aid ($96 million), Flex Aid ($86 million), Tax Limitation Aid ($76 million), BOCES ($55 million), and additional Pre-K ($50 million), as well as other categorical and formula-based programs.

School Construction (EXCEL): The State expects to finance roughly $800 million of the $2.6 billion EXCEL program in 2006-07 and the balance in 2007-08. The original expectation was for $1.8 billion of financing to occur in 2006-07. Based on current accounting treatment, spending for EXCEL is not reflected in actual cash-basis results since spending will occur directly from bond proceeds.

Other Education Aid: Spending is driven by enrollment and cost increases in special education programs; additional funding for legislatively-directed education-related programs; aid enhancements for libraries; public broadcasting; vocational rehabilitation services; math and science high schools; and increases for agency operations.

Local Property Tax Relief: Estimates reflect the new local property tax rebate/credit program ($675 million) and growth of $153 million in the existing School Tax Relief (STAR) program associated with changes in property valuations, school tax rates, increased number of STAR exemptions, and an enhancement in the benefit for senior citizens.

Higher Education: Reflects an expansion of SUNY and CUNY capital programs, operating increases for senior and community colleges, as well as a full reimbursement to New York City for CUNY-related costs. Eligibility limits on the Tuition Assistance Program partially offset the growth in aid to public universities.

Social Services: Public Assistance caseloads continue to decline, but cost-of-living adjustments for foster care workers, increased local claims under the open-ended child welfare services program, and the loss of one-time offsets drive spending growth.

Mental Hygiene: Additional funding is provided for new or expanded community-based initiatives, as well as capital improvements and inflation in operating costs at State-operated and non-profit facilities and programs. The estimates reflect maximizing Federal aid, audit recoveries, overtime controls, and efficiency efforts for certain local programs.

Transportation: The annual change reflects the acceleration of $245 million in transit aid to 2005-06 from 2006-07, and additional capital spending pursuant to the second year of the Department of Transportation's five-year Capital Plan.

General State Charges: Premiums for the State employee health plan are projected to increase by 9.1 percent in 2006-07. Spending growth is also attributable to increases in the State's pension contribution rate (from 8.8 percent to 10.2 percent) applied to higher salary costs.

Debt Service: Increases in bond-financed capital spending as detailed later in this report drive most of the growth in debt service.

Advanced Micro Devices (AMD): The State expects to finance $650 million for this economic development project in 2007-08. The original expectation was for this financing to occur in 2006-07. Like EXCEL, this spending in not reflected in actual cash-basis accounting reports.

Other Changes: Other increases include retroactive lump sum collective bargaining payments for correctional officers; increased operational costs including expected salary increases for the Judiciary; and second year increases in funding for local governments under the Aid and Incentives for Municipalities program, as well as additional unrestricted aid.

Based on current accounting treatment, roughly $1.9 billion of capital spending for projects spent directly from bond proceeds is not reflected in the State's budgetary basis results. A table at the end of this Mid-Year Plan details the 2006-07 "off-budget" capital spending, which is roughly $900 million more than 2005-06 (mostly for EXCEL).

Projected 2006-07 Year-End Balances (General Fund)

DOB projects the State will end the 2006-07 fiscal year with a General Fund balance of $3.1 billion, as detailed below.

General Fund Estmated Closing Balance 2006-07
(millions of dollars)

	July Update	*Change*	*Mid-Year*
Closing Fund Balance	***2,278***	***842***	**3,120**
Statutory Rainy Day Reserve Fund	944	*81*	1,025
Contingency Reserve Fund	21	*0*	21
Spending Stabilization Reserve	787	*0*	787
Remaining 2006-07 Surplus (after Rainy Day deposit)	0	*1,011*	1,011
Community Projects Fund	276	*0*	276
Debt Reduction Reserve	250	*(250)*	0

The reserves consist of $1.0 billion in the State's Rainy Day Reserve, which, after a planned deposit of $81 million, will increase the balance to its statutory maximum of 2 percent of spending; $21 million in the Contingency Reserve for litigation risks; and $500 million of the 2006-07 surplus set aside in a reserve for risks. Reserves set aside for planned commitments include $787 million in a spending stabilization reserve (the amount of the 2005-06 surplus remaining after balancing the 2006-07 budget) and $511 million from the projected 2006-07 surplus that is currently planned to be used in equal amounts to lower the projected 2007-08 and 2008-09 budget gaps, as well as $276 million in the Community Projects Fund to finance existing legislative and gubernatorial initiatives.

The $250 million reserve for debt reduction is being used, as planned, to reduce high cost debt and future debt service costs.

OPERATING RESULTS, APRIL THROUGH SEPTEMBER 2006

GENERAL FUND

The General Fund ended the first six months of the 2006-07 fiscal year with a cash balance of $4.7 billion, $345 million lower than the July Update Financial Plan projection. This variance is attributable to $320 million in spending occurring earlier than planned and $25 million in lower than expected receipts.

General Fund Year-to-Date Results vs. July Update Financial Plan Projections

2006-07 Fiscal Year
Year-to-Date Results through September 2006
General Fund Results vs. July Update Projections
(millions of dollars)

	July Update Projection	Actual Results	Favorable/ (Unfavorable) vs. Plan	Increase/ (Decrease) from 2005-06
Opening Balance (April 1, 2006)	**3,257**	**3,257**	**n/a**	**711**
Receipts	**26,095**	**26,070**	**(25)**	**1,657**
Personal Income Tax	12,031	12,071	40	1,061
User Taxes and Fees	4,188	4,151	(37)	(277)
Business Taxes	2,714	2,697	(17)	319
All Other Taxes, Receipts & Grants	1,549	1,640	91	417
Transfers From Other Funds	5,613	5,511	(102)	137
Disbursements	**24,273**	**24,593**	**(320)**	**2,558**
Local Assistance	14,705	15,246	(541)	1,854
State Operations	5,252	5,157	95	540
Personal Service	*3,930*	*3,896*	*34*	*405*
Non-Personal Service	*1,322*	*1,261*	*61*	*135*
General State Charges	2,805	2,663	142	(2)
Transfers To Other Funds	1,511	1,527	(16)	166
Change in Operations	**1,822**	**1,477**	**(345)**	**(901)**
Closing Balance (September 30, 2006)	**5,079**	**4,734**	**(345)**	**(189)**

Through September 2006, General Fund receipts, including transfers from other funds, totaled $26.1 billion, $25 million lower than the July Update Financial Plan forecast. This decrease is primarily due to lower than expected collections in the sales tax, corporate franchise taxes, and transfers from other funds, which is partially offset by higher than anticipated estimated tax payments on personal income and miscellaneous receipts.

General Fund disbursements, including transfers to other funds, totaled $24.6 billion, $320 million above the July Update Financial Plan estimate. The vast majority of variances are timing-related and are not expected to impact year-end results. Local assistance spending for the first six months exceeded projections by $541 million. Earlier than anticipated initial school year aid payments, later-than-expected application of the public assistance offset, payments to CUNY for collective bargaining, and higher-than-projected spending for Children and Families and mental hygiene, were partially offset by lower-than-expected disbursements for public health, and a range of other programs. In State Operations, spending came in $95 million below expectations, primarily due to shifts in spending patterns as compared to prior year trends. In General State Charges, later than expected payments for worker's compensation and taxes on public lands ($130 million occurred in October rather than September) accounted for most of the $142 million in under-spending. Transfers to other funds were slightly above planned levels.

General Fund Year-to-Date Results vs. Prior Year

Through September 2006, total taxes, before the deposits to the debt service funds and the STAR Fund, increased by $2.0 billion, or 8.5 percent, compared to the same period in 2005-06. This increase is largely attributable to continued economic improvement in 2005, strong payments on current and prior year PIT liability, and continued strength in the real estate market.

General Fund spending through September 2006 was $2.6 billion, or 10.5 percent, higher than actual results through the same period for fiscal year 2005-06. The increase in year-to-year spending is concentrated in Medicaid ($806 million) due to price and utilization increases, and the State takeover initiatives; higher than planned School Aid spending ($527 million); and CUNY ($134 million) and Welfare ($168 million) increases due largely to timing of payments between years; and higher personal service spending driven by contractual salary increases and regular advancement through grade levels.

ALL FUNDS

2006-07 Fiscal Year
Year-to-Date Disbursements through September 2006
All Governmental Funds Results vs. July Update Projections
(millions of dollars)

	July Projection	Actual Results	Favorable/ (Unfavorable) vs. Plan	Increase/ (Decrease) from 2005-06
Total Disbursements	**52,369**	**51,771**	**598**	**3,437**
General Fund (excluding transfers)	22,762	23,066	(304)	2,392
Special Revenue Funds	25,249	24,427	822	948
Capital Projects Funds	2,569	2,518	51	117
Debt Service Funds	1,789	1,760	29	(20)

Other Governmental Funds Year-to-Date Results vs. July Update Finanical Plan Projections

Through September 2006, All Funds disbursements totaled $51.8 billion, $598 million below the July Update Financial Plan projection. Special Revenue Funds spending was under the July Update Financial Plan forecast by $822 million. The lower spending is mainly due to: lower than anticipated Federal education spending due to reduced claims processed through the summer months ($463 million); the delayed processing of an offset that reduces welfare spending, as described earlier ($222 million); lower-than-projected Federal spending in the foster care and day care programs ($153 million); and lower-than-projected spending in various other Federal aid programs ($100 million). This lower spending is partially offset by higher Federal Medicaid spending ($531 million).

Other Funds Year-to-Date Results vs. Prior Year

Compared to the same period in 2005-06, Special Revenue disbursements were roughly $950 million higher, due primarily to an increase in Federal Medicaid spending ($837 million) and implementation of the Local Property Tax Rebate Program in September 2006 ($393 million). The Capital Projects Funds spending increase from the prior year is primarily driven by higher spending in the Dedicated Highway and Bridge Trust Fund ($122 million). Slightly lower Debt Service Funds spending versus the prior year reflects the continued implementation of the PIT Revenue Bond program, which is gradually replacing service-contract-based financing programs.

ECONOMIC FORECAST

The National Economy

As anticipated in the first quarterly update to the Financial Plan the U.S. economy has lost substantial momentum since the first quarter of the year. A cooling housing market, combined with the effects of past energy price and interest rate increases, have generated a significant drag on economic growth. In addition, the most recent auto industry data are signaling a substantial inventory correction. The national economy is expected to continue to lose momentum through the end of this year, landing gently in the 2.0 percent range. However, with the Federal Reserve's most recent tightening cycle behind us and energy prices down significantly from their summer peaks, growth is expected to return to the economy's long-term trend rate by the second half of 2007. DOB now projects growth of 2.5 percent for 2007, following growth of 3.3 percent for 2006. These same forces are expected to have the reverse effect on inflation. An inflation rate of 3.6 percent is estimated for 2006, virtually unchanged from July, followed by a rate of 2.6 percent for 2007.

Strong corporate earnings, boosted by high energy sector profits, have continued to produce strong corporate profits from current production. Indeed, as of the second quarter of 2006, the most recent quarter for which data are available, profits had grown 34.5 percent in just two years. However, revisions to the historical data released by the U.S. Bureau of Economic Analysis (BEA) in its annual comprehensive revision at the end of July have led to a downward revision to profit growth for 2006. The Budget Division now projects corporate profits to rise 19.3 percent for 2006. Receding energy prices and a slower economy are expected bring profit growth for 2007 down to 4.0 percent for 2007. DOB forecast for employment growth for this year is virtually unchanged at 1.4 percent, followed by only slightly slower growth of 1.3 percent for 2007. However, when the U.S. Bureau of Labor Statistics (BLS) releases revised data in early February, the magnitude of the 2007 slowdown in job growth is expected to be larger. Based on revised data already released by BEA, U.S. personal income growth is expected to fall from 7.2 percent in 2006 to 6.1 percent in 2007, with growth in its largest component, wages and salaries, expected to fall from 7.9 percent in 2006 to 5.8 percent in 2007.

Major U.S. Economic Indicators			
	2005	2006	2007
Gross Domestic Product (real)	3.2	3.3	2.5
Personal Income	5.2	7.2	6.1
Corporate Profits (with IVA and CCA)	12.5	19.3	4.0
Consumer Price Index	3.4	3.6	2.6

Note: Projected growth rates are percent changes, calendar year basis. Budget Division estimates are based on National Income and Product Account data through September 2006.
Source: Moody's Economy.com, DOB staff estimates.

Geopolitical concerns continue to pose a risk to the U.S. forecast. The recent declines in energy prices could easily reverse and take a larger bite out of both household and business spending than expected. In addition, should the housing market correction be more extensive than currently anticipated, consumption spending could be lower than expected. Lower household spending could, in turn, lead the business sector to pare down inventories even further, putting downward pressure on a labor market that has already shown signs of slowing. In contrast, stronger job growth or lower energy prices than anticipated could result in a stronger national economy than projected.

The New York State Economy

The New York economy began its fourth year of expansion at the end of the summer poised to grow at a slower pace than was observed in 2005 and earlier this year. The most recent data continue to indicate that the State's economic momentum peaked during the first half of 2005, presaging the current national slowdown. Because of the State's position as a financial market capital, the State economy was expected to be more sensitive to the Federal Reserve's ongoing policy of monetary tightening than the economies of other states. While the health, education, professional and business services, and tourism sectors are expected to continue to lead State economic growth, the overall pace of growth is expected to slow going forward. Total State employment growth of 0.8 percent is now projected for 2006, followed by growth of 0.7 percent for 2007. Private sector employment growth is projected to slow to 0.8 percent in 2007, following growth of 1.0 percent for this year. Correspondingly, DOB now projects growth in State wages to slow from 6.3 percent in 2006 to 5.5 percent in 2007. Similarly, growth in total State personal income is now projected to slow to 5.4 percent for 2007 from 5.8 percent in 2006.

All of the risks to the U.S. forecast apply to the State forecast as well, although interest rate risk and equity market volatility pose a particularly large degree of uncertainty for New York. Although it is DOB's view that the Federal Reserve's cycle of monetary tightening has ended, the effects of past interest rate increases continue to pose a risk to financial sector profits, particularly if IPO and merger and acquisition activity fall off more than anticipated. Lower than expected securities industry profits could result in lower bonus and wage income, the effects of which would ripple through the downstate regional economy. In addition, should the State's real estate market cool more rapidly than anticipated, household consumption and taxable capital gains realizations could be negatively affected. A return to last summer's high energy prices poses a particular risk to the State's tourism sector. In contrast, should the national and world economies grow faster than expected, an upturn in equity markets and other financial market activity could result in higher wage and bonus growth than projected. In addition, stronger growth in U.S. corporate profits could boost State employment growth beyond current expectations.

Major New York Economic Indicators			
	2005	2006	2007
Personal Income	4.2	5.8	5.4
Nonagricultural Employment	0.9	0.8	0.7
Unemployment Rate	5.0	4.9	5.2

Note: Numbers above are percent changes for personal income and nonagricultural employment and percents for the unemployment rate, calendar year basis. Data for 2006 and 2007 are projected by the Budget Division.
Source: Moody's Economy.com, NYS Department of Labor, DOB staff estimates.

RISKS TO THE FINANCIAL PLAN

In any year, the Financial Plan is subject to risks that, if they were to materialize, could affect operating results. The profile of risk has not changed materially since the July Update Financial Plan. However, given the fact that the Financial Plan has been revised to include significant reductions in spending and increases in receipts, DOB believes it is prudent to create additional reserves of $500 million to guard against current-year transaction risks.

The most significant risks include the following:

School Finance Litigation: In 2003, the State Court of Appeals found that the State's school financing system failed to provide students in New York City with an opportunity for a sound basic education (SBE), in violation of the State Constitution. The State's SBE aid program that began in 2005-06 is part of an effort to comply with the State Court of Appeals ruling. On May 8, 2006, the Court of Appeals authorized an expedited briefing schedule to hear arguments related to the State's compliance with the Court's order. Oral arguments were made on October 10, 2006, and a decision is anticipated within the next few months.

Approximately 40 percent of "traditional" school aid is provided to New York City. The 2006-07 Budget also includes $700 million in SBE Aid in the 2006-07 school year, of which approximately 60 percent is for New York City (an increase of roughly $225 million over 2005-06). VLT revenues, which are earmarked to finance SBE Aid, are forecasted to total $328 million in State fiscal year 2006-07, $663 million in State Fiscal Year 2007-08 and $1.3 billion in State fiscal year 2008-09. To supplement VLT revenues until operations commence in all facilities, the State has provided $100 million in General Fund support in 2006-07 and projects another $247 million in 2007-08. Further delays in the opening of currently authorized VLT facilities or the failure to approve proposed expansion of the number of authorized facilities would adversely affect the level of VLT revenues available to finance SBE Aid. Specifically, the VLT estimate for 2008-09 depends on the Aqueduct VLT facility opening in April 2008. The expected opening has been moved from October 2007 due to delays in facility development. Also, additional VLT estimates of $330 million beginning in 2008-09 depend upon the passage of legislation authorizing an expansion in the number of VLT facilities. It should be noted that the Legislature has not adopted proposed expansion legislation for the past three years. The Mid-Year Plan projects traditional school aid increases of roughly $500 million annually for 2007-08 and 2008-09.

To directly address New York City school construction funding, the 2006-07 Budget authorized (1) $1.8 billion in capital grants issued by the State for New York City school construction, and (2) the City's Transitional Finance Authority (TFA) to issue $9.4 billion in bonds for school construction, which will be supported in part with State building aid receipts that the City may assign to TFA.

Litigation is ongoing and there is no assurance that these remedies will be sufficient to meet the Court's standards, or that other litigation will not arise related to the adequacy of the State's school financing system.

Federal Actions: At the request of the Federal government, the State discontinued intergovernmental transfer payments in 2005-06 pending Federal approval of a State Plan Amendment (SPA). The SPA was approved late in the 2005-06 fiscal year for a one-year term only and must be resubmitted annually. These payments are related to disproportionate share hospital payments to public hospitals throughout the State, including those operated by the New York City Health and Hospitals Corporation, SUNY and the counties. If these payments are not approved in 2006-07 and beyond, the State's health care financing system would be adversely affected.

Labor Contracts: Existing labor contracts with all of the State's major employee unions expire at the end of 2006-07. The Updated Financial Plan does not set aside any reserves for future collective bargaining agreements in 2007-08 or beyond. Each future 1 percent salary increase would cost roughly $88 million annually in the General Fund and $136 million in All Funds.

Miscellaneous Receipts: The State Financial Plan projections for 2006-07 and beyond assume approximately $450 million annually in receipts that are the subject of ongoing negotiations between the State and New York City. Actual receipts in 2005-06 were $450 million below planned levels, which the State recovered on a cash-basis by reducing spending for State aid to the City for reimbursement of CUNY costs.

School Supportive Health Services: The Office of the Inspector General (OIG) of the United States Department of Health and Human Services is conducting six audits of aspects of New York State's School Supportive Health Services program with regard to Medicaid reimbursement that cover $1.4 billion in claims submitted between 1990 and 2001. To date, OIG has issued four final audit reports, which cover claims submitted by upstate and New York City school districts for speech pathology and transportation services. The final audits recommend that the Centers for Medicare and Medicaid Services (CMS) disallow $173 million of the $362 million in claims for upstate speech pathology services, $17 million of $72 million for upstate transportation services, $436 million of the $551 million in claims submitted for New York City speech pathology services, and $96 million of the $123 million for New York City transportation services. New York State disagrees with the audit findings on several grounds and has requested that they be withdrawn. If the recommended disallowances are not withdrawn, the State expects to appeal.

While CMS has not taken any action with regard to the disallowances recommended by OIG, CMS is deferring 25 percent of New York City claims and 9.7 percent of claims submitted by the rest of the State, pending completion of the audits. Since the State has continued to reimburse school districts for certain costs, these Federal deferrals are projected to drive additional spending of $161 million over the next three years, which has been reflected in the State's Financial Plan.

GENERAL FUND OUTYEAR PROJECTIONS (2007-08 and 2008-09)

General Fund Mid-Year Plan
(millions of dollars)

	2006-07	2007-08	Annual Change	2008-09	Annual Change
Receipts:					
Personal Income Tax	22,836	23,959	1,123	25,296	1,337
User Taxes and Fees	8,216	8,525	309	8,821	296
Business Taxes	5,899	5,343	(556)	5,483	140
Other Taxes	924	994	70	1,054	60
Miscellaneous Receipts/Federal	3,090	2,244	(846)	2,110	(134)
Transfers from Other Funds	10,197	10,101	(96)	10,211	110
Total Receipts	**51,162**	**51,166**	4	**52,975**	1,809
Disbursements:					
Grants to Local Governments	34,386	37,534	3,148	39,985	2,451
State Operations	9,477	9,731	254	10,016	285
General State Charges	4,363	4,601	238	4,928	327
Transfers to Other Funds	3,073	2,717	(356)	2,937	3,283
Total Receipts	**51,299**	**54,583**	**3,284**	**57,866**	**3,283**
Change in Reserves:					
Community Projects Fund	25	75	50	(150)	(225)
Tax Stabilization Reserve Fund	81	0	(81)	0	0
Spending Stabilizaiton Reserve	(1,254)	(787)	467	0	787
2006-07 Surplus	1,011	(256)	(1,267)	(255)	1
Deposit to/(Use of):	**(137)**	**(968)**	**(831)**	**(405)**	**563**
Mid-Year Outyear Surplus/(Gap) Estimate		**(2,449)**		**(4,486)**	

Absent policy changes, growth in spending is expected to outpace revenue growth over the next two years, based on DOB's economic forecast and current services projections for the State's major programs.

General Fund receipts are expected to increase at roughly 5 percent annually in the outyears. The small annual change in expected 2007-08 receipts reflects the impact of the tax law changes that will lower receipts. Spending is projected to grow about 6 percent on average through 2008-09, based on the current services forecast.

DOB currently projects General Fund budget gaps of $2.4 billion in 2007-08 and $4.5 billion in 2008-09, after reflecting the use of $1.0 billion in reserves (the entire $787 million spending stabilization reserve and $256 million from the 2006-07 surplus) to lower the 2007-08 and another $255 million from the 2006-07 surplus to lower the 2008-09 gap. The HCRA Special Revenue Fund outyear budget gap of $420 million in 2007-08 and another $1.0 billion in 2008-09 are in addition to this gap, and described later in this Update.

For a detailed discussion of the revisions to the gap forecast since budget enactment, see the section entitled “Summary of Changes to the July Update Financial Plan” earlier in this Update.

The following chart provides a "zero-based" look at the causes of the 2007-08 General Fund budget gap. It is followed by a brief summary of the assumptions behind the projections. For a detailed explanation of the specific assumptions supporting the revenue and spending projections, see the sections entitled “Outyear General Fund Receipt Projections" and "Outyear General Fund Disbursement Projections" in this Update.

General Fund Gap Estimate for 2007-08: "Zero-Based" Estimate Annual Change Savings/(Costs) (millions of dollars)	
	2007-08
Receipts	**4**
Constant Law Growth	2,869
Tax Reductions	(1,590)
Phaseout of Temporary PIT Actions	(425)
Increase in Debt Service (PIT/LGAC/CWCA)/Capital	(380)
Non-recurring 2006-07 NYPA/SONYMA payments	(297)
Decrease in STAR Deposits	292
Abandoned Property	(150)
Non-recurring 2006-07 Federal Medicare Part D Reimbursements	(120)
All Other	(195)
Total Disbursements	**(3,284)**
Local Assistance	**(3,148)**
Medicaid (incl. admin)	(1,458)
Price/Utilization/Admin Growth	*(614)*
Medicaid Cap/Family Health Plus Takeover	*(425)*
Elimination of Hospital Assessment/Other Financing	*(419)*
School Aid	(914)
Regular School Aid/Database	*(767)*
VLT subsidy	*(147)*
Children and Family Services	(198)
Welfare	(172)
Mental Hygiene	(266)
All Other Local Assistance	(140)
State Operations	**(254)**
Personal Service	(90)
$800 Base Salary Adjustment and Performance/Merit Awards	*(300)*
Nonrecurring 2006-07 NYSCOPBA Arbitration Award	*210*
Non-personal Service	(164)
General State Charges	**(238)**
Health Insurance -- Active Employees	(130)
Health Insurance -- Retired Employees	(87)
Pensions	24
All Other	(45)
Transfers to Other Funds (Use of $250M DRRF/$120M VLT in 2006-07)	**356**
Change in Reserves used for Operations	**800**
Change in Deposit to Community Projects Fund/Rainy Day Fund	**31**
BUDGET GAP FOR 2007-08	**(2,449)**

The gap for 2007-08 is a forecast based on assumptions of economic performance, revenue collections, spending patterns, and projections for the current services costs of program activities. DOB believes the gap forecast and the assumptions from which it is derived are reasonable. However, as with any forecast, the gap estimate is subject to estimation risks that can lead to significant variations. The most significant assumptions affecting the 2007-08 gap include the following:

1. **The entire $787 million spending stabilization reserve and $256 million of the 2006-07 surplus are projected to be used to lower the 2007-08 gap.**

2. **Economic growth will continue at a steady pace over the forecast period**. DOB's forecast expects personal income in New York to grow at 5.9 percent in 2006 and 5.2 percent in 2007, bolstered by slow but consistent employment growth and moderate growth in the financial services sector. A significant shock to the economy, such as another terrorist attack, spiraling energy prices, or a steep decline in the housing market, pose the most significant risks to the State economy in the short-run.

3. **Revenues, adjusting for tax law changes, will grow at roughly 5.2 percent in 2007-08**. The growth rate is consistent with DOB's forecast for the economy, but, as in any year, is subject to significant volatility. Changes in the economic growth rate, Federal law, and taxpayer behavior all have a significant influence on receipts collections.

4. **The majority of the Medicaid cost containment approved annually since 1995 will continue**, providing roughly $500 million in savings annually over the Financial Plan.

5. **Any shortfall in the HCRA will be closed without the need for additional General Fund resources in 2007-08**. HCRA expires on July 1, 2007. In the past, reauthorization of HCRA has produced new savings actions or revenues that resulted in fully solvent plans that did not require direct General Fund support.

6. **Anti-fraud savings are projected to increase from $300 million in 2006-07 to $390 million and $520 million in 2007-08 and 2008-09, respectively.** These savings estimates are expected from reducing Medicaid fraud by providers and recipients, as well as initiatives to improve detection and strengthen the State's fraud fighting capabilities.

7. **School Aid is projected to increase annually (including SBE Aid outside the General Fund) in amounts consistent with a phase-in of the plan submitted to the court. This growth includes $500 million annually on a school year basis as well as funding for SBE aid of $700 million in 2006-07, increasing to $1 billion in 2007-08 and $1.5 in 2008-09.** The projections assume that this total level of spending increase will be sufficient to satisfy court directives. In both 2006-07 and 2007-08, SBE Aid is funded by VLT receipts and a subsidy from the General Fund ($100 million in 2006-07; $247 million in 2007-08). On a State fiscal year basis, VLT receipts are projected to total $663 million in 2007-08 and $1.3 billion in 2008-09. The VLT estimates depend on the opening of the Aqueduct VLT facility (now expected in April 2008), and legislative approval of an expansion of VLT gaming. Lack of legislative approval for VLT expansion (as experienced in recent years) and delays in development at the Aqueduct facility constitute a risk to these assumptions. For example, an April 2008 opening of the Aqueduct VLT facility, which coincides with the start of the State fiscal year, is valued at $300 million in 2008-09 and the VLT expansion is valued at an additional $300 million in 2008-09.

8. **Receipts of roughly $450 million annually are budgeted in 2006-07, 2007-08 and 2008-09 that are the subject of ongoing negotiations between the State and counties and New York City**. Actual miscellaneous receipts in 2005-06 were $450 million less than planned but offsetting cash-basis savings were achieved through a reduction in State aid.

9. **The Federal government will not make substantive funding changes** to major aid programs.

10. **The projections for 2007-08 and 2008-09 do not include any extra costs for new labor settlements** once the current contracts expire on April 1, 2007. Each 1 percent salary increase is valued at $88 million in the General Fund and $136 million in All Funds.

11. **Spending for employee and retiree health care costs assumes a premium increase of 9.4 percent.** Escalating health care costs, including prescription drugs, will significantly influence future health care premiums.

12. **The projections do not assume any pre-funding for costs that would be reported under GASB 45,** but do include pay-as-you-go costs for retiree healthcare of roughly $1.0 billion in 2007-08 and $1.1 billion in 2008-09.

13. Changes to any of these assumptions have the potential to materially alter the size of the budget gap for 2007-08. A detailed discussion of the receipts and disbursement estimates for 2007-08 and 2008-09 follows.

OUTYEAR GENERAL FUND RECEIPT PROJECTIONS

General Fund receipts, including transfers from other funds, are projected to total $51.2 billion in 2007-08, essentially unchanged from 2006-07 estimates mainly due to significant tax reduction enacted in 2006. Receipts are projected to grow by more than $1.8 billion in 2008-09 to total nearly $53 billion. The estimated growth in underlying tax receipts for 2006 through 2008 is consistent with average historical growth during the mature stages of an economic expansion. In general, there is significant uncertainty associated with forecasts of receipts more than 18 months into the future. Overall, the tax receipt projections for future years follows the path dictated by DOB's forecast of economic growth. History suggests a wide range of potential outcomes around these estimates.

General Fund Receipts Forecast
(millions of dollars)

	2006-07	2007-08	Annual Change	2008-09	Annual Change
Personal Income Tax	22,836	23,959	1,123	25,296	1,337
User Taxes and Fees	8,216	8,525	309	8,821	296
Business Taxes	5,899	5,343	(556)	5,483	140
Other Taxes	924	994	70	1,054	60
Miscellaneous Receipts	2,910	2,184	(726)	2,050	(134)
Federal Grants	180	60	(120)	60	0
Transfers from Other Funds					
Revenue Bond Tax Fund	7,048	7,129	81	7,100	(29)
LGAC Fund	2,164	2,259	95	2,355	96
CW/CA Fund	583	510	(73)	512	2
All Other	402	203	(199)	244	41
Total Receipts	**51,162**	**51,166**	**4**	**52,975**	**1,809**
Annual Percent Change			*0.0%*		*3.5%*

Taxes

In general, income tax growth for 2007-08 and 2008-09 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S corporations. In addition, recently enacted tax law changes have a significant impact on year-over-year comparisons.

General Fund PIT receipts are projected to increase by $1.1 billion to nearly $24 billion in 2007-08. The change from 2006-07 reflects the impact of the elimination of the temporary surcharge on the growth in base liabilities, and the full-year impact of the Enacted Budget tax reductions. General Fund PIT receipts for 2008-09 are projected to increase by $1.3 billion to $25.3 billion, reflecting growth in liability that is consistent with an expanding personal income base during a period of expected economic growth, along with the continued impact of Enacted Budget tax reductions.

The 2007-08 and 2008-09 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy.

General Fund user taxes and fees for 2007-08 are projected to increase by over $300 million due to the reduction in sales and use tax collections resulting from law changes including the cap on the sales tax charged on gasoline purchases and the increase in the vendor allowance, which are more than offset by increases in user tax base due to forecasted economic growth.

General Fund business tax receipts are expected to decrease to $5.3 billion in 2007-08 and increase to $5.5 billion in 2008-09, reflecting trend growth in business tax receipts, slower growth in corporate profits, a return to audit collection levels that reflect historical trends, and the continued impact of tax reductions enacted in 2006 and earlier years.

General Fund receipts from other taxes are expected to increase to $994 million in 2007-08 and $1.1 billion in 2008-09, primarily reflecting continued growth in estate tax receipts.

Miscellaneous Receipts

General Fund miscellaneous receipts in 2007-08 are projected to be nearly $2.2 billion, down $726 million from the current year. This decrease is primarily the result of revised estimates of abandoned property receipts and the loss of one-time revenues. In 2008-09, General Fund miscellaneous receipts collections are projected to be slightly more than $2.0 billion, down $134 million from 2007-08. This decrease results from expected declines in licenses and fee receipts, investment income and a decrease in the value of the local government revenue and disbursement program.

Transfers from Other Funds

Transfers from other funds are estimated to decline $96 million to $10.1 billion in 2007-08, and grow to $10.2 billion in 2008-09. In 2007-08, the projected decline is primarily due to the loss of one-time transfers of available fund balances from certain non-General Fund accounts in 2006-07 ($200 million) offset by the net increase of dedicated tax receipts in excess of associated debt service payments for the PIT Revenue Bonds, the Local Government Assistance Corporation (LGAC) Bonds and Clean Water/Clean Air general obligation bonds. In 2008-09, transfers are projected to grow due primarily to the net increase of tax receipts in excess of the related debt service payments for such bonds.

OUTYEAR GENERAL FUND DISBURSEMENT PROJECTIONS

DOB forecasts General Fund current services spending of $54.6 billion in 2007-08, an increase of $3.3 billion (6.4 percent) over 2006-07 projections. Growth in 2008-09 is projected at $3.3 billion (6.0 percent). The main sources of current services annual spending growth for 2007-08 and 2008-09 are itemized in the following table.

General Fund Disbursement Projections (millions of dollars)

	2006-07	2007-08	Annual Change	2008-09	Annual Change
Grants to Local Governments:	**34,386**	**37,534**	**3,148**	**39,985**	**2,451**
School Aid	14,587	15,501	914	15,614	113
Medicaid (incl. admin)	9,019	10,478	1,458	12,375	1,898
Higher Education	2,283	2,360	77	2,411	51
Education Aid - All Other	1,714	1,614	(100)	1,661	47
Mental Hygiene	1,575	1,841	266	1,982	141
Children and Family Services	1,355	1,553	198	1,658	105
Welfare	1,250	1,423	172	1,434	11
Local Government Assistance	1,177	1,220	43	1,230	10
Public Health	595	689	94	707	19
All Other	830	857	27	913	56
State Operations:	**9,477**	**9,731**	**254**	**10,016**	**285**
Personal Service	6,786	6,877	90	6,988	111
Non-Personal Service	2,691	2,854	164	3,028	174
General State Charges:	**4,363**	**4,601**	**238**	**4,928**	**327**
Pensions	1,222	1,198	(24)	1,214	16
Health Insurance	2,397	2,615	218	2,913	298
All Other	744	788	44	801	13
Transfers to Other Funds:	**3,073**	**2,717**	**(356)**	**2,937**	**220**
Debt Service	1,764	1,755	(9)	1,732	(23)
Capital Projects	224	250	26	441	191
All Other	1,085	712	(373)	764	52
Total Disbursements	**51,299**	**54,583**	**3,284**	**57,866**	**3,283**
Annual Percent Change			*6.4%*		*6.0%*

Grants to Local Governments

Annual growth in local assistance is driven primarily by Medicaid and school aid. The table below summarizes some of the factors that affect the local assistance projections over the Financial Plan period.

Forecast for Selected Program Measures Affecting Local Assistance (millions of dollars)					
	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
Medicaid					
Medicaid Coverage (excl. FHP)	3,531,938	3,674,167	3,690,578	3,839,312	3,992,884
Medicaid Inflation	4.1%	3.9%	4.2%	2.4%	3.7%
Medicaid Utilization	3.2%	3.7%	2.2%	1.3%	4.0%
State Takeover of County/NYC Costs					
- Family Health Plus	$60	$289	$438	$483	$513
- Medicaid	N/A	$113	$440	$820	$1,261
Education					
School Aid (School Year)	$15,400	$16,400	$17,700	$18,500	$19,500
K-12 Enrollment	2,850,124	2,826,981	2,810,128	2,810,128	2,810,128
Public Higher Education Enrollment (FTEs)	490,916	496,189	500,070	500,070	500,070
TAP Recipients	336,700	343,881	334,124	334,124	334,124
Welfare					
Family Assistance Caseload	485,500	453,200	416,200	403,500	399,600
Single Adult/No Children Caseload	140,200	146,000	151,100	156,100	156,200
Mental Hygiene					
Mental Hygiene Community Beds	81,446	82,948	84,445	86,105	86,943

School Aid

Major Sources of Annual Change in School Aid Growth (billions of dollars)		
	Increase from Prior Year	
	2007-08	**2008-09**
State Fiscal Year Basis:		
Total General Fund and Lottery:	**1.0**	**0.9**
General Fund	0.9	0.1
Lottery/VLTs	0.1	0.8
School Year Basis:		
Total State Funds:	**0.8**	**1.0**
General School Aid	0.5	0.5
Sound Basic Education	0.3	0.5

On a school year basis, school aid (including funding for SBE Aid) is now projected at $18.5 billion in 2007-08 and $19.5 billion in 2008-09. Growth of $800 million in 2007-08 and $1.0 billion in 2008-09 reflects traditional school aid increases ($500 million in each of 2007-08 and 2008-09), and growth in SBE aid. SBE aid is projected at $700 million in 2006-07 growing to $1 billion in 2007-08 and $1.5 billion in 2008-09.

On a State fiscal year basis, General Fund school aid spending is projected to grow by approximately $914 million in 2007-08 and $113 million in 2008-09. The growth is attributable to a General Fund supplement to SBE aid ($247 million in 2007-08), Building Aid increases (roughly $100 million in 2007-08 and 2008-09); special education cost increases (approximately $125 million in 2007-08 and 2008-09); Transportation Aid increases (roughly $125 million in 2007-08 and 2008-09) and growth in other aid categories. The decrease in the level of annual growth in General Fund school aid, from $914 million in 2007-08 to $113 million in 2008-09 is largely attributable to a temporary shift in funding sources for the State's SBE program. Outside of the General Fund, revenues from the general lottery are projected to increase slightly (by $36 million in 2007-08 and $65 million in 2008-09) and VLT revenues are projected to increase by roughly $335 million in 2007-08 and another $687 million in 2008-09. Outyear VLT estimates assume the start of new operations at two racetracks, Yonkers (opened in October 2006) and Aqueduct (projected to open in April 2008), and the approval of an expansion plan early in 2007-08 providing $300 million of the increase planned in 2008-09.

The $2.6 billion EXCEL program, which authorizes State bonding for school construction throughout the State, is projected to total roughly $800 million in 2006-07 and $1.8 billion in 2007-08. The EXCEL Program is authorized to provide $1.8 billion for New York City schools, $400 million for “high-needs” school districts, and the remaining $400 million will go to all other school districts based on a per-pupil formula. Based on current accounting treatment, spending for EXCEL is not reflected in actual cash-basis results since spending will occur directly from bond proceeds.

Districts will be able to use the EXCEL aid to help cover the local taxpayer share of costs for new school building projects. School districts will be able to use EXCEL funds either in lieu of building aid (provided as part of school aid) or as a supplement to building aid. To the extent that New York City and other school districts use EXCEL funds in lieu of building aid, projected building aid growth could be somewhat dampened as a result of the new EXCEL program. To the extent that EXCEL funds are used in conjunction with building aid to fully fund local school construction costs, there could be an acceleration in school construction that may produce an eventual increase in projected building aid growth. However, any such potential increase in State building aid over the next two to five years should be relatively modest due to: school districts using EXCEL funds to offset the recent construction materials cost increases that may exceed maximum cost allowances; the lead time needed to plan and implement school construction programs; the finite capacity of local school districts to undertake school construction programs; the payment of building aid on an assumed amortization basis; and the lag in initial building aid payments until at least 18 months after construction plans have been approved by the State Education Department (for school districts other than New York City).

Medicaid

General Fund spending for Medicaid is expected to grow by roughly $1.5 billion in 2007-08 and another $1.9 billion in 2008-09.

Major Sources of Annual Change in Medicaid Growth
General Fund
(billions of dollars)

	Increase from Prior Year	
	2007-08	**2008-09**
Price/Utilization/Admin Growth	0.7	1.2
Medicaid Cap/FHP Takeover	0.4	0.5
Provider Assessments	0.2	0.1
HCRA Financing	0.2	0.1
Total	**1.5**	**1.9**

This growth results, in part, from the combination of modest growth in recipients, service utilization, and medical-care cost inflation. These factors are projected to add roughly $700 million in 2007-08 and $1.2 billion in 2008-09. In addition, the State cap on local Medicaid costs and takeover of local Family Health Plus costs is projected to increase spending by $425 million in 2007-08 and $471 million in 2008-09. The remaining growth is primarily attributed to the elimination of the 0.35 percent assessment on hospital revenues and lower levels of HCRA financing, both of which are used to lower General Fund costs.

DOB revised Medicaid projections for slowed growth rates in enrollment for Medicaid and Family Heath Plus. The average number of Medicaid recipients is expected to grow to 3.8 million in 2007-08, an increase of 4 percent from the estimated 2006-07 caseload of almost 3.7 million. Family Health Plus enrollment is estimated to grow to approximately 528,000 in 2007-08, an increase of 2.7 percent over projected 2006-07 enrollment of 514,000.

Welfare

Welfare spending, including administration, is projected at $1.4 billion in 2007-08, an increase of $172 million (12.1 percent) from 2006-07, and is expected to remain at the same level in 2008-09. Although the caseloads for family assistance and single adult/childless couples are projected to decline, spending from this caseload is expected to drop only marginally. This reduction is then countered by the use of less Federal TANF to support public assistance costs, thereby driving General Fund spending growth.

Mental Hygiene

Mental Hygiene spending, comprising of the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), the Office of Alcoholism and Substance Abuse Services (OASAS), and the Commission on Quality of Care and Advocacy for Persons with Disabilities (CQC) is projected at $1.8 billion in 2007-08 and $2.0 billion in 2008-09 reflecting spending increases of $266 million and $141 million, respectively. The growth is largely attributable to increases in projected State share of Medicaid costs and other human services cost of living increases (2.5 percent in 2007-08 and 2.6 percent in 2008-09), projected expansions of the various mental hygiene service systems including a major expansion of OMH's Children's Services, increases in the NYS-CARES program and in the development of children's beds for out-of-state placements in OMRDD, the NY/NY III Supportive Housing agreement and community bed expansion in OMH, and several new chemical dependence treatment and prevention initiatives.

Children and Family Services

Children and Family Services spending is projected to grow by $198 million (15.8 percent) in 2007-08 and an additional $105 million (7.2 percent) in 2008-09 to total $1.7 billion. The increases are driven primarily by expected growth in the open-ended child welfare services program and cost-of-living increases for workers in foster care, and foster and adoptive parents enacted in 2006-07.

Other Local

All other local assistance programs total $6.7 billion in 2007-08, an increase of $140 million over 2006-07 revised levels. This growth in spending primarily includes: higher education, with the majority of growth occurring in various public health programs including Early Intervention and expected growth in reimbursements to counties for General Public Health Works ($94 million); local government assistance primarily due to new funding for municipalities hosting VLT facilities ($42 million net increase); and the Tuition Assistance Program ($18 million). These increases are partially offset by a decline in other education aid, including additional grants-in-aid to certain school districts, public libraries and not for profit institutions, and specifically for the Teacher Resources and Computer Training Centers and the Teacher Mentor intern program, in 2006-07 that does not recur in 2007-08 ($100 million).

State Operations

Forecast of Selected Program Measures Affecting State Operations

	Actual		Forecast		
	2004-05	**2005-06**	**2006-07**	**2007-08**	**2008-09**
State Operations					
Prison Population (Corrections)	63,307	62,890	63,100	63,100	63,100
Negotiated Salary Increases [1]	2.5%	2.75%	3.00%	0.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%	0.8%
State Workforce	188,925	191,400	192,375	193,525	194,425

(1) Negotiated salary increases include a recurring $800 base salary adjustment effective April 1, 2007.

State Operations spending in the General Fund is expected to total $9.7 billion in 2007-08, an annual increase of $254 million (2.7 percent). In 2008-09, spending is projected to grow by another $285 million (2.9 percent) to a total of $10.0 billion.

Personal service costs increase in 2007-08 and 2008-09 by $90 million and $111 million, respectively. Growth in 2007-08 reflects an $800 base salary adjustment effective April 1, 2007, and both years reflect longevity increases. The 2007-08 growth is partially offset by the retroactive component associated with the NYSCOPBA arbitration award paid in 2006-07 that does not recur in 2007-08 ($210 million). As noted previously, there is no provision for additional collective bargaining costs in 2007-08 or 2008-09.

Non-personal service spending is projected to grow by roughly 5 percent annually. Agencies projecting growth beyond inflation include: Correctional Services mainly driven by increases in the cost of housing inmates and providing inmate medical services ($41 million); OMRDD quality assurance activities to ensure not-for-profit program and fiscal compliance and projected cost increases for continuing State-operated programs including pharmacy, energy and other inflationary adjustments ($32 million); Judiciary due mostly to increases in security related equipment and contracts ($27 million); OMH, due to projected increases in drug and utilities costs ($15 million); and OCFS, driven primarily by exhaustion of prior year Federal revenue for the child welfare information system ($15 million).

General State Charges (GSCs)

Forecast of Selected Program Measures Affecting General State Charges

	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
General State Charges					
Pension Contribution Rate	7.0%	8.8%	10.2%	9.4%	9.9%
Employee/Retiree Health Insurance Rate	13.5%	8.2%	9.1%	9.4%	11.0%

GSCs are projected to total $4.6 billion in 2007-08 and $4.9 billion in 2008-09. The annual increases are due mainly to anticipated cost increases in health insurance for State employees and retirees.

The State's pension contribution rate to the New York State and Local Retirement Systems is expected to decrease from 10.2 percent to 9.4 percent in 2007-08. Spending for employee and retiree health care costs is expected to increase by $218 million in 2007-08 and another $298 million in 2008-09. Health insurance is projected at $2.6 billion in 2007-08 ($1.6 billion for active employees and $1.0 billion for retired employees) and $2.9 billion in 2008-09 ($1.8 billion for active employees and $1.1 billion for retired employees). The projections do not assume any pre-funding of the GASB 45 liability.

Transfers to Other Funds

Forecast of Selected Program Measures Affecting Debt Service

	Actual		Forecast		
	2004-05	2005-06	2006-07	2007-08	2008-09
State Debt					
Interest on Variable Rate Debt	1.44%	2.65%	3.25%	3.25%	3.30%
Interest on Fixed Rate 30-Year Bonds	5.09%	5.00%	5.65%	6.00%	6.15%

Transfers to other funds are estimated to total $2.7 billion in 2007-08, $356 million below 2006-07 levels mainly due to one-time transfers from the General Fund in 2006-07 of $250 million to reduce high cost debt and $120 million to supplant lower than originally projected VLT revenues to fund SBE aid.

In 2008-09, transfers are expected to increase by $220 million as a result of General Fund support to the Dedicated Highway and Bridge Trust Fund to obviate a projected shortfall.

CASH FLOW FORECAST (2006-07)

General Fund

In 2006-07, the General Fund is projected to have quarterly-ending balances of $2.0 billion at the end of December 2006, and $3.1 billion at the end of March 2007. The components of the year-end balances are discussed in the section entitled "Projected 2006-07 Year-End Balances (General Fund)."

The 2006-07 General Fund cash flow estimates by month appear in the Financial Plan Tables.

All Funds

All Funds quarterly-ending balances are expected to be $6.1 billion by the end of December 2006, and at the end of March 2007. In addition to the General Fund cash flow described above, the All Funds cash flow includes the operations and resulting balances in Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

The projected 2006-07 year-end balance is comprised of $3.1 billion in the General Fund, $3.2 billion in Special Revenue Funds and $243 million in Debt Service Funds partially offset by a negative cash balance of $462 million in the Capital Projects Fund. The fund balance in the Special Revenue Funds reflects the timing of receipts and disbursements (e.g. dedicated moneys received for a specified purpose prior to disbursement). The largest fund balances are dedicated to finance ongoing HCRA programs ($708 million), mass transit ($437 million), and the operations and activities of SUNY campuses ($406 million). The remaining fund balances are held in numerous funds and accounts that support a variety of programs including industry regulation, public health, and public safety. The negative balance in the Capital Projects funds results from outstanding loans from the Short-Term Investment Pool used to finance capital projects costs prior to the receipt of bond proceeds. The Debt Service Fund balance primarily reflects monies required to be set aside for future debt service payments and other programmatic needs. These include the SUNY Dorms Fund ($151 million), Mental Health Services Fund ($66 million), and the Health Income Fund ($25 million).

The projected year end All Funds balance reflects a decline of nearly $1.0 billion from the March 31, 2006 balance, which is largely due to the use of health care conversion proceeds, as planned, in 2006-07 that were received in the HCRA Fund in 2005-06 and included in the year end balance.

The 2006-07 Special Revenue Funds, Capital Projects Funds, and Debt Service Funds by cash flow estimates by quarter appear in the Financial Plan Tables.

GAAP-BASIS FINANCIAL PLANS/GASB 45

In addition to the cash-basis Financial Plans, the General Fund and All Funds Financial Plans are prepared on a GAAP basis in accordance with Governmental Accounting Standards Board (GASB) regulations. The GAAP projections are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2005-06.

In 2006-07, the General Fund GAAP Financial Plan projects total revenues of $43.4 billion, total expenditures of $51.8 billion, and net other financing sources of $7.5 billion, resulting in an operating deficit of roughly $800 million and a projected accumulated surplus of $1.4 billion. The operating results primarily reflect the 2006-07 cash-basis surplus, the impact of enacted tax reductions on revenue accruals and a partial use of the 2005-06 surplus to support 2006-07 operations.

The GAAP basis results for 2005-06 showed the State in a net positive overall asset condition of $49.1 billion. The net positive asset condition is before the State reflects the impact of GASB 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions." GASB 45 requires State and local governments to reflect the value of post-employment benefits, predominantly health care, for current employees and retirees beginning with the financial statements for the 2007-08 fiscal year.

The State has hired an independent actuarial consulting firm to complete the analysis of retiree health care liabilities. A preliminary analysis has been completed by the firm and is currently under review by the State. Assuming there is no pre-funding of this liability, the preliminary analysis indicates that the present value of the actuarial accrued total liability for benefits to date would be roughly $47 billion under several actuarial methods and $54 billion under one method. This is based on a 4.1 percent annual discount rate. Any determination to pre-fund this liability via a trust fund or comparable structure would result in a higher discount rate, with a corresponding reduction in the estimated actuarial accrued liabilities to roughly $27 billion under several actuarial methods (assuming an 8 percent discount rate).

The State's total unfunded liability will be disclosed in the 2007-08 basic financial statements. While the total liability is substantial, GASB rules indicate the liability may be amortized over a 30 year period; therefore, only the annual amortized value above the current pay-as-you-go costs would be reported as a liability in the financial statements. Assuming no pre-funding, the 2007-08 liability would total roughly $3.7 billion under several actuarial methods in total based on a level percent of salary (under one method it would be $6.1 billion in total), or $2.7 billion above the current pay-as-you-go costs. Assuming pre-funding, the 2007-08 liability would total roughly $2.4 billion under several actuarial methods in total (under one method it would be $3.9 billion in total), or $1.4 billion above the current pay-as-you-go costs. GASB does not require the additional costs to be funded on the State's budgetary basis, and no funding is assumed for this purpose in the Financial Plan. On a budgetary (cash) basis, the State continues to finance these costs, along with all other employee health care expenses, on a pay-as-you-go basis. Anticipated increases in these costs are reflected in the State's multi-year Financial Plan. DOB's detailed GAAP Financial Plans for 2005-06 through 2008-09 appear in the Financial Plan tables at the end of this Updated Financial Plan.

2006-07 UPDATED HCRA FINANCIAL PLAN

2006-07 through 2008-09 (millions of dollars)			
	2006-07	**2007-08**	**2008-09**
Opening Balance	**1,600**	**708**	**(420)**
Total Receipts	**4,476**	**4,129**	**4,298**
Conversion Proceeds	1,000	500	550
Surcharges	1,713	1,901	2,020
Covered Lives Assessment	775	775	775
Hospital Assessment (1 percent)	248	268	285
Cigarette Tax Revenue	563	578	570
All Other	177	107	98
Total Disbursements	**5,368**	**5,257**	**5,256**
Medicaid Assistance Account	2,112	1,841	1,750
Pharmacy Costs	*625*	*418*	*304*
Family Health Plus	*446*	*496*	*519*
Workforce Recruitment and Retention	*481*	*370*	*370*
All Other	*560*	*557*	*557*
HCRA Program Account (incl. GME)	1,163	1,177	1,231
Hospital Indigent Care	841	841	841
Elderly Prescription Insurance Coverage	542	586	586
Child Health Plus	335	354	354
Public Health Programs	160	133	133
Mental Health Programs	93	92	92
All Other	122	233	269
Excess/(Deficiency) of Receipts over Disbursements	**(892)**	**(1,128)**	**(958)**
Closing Balance [1]	**708**	**(420)**	**(1,378)**

[1] Prior to required spending reductions.

- The HCRA Fund for 2006-07 is balanced on a budgetary (cash) basis of accounting, with over $700 million projected to be available at year end for use in 2007-08. The current statutory authorization for HCRA expires on June 30, 2007.

- Since the July Update Financial Plan, the 2006-07 operational forecast has improved by nearly $200 million reflecting a combination of higher receipts and lower projected spending.

- Cumulative outyear operating gaps have decreased to roughly $400 million (from $900 million) in 2007-08 and $1.4 billion (from $2.2 billion) in 2008-09. These decreases are primarily due to an upwards revision of estimated receipts, partially offset by a slight increase in spending.

- HCRA is now fully on budget. Under the current HCRA appropriation structure, spending reductions will occur if resources are insufficient to meet spending levels. These spending reductions could potentially impact core HCRA programs and the fiscal status of the General Fund. The reauthorizations of HCRA in prior years restored HCRA's solvency without the need for automatic spending reductions.

The table below summarizes the impact of changes since the July Update Financial Plan on the three-year operating forecast for the HCRA Financial Plan.

Changes to HCRA Operating Forecast for 2006-07 Through 2008-09
Savings/(Costs)
(millions of dollars)

	2006-07	2007-08	2008-09
Opening Fund Balance	**1,600**	**708**	**(420)**
First Quarter Operational Surplus/(Gap)	**(1,086)**	**(1,368)**	**(1,381)**
Family Health Plus	80	76	50
Elderly Prescription Insurance Coverage	40	40	40
Child Health Plus	30	30	30
Interest Earnings	27	1	(5)
Surcharges	15	162	298
Hospital Assessment (1 percent)	7	26	43
Workforce Recruitment and Retention	4	1	1
Medicaid Pharmacy Costs	0	0	100
Healthy NY	(5)	(68)	(107)
All Other	(4)	(28)	(27)
Total Revenue and Spending Changes	**194**	**240**	**423**
Current Budget Operational Surplus/(Gap)	**(892)**	**(1,128)**	**(958)**
Closing Balance (1)	**708**	**(420)**	**(1,378)**

(1) Prior to required spending reductions.

The updated HCRA Financial Plan projects disbursements will exceed receipts by nearly $900 million in 2006-07, which will be financed by the significant fund balance available at the beginning of the fiscal year as a result of the receipt of $2.7 billion in health care conversion proceeds in 2005-06. All conversion proceeds are expected to be utilized by the end of 2008-09. The outyear operating gaps have declined since the July Update Financial Plan primarily due to an increase in estimated receipts and a reduction in 2008-09 in Medicaid pharmacy costs paid for by HCRA.

Below is a description of the revisions since the July Update Financial Plan.

- Surcharges and the 1 percent assessment on hospital revenues have been revised upward based on current trends and a revised forecast. The increased projections are the result of a change in the forecasting model which is used to determine estimated collections.

- Interest earnings in 2006-07 have been realized from the balance resulting from the receipt of $2.7 billion in health care conversion proceeds in 2005-06.

- Elderly Pharmaceutical Insurance Coverage spending has been lowered based on current experience and accelerated enrollment in Medicare Part D.

- Enrollment growth in the Child Health Plus program has been revised based on more recent experience with State share spending expected to decrease by 2.7 percent.

- Based on current trends, a slight re-estimate is made for public workforce and recruitment grants.

- HCRA financing of Medicaid pharmacy costs has been reduced in 2008-09 and is instead recognized in the General Fund.

- Healthy NY spending is expected to increase as a result of upward enrollment trends of 30,000 to 40,000.

- Family Health Plus re-estimate reflects lower enrollment projections.

- Additional detail on HCRA quarterly receipts and disbursements is contained in the Financial Plan Tables.

STATUTORY DEBT LIMITATIONS

Debt Reform Act

The Debt Reform Act of 2000 imposed statutory limitations which restricted the issuance of State-supported debt to capital purposes only and established a maximum term of 30 years for such debt. The statute also imposed phased-in caps that ultimately limit the amount of new State-supported debt to 4 percent of State personal income and new State-supported debt service costs to 5 percent of All Funds receipts. The restrictions apply to all new State-supported debt issued on and after April 1, 2000.

The statute requires that the limitations on the amount of State-supported debt and debt service costs be calculated by October 31 of each year and reported in the updated Financial Plan. If the actual new State-supported debt outstanding and debt service costs are below the caps at this time, State-supported debt may continue to be issued. However, if either the debt outstanding or the debt service cap is met or exceeded, the State would be precluded from issuing new State-supported debt until the next cap calculation is made and debt is found to be within the applicable limitations.

For the 2005-06 fiscal year, the cumulative debt outstanding and debt service caps are 2.65 percent each. As shown in the table below, the actual level of debt outstanding and debt service costs continue to remain below the statutory caps. From April 1, 2000 through March 31, 2006 the State has issued new debt resulting in $14.9 billion of debt outstanding applicable to the debt reform cap. This is $5.6 billion below the statutory debt outstanding limitation. In addition, the debt service costs on this new debt totaled $1.2 billion in 2005-06 – or roughly $1.6 billion below the statutory debt service limitation.

Debt Outstanding Cap (millions of dollars)	
New Debt Outstanding	$14,871
Personal Income (CY 2005)	$771,568
Debt Outstanding (Percent of PI)	1.93%
Cap Imposed by Debt Reform Act	2.65%

Debt Service Cap (millions of dollars)	
New Debt Service	$1,247
Governmental Funds Receipts*	$107,027
Debt Service (Percent of Govt'l Fund Receipts)	1.16%
Cap Imposed by Debt Reform Act	2.65%

* Excludes surplus amounts.

Current projections also estimate that debt outstanding and debt service costs will continue to remain below the limits imposed by the Act throughout the current capital plan period, as noted in the tables below. However, the estimates assume that in 2008-09 and beyond, new debt issuances return to more moderate levels of about $4 billion annually rather than levels projected in 2006-07 and 2007-08 (primarily driven by EXCEL and new economic development initiatives).

New Debt Outstanding
(millions of dollars)

Year	Personal Income*	Cap %	Actual/Recommended %	% (Above)/Below Cap
2000-01 (Actual)	655,583	0.75	0.38	0.37
2001-02 (Actual)	682,206	1.25	0.67	0.58
2002-03 (Actual)	684,070	1.65	1.21	0.44
2003-04 (Actual)	701,852	1.98	1.55	0.43
2004-05 (Actual)	737,039	2.32	1.73	0.59
2005-06 (Actual)	771,568	2.65	1.93	0.72
2006-07	817,575	2.98	2.29	0.70
2007-08	861,286	3.32	2.97	0.35
2008-09	904,281	3.65	3.23	0.42
2009-10	949,231	3.98	3.40	0.59
2010-11	998,387	4.00	3.50	0.50

New Debt Service Costs
(millions of dollars)

Year	All Funds Receipts*	Cap %	Actual/Recommended %	% (Above)/Below Cap
2000-01 (Actual)	83,527	0.75	0.09	0.66
2001-02 (Actual)	84,312	1.25	0.36	0.89
2002-03 (Actual)	88,274	1.65	0.53	1.12
2003-04 (Actual)	99,698	1.98	0.84	1.14
2004-05 (Actual)	101,381	2.32	1.07	1.25
2005-06 (Actual)	107,027	2.65	1.16	1.49
2006-07	112,517	2.98	1.33	1.65
2007-08	115,895	3.32	1.70	1.62
2008-09	120,840	3.65	2.15	1.50
2009-10	124,367	3.98	2.44	1.55
2010-11	127,726	4.32	2.74	1.58

*Note: Pursuant to statutory requirements, personal income and All Funds Receipts are not adjusted subsequent to their actual calculation date under the Debt Reform Act of 2000

DEBT/CAPITAL UPDATE

CAPITAL AND DEBT SUMMARY

The updated Financial Plan reflects revised estimates of bond-financed capital authorizations. The most significant changes from the July Update Financial Plan are for the EXCEL and AMD programs. EXCEL is now expected to result in roughly $800 million of State issuances in 2006-07 and $1.8 billion in 2007-08. The change is consistent with revised spending patterns for the EXCEL program received from New York City. The delay of the $650 million for the AMD project to 2007-08 is also consistent with revised spending patterns.

The other revisions are based primarily on year-to-date results.

Revisions to All Funds Capital Projects Spending Forecast
July Update to Mid-Year Update -- Increases/(Decreases)
(millions of dollars)

	2006-07	2007-08	2008-09	2009-10	2010-11
2006-07 July Update Estimate	**$9,650**	**$9,589**	**$8,669**	**$8,049**	**$7,727**
EXCEL	($1,050)	$1,050	$0	$0	$0
AMD	($650)	$650	$0	$0	$0
Transportation	($50)	$1	$21	$13	$27
Housing Grants	($28)	$28	$0	$0	$0
CUNY	($50)	($90)	($90)	$0	$40
SUNY	$0	$20	$23	($22)	($75)
All Other	($32)	$8	$89	$177	$67
2006-07 Mid-year Estimate	**$7,790**	**$11,256**	**$8,712**	**$8,217**	**$7,786**
$ Change	***(1,860)***	***1,667***	***43***	***168***	***59***

The following tables summarize the net impact of these changes on State debt. The adjustments to debt outstanding, debt issuances and debt service costs detailed below are consistent with the capital spending changes noted in the previous chart. In addition, the changes in debt reflect revisions based on more recent information regarding the amount and timing of bond sales, and the savings associated with the use of $250 million from the Debt Reduction Reserve Fund to pay down existing high cost debt.

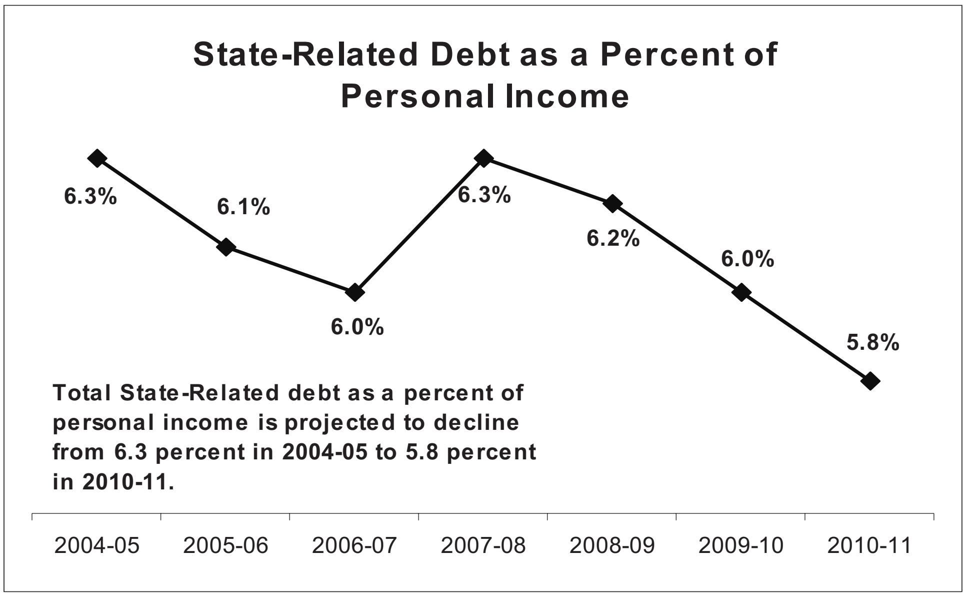
Revisions to Projected State-Related Debt Outstanding July Update to Mid-Year Update -- Increases/(Decreases) (millions of dollars)	2006-07	2007-08	2008-09	2009-10	2010-11
2006-07 July Update Estimate	**50,954**	**54,171**	**56,308**	**57,411**	**58,251**
Use of Reserves to Defease High-Cost Debt	(243)	(243)	(243)	(243)	(243)
EXCEL Sale Delays	(1,071)	31	34	37	40
AMD Sale Delays	(663)	50	54	58	62
Other Economic Development Sale Timing	(88)	5	5	5	6
All Other Reestimates	(57)	(4)	(111)	(79)	(87)
2006-07 Mid-year Estimate	**48,832**	**54,010**	**56,047**	**57,189**	**58,029**
$ Change	***(2,122)***	***(161)***	***(261)***	***(222)***	***(222)***

Revisions to Projected State-Related Debt Issuances July Update to Mid-Year Update -- Increases/(Decreases) (millions of dollars)	2006-07	2007-08	2008-09	2009-10	2010-11
2006-07 July Update Estimate	**6,417**	**5,925**	**4,989**	**4,325**	**4,175**
EXCEL Sale Delays	(1,071)	1,071	0	0	0
AMD Sale Delays	(663)	663	0	0	0
Other Economic Development Sale Timing	(88)	88	0	0	0
All Other Reestimates	(36)	52	(107)	32	(6)
2006-07 Mid-year Estimate	**4,559**	**7,799**	**4,882**	**4,357**	**4,169**
$ Change	***(1,858)***	***1,874***	***(107)***	***32***	***(6)***

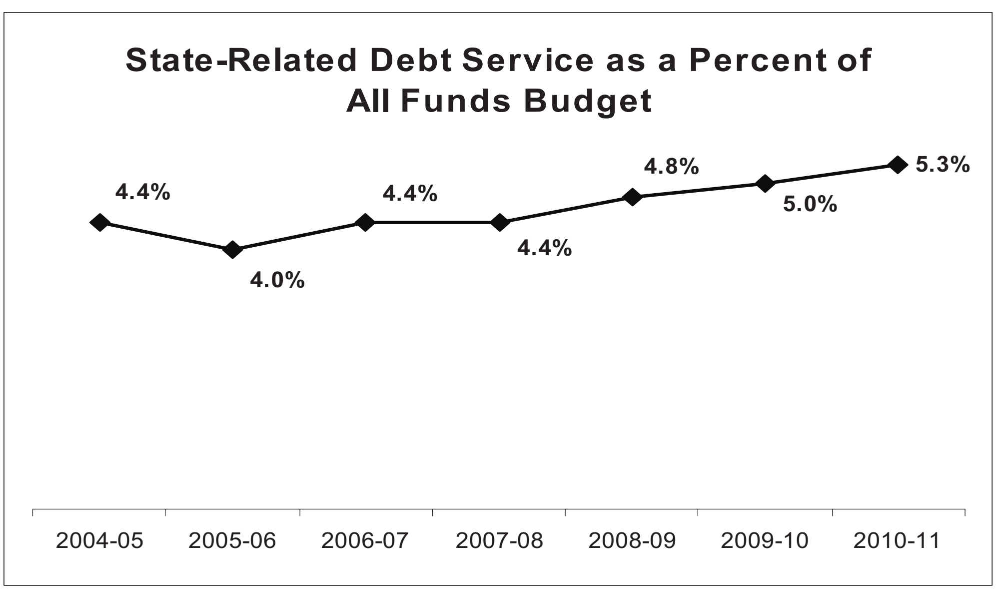
Revisions to Projected State-Related Debt Service/Use of Debt Reduction Reserve July Update to Mid-Year Update -- Increases/(Decreases) (millions of dollars)	2006-07	2007-08	2008-09	2009-10	2010-11
2006-07 July Update Estimate	**4,700**	**5,338**	**5,830**	**6,254**	**6,761**
Use of Reserves to Defease High-Cost Debt	250	0	0	0	0
Debt Service Savings from Defeasance	(1)	(14)	(14)	(14)	(14)
EXCEL Sale Delays	0	(75)	3	3	3
AMD Sale Delays	0	(83)	2	2	2
Other Economic Development Sale Timing	0	(10)	1	0	0
All Other Reestimates	(45)	(7)	(6)	(11)	(7)
2006-07 Mid-year Estimate	**4,904**	**5,149**	**5,816**	**6,234**	**6,745**
$ Change	***204***	***(189)***	***(14)***	***(20)***	***(16)***

DEBT AFFORDABILITY

State debt levels and costs, while higher, continue to remain affordable based on a variety of debt measures commonly used by the financial community. Some key measures are summarized below. All measures reflect the cash-basis total level of State-related debt issued for all State purposes as reported in the State's Comprehensive Annual Financial Report.

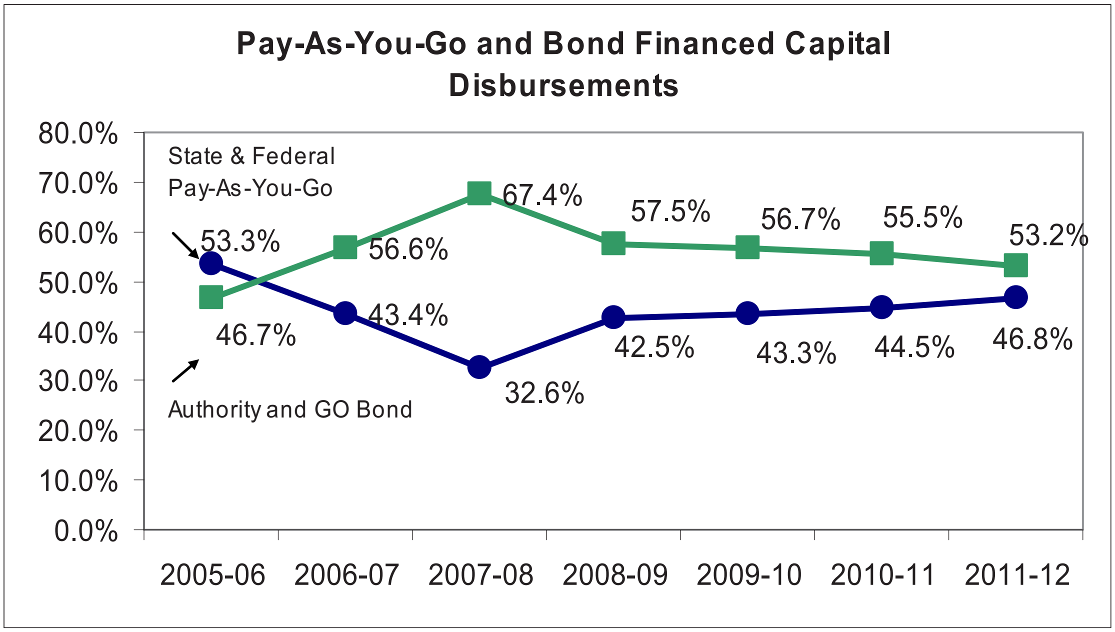


The projections from 2005-06 to 2010-11 reflect a roughly 4 percent average annual increase in debt levels and a roughly 5 percent annual average increase in statewide personal Income.



Beginning in 2006-07, debt service costs are projected to increase by an average of 8.3 percent annually, while All Funds receipts are projected to grow by 3.2 percent annually. The greater debt service costs primarily reflect increased costs for the Dedicated Highway and Bridge Trust Fund, the new EXCEL school construction initiative, the expanding SUNY and CUNY capital programs, and economic development initiatives like AMD.

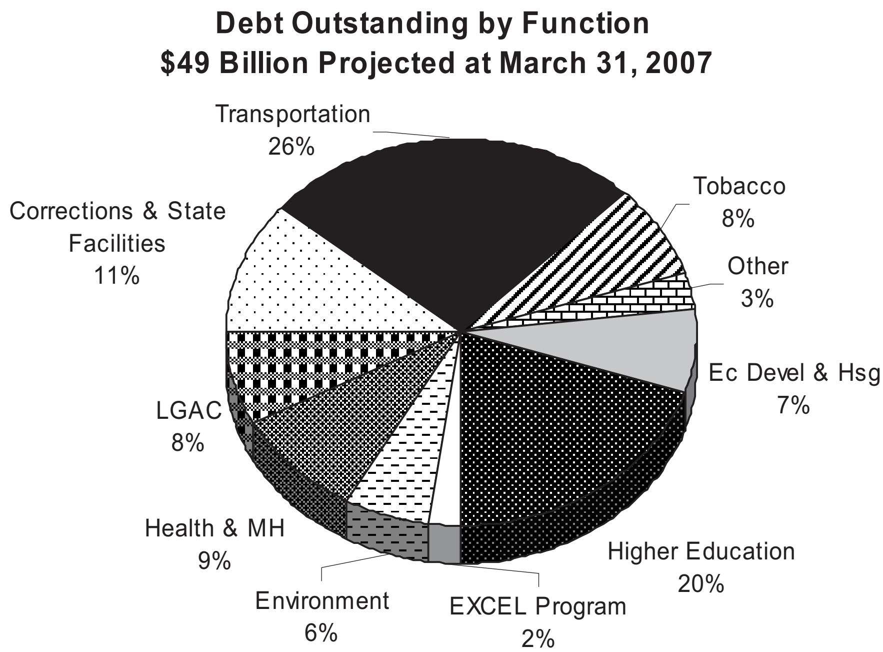
The level of projects financed with cash from both State and Federal sources (i.e., PAYGO) is expected to average roughly 40 percent for the five years.



Debt Outstanding

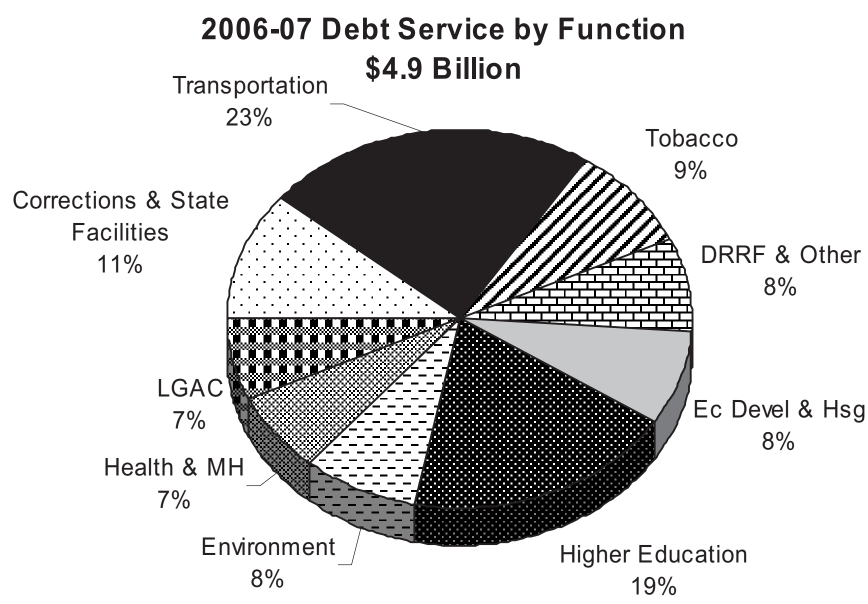
The State's debt levels are the result of three factors: (i) the amount of debt issued in prior years, (ii) the amount of capital spending that will be financed with new debt during the forecast period, and (iii) the amount of debt that is planned to be retired (paid off) during the forecast period.

The $49 billion of State-related debt in 2006-07 consists of debt issued for each of the major programmatic areas as summarized below. The debt of the Local Government Assistance Corporation (LGAC), issued to eliminate seasonal borrowing) and Tobacco bonds (issued to stabilize finances after September 11th) are not allocable to any specific functional area since they served a statewide purpose.



Debt Service

The following chart provides a summary of the major debt service costs by function. Significant bond-financed capital investments, primarily for transportation, education, corrections, economic development, mental hygiene facilities, and the environment, drive more than 80 percent of the State's debt service costs.



CASH FINANCIAL PLAN
GENERAL FUND
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Actuals	2006-07 Mid-Year	Annual Change
Opening fund balance	2,546	3,257	711
Receipts:			
Taxes:			
Personal income tax	20,700	22,836	2,136
User taxes and fees	8,639	8,216	(423)
Business taxes	5,084	5,899	815
Other taxes	882	924	42
Miscellaneous receipts	2,028	2,910	882
Federal Grants	0	180	180
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,500	7,048	548
Sales tax in excess of LGAC debt service	2,295	2,164	(131)
Real estate taxes in excess of CW/CA debt service	715	583	(132)
All other	363	402	39
Total receipts	47,206	51,162	3,956
Disbursements:			
Grants to local governments	31,287	34,386	3,099
State operations	8,160	9,477	1,317
General State charges	3,975	4,363	388
Transfers to other funds:			
Debt service	1,710	1,764	54
Capital projects	286	224	(62)
Other purposes	1,077	1,085	8
Total disbursements	46,495	51,299	4,804
Change in fund balance	711	(137)	(848)
Closing fund balance	3,257	3,120	(137)
Reserves			
Statutory Rainy Day Reserve Fund	944	1,025	81
Contingency Reserve Fund	21	21	0
Spending Stabilization Reserve	2,041	787	(1,254)
2006-07 Surplus (After deposit to Rainy Day Reserve)	0	1,011	1,011
Community Projects Fund	251	276	25

Source: NYS DOB

CURRENT STATE RECEIPTS
GENERAL FUND
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Actuals	2006-2007 Mid-Year	Annual Change
Personal income tax	20,700	22,836	2,136
User taxes and fees:	8,639	8,216	(423)
Sales and use tax	7,978	7,567	(411)
Cigarette and tobacco taxes	403	402	(1)
Motor vehicle fees	24	0	(24)
Alcoholic beverages taxes	192	191	(1)
Alcoholic beverage control license fees	42	56	14
Business taxes:	5,084	5,899	815
Corporation franchise tax	2,665	3,477	812
Corporation and utilities tax	591	593	2
Insurance taxes	987	1,083	96
Bank tax	841	746	(95)
Other taxes:	882	924	42
Estate tax	855	912	57
Gift tax	2	(11)	(13)
Real property gains tax	1	1	0
Pari-mutuel taxes	23	21	(2)
Other taxes	1	1	0
Total Taxes	35,305	37,875	2,570
Miscellaneous receipts	2,028	2,910	882
Federal grants	0	180	180
Total	37,333	40,965	3,632

Source: NYS DOB

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Actuals	2006-2007 Mid-Year	Annual Change
Withholdings	24,761	26,410	1,649
Estimated Payments	9,158	10,452	1,294
Final Payments	1,849	2,100	251
Delinquencies	776	824	48
Gross Collections	36,544	39,786	3,242
State/City Offset	(466)	(440)	26
Refunds	(5,265)	(4,856)	409
Reported Tax Collections	30,813	34,490	3,677
STAR	(3,213)	(4,041)	(828)
RBTF	(6,900)	(7,613)	(713)
General Fund	20,700	22,836	2,136

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2006-2007
(millions of dollars)

	July Update	Change	Mid-Year
Opening fund balance	3,257	0	3,257
Receipts:			
Taxes:			
Personal income tax	22,611	225	22,836
User taxes and fees	8,247	(31)	8,216
Business taxes	5,479	420	5,899
Other taxes	924	0	924
Miscellaneous receipts	2,435	475	2,910
Federal Grants	180	0	180
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,971	77	7,048
Sales tax in excess of LGAC debt service	2,179	(15)	2,164
Real estate taxes in excess of CW/CA debt service	583	0	583
All other	396	6	402
Total receipts	50,005	1,157	51,162
Disbursements:			
Grants to local governments	34,278	108	34,386
State operations	9,503	(26)	9,477
General State charges	4,401	(38)	4,363
Transfers to other funds:			
Debt service	1,760	4	1,764
Capital projects	225	(1)	224
Other purposes	817	268	1,085
Total disbursements	50,984	315	51,299
Change in fund balance	(979)	842	(137)
Closing fund balance	2,278	842	3,120
Reserves			
Statutory Rainy Day Reserve Fund	944	81	1,025
Contingency Reserve Fund	21	0	21
Spending Stabilization Reserve	787	0	787
2006-07 Surplus (After deposit to Rainy Day Reserve)	0	1,011	1,011
Community Projects Fund	276	0	276
Debt Reduction Reserve	250	(250)	0

Source: NYS DOB

CURRENT STATE RECEIPTS
GENERAL FUND
2006-2007
(millions of dollars)

	July Update	Change	Mid-Year
Personal income tax	22,611	225	22,836
User taxes and fees:	8,247	(31)	8,216
Sales and use tax	7,610	(43)	7,567
Cigarette and tobacco taxes	402	0	402
Alcoholic beverages taxes	191	0	191
Alcoholic beverage control license fees	44	12	56
Business taxes:	5,479	420	5,899
Corporation franchise tax	3,057	420	3,477
Corporation and utilities tax	593	0	593
Insurance taxes	1,083	0	1,083
Bank tax	746	0	746
Other taxes:	924	0	924
Estate tax	900	12	912
Gift tax	1	(12)	(11)
Real property gains tax	1	0	1
Pari-mutuel taxes	21	0	21
Other taxes	1	0	1
Total Taxes	37,261	614	37,875
Miscellaneous receipts	2,435	475	2,910
Federal grants	180	0	180
Total	39,876	1,089	40,965

Source: NYS DOB

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2006-2007
(millions of dollars)

	July Update	Change	Mid-Year
Withholdings	26,410	0	26,410
Estimated Payments	10,152	300	10,452
Final Payments	2,100	0	2,100
Delinquencies	824	0	824
Gross Collections	39,486	300	39,786
State/City Offset	(440)	0	(440)
Refunds	(4,856)	0	(4,856)
Reported Tax Collections	34,190	300	34,490
STAR	(4,041)	0	(4,041)
RBTF	(7,538)	(75)	(7,613)
General Fund	22,611	225	22,836

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2007-2008
(millions of dollars)

	July Update	Change	Mid-Year
Receipts:			
Taxes:			
Personal income tax	23,547	412	23,959
User taxes and fees	8,573	(48)	8,525
Business taxes	5,591	(248)	5,343
Other taxes	994	0	994
Miscellaneous receipts	2,182	2	2,184
Federal Grants	60	0	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,822	307	7,129
Sales tax in excess of LGAC debt service	2,276	(17)	2,259
Real estate taxes in excess of CW/CA debt service	510	0	510
All other	187	16	203
Total receipts	50,742	424	51,166
Disbursements:			
Grants to local governments	37,527	7	37,534
State operations	9,663	68	9,731
General State charges	4,717	(116)	4,601
Transfers to other funds:			
Debt service	1,768	(13)	1,755
Capital projects	248	2	250
Other purposes	697	15	712
Total disbursements	54,620	(37)	54,583
Deposit to/(use of) Community Projects Fund	75	0	75
Deposit to/(use of) Spending Stabilization Reserve Fund	(787)	0	(787)
Deposit to/(use of) 2006-07 Surplus	0	(256)	(256)
Margin	(3,166)	717	(2,449)

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2008-2009
(millions of dollars)

	July Update	Change	Mid-Year
Receipts:			
Taxes:			
Personal income tax	24,884	412	25,296
User taxes and fees	8,877	(56)	8,821
Business taxes	5,714	(231)	5,483
Other taxes	1,054	0	1,054
Miscellaneous receipts	1,971	79	2,050
Federal Grants	60	0	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,966	134	7,100
Sales tax in excess of LGAC debt service	2,375	(20)	2,355
Real estate taxes in excess of CW/CA debt service	512	0	512
All other	191	53	244
Total receipts	52,604	371	52,975
Disbursements:			
Grants to local governments	40,491	(506)	39,985
State operations	9,923	93	10,016
General State charges	4,999	(71)	4,928
Transfers to other funds:			
Debt service	1,749	(17)	1,732
Capital projects	284	157	441
Other purposes	713	51	764
Total disbursements	58,159	(293)	57,866
Deposit to/(use of) Community Projects Fund	(150)	0	(150)
Deposit to/(use of) 2006-07 Surplus	0	(255)	(255)
Margin	(5,405)	919	(4,486)

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2006-2007 through 2008-2009
(millions of dollars)

	2006-2007 Mid-Year	2007-2008 Estimated	2008-2009 Estimated
Receipts:			
Taxes:			
Personal income tax	22,836	23,959	25,296
User taxes and fees	8,216	8,525	8,821
Business taxes	5,899	5,343	5,483
Other taxes	924	994	1,054
Miscellaneous receipts	2,910	2,184	2,050
Federal Grants	180	60	60
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,048	7,129	7,100
Sales tax in excess of LGAC debt service	2,164	2,259	2,355
Real estate taxes in excess of CW/CA debt service	583	510	512
All other	402	203	244
Total receipts	51,162	51,166	52,975
Disbursements:			
Grants to local governments	34,386	37,534	39,985
State operations	9,477	9,731	10,016
General State charges	4,363	4,601	4,928
Transfers to other funds:			
Debt service	1,764	1,755	1,732
Capital projects	224	250	441
Other purposes	1,085	712	764
Total disbursements	51,299	54,583	57,866
Deposit to/(use of) Community Projects Fund	25	75	(150)
Deposit to/(use of) Tax Stabilization Reserve	81	0	0
Deposit to/(use of) Spending Stabilization Reserve Fund	(1,254)	(787)	0
Deposit to/(use of) 2006-07 Surplus ($500 million maintained in reserve)	1,011	(256)	(255)
Margin	0	(2,449)	(4,486)

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,257	3,747	(406)	221	6,819
Receipts:					
Taxes	37,875	7,096	2,027	10,836	57,834
Miscellaneous receipts	2,910	12,599	2,507	664	18,680
Federal grants	180	0	0	0	180
Total receipts	40,965	19,695	4,534	11,500	76,694
Disbursements:					
Grants to local governments	34,386	15,442	849	0	50,677
State operations	9,477	5,325	0	65	14,867
General State charges	4,363	586	0	0	4,949
Debt service	0	0	0	4,309	4,309
Capital projects	0	2	3,261	0	3,263
Total disbursements	48,226	21,355	4,110	4,374	78,065
Other financing sources (uses):					
Transfers from other funds	10,197	1,266	346	5,624	17,433
Transfers to other funds	(3,073)	(493)	(806)	(12,728)	(17,100)
Bond and note proceeds	0	0	227	0	227
Net other financing sources (uses)	7,124	773	(233)	(7,104)	560
Change in fund balance	(137)	(887)	191	22	(811)
Closing fund balance	3,120	2,860	(215)	243	6,008

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2005-2006 and 2006-2007
(millions of dollars)

	2005-06 Actuals	First Quarter	Mid-Year	Mid-Year vs. Actuals	Mid-Year vs. First Quarter
Opening fund balance	4,530	6,819	6,819	2,289	0
Receipts:					
Taxes	53,578	57,065	57,834	4,256	769
Miscellaneous receipts	18,148	18,151	18,680	532	529
Federal grants	2	180	180	178	0
Total receipts	71,728	75,396	76,694	4,966	1,298
Disbursements:					
Grants to local governments	44,971	50,821	50,677	5,706	(144)
State operations	13,344	14,883	14,867	1,523	(16)
General State charges	4,521	4,988	4,949	428	(39)
Debt service	3,701	4,087	4,309	608	222
Capital projects	3,186	3,302	3,263	77	(39)
Total disbursements	69,723	78,081	78,065	8,342	(16)
Other financing sources (uses):					
Transfers from other funds	16,774	17,123	17,433	659	310
Transfers to other funds	(16,649)	(16,847)	(17,100)	(451)	(253)
Bond and note proceeds	159	236	227	68	(9)
Net other financing sources (uses)	284	512	560	276	48
Change in fund balance	2,289	(2,173)	(811)	(3,100)	1,362
Closing fund balance	6,819	4,646	6,008	(811)	1,362

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,860	(215)	243	2,888
Receipts:					
Taxes	38,821	6,689	2,132	11,255	58,897
Miscellaneous receipts	2,184	13,095	3,412	671	19,362
Federal grants	60	0	0	0	60
Total receipts	41,065	19,784	5,544	11,926	78,319
Disbursements:					
Grants to local governments	37,534	15,134	826	0	53,494
State operations	9,731	5,575	0	66	15,372
General State charges	4,601	606	0	0	5,207
Debt service	0	0	0	4,532	4,532
Capital projects	0	2	4,612	0	4,614
Total disbursements	51,866	21,317	5,438	4,598	83,219
Other financing sources (uses):					
Transfers from other funds	10,101	1,131	460	5,545	17,237
Transfers to other funds	(2,717)	(410)	(915)	(12,841)	(16,883)
Bond and note proceeds	0	0	403	0	403
Net other financing sources (uses)	7,384	721	(52)	(7,296)	757
Deposit to/(use of) Community Projects Fund	75	0	0	0	75
Deposit to/(use of) Spending Stabilization Reserve Fund	(787)	0	0	0	(787)
Deposit to/(use of) 2006-07 Surplus	(256)	0	0	0	(256)
Change in fund balance	(2,449)	(812)	54	32	(3,175)
Closing fund balance	(2,449)	2,048	(161)	275	(287)

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,048	(161)	275	2,162
Receipts:					
Taxes	40,654	6,924	2,176	11,800	61,554
Miscellaneous receipts	2,050	14,072	3,195	680	19,997
Federal grants	60	0	0	0	60
Total receipts	42,764	20,996	5,371	12,480	81,611
Disbursements:					
Grants to local governments	39,985	15,921	791	0	56,697
State operations	10,016	5,519	0	66	15,601
General State charges	4,928	617	0	0	5,545
Debt service	0	0	0	5,140	5,140
Capital projects	0	2	4,736	0	4,738
Total disbursements	54,929	22,059	5,527	5,206	87,721
Other financing sources (uses):					
Transfers from other funds	10,211	1,189	682	5,716	17,798
Transfers to other funds	(2,937)	(495)	(1,025)	(12,966)	(17,423)
Bond and note proceeds	0	0	545	0	545
Net other financing sources (uses)	7,274	694	202	(7,250)	920
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Deposit to/(use of) 2006-07 Surplus	(255)	0	0	0	(255)
Change in fund balance	(4,486)	(369)	46	24	(4,785)
Closing fund balance	(4,486)	1,679	(115)	299	(2,623)

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,257	4,194	(604)	221	7,068
Receipts:					
Taxes	37,875	7,096	2,027	10,836	57,834
Miscellaneous receipts	2,910	12,757	2,507	664	18,838
Federal grants	180	34,278	1,747	0	36,205
Total receipts	40,965	54,131	6,281	11,500	112,877
Disbursements:					
Grants to local governments	34,386	46,292	987	0	81,665
State operations	9,477	8,439	0	65	17,981
General State charges	4,363	822	0	0	5,185
Debt service	0	0	0	4,309	4,309
Capital projects	0	2	4,906	0	4,908
Total disbursements	48,226	55,555	5,893	4,374	114,048
Other financing sources (uses):					
Transfers from other funds	10,197	3,639	346	5,624	19,806
Transfers to other funds	(3,073)	(3,217)	(819)	(12,728)	(19,837)
Bond and note proceeds	0	0	227	0	227
Net other financing sources (uses)	7,124	422	(246)	(7,104)	196
Change in fund balance	(137)	(1,002)	142	22	(975)
Closing fund balance	3,120	3,192	(462)	243	6,093

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2005-2006 and 2006-2007
(millions of dollars)

	2005-06 Actuals	First Quarter	Mid-Year	Mid-Year vs. Actuals	Mid-Year vs. First Quarter
Opening fund balance	4,281	7,068	7,068	2,787	0
Receipts:					
Taxes	53,578	57,065	57,834	4,256	769
Miscellaneous receipts	18,320	18,295	18,838	518	543
Federal grants	35,129	35,854	36,205	1,076	351
Total receipts	107,027	111,214	112,877	5,850	1,663
Disbursements:					
Grants to local governments	75,036	81,321	81,665	6,629	344
State operations	16,435	18,029	17,981	1,546	(48)
General State charges	4,735	5,229	5,185	450	(44)
Debt service	3,701	4,087	4,309	608	222
Capital projects	4,434	4,941	4,908	474	(33)
Total disbursements	104,341	113,607	114,048	9,707	441
Other financing sources (uses):					
Transfers from other funds	19,176	19,500	19,806	630	306
Transfers to other funds	(19,234)	(19,581)	(19,837)	(603)	(256)
Bond and note proceeds	159	236	227	68	(9)
Net other financing sources (uses)	101	155	196	95	41
Change in fund balance	2,787	(2,238)	(975)	(3,762)	1,263
Closing fund balance	7,068	4,830	6,093	(975)	1,263

Source: NYS DOB

CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Actuals	2006-2007 July Update	2006-2007 Mid-Year	Mid-Year vs. Actuals	Mid-Year vs. July Update
Personal income tax	30,813	34,190	34,490	3,677	300
User taxes and fees	13,857	13,624	13,575	(282)	(49)
Sales and use taxes	11,196	10,847	10,782	(414)	(65)
Cigarette and tobacco taxes	974	964	964	(10)	0
Motor fuel tax	531	520	521	(10)	1
Motor vehicle fees	720	854	854	134	0
Highway use tax	160	159	161	1	2
Alcoholic beverage taxes	192	191	191	(1)	0
Alcoholic beverage control license fees	42	44	57	15	13
Auto rental tax	42	45	45	3	0
Business taxes	7,088	7,477	7,995	907	518
Corporation franchise tax	3,053	3,457	4,007	954	550
Corporation and utilities taxes	832	791	791	(41)	0
Insurance taxes	1,083	1,186	1,191	108	5
Bank tax	974	876	881	(93)	5
Petroleum business taxes	1,146	1,167	1,125	(21)	(42)
Other taxes	1,820	1,774	1,774	(46)	0
Estate tax	855	900	912	57	12
Gift tax	2	1	(11)	(13)	(12)
Real property gains tax	1	1	1	0	0
Real estate transfer tax	938	850	850	(88)	0
Pari-mutuel taxes	23	21	21	(2)	0
Other taxes	1	1	1	0	0
Total taxes	53,578	57,065	57,834	4,256	769
Miscellaneous receipts	18,320	18,295	18,838	518	543
Federal grants	35,129	35,854	36,205	1,076	351
Total	107,027	111,214	112,877	5,850	1,663

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	3,192	(462)	243	2,973
Receipts:					
Taxes	38,821	6,689	2,132	11,255	58,897
Miscellaneous receipts	2,184	13,241	3,412	671	19,508
Federal grants	60	35,749	1,924	0	37,733
Total receipts	41,065	55,679	7,468	11,926	116,138
Disbursements:					
Grants to local governments	37,534	47,311	992	0	85,837
State operations	9,731	8,721	0	66	18,518
General State charges	4,601	848	0	0	5,449
Debt service	0	0	0	4,532	4,532
Capital projects	0	3	6,349	0	6,352
Total disbursements	51,866	56,883	7,341	4,598	120,688
Other financing sources (uses):					
Transfers from other funds	10,101	3,497	460	5,545	19,603
Transfers to other funds	(2,717)	(3,130)	(928)	(12,841)	(19,616)
Bond and note proceeds	0	0	403	0	403
Net other financing sources (uses)	7,384	367	(65)	(7,296)	390
Deposit to/(use of) Community Projects Fund	75	0	0	0	75
Deposit to/(use of) Spending Stabilization Reserve Fund	(787)	0	0	0	(787)
Deposit to/(use of) 2006-07 Surplus	(256)	0	0	0	(256)
Change in fund balance	(2,449)	(837)	62	32	(3,192)
Closing fund balance	(2,449)	2,355	(400)	275	(219)

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,355	(400)	275	2,230
Receipts:					
Taxes	40,654	6,924	2,176	11,800	61,554
Miscellaneous receipts	2,050	14,220	3,195	680	20,145
Federal grants	60	37,569	1,794	0	39,423
Total receipts	42,764	58,713	7,165	12,480	121,122
Disbursements:					
Grants to local governments	39,985	49,564	957	0	90,506
State operations	10,016	8,756	0	66	18,838
General State charges	4,928	867	0	0	5,795
Debt service	0	0	0	5,140	5,140
Capital projects	0	3	6,343	0	6,346
Total disbursements	54,929	59,190	7,300	5,206	126,625
Other financing sources (uses):					
Transfers from other funds	10,211	3,604	682	5,716	20,213
Transfers to other funds	(2,937)	(3,305)	(1,038)	(12,966)	(20,246)
Bond and note proceeds	0	0	545	0	545
Net other financing sources (uses)	7,274	299	189	(7,250)	512
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Deposit to/(use of) 2006-07 Surplus	(255)	0	0	0	(255)
Change in fund balance	(4,486)	(178)	54	24	(4,586)
Closing fund balance	(4,486)	2,177	(346)	299	(2,356)

Source: NYS DOB

CASHFLOW
GENERAL FUND
2006-2007
(dollars in millions)

	2006 April Actual	May Actual	June Actual	July Actual	August Actual	September Actual	October Projected	November Projected	December Projected	2007 January Projected	February Projected	March Projected	Total
OPENING BALANCE	3,257	7,517	3,730	4,486	4,957	3,944	4,734	4,170	2,202	2,023	6,872	7,248	3,257
RECEIPTS:													
Personal Income Tax	4,170	689	2,393	1,340	1,537	1,943	785	348	1,816	4,476	1,936	1,403	22,836
User Taxes and Fees	600	597	843	653	607	852	603	603	810	727	552	769	8,216
Business Taxes	325	83	1,002	120	76	1,091	499	25	1,039	117	79	1,443	5,899
Other Taxes	104	80	112	119	70	61	96	56	56	56	56	58	924
Total Taxes	5,199	1,449	4,350	2,232	2,290	3,947	1,983	1,032	3,721	5,376	2,623	3,673	37,875
Miscellaneous Receipts	167	121	279	117	110	187	180	400	245	185	239	680	2,910
Federal Grants	0	0	112	0	0	0	15	1	25	1	1	25	180
PIT in excess of Revenue Bond Debt Service	1,388	199	803	445	386	673	248	57	493	1,491	244	621	7,048
Sales Tax in Excess of LGAC Debt Service	163	53	385	187	187	189	182	182	250	222	2	162	2,164
Real Estate Taxes in Excess of CW/CA Debt Service	92	72	57	53	64	0	41	41	41	41	41	40	583
All Other	1	0	63	30	9	10	10	6	10	0	56	207	402
Total Transfers from Other Funds	1,644	324	1,308	715	646	872	481	286	794	1,754	343	1,030	10,197
TOTAL RECEIPTS	7,010	1,894	6,049	3,064	3,046	5,006	2,659	1,719	4,785	7,316	3,206	5,408	51,162
DISBURSEMENTS:													
School Aid	135	1,948	1,567	128	393	1,302	503	700	1,177	339	574	5,820	14,586
Medicaid	916	1,195	820	626	1,117	493	386	922	787	359	516	554	8,691
Welfare	77	203	59	75	142	173	31	157	177	37	126	(7)	1,250
All Other	201	615	723	590	936	812	695	461	1,360	681	779	2,006	9,859
Total Local Assitance Grants	1,329	3,961	3,169	1,419	2,588	2,780	1,615	2,240	3,501	1,416	1,995	8,373	34,386
Personal Service	595	766	531	587	856	561	591	712	422	398	313	454	6,786
Non-Personal Service	177	234	239	183	233	195	195	202	221	229	243	340	2,691
Total State Operations	772	1,000	770	770	1,089	756	786	914	643	627	556	794	9,477
General State Charges	296	443	1,193	228	230	273	411	273	256	327	145	288	4,363
Debt Service	205	122	186	60	48	316	44	171	395	7	25	185	1,764
Capital Projects	26	124	(64)	37	57	17	87	10	106	20	90	(286)	224
Other Purposes	122	31	39	79	47	74	280	79	63	70	19	182	1,085
Total Transfers to Other Funds	353	277	161	176	152	407	411	260	564	97	134	81	3,073
TOTAL DISBURSEMENTS	2,750	5,681	5,293	2,593	4,059	4,216	3,223	3,687	4,964	2,467	2,830	9,536	51,299
Excess/(Deficiency) of Receipts over Disbursements	4,260	(3,787)	756	471	(1,013)	790	(564)	(1,968)	(179)	4,849	376	(4,128)	(137)
CLOSING BALANCE	7,517	3,730	4,486	4,957	3,944	4,734	4,170	2,202	2,023	6,872	7,248	3,120	3,120

Source: NYS DOB

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2005-2006 Actuals	2006-2007 Mid-Year	Annual Change
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	85,309	113,377	28,068
Alcoholic Beverage Control	10,286	12,076	1,790
Banking Department	56,278	59,783	3,505
Consumer Protection Board	2,622	3,003	381
Economic Development, Department of	440,376	365,676	(74,700)
Empire State Development Corporation	47,699	180,933	133,234
Energy Research and Development Authority	26,151	33,356	7,205
Housing and Community Renewal, Division of	259,534	282,508	22,974
Insurance Department	124,142	152,644	28,502
Olympic Regional Development Authority	8,550	13,886	5,336
Public Service, Department of	50,453	54,214	3,761
Science, Technology and Academic Research, Office of	61,088	71,078	9,990
Functional Total	1,172,488	1,342,534	170,046
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,398	4,928	530
Environmental Conservation, Department of	816,046	892,927	76,881
Environmental Facilities Corporation	8,034	14,258	6,224
Parks, Recreation and Historic Preservation, Office of	248,329	288,297	39,968
Functional Total	1,076,807	1,200,410	123,603
TRANSPORTATION			
Motor Vehicles, Department of	238,186	274,160	35,974
Thruway Authority	1,671	1,787	116
Metropolitan Transportation Authority	38,078	38,050	(28)
Transportation, Department of	5,640,342	5,937,768	297,426
Functional Total	5,918,277	6,251,765	333,488
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	18	0	(18)
Aging, Office for the	185,516	210,606	25,090
Children and Family Services, Office of	3,196,915	2,917,185	(279,730)
Health, Department of	35,205,297	37,347,221	2,141,924
Medical Assistance	30,209,572	31,780,313	1,570,741
Medicaid Administration	575,158	692,100	116,942
All Other	4,420,567	4,874,808	454,241
Human Rights, Division of	14,942	15,227	285
Labor, Department of	573,112	564,815	(8,297)
Medicaid Inspector General, Office of	1,049	47,901	46,852
Prevention of Domestic Violence, Office of	1,985	2,549	564

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2005-2006 Actuals	2006-2007 Mid-Year	Annual Change
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,391,625	4,848,790	457,165
Welfare Assistance	2,979,052	3,444,868	465,816
Welfare Administration	368,537	381,897	13,360
All Other	1,044,036	1,022,025	(22,011)
Welfare Inspector General, Office of	1,004	1,178	174
Workers' Compensation Board	140,892	144,670	3,778
Functional Total	43,712,355	46,100,142	2,387,787
MENTAL HEALTH			
Mental Health, Office of	2,319,598	2,423,765	104,167
Mental Hygiene, Department of	9,370	8,645	(725)
Mental Retardation and Developmental Disabilities, Office of	2,953,803	3,153,740	199,937
Alcohol and Substance Abuse Services, Office of	484,831	531,928	47,097
Developmental Disabilities Planning Council	4,081	3,648	(433)
Quality of Care for the Mentally Disabled, Commission on	12,770	14,524	1,754
Functional Total	5,784,453	6,136,250	351,797
PUBLIC PROTECTION			
Capital Defenders Office	4,572	1,600	(2,972)
Correction, Commission of	2,515	2,607	92
Correctional Services, Department of	2,316,062	2,803,076	487,014
Crime Victims Board	55,565	62,016	6,451
Criminal Justice Services, Division of	193,336	327,877	134,541
Homeland Security	19,586	310,619	291,033
Investigation, Temporary State Commission of	3,586	3,934	348
Judicial Commissions	2,714	2,888	174
Military and Naval Affairs, Division of	209,562	362,820	153,258
Parole, Division of	193,231	200,605	7,374
Probation and Correctional Alternatives, Division of	72,254	73,708	1,454
State Police, Division of	598,904	638,848	39,944
Functional Total	3,671,887	4,790,598	1,118,711
EDUCATION			
Arts, Council on the	42,825	52,125	9,300
City University of New York	797,286	1,375,085	577,799
Education, Department of	24,252,348	27,639,917	3,387,569
School Aid (includes EXCEL)	18,549,341	20,785,703	2,236,362
STAR Property Tax Relief	3,213,204	4,041,000	827,796
Handicapped	1,560,076	1,671,058	110,982
All Other	929,727	1,142,156	212,429
Higher Education Services Corporation	1,018,291	983,254	(35,037)
State University Construction Fund	10,013	12,077	2,064
State University of New York	5,073,769	5,611,049	537,280
Functional Total	31,194,532	35,673,507	4,478,975

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2005-2006 Actuals	2006-2007 Mid-Year	Annual Change
GENERAL GOVERNMENT			
Audit and Control, Department of	225,148	238,417	13,269
Budget, Division of the	37,423	69,562	32,139
Civil Service, Department of	26,391	24,051	(2,340)
Elections, State Board of	4,206	76,126	71,920
Employee Relations, Office of	3,579	3,843	264
Executive Chamber	13,937	15,480	1,543
General Services, Office of	260,359	258,367	(1,992)
Inspector General, Office of	5,336	6,369	1,033
Law, Department of	182,295	199,059	16,764
Lieutenant Governor, Office of the	348	485	137
Lottery, Division of	176,524	201,365	24,841
Racing and Wagering Board, State	13,093	19,133	6,040
Real Property Services, Office of	43,830	53,428	9,598
Regulatory Reform, Governor's Office of	3,661	3,744	83
State Labor Relations Board	3,508	3,776	268
State, Department of	158,194	186,451	28,257
Tax Appeals, Division of	2,958	3,423	465
Taxation and Finance, Department of	341,429	358,381	16,952
Technology, Office for	21,018	20,018	(1,000)
TSC Lobbying	1,572	2,663	1,091
Veterans Affairs, Division of	13,599	15,084	1,485
Functional Total	1,538,408	1,759,225	220,817
ALL OTHER CATEGORIES			
Legislature	210,051	213,863	3,812
Judiciary (excluding fringe benefits)	1,618,170	1,823,674	205,504
World Trade Center	38,003	32,550	(5,453)
Local Government Assistance	1,018,896	1,177,042	158,146
Long-Term Debt Service	3,701,385	4,309,190	607,805
General State Charges/Miscellaneous	4,702,942	5,134,620	431,678
Capital GAAP Adjustments (1)	(1,017,218)	(1,896,835)	(879,617)
Functional Total	10,272,229	10,794,104	521,875
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	104,341,436	114,048,535	9,707,099

(1) Reflects an accounting adjustment for certain capital spending that is not reported in actual cash spending results, but is reported in the State's GAAP Financial Statements. This spending is related to programs which are financed directly from bond proceeds that are on deposit at various public authorities rather than from a short-term loan from Short-Term Investment Pool or cash from the General Fund, and has been included in the above agency totals and removed from net spending totals. The detailed amounts by agency are presented on the table entitled "Capital Off-Budget Spending".

Source: NYS DOB

GAAP FINANCIAL PLAN
GENERAL FUND
2005-2006 and 2006-2007
(millions of dollars)

	2005-2006 Actuals	2006-2007 Mid-Year	Change
Revenues:			
Taxes:			
Personal income tax	21,060	22,201	1,141
User taxes and fees	8,454	8,076	(378)
Business taxes	4,970	6,083	1,113
Other taxes	1,028	902	(126)
Miscellaneous revenues	5,579	6,003	424
Federal grants	0	180	180
Total revenues	41,091	43,445	2,354
Expenditures:			
Grants to local governments	33,678	36,642	2,964
State operations	10,681	11,450	769
General State charges	3,962	3,656	(306)
Debt service	0	26	26
Capital projects	0	1	1
Total expenditures	48,321	51,775	3,454
Other financing sources (uses):			
Transfers from other funds	13,993	12,894	(1,099)
Transfers to other funds	(5,381)	(5,698)	(317)
Proceeds from financing arrangements/ advance refundings	254	347	93
Net other financing sources (uses)	8,866	7,543	(1,323)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,636	(787)	(2,423)
Accumulated Surplus/(Deficit)	2,182	1,395	(787)

Source: NYS DOB

GAAP FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	37,262	7,060	2,028	10,857	57,207
Patient fees	0	0	0	326	326
Miscellaneous revenues	6,003	4,693	277	23	10,996
Federal grants	180	35,955	1,748	0	37,883
Total revenues	43,445	47,708	4,053	11,206	106,412
Expenditures:					
Grants to local governments	36,642	43,290	987	0	80,919
State operations	11,450	1,713	0	65	13,228
General State charges	3,656	326	0	0	3,982
Debt service	26	0	0	3,484	3,510
Capital projects	1	2	4,541	0	4,544
Total expenditures	51,775	45,331	5,528	3,549	106,183
Other financing sources (uses):					
Transfers from other funds	12,894	258	322	5,645	19,119
Transfers to other funds	(5,698)	(3,276)	(841)	(13,273)	(23,088)
Proceeds of general obligation bonds	0	0	227	0	227
Proceeds from financing arrangements/ advance refundings	347	0	1,899	0	2,246
Net other financing sources (uses)	7,543	(3,018)	1,607	(7,628)	(1,496)
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(787)	(641)	132	29	(1,267)

Source: NYS DOB

CASH FLOW
HEALTH CARE REFORM ACT RESOURCES FUND
2006-2007
(millions of dollars)

	First Quarter (Actual)	Second Quarter (Actual)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	1,600	2,041	1,541	954	1,600
Receipts:					
Cigarette Taxes	148	155	126	134	563
Miscellaneous Receipts	773	770	727	1,643	3,913
Total receipts	921	925	853	1,777	4,476
Disbursements:					
Medical Assistance Account	2	517	570	1,023	2,112
HCRA Program Account	169	320	253	421	1,163
Hospital Indigent Care Fund	110	243	285	203	841
Elderly Pharmaceutical Insurance Coverage (EPIC)	80	130	182	150	542
Child Health Plus (CHP)	70	136	67	62	335
Public Health	29	43	46	42	160
Mental Health	6	22	26	39	93
All Other	14	14	11	83	122
Total disbursements	480	1,425	1,440	2,023	5,368
Change in fund balance	441	(500)	(587)	(246)	(892)
Closing fund balance	2,041	1,541	954	708	708

Source: NYS DOB

Special Considerations

The Financial Plan is necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current receipts and spending estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of additional risks to the Financial Plan, see the sections entitled "Risks to the Financial Plan" and "Litigation" in this AIS Update.

GAAP-Basis Results for Prior Fiscal Years

(Reprinted from August 4, 2006 Update to the AIS)

The Comptroller prepares Basic Financial Statements on a GAAP basis for governments as promulgated by GASB. The Basic Financial Statements, released in July each year, include the Statement of Net Assets and Activities, the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, the Statements of Net Assets, Revenues, Expenses and Changes in Fund Net Assets and Cash Flows for the Enterprise Funds, the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets and the Combining Statements of Net Assets and Activities for Discretely Presented Component Units. These statements are audited by independent certified public accountants. The Comptroller also prepares and issues a Comprehensive Annual Financial Report, which includes a financial overview, the Basic Financial Statements, other supplementary information which includes individual fund combining statements, and a statistical section. For information regarding the State's accounting and financial reporting requirements, see the section in the AIS dated June 12, 2006 entitled "State Organization—Accounting, Financial Reporting and Budgeting."

Both the Basic Financial Statements and Comprehensive Annual Financial Reports for prior fiscal years can be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236 or at the OSC website at www.osc.state.ny.us. The following table summarizes recent governmental funds results on a GAAP basis.

Comparison of Actual GAAP-Basis Operating Results
Surplus/(Deficit)
(millions of dollars)

Fiscal Year Ended	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	All Governmental Funds	Accum. General Fund Surplus/(Deficit)
March 31, 2006	1,636	3,128	(664)	(251)	3,849	2,182
March 31, 2005	827	833	361	89	2,110	546
March 31, 2004	3,039	(578)	173	603	3,237	(281)

Beginning with the fiscal year ended March 31, 2003, statements have been prepared in accordance with GASB 34. GASB 34 has significantly affected the accounting and financial reporting for all state and local governments. The financial reporting model redefined the financial reporting model by changing its focus to major funds, rather than fund types, requiring a new section called management discussion and analysis (the

“MD&A”), and containing new government-wide financial statements which includes all revenues and all costs of providing services each year. The new Basic Financial Statements and the MD&A are issued in place of the general purpose financial statements. The new statements also report on all current assets and liabilities and also long-term assets and liabilities, such as capital assets, including infrastructure (e.g., roads and bridges).

Summary of Net Assets
(millions of dollars)

Fiscal Year Ended	Governmental Activities	Business-Type Activities	Total Primary Government
March 31, 2006	45,997	3,136	49,133
March 31, 2005	41,190	2,645	43,835
March 31, 2004	39,086	2,088	41,174

State Organization

State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees’ Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 33 percent of the membership during the 2005-06 fiscal year. There were 3,000 other public employers participating in the Systems, including all cities and counties (except New York City), most towns, villages and school districts (with respect to non-teaching employees) and a large number of local authorities of the State.

As of March 31, 2006, 653,291 persons were members and 342,245 pensioners or beneficiaries were receiving benefits. The State Constitution considers membership in any State pension or retirement system to be a contractual relationship, the benefits of which shall not be diminished or impaired. Members cannot be required to begin making contributions or make increased contributions beyond what was required when membership began.

Contributions

Funding is provided in large part by employer and employee contributions. Employers contribute on the basis of the plan or plans they provide for members. Members joining since mid-1976, other than police and fire members, are required to contribute 3 percent of their salaries for their first 10 years of membership.

Legislation enacted in May 2003 realigned the Retirement Systems billing cycle to match governments' budget cycles and also instituted a minimum annual payment. The employer contribution for a given fiscal year will be based on the value of the pension fund and its liabilities on the prior April 1. In addition, employers are required to make a minimum contribution of at least 4.5 percent of payroll every year.

The State paid its employer contributions for the fiscal year ending March 31, 2007, which totaled $1,067.2 million as of June 1, 2006. This amount included the Judiciary bill and the amortization payments for the 2005 and 2006 bills. Also, an additional payment of $21 million was made on June 1, 2006 to reduce the State's remaining retirement incentive costs. The estimated bill for the fiscal year ending March 31, 2008 totals $1,045.4 million payable as of September 1, 2007. The amount also includes the Judiciary bill and amortization payments for the 2005 and 2006 bills.

Assets and Liabilities

Assets are held exclusively for the benefit of members, pensioners and beneficiaries. Investments for the Systems are made by the Comptroller as trustee of the Common Retirement Fund, a pooled investment vehicle. OSC reports that the net assets available for benefits as of March 31, 2006 were $142.6 billion (including $2.8 billion in receivables), an increase of $14.6 billion or 11.4 percent from the 2004-05 level of $128.0 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries increased from $146.5 billion on April 1, 2005 to $153.7 billion (including $58.8 billion for current retirees and beneficiaries) on April 1, 2006. The funding method used by the Systems anticipates that the net assets, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differed from net assets on April 1, 2006 in that amortized cost was used instead of market value for bonds and mortgages and the non-fixed investments utilized a smoothing method which recognized 20 percent of unexpected gain for the 2006 fiscal year and 40 percent of the unexpected gain for the 2005 fiscal year. Actuarial assets increased from $123.8 billion on April 1, 2005 to $132.1 billion on April 1, 2006. The table that follows shows the actuarially determined contributions that have been made over the last eight years. See also "Contributions" above.

Net Assets Available for Benefits of the New York State and Local Retirement Systems(1) (millions of dollars)

Fiscal Year Ended March 31	Total Assets(2)	Percent Increase/ (Decrease) From Prior Year
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)
2004	120,799	24.1
2005	128,038	6.0
2006	142,620	11.4

Sources: State and Local Retirement Systems.
(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2006 includes approximately $2.8 billion of receivables.
(2) Includes certain accrued employer contributions to be paid with respect to service rendered during fiscal years other than the year shown.

Contributions and Benefits
New York State and Local Retirement Systems
(millions of dollars)

Fiscal Year Ended March 31	Contributions Recorded				Total Benefits Paid(2)
	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	
1999	292	156	136	400	3,570
2000	165	11	154	423	3,787
2001	215	112	103	319	4,267
2002	264	199	65	210	4,576
2003	652	378	274	219	5,030
2004	1,287	832	455	222	5,424
2005	2,965	1,877	1,088	227	5,691
2006	2,782	1,714	1,068	241	6,073

(1) Includes employer premiums to Group Life Insurance Plan.
(2) Includes payments from Group Life Insurance Plan.

Litigation

Real Property Claims

On March 4, 1985 in *Oneida Indian Nation of New York, et al. v. County of Oneida*, the United States Supreme Court affirmed a judgment of the United States Court of Appeals for the Second Circuit holding that the Oneida Indians have a common-law right of action against Madison and Oneida counties for wrongful possession of 872 acres of land illegally sold to the State in 1795. At the same time, however, the Court reversed the Second Circuit by holding that a third-party claim by the counties against the State for indemnification was not properly before the Federal courts. The case was remanded to the District Court for an assessment of damages, which action is still pending. The counties may still seek indemnification in the State courts.

In 1998, the United States filed a complaint in intervention in *Oneida Indian Nation of New York*. In December 1998, both the United States and the tribal plaintiffs moved for leave to amend their complaints to assert claims for 250,000 acres, including both monetary damages and ejectment, to add the State as a defendant, and to certify a class made up of all individuals who currently purport to hold title within the affected 250,000 acre area. On September 25, 2000, the District Court granted the motion to amend the complaint to the extent that it sought to add the State as a defendant and to assert money damages with respect to the 250,000 acres and denied the motion to certify a class of individual landowners and to seek the remedy of ejectment.

In a decision dated March 29, 2002, the District Court granted, in part, plaintiffs' motion to strike the State's defenses and counterclaims. The defenses that were dismissed may not be asserted as to liability, but may still be asserted with respect to damages. The District Court also denied the State's motion to dismiss for failure to join indispensable parties.

On December 7, 2004, settlement agreements were signed between the State, the Oneidas of Wisconsin and the Stockbridge-Munsee Tribe, which contemplated the extinguishment of all Oneida and other Indian claims in the tract at issue in this litigation. Although the agreements provided for monetary payment, transfers of lands and other consideration to non-signatory tribal plaintiffs, these agreements were not signed by the United States, the Oneidas of New York, the Oneidas of the Thames Band or the New York Brothertown. The settlement agreements required the passage of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. No such legislation was enacted and no extension of time was agreed upon. On August 11, 2006, the defendants moved for summary judgment on the issue of laches.

Other Indian land claims include *Cayuga Indian Nation of New York v. Cuomo, et al.*, and *Canadian St. Regis Band of Mohawk Indians, et al., v. State of New York, et al.*, both in the United States District Court for the Northern District of New York and *Seneca Nation of Indians, et al. v. State, et al.,* in the United States District Court for the Western District of New York and *the Onondaga Nation v. The State of New York, et al.*

In the *Seneca Nation of Indians* case, plaintiffs seek monetary damages and ejectment with regard to their claim of ownership of certain islands in the Niagara River and the New York State Thruway right of way where the Thruway crosses the Cattaraugus reservation in Erie and Chautauqua Counties. By order dated November 17, 1999, the District Court confirmed the July 12, 1999 magistrate's report, which recommended granting the State's motion to dismiss that portion of the action relating to the Thruway right of way and denying the State's motion to dismiss the Federal government's damage claims. By decision and order dated June 21, 2002, the District Court granted summary judgment to defendants dismissing that portion of the action relating to the islands in the Niagara River. A judgment entered June 21, 2002 dismissed all aspects of this action. Plaintiffs appealed from the judgment to the U.S. Court of Appeals for the Second Circuit. By decision dated September 9, 2004, the Second Circuit affirmed the judgment of the District Court. On July 8, 2005, the Second Circuit denied the United States' motion for rehearing *en banc*. On September 2, 2005, the Second Circuit also denied the other plaintiffs' petitions for rehearing *en banc*. On January 17, 2006, plaintiffs filed for a petition for a writ of certiorari before the United States Supreme Court, seeking review of the September 9, 2004 decision. On June 5, 2006, the Supreme Court denied plaintiffs' petition for certiorari. This case is now concluded.

In the *Canadian St. Regis Band of Mohawk Indians* case, plaintiffs seek ejectment and monetary damages with respect to their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest. By decision dated July 28, 2003, the District Court granted, in most respects, a motion by plaintiffs to strike defenses and dismiss counterclaims contained in defendants' answers. By decision dated October 20, 2003, the District Court denied the State's motion for reconsideration of that portion of the July 28, 2003 decision which struck a counterclaim against the United States for contribution. On November 29, 2004, the plaintiff tribal entities, with one exception, approved a settlement proposed by the State, which would require enactment of State and Federal legislation to become effective. The plaintiff tribal entity that did not approve the proposed settlement on November 29, 2004, subsequently expressed its approval. A bill that would implement the terms of the Haudenosaunee-Mohawk settlement agreement has been passed by the New York State Assembly and awaits action by the New York State Senate. On February 10, 2006, the District Court stayed all further proceedings in this case until 45 days after the United States Supreme Court issued a final decision in the *Cayuga Indian Nation of the New York* Case. On November 6, 2006, the defendants moved for judgment on the pleadings.

In the *Cayuga Indian Nation of New York* case, plaintiffs seek monetary damages for their claim that approximately 64,000 acres in Seneca and Cayuga Counties were illegally purchased by the State in 1795. Prior to trial, the court held that plaintiffs were not entitled to seek the remedy of ejectment. In October 1999, the District Court granted the Federal government's motion to have the State held liable for any damages owed to the plaintiffs. In February 2000, at the conclusion of the damages phase of the trial of this case, a jury verdict of $35 million in damages plus $1.9 million representing the fair rental value of the tract at issue was rendered against the defendants. By decision and judgment dated October 2, 2001, the District Court also granted plaintiffs $211 million in prejudgment interest. The State has appealed from the judgment to the United States Court of Appeals for the Second Circuit. Following argument of the appeal, the Second Circuit requested that the parties brief the Court on the impact of the decision of the United States Supreme Court in *City of Sherrill v. Oneida Indian nation of New York, et al*., a case to which the State is not a named party, in which the Unites States Supreme Court has held that parcels of land recently acquired by the Oneida Indian Nation of New York within the 1788 reservation boundaries are subject to local property taxation. On October 1, 2004, the State filed an action in the District Court for the Northern District Court under the Federal Tort Claims Act, seeking contribution from the United States toward the $248 million judgment and post-judgment interest. On June 28, 2005, the Second Circuit held that plaintiffs' possessory land claim is subject to the defense of laches and is barred on that basis. The Court reversed the judgment of the District Court and entered judgment for defendants. On September 8, 2005 the Second Circuit denied plaintiff's motion for reconsideration and *en banc* review. On February 3, 2006, the United States and the tribal plaintiffs filed petitions for a writ of certiorari. On May 15, 2006, the Supreme Court denied plaintiffs' petitions for certiorari. The case is now concluded.

Settlements were signed by the Governor of the State with the Chief of the Seneca-Cayuga Tribe of Oklahoma on November 12, 2004 and with the Cayuga Indian nation of New York on November 17, 2004 which required, in part, require enactment of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. These agreements provided for differential payments to be made to the plaintiff tribes, based upon the outcome of the appeal then pending in the Second Circuit. No legislation was enacted by September 1, 2005 and no extension of time was agreed upon.

In *The Onondaga Nation v. The State of New York*, et al., plaintiff seeks a judgment declaring that certain lands allegedly constituting the aboriginal territory of the Onondaga Nation within the State are the property of the Onondaga Nation and the Haudenosaunee, or "Six Nations Iroquois Confederacy," and that conveyances of portions of that land pursuant to treaties during the period 1788 to 1822 are null and void. The "aboriginal territory" described in the complaint consists of an area or strip of land running generally north and south from the St. Lawrence River in the north, along the east side of Lake Ontario, and south as far as the Pennsylvania border, varying in width from about 10 miles to more than 40 miles, including the area constituting the City of Syracuse. The District Court has granted defendants permission to move to dismiss the complaints or for summary judgment on the issue of laches. On August 15, 2006, the defendants moved for summary judgment on the issue of laches.

State Finance Policies

Budget Process

In *Greater New York Hospital Ass'n., et al. v. Pataki, et al.* (Sup. Ct., New York County), the plaintiffs seek a declaratory judgment that certain Medicaid appropriations for the State's 2006-2007 fiscal year enacted by the Legislature over the Governor's veto are constitutional and that the Governor and his co-defendants are constitutionally obligated to implement those appropriations and to take no action to prevent their implementation. On June 8, 2006, the Supreme Court, New York County denied plaintiffs' request for a temporary restraining order. In *Healthcare Association of New York State, et al. v. Pataki, et al*. (Sup. Ct., Albany County), the petitioners also challenge the Governor's refusal to authorize spending on Medicaid, mental health and other health appropriations for the State's 2006-07 fiscal year enacted by the Legislature over the Governor's veto. Both of these cases have been discontinued by agreement of the parties.

State Programs

Medicaid

There are numerous cases in which nursing homes have challenged the statutory provisions setting the reimbursement methodology pursuant to which they receive Medicaid payments, including *New York State Health Facilities Association, et al., v. DeBuono, et al., St. Luke's Nursing Center, et al. v. DeBuono, et al., New York Association of Homes and Services for the Aging v. DeBuono, et al. (six cases);* and *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello.* Plaintiffs allege that the changes in methodologies have been adopted in violation of procedural and substantive requirements of State and Federal law.

In *New York Association of Homes and Services for the Aging v. DeBuono, et al*., the United States District Court for the Northern District of New York dismissed plaintiffs' complaint by order dated May 19, 2004. On April 6, 2006, the Second Circuit Court of Appeals affirmed the order of the District Court. This case is now concluded. Several related State Court cases involving the same parties and issues had been held in abeyance pending the result of the litigation in Federal Court.

In *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello,* the Supreme Court, Erie County, dismissed the petition by decision, order and judgment dated December 22, 2004. By order entered September 30, 2005, the Supreme Court, Appellate Division, Fourth Department affirmed the decision of the lower court. On December 22, 2005, the Appellate Division, Fourth Department, granted petitioners' motion for leave to appeal to the Court of Appeals. On October 24, 2006, the Court of Appeals affirmed the order of the Appellate Division dismissing the petition.

Appendix D

PROPOSED FORM OF BOND COUNSEL OPINION

November 16, 2006

NEW YORK CITY TRANSITIONAL
FINANCE AUTHORITY

We have acted as bond counsel to the New York City Transitional Finance Authority (the "Authority"), a public benefit corporation organized under the laws of the State of New York (the "State"), in the Authority's issuance of its Building Aid Revenue Bonds, Fiscal 2007 Series S-1 (the "New Bonds"). The New Bonds are being issued pursuant to Chapter 16, Laws of New York, 1997, as amended (the "Act"), to an Indenture dated as of October 1, 1997, as supplemented, and as amended and restated November 16, 2006 (the "Indenture"), between the Authority and The Bank of New York, as Trustee, and to an Assignment of State Aid dated October 19, 2006 (the "Assignment"), and a Financing Agreement dated October 1, 1997, as supplemented and as amended and restated November 16, 2006 (the "Agreement"), between the Authority and The City of New York (the "City"). Terms not defined herein are used as defined in the Indenture.

The New Bonds are dated, bear interest, mature, are subject to redemption and are secured as set forth in the Indenture. The Authority is authorized to issue additional bonds (together with such bonds heretofore issued and the New Bonds, the "Bonds") on the terms and conditions set forth in the Indenture and all such Bonds shall be entitled to the benefit, protection and security of the Indenture, payable from the sources of revenue in the order of priority set forth therein. We assume the parties will perform their respective covenants in the Indenture and the Agreement in all material respects.

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

1. The Authority is a public benefit corporation duly organized and existing under the laws of the State, and is authorized under the laws of the State, particularly the Act, to enter into the Indenture and the Agreement and to issue the New Bonds. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matter of this opinion letter.

2. The New Bonds have been duly authorized, executed, and delivered by the Authority and are valid and binding obligations of the Authority payable from the Building Aid pledged and the other collateral provided for School Bonds in the Indenture. The Bonds do not constitute a debt of the State or the City, and neither the State nor the City shall be liable thereon, nor shall the Bonds be payable out of any funds other than those of the Authority.

3. The Act validly provides for (a) the payment to the Authority of the Building Aid, (b) the Authority's pledge to the Trustee of the Building Aid and other collateral described in the Indenture and (c) the application of proceeds of the Bonds to purposes of the City.

4. The City, acting through the Mayor, has assigned to the Authority all of the State school building aid payable to the City or its school district pursuant to section 3602.6 of the Education Law (or to any successor provision of State law) and, under the Act, such Building Aid and the right to receive the Building Aid are the property of the Authority. The Building Aid is subject to State appropriation, to prior claims under the Constitution and laws of the State, and

to priorities under the Indenture in favor of outstanding Senior Bonds, Recovery Bonds and Parity Debt.

5. The Indenture (a) has been duly and lawfully authorized, executed and delivered by the Authority, (b) creates the valid pledge of Building Aid and other collateral that it purports to create and (c) is a valid and binding agreement, enforceable in accordance with its terms, of the Authority, and to the extent specified in the Act, the State. The Act does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Building Aid nor does it obligate the State to make any payments not specified in the Act or impose any taxes to satisfy the obligations of the Authority.

6. The lien of the Indenture on the Building Aid for the security of the outstanding Senior Bonds and other instruments, including the New Bonds, to the extent specified in the Indenture is, and pursuant to the covenant of the Authority in the Indenture will be, prior to all other liens thereon. The pledge of Revenues, including the Building Aid, and other collateral made by the Authority in the Indenture is valid, binding and perfected without any physical delivery of the collateral or further act, and the lien thereof is valid, binding and perfected against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of such parties' notice thereof.

7. The Assignment and the Agreement have been duly and lawfully authorized, executed and delivered by the Authority and the City pursuant to the Act, and are valid and binding agreements of each of them.

8. The Authority is not eligible for protection from its creditors pursuant to Title 11 (the "Bankruptcy Code") of the United States Code. If the debts of the City were adjusted under the Bankruptcy Code, and the City or its creditors asserted a right to the Building Aid superior or equal to the rights of the holders of the Bonds, such assertion would not succeed.

9. The New Bonds are issued for school purposes and therefore entitled to the benefit of § 99-b of the State Finance Law.

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

11. Except as provided in the following sentence, interest on the New Bonds is not includable in the gross income of the owners of the New Bonds for purposes of federal income taxation under existing law. Interest on the New Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the New Bonds in the event of a failure by the Authority or the City to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code"), and their respective covenants regarding use, expenditure and investment of Authority bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and we render no opinion as to the exclusion from gross income of interest on the New Bonds for federal income tax purposes on or after the date on which any action is taken under the Indenture or related proceedings upon the approval of counsel other than ourselves.

12. Interest on the New Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Tax 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.

13. The excess, if any, of the stated redemption price at maturity of any maturity of the New Bonds 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 New Bonds with original issue discount is excluded from gross income for federal income tax purposes to the same extent as interest on the New Bonds. In general, the issue price of a maturity of the New Bonds is the first price at which a substantial amount of New 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). The Tax Code provides that such original issue discount excluded as interest accrues in accordance with a constant yield method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of the New Bonds with original issue discount will be increased by the amount of such accrued interest.

14. No registration with, consent of, or approval by any governmental agency or commission that has not been obtained is necessary for the execution and delivery of the New Bonds. The adoption and compliance with all of the terms and conditions of the Indenture and the New Bonds, and the execution and delivery of the New Bonds, will not result in a violation of or be in conflict with any existing law.

The rights of the holders 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 except as specifically stated above, and 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.

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Appendix E

BOND INSURANCE

Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the issuer or the underwriter as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Series 2007 S-1 Bonds maturing on July 15, 2012 through July 15, 2036, inclusive (the "Bonds"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At September 30, 2006, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At September 30, 2006, Financial Guaranty had net admitted assets of approximately \$3.795 billion, total liabilities of approximately \$2.659 billion, and total capital and policyholders' surplus of approximately \$1.136 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of September 30, 2006 and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of GAAP, as of December 31, 2005 and 2004, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

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FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

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principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

SPECIMEN

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory New York State Amendatory Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

The insurance provided by this Policy is not covered by the New York Property/Casualty Insurance Security Fund (New York Insurance Code, Article 76).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory New York State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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New York City Transitional Finance Authority Building Aid Revenue Bonds Fiscal 2007 Series S-1