EXISTING ISSUE REOFFERED

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MUNICIPAL HEALTH FACILITIES IMPROVEMENT PROGRAM LEASE REVENUE BONDS (NEW YORK CITY ISSUE)
consisting of
$414,095,000 2001 SERIES 2 BONDS
(Subseries 2-1 through 2-5)

Conversion Dates: As shown on inside cover pages **Due: As shown on inside cover pages**

Payment: The 2001 Series 2 Bonds (Subseries 2-1 through 2-5) (hereinafter, the "2001 Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority"). Principal and Redemption Price of and interest on the 2001 Bonds are payable primarily from the Basic Rent to be paid by The City of New York (the "City") under the Lease and Agreement between the Authority and the City, dated as of November 19, 1998, as amended (the "Agreement"), and all funds and accounts (except the Arbitrage Rebate Fund) established under the Authority's Municipal Health Facilities Improvement Program Lease Revenue Bond Resolution (New York City Issue), adopted on August 12, 1998, as amended and supplemented, (the "Resolution"), and by the Authority's Municipal Health Facilities Improvement Program 2001 Series 2 Resolution (New York City Issue) Authorizing up to $646,755,000 2001 Series 2 Bonds (the "2001 Resolution"), adopted on October 3, 2001, as amended. The obligation of the City to pay the Rentals, including the Basic Rent, is subject to the appropriation of moneys by the City for such purpose. In the event the City fails to pay to the Authority when due all or any part of the Rentals, the Act directs the State Comptroller, upon receipt of a certificate from the Authority, to make such payment out of the next payment of State aid to the City pursuant to Section 368-a of the Social Services Law or funds appropriated for the purpose of making payment on behalf of the City pursuant to Section 367-b of the Social Services Law, as more fully described herein.

The 2001 Bonds are not a debt of the State of New York (the "State") or of the City nor is the State liable thereon. The Authority has no taxing power.

The maturities and interest rates for the 2001 Bonds are set forth on the inside cover pages hereof.

Description: The 2001 Bonds were issued as fully registered bonds, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). From their date of issuance, the 2001Bonds have borne interest at an Auction Rate and, effective on the applicable Conversion Dates set forth on the inside cover pages, are being converted to bear interest at a Fixed Rate. Interest (payable January 15, 2009 and each July 15 and January 15 thereafter) on the 2001 Bonds will be paid by check or draft mailed to the registered owners of the 2001 Bonds or, at the option of an owner of at least $1,000,000 in principal amount of the 2001 Bonds by wire transfer to such registered owner, as more fully described herein. Individual purchases of beneficial interests in the 2001 Bonds will be made in book-entry form, in denominations of $5,000 or any integral multiple thereof.

So long as Cede & Co. is the registered owner of the 2001 Bonds, references herein to the Holders (except under "Part 8 – Tax Matters" and "Part 13 – Continuing Disclosure" herein) or registered owners of the 2001 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2001 Bonds, and payments of the principal, Sinking Fund Installments or Redemption Price of and interest on the 2001 Bonds will be made directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants. (See "Part 3 – The 2001 Bonds – Book-Entry Only System" herein.)

Redemption: The 2001 Bonds are subject to redemption prior to maturity as more fully described herein.

Tax Exemption: On the date the 2001 Bonds originally were issued, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, delivered an opinion to the effect that, based upon an analysis of then existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the 2001 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. It was the further opinion of Bond Counsel that interest on the 2001 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2001 Bonds. In connection with the reoffering of the 2001 Bonds, Bond Counsel will deliver its opinion that such reoffering will not adversely affect the tax-exempt status of the 2001 Bonds. Bond Counsel is not rendering any opinion on the current tax status of the 2001 Bonds.

In connection with the change in the method of determining the interest rate for the 2001 Bonds, certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the City by its Corporation Counsel and Fulbright & Jaworski L.L.P., New York, New York. Certain legal matters will be passed upon for the Remarketing Agents by their Counsel, Clifford Chance US LLP, New York, New York. The Authority expects to complete the conversion and remarketing of the 2001 Bonds in New York, New York on the dates shown on the inside cover pages of this Reoffering Circular.

Morgan Stanley **Lehman Brothers**

Banc of America Securities LLC **DEPFA First Albany Securities LLC** **Merrill Lynch**

MR Beal & Company **Ramirez & Co., Inc.** **Raymond James & Associates, Inc.**

Roosevelt & Cross, Incorporated **Wachovia Bank, National Association**

June 5, 2008

DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
MUNICIPAL HEALTH FACILITIES IMPROVEMENT PROGRAM
LEASE REVENUE BONDS
(NEW YORK CITY ISSUE)

$414,095,000 2001 SERIES 2 BONDS
(Subseries 2-1 through 2-5)

$81,885,000 Subseries 2-1
Expected Conversion Date: June 17, 2008

Maturity Date January 15	Principal Amount	Interest Rate	Yield	Cusip No.[1]
2015	$ 16,750,000	3.650%	3.670%	649903F30
2016	17,400,000	5.000	3.800	649903F48
2017	18,050,000	4.000	3.930	649903F55
2018	18,725,000	5.000	4.050	649903F63
2019	10,960,000	4.150	4.170	649903F71

$82,500,000 Subseries 2-2
Expected Conversion Date: June 18, 2008

Maturity Date January 15	Principal Amount	Interest Rate	Yield	Cusip No.[1]
2019	$ 6,175,000	4.150%	4.170%	649903F89
2020	7,280,000	4.250	4.270	649903F97
2020[2]	12,670,000	5.000	4.270	649903G21
2021[2]	20,925,000	5.000	4.350	649903G39
2022	21,725,000	4.375	4.420	649903G47
2023[2]	13,725,000	5.000	4.480	649903G54

$82,020,000 Subseries 2-3
Expected Conversion Date: June 12, 2008

Maturity Date January 15	Principal Amount	Interest Rate	Yield	Cusip No.[1]
2023[2]	$ 7,150,000	5.000%	4.480%	649903G62
2024[2]	23,400,000	5.000	4.520	649903G70
2025[2]	24,150,000	5.000	4.560	649903G88
2026[2]	24,535,000	5.000	4.600	649903G96
2027	2,785,000	4.500	4.620	649903H20

(1) CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the 2001 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers on the 2001 Bonds or as indicated above.
(2) Priced to first optional call on January 15, 2018.

$84,115,000 Subseries 2-4
Expected Conversion Date: June 13, 2008

Maturity Date January 15	Principal Amount	Interest Rate	Yield	Cusip No.[1]
2027[2]	$ 21,925,000	5.000%	4.620%	649903H38
2028	7,090,000	4.625	4.680	649903H46
2028[2]	20,000,000	5.000	4.680	649903H53

$35,100,000 4.750% Term Bonds due January 15, 2030, Yield 4.853%
Cusip No. 649903H61 [1]

$83,575,000 Subseries 2-5
Expected Conversion Date: June 16, 2008

Maturity Date January 15	Principal Amount	Interest Rate	Price	Cusip No.[1]
2032	$ 8,945,000	4.800%	100%	649903H79

$74,630,000 5.000% Term Bonds due January 15, 2032, Yield 4.800%[2]
Cusip No. 649903H87[1]

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(1) CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Reoffered Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers on the Reoffered Bonds or as indicated above.

(2) Priced to first optional call on January 15, 2018.

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the New York City Health and Hospitals Corporation ("HHC") to give any information or to make any representations with respect to the 2001 Bonds, other than the information and representations contained in this Reoffering Circular. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority, the City or HHC.

This Reoffering Circular does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the 2001 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Reoffering Circular has been supplied by the City and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Authority.

The City reviewed the parts of this Reoffering Circular describing the City and Appendix B of this Reoffering Circular. It is a condition to the sale and the delivery of the 2001 Bonds that the City certify as of the dates of sale and delivery of the 2001 Bonds that such parts do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The City makes no representations as to the accuracy or completeness of any other information included in this Reoffering Circular.

References in this Reoffering Circular to the Act, the Resolution, the 2001 Resolution, the Continuing Disclosure Agreement, and the Agreement do not purport to be complete. Refer to the Act, the Resolution, the 2001 Resolution, the Continuing Disclosure Agreement and the Agreement for full and complete details of their provisions. Copies of the Resolution, the 2001 Resolution, the Continuing Disclosure Agreement and the Agreement are on file with the Authority and the Trustee.

The order and placement of material in this Reoffering Circular, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Reoffering Circular, including its appendices, must be considered in its entirety.

Under no circumstances shall the delivery of this Reoffering Circular or any sale made after its delivery create any implication that the affairs of the Authority or the City have remained unchanged after the date of this Reoffering Circular.

IN CONNECTION WITH THE OFFERING OF THE 2001 BONDS, THE REMARKETING AGENTS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2001 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY – STATE OF NEW YORK – 515 BROADWAY, ALBANY, N.Y. 12207
MICHAEL T. CORRIGAN – ACTING EXECUTIVE DIRECTOR GAIL H. GORDON, ESQ. – CHAIR

REOFFERING CIRCULAR RELATING TO
DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
MUNICIPAL HEALTH FACILITIES IMPROVEMENT PROGRAM
LEASE REVENUE BONDS
(NEW YORK CITY ISSUE)
consisting of

$414,095,000 2001 SERIES 2 BONDS
(Subseries 2-1 through 2-5)

Part 1—INTRODUCTION

Purpose of the Reoffering Circular

The purpose of this Reoffering Circular, including the cover page, the inside cover pages and appendices, is to provide information about the Authority and the City in connection with the conversion by the Authority of $420,875,000 principal amount of its Municipal Health Facilities Improvement Program Lease Revenue Bonds (New York City Issue), 2001 Series 2 (the "2001 Bonds") from the Auction Rate Mode to bonds bearing interest at a Fixed Rate and the reoffering of such bonds.

From their date of issuance, the 2001 Bonds have borne interest at an Auction Rate. Pursuant to the terms of the 2001 Resolution, if certain conditions are met on the respective conversion dates set forth on the inside cover pages of this Reoffering Circular for each Subseries of the 2001 Bonds (the "Conversion Dates" and each a "Conversion Date"), from and after each Conversion Date, the applicable Subseries of 2001 Bonds will bear interest at a Fixed Rate. On each Conversion Date, the applicable Subseries of 2001 Bonds will be mandatorily tendered by the Holders thereof for purchase at a price of par, plus accrued interest to the Conversion Date. By this Reoffering Circular, $414,095,000 aggregate principal amount of the 2001 Bonds are being reoffered. Such 2001 Bonds are expected to be delivered to their purchasers on or about the respective Conversion Dates set forth on the inside cover pages of this Reoffering Circular for each Subseries of the 2001 Bonds. The balance of the 2001 Bonds that are tendered on the Conversion Date, but are not being reoffered, will be retired and will no longer be Outstanding.

Since their date of issuance, the payment of principal of and interest on the 2001 Bonds when due has been insured under a financial guaranty insurance policy (the "Policy") issued by MBIA Insurance Corporation ("MBIA"). Effective on the Conversion Date for each Subseries of 2001 Bonds, the Policy as it relates to such Subseries of 2001 Bonds will be cancelled and MBIA will have no liability for payments of principal of and interest on 2001 Bonds to be made after such Conversion Date.

Concurrently with the reoffering of the 2001 Bonds, the Authority expects, subject to market conditions, to issue approximately $71,660,000 of its Municipal Health Facilities Improvement Program

Lease Revenue Bonds (New York City Issue) 2008 Series 1 (the "2008 Bonds") to refund certain outstanding Municipal Health Facilities Improvement Program Lease Revenue Bonds, 1998 Series 1.

The following is a brief description of certain information concerning the 2001 Bonds, the Authority and the City. A more complete description of such information and additional information that may affect decisions to invest in the 2001 Bonds is contained throughout this Reoffering Circular, which should be read in its entirety. Certain terms used in this Reoffering Circular are defined in Appendix A hereto.

Purpose of the Issue

The 2001 Bonds were issued (i) to pay the costs of the acquisition, construction, reconstruction, rehabilitation, improvement and equipping of certain Health Facilities located within the City, (ii) to make a deposit to the Debt Service Reserve Fund and (iii) to pay the Costs of Issuance of the 2001 Bonds

Authorization of Issuance

The 2001 Bonds were issued pursuant to the Resolution, the 2001 Resolution and the Act. In addition to the 2001 Bonds, the Resolution authorizes the issuance of other Series of Bonds to pay the Costs of one or more Health Facilities, to make deposits to the Debt Service Reserve Fund, to pay the Costs of Issuance of such Series of Bonds and to refund all or a portion of Outstanding Bonds of the Authority. The Bonds permitted to be issued under the Resolution include, but are not limited to, Capital Appreciation Bonds, Deferred Income Bonds, Option Bonds and Variable Interest Rate Bonds.

As of March 31, 2008, $762,045,000 of Bonds were issued and outstanding under the Resolution (including the 2001 Bonds and the Bonds proposed to be refunded but excluding the 2008 Bonds). Additional series of Bonds may be issued in the future. All Bonds issued under the Resolution rank on a parity with each other and will be secured equally and ratably with each other.

The Authority

The Authority is a public benefit corporation of the State created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational, governmental and not-for-profit institutions and to purchase and make certain loans in connection with its student loan program. See "Part 4—The Authority."

The City

The City, with a population of approximately 8.0 million, is an international center of business and culture. Its non-manufacturing economy is broadly-based, with the banking and securities, life insurance, communications, publishing, fashion design, retailing and construction industries accounting for a significant portion of the City's total employment earnings. Additionally, the City is a leading tourist destination. Manufacturing activity in the City is conducted primarily in the apparel and printing industries. See "Appendix B—The City of New York."

The 2001 Bonds

From their date of issuance, the 2001 Bonds have borne interest at an Auction Rate. Pursuant to the terms of the 2001 Resolution, if certain conditions are met on the applicable Conversion Dates for each Subseries, from and after the applicable Conversion Date, the applicable Subseries of the 2001 Bonds will bear interest at a Fixed Rate. On the applicable Conversion Date, the applicable Subseries of the 2001 Bonds will be subject to mandatory tender by the Holders thereof for purchase at a price of par. Each Subseries of the 2001 Bonds will bear interest from their respective Conversions Dates, payable each January 15 and July 15, commencing January 15, 2009. The 2001 Bonds will bear interest at the rates and mature at the times set forth on the inside cover pages of this Reoffering Circular, and will be delivered in authorized denominations of $5,000 or any integral multiple thereof. See "Part 3—The 2001 Bonds—General Description."

Payment of the 2001 Bonds

The City leased the health facilities financed with the proceeds of the 2001 Bonds (the "Health Facilities") to the Authority pursuant to the Agreement of Lease, dated as of November 19, 1998, as amended (the "Lease"), for an annual rental of $1 per year. The Authority has leased such Health Facilities back to the City pursuant to the Lease and Agreement, dated as of November 19, 1998, as amended (the "Agreement"), for an annual rental sufficient to pay debt service on the 2001 Bonds (the "Basic Rent") and other costs (collectively with the Basic Rent, the "Rentals."). The principal and Redemption Price of and interest on the Bonds, including the 2001 Bonds, are payable primarily from the Basic Rent to be paid by the City under the Agreement. The City has subleased the Health Facilities to HHC, which operates the Health Facilities.

The City's obligation to pay the Rentals, which includes the Basic Rent, is subject to annual appropriation by the City and to the availability of moneys for such payment. The Agreement and the City's obligation to pay the Rentals do not constitute a debt of the City under or within the meaning of the State Constitution or the Local Finance Law of the State. See "Part 2—Sources of Payment and Security for the 2001 Bonds—Payment of the 2001 Bonds." In the event the City fails to pay the Rentals to the Authority when due, the Act directs the State Comptroller, upon receipt of a certificate from the Authority, to pay to the Authority the amount of unpaid Rentals out of the next payment of State aid to the City pursuant to Section 368-a of the Social Services Law or funds appropriated for the purpose of making payment on behalf of the City pursuant to Section 367-b of the Social Services Law. See "Part 2—Sources of Payment and Security for the 2001 Bonds—Payment of the 2001 Bonds—Payment of Rentals Out of State Aid".

Neither the State nor the City may make any payment except pursuant to an appropriation and neither the State nor the City is legally required to make any such appropriations.

Security for the 2001 Bonds

The Bonds issued under the Resolution, including the 2001 Bonds, are secured by (i) the pledge of the Revenues, which include the Basic Rent payable by the City under the Agreement and amounts, if any, paid to the Authority by the State Comptroller from certain moneys appropriated by the State for purposes of the State Medicaid Program, (ii) the proceeds of all Bonds, including the 2001 Bonds, subject to their application in accordance with the terms of the Resolution and (iii) all funds and accounts established under the Resolution (with the exception of the Arbitrage Rebate Fund or any fund or account established for the payment of the purchase price or Redemption Price of Option Bonds tendered for purchase or redemption), which include a Debt Service Reserve Fund. See "Part 2—Sources of Payment and Security for the 2001 Bonds—Payment of the 2001 Bonds".

The Bonds, including the 2001 Bonds, have no lien on, and are not secured by, the Health Facilities, the Leased Property or any revenues derived from the operation of the Health Facilities.

Part 2—SOURCES OF PAYMENT AND SECURITY FOR THE 2001 BONDS

Set forth below is a description of certain contractual and legislative provisions relating to the sources of payment and security for the Bonds and for the Rentals. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolution and the Agreement for a more complete description of such provisions. Copies of the Resolution and the Agreement are on file with the Authority and the Trustee. See also "Appendix C—Summary of Certain Provisions of the Agreement" and "Appendix D—Summary of Certain Provisions of the Resolution" for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the 2001 Bonds

Special Obligations

The Bonds issued under the Resolution, including the 2001 Bonds, are special obligations of the Authority payable solely from the Revenues and all funds and accounts (excluding the Arbitrage Rebate Fund) established by the Resolution in the manner provided therein. The Revenues consist of the Basic Rent payable by the City under the Agreement and amounts, if any, paid to the Authority by the State Comptroller from certain moneys appropriated by the State for purposes of the State Medicaid Program. The Revenues and the right to receive them have been pledged for the benefit of the Holders of the Bonds, including the 2001 Bonds.

The Authority has no taxing power and the 2001 Bonds are not a debt of the State nor will the State be liable thereon.

Payment of the Rentals

The Rentals are to be paid to the Authority by the City in accordance with the Agreement pursuant to which the City leased from the Authority the Health Facilities. The Authority acquired the Health Facilities from the City pursuant to the Lease. The City has subleased the Health Facilities to HHC, which will operate the Health Facilities, pursuant to a sublease (the "Sublease"). The Rentals include, among other amounts, the Basic Rent which is comprised of annual payments in amounts which are sufficient to pay the interest on and principal and Sinking Fund Installments of the Bonds as the same become due and to maintain the Debt Service Reserve Fund at the Debt Service Reserve Fund Requirement. Payment of the Rentals by the City is subject to the appropriation and availability of moneys therefor, as hereinafter described.

The Basic Rent is to be paid directly to the Trustee in semi-annual installments payable on November 15 and May 15 of each Bond Year. Basic Rent is at least equal to an amount sufficient to pay the interest on, and principal and Sinking Fund Installments of, the Outstanding Bonds on January 15 and July 15, respectively, and the amount, if any, certified by the Trustee as necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement. Amounts required to be paid for the fees, costs and expenses of the Authority and the Trustee are to be paid to the Authority. It should be noted that the Agreement permits the timing and amount of Basic Rent payments to be modified, provided that certain conditions set forth in the Agreement are first met. See "Appendix C—Summary of Certain Provisions of the Agreement—Payment of Rentals."

The Lease, Agreement and the Sublease may be amended from time to time in connection with the issuance of additional Bonds to add Health Facilities to be financed with the proceeds of such Bonds. HOLDERS OF THE BONDS, INCLUDING THE 2001 BONDS, HAVE NO LIEN ON, AND ARE NOT

SECURED BY THE HEALTH FACILITIES, THE LEASED PROPERTY OR ANY REVENUES DERIVED FROM THE OPERATION THEREOF.

HHC is a body corporate and politic constituting a public benefit corporation of the State created in 1969 under the New York City Health and Hospitals Corporation Act, New York Unconsolidated Laws Section 7381 et seq. (the "Act"). HHC is also an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. HHC operates the largest municipal health care system in the United States with 38,888 employees as of March 31, 2008 and annual operating revenues of more than $6.2 billion during the fiscal year ended June 30, 2007. HHC's health care facilities are organized into seven health care networks to provide services in all five boroughs of the City.

THE CITY'S OBLIGATIONS UNDER THE AGREEMENT ARE PAYABLE OUT OF ANY MONEYS OF THE CITY LEGALLY AVAILABLE THEREFOR, SUBJECT, HOWEVER, TO ANNUAL APPROPRIATION BY THE CITY AND THE AVAILABILITY OF MONEYS FOR SUCH PURPOSE. THE CITY CANNOT BE COMPELLED TO APPROPRIATE MONEYS.

Payment of Rentals Out of State Aid

In the event the City fails or is unable to pay all or any part of the Rentals when due, the Act directs the State Comptroller to pay the Authority the amount of unpaid Rentals out of the next payment of State aid to the City pursuant to Section 368-a of the Social Services Law of the State or funds appropriated for the purpose of making payments on behalf of the City pursuant to Section 367-b of the Social Services Law. To the extent any such payments to the Authority are made from State aid payments pursuant to Section 368-a of the Social Services Law, the Act requires that the amount of such payments shall be deducted from the corresponding apportionment of State aid otherwise credited to the City. To the extent any payments are made from funds appropriated for the purpose of making payments on behalf of the City pursuant to Section 367-b, the Act provides that the State Comptroller may deduct the amount of such payments from any other payments of State assistance otherwise payable to the City under the Social Services Law, subject to any rights of the holders of any bonds or notes issued by the State or its agencies or political subdivisions to payment by recourse to such assistance monies. State assistance payable to or on behalf of the City pursuant to Sections 368-a and 367-b of the Social Services Law, from which payment to the Authority may be made by the State Comptroller, exceeded, in each of the State's fiscal years 2003 through 2007, and in each of the City's fiscal years 2003 through 2007, the sum of the maximum annual rental due from the City with respect to (i) the Authority's $294,960,000 Municipal Health Facilities Improvement Program Lease Revenue Bonds (New York City Issue), 1998 Series 1 (the "1998 Bonds"), (ii) the Authority's $548,515,000 Municipal Health Facilities Improvement Program Lease Revenue Bonds (New York City Issue) 2001 Series 1 and Series 2 (the "2001 Series 1 and 2 Bonds") and (iii) the $47,205,000 outstanding principal amount of other bonds described below.

The Act provides that the Authority shall file with the City a certificate stating the amount of Rentals, if any, due and not paid within five days of such due date. The Act requires that, in the event of a failure or inability of the City to pay the stated amount to the Authority within ten days of receipt of such certificate, the Authority shall deliver to the State Comptroller a certificate restating the amount due and not paid by the City, and the State Comptroller shall pay such amount to the Authority from the sources described above. See "Part 2—Sources of Payment and Security for the 2001 Bonds," under the headings "The State Medicaid Program" and "State Appropriations and Payments for Medicaid."

Pursuant to the Act, the Authority is authorized to issue up to $2 billion of certain health facilities bonds, including Municipal Health Facilities Improvement Program Lease Revenue Bonds. As of March 31, 2008, $913,895,000 of such bonds (consisting of $294,960,000 of 1998 Bonds, $548,515,000 of 2001 Series 1 and 2 Bonds and $70,420,000 of other bonds) had been issued by the Authority pursuant to the Act with respect to certain City health facilities, of which $809,250,000 were outstanding. Under State law, the New York State Housing Finance Agency ("HFA") is also authorized to issue up to $1 billion of certain health facilities bonds, and in connection with such bonds, has the same statutory intercept provision regarding the next payment of State aid to the City pursuant to Section 368-a of the Social Services Law or funds appropriated for the purpose of making payment on behalf of the City pursuant to Section 367-b of the Social Services Law. As of the date of this Reoffering Circular, no such HFA bonds were outstanding.

In addition, there can be no assurance that the State will not provide additional statutory intercepts of payments of State aid pursuant to Section 368-a or Section 367-b of the Social Services Law to other agencies, political subdivisions or municipalities of the State.

The State Medicaid Program

Under the State Social Services Law, the State and local social services districts, such as the City, share the responsibility of ensuring adequate medical assistance for the indigent. Currently, nearly all State Medicaid payments are made by the State directly to Medicaid providers pursuant to Section 367-b of the Social Services Law; however, certain administrative expenses and certain healthcare services provided within the social service district associated with Medicaid continue to be paid by social service districts, with the State directly reimbursing the social service districts pursuant to Section 368-a of such Law. Pursuant to Part C, Chapter 58, of the Laws of 2005, social service districts make payments directly to the State which represent their maximum Medicaid liability. Under Section 1 of this law, each social services district's Medicaid spending is capped based on its 2005 Medicaid spending and increased thereafter by a statutory trend factor. If the amount that is owed under this law is greater than the amount that would have been owed under the old formula, the social services district is refunded the difference by the State.

State payments are made on behalf of social service districts to Medicaid providers pursuant to Section 367-b of the Social Services Law continuously during each year, as bills are received by the State from Medicaid providers. State payments are made to social services districts pursuant to Section 368-a periodically during each year on a summary basis, subject to audit.

Various proposals to limit or restrict the amounts provided for financing health care have been discussed at the State level, and a number of related bills have been introduced in the State legislature. In the future, similar proposals and bills, which could impact, among other things, the method of reimbursing social service districts and the reimbursement rates for health related care and services with respect to the State Medicaid program, may be discussed, introduced, and enacted in the State legislature. There can be no assurance as to the amounts of State aid to be paid to the City or on behalf of the City with respect to the Medicaid program or the availability of such amounts.

State Appropriations and Payments for Medicaid

State Medicaid payments made to or on behalf of the City to Medicaid providers are funded through annual appropriations from the State legislature for the support of the State Medicaid program and are therefore dependent upon the availability of financial resources and the allocation thereof. The Medicaid program may also be affected by State or Federal legislation relating to the health care system in general. The total annual amount of State aid paid to the City pursuant to Section 368-a of the Social Services Law and funds appropriated for the purpose of making payment on behalf of the City pursuant to Section 367-b of such Law for the State fiscal years ended March 31, 2004 through March 31, 2007, and the corresponding estimated amounts for the State fiscal years ending March 31, 2008 and 2009, are as follows:

Annual Amount of State Medicaid Payments to or on behalf of the City

Fiscal Year	Amount (in thousands)
2003-04	$ 6,506,582
2004-05	$ 6,991,050
2005-06	$ 7,947,627
2006-07	$ 8,415,670
2007-08	$ 8,429,000*
2008-09	$ 8,766,000*

(*) (estimated).

The overall viability of the State Medicaid program and the making of payments by the State to and on behalf of the City are dependent upon the ability and willingness of the State legislature to continue making appropriations in the amounts required to sustain the State Medicaid program and the making of such payments, and there can be no assurance of the availability of such State funds.

Certain general factors, such as the current economic slowdown in the State, or a shortfall in State personal and business tax receipts or Federal tax law changes, together with future unforeseen calls on its fiscal resources could affect the State's ability or willingness to make appropriations for Medicaid payments to the City or on behalf of the City. The Medicaid Program may also be affected by State or Federal legislation relating to the healthcare system in general.

Limitations on Appropriations

The City's obligation to pay Rentals is dependent upon an annual appropriation by the City and the availability of moneys for such payment. The City is not legally obligated to make any such appropriation and the failure to make an appropriation will not constitute an event of default under the Resolution or the Agreement. However, if the City appropriates moneys for the payment of Rentals and the appropriation has not lapsed or been repealed, the City's obligation to pay Rentals will be enforceable up to the amount appropriated and available therefor and the failure of the City to pay the Rentals will be an event of default under the Agreement. The Agreement also provides that the Mayor will seek to increase such appropriation during a fiscal year through a budget modification if necessary to pay amounts due under the Agreement.

The Agreement and the City's obligation to pay the Rentals do not constitute a debt of the City under or within the meaning of the State Constitution or the Local Finance Law of the State.

The determination of the amount of State Medicaid funds to be appropriated by the State, and the apportionment of such funds to the City, are legislative acts and the State is not legally obligated to appropriate moneys for the payment of State Medicaid funds to or on behalf of the City. Under the State Constitution, no money may be paid by the State except pursuant to an appropriation. The State is not required to maintain any particular level of State Medicaid funds to or on behalf of the City or to continue to provide such funds. Neither the reduction of the amount of such Medicaid funds appropriated or apportioned to or on behalf of the City nor the discontinuance of any such funds will constitute an event of default under the Resolution or the Agreement.

Security for the 2001 Bonds

Since their date of issuance, the payment of principal of and interest on the 2001 Bonds when due has been insured under the Policy issued by MBIA. Effective on the Conversion Date for each Subseries of 2001 Bonds, the Policy as it relates to such Subseries of 2001 Bonds will be cancelled and

MBIA will have no liability for payments of principal of and interest on 2001 Bonds to be made after such Conversion Date.

The 2001 Bonds will be secured by the payments described above to be made under the Agreement and all funds and accounts established under the Resolution (with the exception of the Arbitrage Rebate Fund or any fund or account established for the payment of the purchase price or Redemption Price of Option Bonds tendered for purchase or redemption). The security for the 2001 Bonds is also for the benefit of all other Bonds heretofore or hereafter issued under the Resolution, which Bonds rank and will rank on a parity and are or are to be secured equally and ratably with each other and with the 2001 Bonds. The Resolution authorizes the issuance of other Series of Bonds in addition to the 2001 Bonds for such purposes as the financing of additional Health Facilities and the refunding of all or a portion of the Outstanding Bonds. See "Appendix D—Summary of Certain Provisions of the Resolution—Additional Bonds and Other Obligations."

Debt Service Reserve Fund

The Resolution establishes the Debt Service Reserve Fund as a reserve fund. Such fund is to be held by the Trustee, is to be applied solely for the purposes specified in the Resolution and is pledged to secure the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on Bonds, including the 2001 Bonds. The Resolution requires that the Debt Service Reserve Fund be maintained at an amount equal to its requirement, which is the greatest amount required in the then current or any future calendar year to pay the sum of the Principal and Sinking Fund Installments of and interest on Outstanding Bonds. In calculating the Debt Service Reserve Fund Requirement when Capital Appreciation Bonds, Deferred Income Bonds, Option Bonds or Variable Interest Rate Bonds are Outstanding, the Resolution requires that certain assumptions be made. See "Appendix A—Definitions—Debt Service Reserve Fund Requirement." On the Conversion Dates for the Series 2001 Bonds, the Debt Service Reserve Fund will be funded in the amount required by the Resolution.

Bonds may not be issued under the Resolution unless, upon such issuance, the amount on deposit in the Debt Service Reserve Fund will be equal to the Debt Service Reserve Fund Requirement.

In lieu of, or in substitution for, moneys, the Authority may deposit or cause to be deposited to the Debt Service Reserve Fund surety bonds, insurance policies or letters of credit for the benefit of the Holders of the Bonds for all or any part of the Debt Service Reserve Fund Requirement (individually, a "Reserve Fund Facility"). In order for a surety bond or insurance policy to be permitted under the Resolution the claims paying ability of the insurance company must be rated the highest rating category accorded by a nationally recognized insurance rating agency or the obligations insured by a surety bond or an insurance policy issued by such company must be rated, at the time of its delivery, without regard to qualification of such rating by "+" or "-" or numerical notation, in the highest rating category for such obligations by each rating agency which then rates the Outstanding Bonds. Similarly, a letter of credit may be delivered only if the unsecured or uncollateralized long term debt obligations of the issuer of the letter of credit, or long term debt obligations secured or supported by a letter of credit of such issuer are rated, at the time such letter of credit is delivered without regard to qualification of such rating by "+" or "-" or numerical notation, in at least the second highest rating category for such obligations by each rating agency which then rates the Outstanding Bonds. However, if the ratings of a Facility Provider's long term debt or of obligations supported by a surety bond, insurance policy or letter of credit of such Facility Provider, is reduced below A by Moody's or Standard & Poor's, another Reserve Fund Facility must be obtained to replace the affected facility or, over a five year period, the affected facility must be replaced by moneys. To satisfy a portion of the Debt Service Reserve Fund Requirement, the Authority has deposited in the Debt Service Reserve Fund a surety bond issued by Financial Security Assurance Inc. in the amount of $19,900,838.75.

For purposes of computing the amount on deposit in the Debt Service Reserve Fund, a Debt Service Reserve Fund Facility will be valued at the amount available to be paid thereunder on the date of computation.

Moneys in the Debt Service Reserve Fund are to be withdrawn and deposited in the Debt Service Fund whenever the amount in the Debt Service Fund on the fourth business day prior to an interest payment date for the 2001 Bonds is less than the amount which is necessary to pay the principal and Sinking Fund Installments of and interest on Outstanding 2001 Bonds payable on such interest payment date and the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption. Moneys in the Debt Service Reserve Fund in excess of the requirement may be withdrawn and applied in accordance with the Resolution. See "Appendix D—Summary of Certain Provisions of the Resolution."

Defaults and Remedies under the Agreement

Among the events which would constitute an "event of default" under the Agreement are the failure by the City to pay, from moneys appropriated by it, the Rentals within seven days after they become due or to observe or perform any of the covenants, conditions or agreements contained in the Agreement which continues for the applicable grace period after notice of such failure has been given to the City. Upon the occurrence of an event of default under the Agreement arising from the failure of the City to pay Basic Rent (after expiration of the applicable grace period), the Authority has covenanted in the Resolution to exercise its rights under Section 7418-(2)(b) of the Act (i) to certify to the City and to State officials the amount of Rentals which the City has failed to pay, and (ii) to be paid such amount from certain State aid that would otherwise have been paid to or on behalf of the City. See "Part 2—Sources of Payment and Security for the 2001 Bonds—Payment of the 2001 Bonds—*Payment of Rentals Out of State Aid*" herein. In addition, the Agreement provides that the Authority may exercise any other remedies available at law or in equity (other than termination of the Agreement or eviction of the City) upon the occurrence of any event of default under the Agreement. For a more complete description of the defaults and remedies under the Agreement, see "Appendix C—Summary of Certain Provisions of the Agreement—Defaults and Remedies."

The failure of the City to pay when due any payment required to be made under the Agreement or to observe and perform its other obligations under the Agreement, which results from the failure by the City to appropriate moneys for such purpose, will not constitute an "event of default" under the Agreement. However, upon such failure, the Authority may exercise its rights under Section 7418-(2)(b) of the Act in the same manner as described in the prior paragraph as if an event of default had occurred. The occurrence of an "event of default" under the Agreement does not permit the 2001 Bonds or the City's obligations under the Agreement to be accelerated. See "Appendix C—Summary of Certain Provisions of the Agreement—Events of Default" and "Appendix D—Summary of Certain Provisions of the Resolution—No Acceleration of Maturity."

Defaults and Remedies under the Resolution

The occurrence of an event of default under the Agreement does not constitute an event of default under the Resolution, except that a failure by the State Comptroller to make payment to the Authority of unpaid Rentals out of the next payment of State aid to the City pursuant to Section 368-a of the Social Services Law of the State or funds appropriated for the purpose of making payments on behalf of the City pursuant to Section 367-b of the Social Services Law constitutes an "event of default" under the Resolution. Other "events of default" under the Resolution include the failure to pay the principal, Sinking Fund Installments or Redemption Price of, and interest on, the Bonds when due, as well as failure to comply with the provisions of the Code applicable to the 2001 Bonds necessary to maintain the exclusion of interest thereon from gross income under Section 103 of the Code, with the result that interest on the 2001 Bonds is no longer excludable from the gross income of the holders thereof.

Remedies available to holders of the Bonds, including the 2001 Bonds, upon the occurrence of an "event of default" under the Resolution, are limited. The 2001 Bonds cannot be accelerated upon the occurrence of an "event of default" under the Resolution. The Bonds, including the 2001 Bonds, are not secured by the Health Facilities, the Leased Property or revenues derived from the operation thereof; hence, no remedy of foreclosure exists against the Health Facilities or the Leased Property.

Part 3—THE 2001 BONDS

General Description

The 2001 Bonds

The 2001 Bonds were issued pursuant to the Resolution and the 2001 Resolution as fully registered bonds will bear interest from their respective Conversion Dates payable on January 15, 2009, and on each July 15 and January 15 thereafter at the rates and mature on the dates set forth on the inside cover pages hereof. Interest on the 2001 Bonds will accrue based upon a 360-day year of twelve 30-day months.

The 2001 Bonds will be delivered in denominations of $5,000 or any integral multiple thereof. The 2001 Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the 2001 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the 2001 Bonds, the 2001 Bonds will be exchangeable for other fully registered 2001 Bonds in any other authorized denominations of the same maturity without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See "Book-Entry Only System" herein and "Appendix D—Summary of Certain Provisions of the Resolution."

Interest on the 2001 Bonds will be paid by check mailed to the registered owners thereof. The principal or redemption price of the 2001 Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent. As long as the 2001 Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See "Book-Entry Only System" herein.

Redemption Provisions

Optional Redemption

The 2001 Bonds maturing after January 15, 2018 are subject to optional redemption prior to maturity, at the election or direction of the Authority, on or after January 15, 2018, in any order, in whole or in part at any time, at par plus accrued interest to the redemption date.

Mandatory Redemption

In addition, the 2001 Bonds, Subseries 2-4 due January 15, 2030 and Subseries 2-5 due 2032, are subject to redemption prior to maturity, in part, on the dates and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest, if any, to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on each date shown below the principal amount of such Bonds specified for each such date:

Subseries 2-4		Subseries 2-5	
January 15	Principal Amount	January 15	Principal Amount
2029	$ 28,175,000	2030	$ 22,025,000
2030*	6,925,000	2031	30,025,000
		2032*	22,580,000

* Maturity

The Authority may from time to time direct the Trustee to purchase 2001 Bonds, Subseries 2-4 or Subseries 2-5, with moneys in the Debt Service Fund, at or below par, plus accrued interest to the date of such purchase, and apply any 2001 Bonds, Subseries 2-4 or Subseries 2-5, so purchased as a credit, at par, against and in fulfillment of a required Sinking Fund Installment on the 2001 Bonds, Subseries 2-4 or Subseries 2-5, respectively. To the extent the Authority's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Bondholder's 2001 Bonds, Subseries 2-4 or Subseries 2-5, will be reduced for such year.

Selection of Bonds to be Redeemed

In the case of 2001 Bonds to be redeemed by the Authority, the Authority, upon direction of the City, will select the Subseries, principal amounts and maturities of the 2001 Bonds to be redeemed. If less than all of the 2001 Bonds of a maturity within a Subseries with identical terms are to be redeemed, the 2001 Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion. DTC has informed the Authority that so long as DTC acts as securities depository for the 2001 Bonds, if less than all of the 2001 Bonds of a maturity within a Subseries are called for redemption by lot, the particular 2001 Bonds or portions thereof to be redeemed will be selected by lot by DTC and the DTC Participants in accordance with their procedures. See "Part 3—The 2001 Bonds—Book-Entry Only System," herein.

Notice of Redemption

The Trustee is to give notice of the redemption of the 2001 Bonds in the name of the Authority by mailing a copy of such notice, postage prepaid, not less than 30 days nor more than 60 days prior to the redemption date, to the registered owners of any 2001 Bonds which are to be redeemed, at their last known addresses appearing on the registration books not more than ten Business Days prior to the date such notice is given, but failure of any Holder to receive such notice will not affect the validity of the proceedings for the redemption of 2001 Bonds.

If on the redemption date moneys for the redemption of the 2001 Bonds to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the Redemption Price, then interest on the 2001 Bonds to be redeemed will cease to accrue from and after the redemption date and such 2001 Bonds will no longer be considered to be Outstanding under the Resolution.

For a more complete description of the redemption and other provisions relating to the 2001 Bonds, see "Appendix D—Summary of Certain Provisions of the Resolution."

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2001 Bonds. Reference to the 2001 Bonds under this caption shall mean all 2001 Bonds that are deposited with DTC from time to time. The 2001 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) and deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Direct Participants and Indirect Participants (collectively, "Participants") are on file with the Commission.

Purchases of 2001 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2001 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2001 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2001 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2001 Bonds, except in the event that use of the book-entry system for the 2001 Bonds is discontinued.

To facilitate subsequent transfers, all 2001 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2001 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2001 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2001 Bonds are credited, which may or may not be the Beneficial Owners. The 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 Cede & Co. If less than all of the 2001 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 2001 Bonds. Under its usual procedures, DTC mails an omnibus proxy (the "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 2001 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and interest payments on the 2001 Bonds will be made to Cede & Co., or such other nominee as maybe 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 Trustee on 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 Participant and not of DTC, Trustee, or the Authority, subject to any statutory or regulatory requirements as maybe in effect from time to time. Payment of redemption proceeds and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or Trustee. Disbursement of such payments to Direct Participants shall be the responsibility of DTC and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2001 Bonds at any time by giving reasonable notice in writing to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2001 Bond certificates are required to be printed and delivered.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to any Subseries of the 2001 Bonds if the Authority determines that (i) DTC is unable to discharge its responsibility with respect to such 2001 Bonds, or (ii) a continuation of the requirement that all of the Outstanding Bonds of such Subseries be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interest of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, 2001 Bond certificates will be delivered for such Subseries as provided in the Resolution.

The above information concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Remarketing Agents believe to be reliable, but neither the Authority nor the Remarketing Agents take responsibility for the accuracy thereof.

Each person for whom a Participant acquires an interest in the 2001 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH

PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE 2001 BONDS.

So long as Cede & Co. is the registered owner of the 2001 Bonds, as nominee for DTC, references herein to the Bondholders, Holders, or registered owners of the 2001 Bonds (other than under the captions "Tax Matters" and "Continuing Disclosure" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2001 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

For every transfer and exchange of beneficial ownership of the 2001 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Part 4—THE AUTHORITY

Background, Purposes and Powers

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created by the Act for the purpose of financing and constructing a variety of facilities for certain independent colleges and universities and private hospitals, certain not-for-profit institutions, public educational institutions including The State University of New York, The City University of New York and Boards of Cooperative Educational Services ("BOCES"), certain school districts in the State, facilities for the Departments of Health and Education of the State, the Office of General Services, the Office of General Services of the State on behalf of the Department of Audit and Control, facilities for the aged and certain judicial facilities for cities and counties. The Authority is also authorized to make and purchase certain loans in connection with its student loan program. To carry out this purpose, the Authority was given the authority, among other things, to issue and sell negotiable bonds and notes to finance the construction of facilities of such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions.

On September 1, 1995, the Authority through State legislation (the "Consolidation Act") succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the "Agency") and the Facilities Development Corporation (the "Corporation"), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

The Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate dormitories and other facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, make reasonable rules and regulations to assure the maximum use of facilities, borrow money, issue negotiable bonds or notes and provide for the rights of their holders and adopt a program of self-insurance.

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

Outstanding Indebtedness of the Authority (Other than Indebtedness Assumed by the Authority)

At March 31, 2008, the Authority had approximately $35.2 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority's bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

The Authority's bonds and notes include both special obligations and general obligations of the Authority. The Authority's special obligations are payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued or from borrowers in connection with its student loan program. Such payments are pledged or assigned to the trustees for the holders of respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. The Authority's general obligations are payable from any moneys of the Authority legally available for the payment of such obligations. However, the payments required to be made by or for the account of the institution for which general obligations were issued generally have been pledged or assigned by the Authority to trustees for the holders of such general obligations. The Authority has always paid the principal of and interest on its special and general obligations on time and in full.

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at March 31, 2008 were as follows:

Public Programs	Bonds Issued	Bonds and Notes Outstanding	Bonds Outstanding	Notes Outstanding
State University of New York Dormitory Facilities	$ 2,120,821,000	$ 873,355,000	$ 0	$ 873,355,000
State University of New York Educational and Athletic Facilities	11,757,912,999	5,004,985,745	0	5,004,985,745
Upstate Community Colleges of the State University of New York	1,397,910,000	589,930,000	0	589,930,000
Senior Colleges of the City University of New York	8,609,563,549	2,982,606,270	0	2,982,606,270
Community Colleges of the City University of New York	2,194,081,563	513,213,730	0	513,213,730
BOCES and School Districts	1,731,396,208	1,291,165,000	0	1,291,165,000
Judicial Facilities	2,161,277,717	738,632,717	0	738,632,717
New York State Departments of Health and Education and Other	4,233,285,000	2,849,490,000	0	2,849,490,000
Mental Health Services Facilities	5,682,130,000	3,558,845,000	0	3,558,845,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	913,895,000	809,250,000	0	809,250,000
Totals Public Programs	$ 41,575,748,036	$ 19,211,473,462	$ 0	$ 19,211,473,462

Non-Public Programs	Bonds Issued	Bonds and Notes Outstanding	Bonds Outstanding	Notes Outstanding
Independent Colleges, Universities and Other Institutions	$ 14,899,256,020	$ 7,001,773,344	$ 190,230,000	$ 7,192,007,344
Voluntary Non-Profit Hospitals	12,693,404,309	7,817,570,000	0	7,817,570,000
Facilities for the Aged	1,979,275,000	1,027,235,000	0	1,027,235,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	$ 29,666,935,329	$ 15,846,582,344	$ 190,230,000	$ 16,036,812,344
Grand Totals Bonds and Notes	$ 71,242,683,365	$35,058,055,806	$ 190,230,000	$ 35,248,285,806

Outstanding Indebtedness of the Agency Assumed by the Authority

At March 31, 2008, the Agency had approximately $401 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency's bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at March 31, 2008 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding
Mental Health Services Improvement Facilities	$ 3,817,230,725	$ 0

Non-Public Programs	Bonds Issued	Bonds Outstanding
Hospital and Nursing Home Project Bond Program	$ 226,230,000	$ 3,605,000
Insured Mortgage Programs	6,625,079,927	389,564,927
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	8,255,000
Total Non-Public Programs	$ 9,265,549,927	$ 401,424,927
Total MCFFA Outstanding Debt	$ 13,082,780,652	$ 401,424,927

Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

The Governor of the State appoints a Chair from the members appointed by him or her and the members of the Authority annually choose the following officers, of which the first two must be members of the Authority: Vice-Chair, Secretary, Treasurer, Assistant Secretaries and Assistant Treasurers.

The current members of the Authority are as follows:

GAIL H. GORDON, Esq., Chair, Slingerlands.

Gail H. Gordon was appointed as a Member of the Authority by the Governor on May 10, 2004. Ms. Gordon served as Deputy Commissioner and General Counsel for the Office of Children and Family Services from September 15, 1997 to December 31, 2006. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller's responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policemen's and Firemen's Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon's term expired on March 31, 2007 and by law she continues to serve until a successor shall be chosen and qualified.

JOHN B. JOHNSON, JR., Vice-Chair, Watertown.

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2010.

JOSE ALBERTO CORVALAN, M.D., Secretary, Armonk.

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 22, 2005. Dr. Corvalan is Chief of Laparoscopic Surgery at St. Vincent's Midtown Hospital in Manhattan. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His current term expired on March 31, 2008 and by law he continues to serve until a successor shall be chosen and qualified.

BRIAN RUDER, Scarsdale.

Mr. Ruder was appointed as a Member of the Authority on June 23, 2006. He is Chief Executive Officer of Skylight Partners, a strategic marketing and business development consulting group that he founded in 2001. Prior to Skylight Partners, Mr. Ruder served for four years as Executive Vice President of Global Marketing for Citigroup. He spent 16 years at the H.J. Heinz Co. in progressively responsible positions, including President of Heinz USA, President of Weight Watchers Food Company and corporate Vice President of Worldwide Infant Feeding. He also served as Director of Marketing, New Products and Sales for Pepsi USA in the mid-1980s. Mr. Ruder is a member of the board of the New York State Foundation for Science, Technology and Academic Research (NYSTAR), and also serves as chair of the board of the Adirondack Council, board member and secretary of the New York Metro Chapter of the World Presidents' Organization, and an advisory board member of PNC Private Client Advisors. Mr. Ruder earned a Bachelor of Arts degree in American History in 1976 from Washington University in St. Louis, Mo., and a Master of Business Administration degree in Marketing in 1978 from the Tuck School at Dartmouth College. His current term expires on March 31, 2009.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. A certified public accountant with more than 37 years of experience, Mr. Martino is a retired partner of the Buffalo CPA firm Lumsden & McCormick, LLP. He began his career at Price Waterhouse where he worked in the firm's Buffalo and Washington, DC, offices. He is a member of the Board of Directors of Natural Health Trends Inc., a public company, where he chairs the Audit Committee. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he serves on the boards of the Buffalo Niagara Medical Campus as Vice

Chairman, Mount Calvary Cemetery as Chair of the Investment Committee, Cradle Beach Camp of which he is a former Chair, the Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. Mr. Martino's current term expired on August 31, 2007 and by law he continues to serve until a successor shall be chosen and qualified.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of Budget, from 1991 to 1994, and Deputy Assistant Commissioner for Transit for the State Department of Transportation, from 1988 to 1991. She began her career in New York State government with the Assembly in 1975 where, over a thirteen year period, she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. Ms. Shapard also served as Assistant to the County Executive in Dutchess County. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

ROMAN B. HEDGES, Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He is the former Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means. He was an Associate Professor of Political Science and Public Policy at the State University of New York at Albany where he taught graduate and undergraduate courses in American politics, research methodology, and public policy. Dr. Hedges holds a Doctor of Philosophy and a Master of Arts degree from the University of Rochester and a Bachelor of Arts degree from Knox College.

KEVIN R. CARLISLE, Averill Park.

Mr. Carlisle was appointed as a Member of the Authority by the Temporary President of the Senate on January 29, 2007. After a career in public housing and business consulting, Mr. Carlisle retired in 2003 as Assistant Commissioner of the state Division of Housing and Community Renewal ("DHCR") and Vice President of the New York State Housing Trust Fund Corporation. He was responsible for capital development programs which financed approximately 4,000 units annually, with a total development cost of $500 million. He conceived the state's Homes for Working Families Program, which received the 1999 Award for Program Excellence from the National Council of State Housing Finance Agencies. Similarly, Mr. Carlisle implemented the Rural Leveraging Partnership Program, which was cited as a national model by U.S. Rural Housing Services. He also served at DHCR as Director of Underwriting, Deputy Director of the Office of Rural Development, and designed the housing strategy that met the state's off-site commitment to induce the U.S. Army's 10th Mountain Division to locate at Fort Drum. Before he joined DHCR in 1982, Mr. Carlisle was a partner in Barrett Carlisle & Co., a real estate development and consulting firm, and served the City of Troy and the City of Cohoes in economic planning and real estate project management. Mr. Carlisle earned both a Bachelor's degree in Economics and a Master's degree in Urban and Environmental Studies from Rensselaer Polytechnic Institute.

RICHARD P. MILLS, Commissioner of Education of the State of New York, Albany; ex-officio.

Dr. Mills became Commissioner of Education on September 12, 1995. Prior to his appointment, Dr. Mills served as Commissioner of Education for the State of Vermont since 1988. From 1984 to 1988, Dr. Mills was Special Assistant to Governor Thomas H. Kean of New Jersey. Prior to 1984, Dr. Mills held a number of positions within the New Jersey Department of Education. Dr. Mills' career in education includes teaching and administrative experience at the secondary and postsecondary education levels. Dr. Mills holds a Bachelor of Arts degree from Middlebury College and a Master of Arts, a Master of Business Administration and a Doctor of Education degree from Columbia University.

LAURA L. ANGLIN, Budget Director of the State of New York, Albany; ex-officio.

Ms. Anglin was appointed Budget Director on January 1, 2008. As Budget Director, she is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Ms. Anglin previously served as First Deputy Budget Director from January 2007 to December 2007. She was appointed Deputy Comptroller of the Division of Retirement Services in January 2003 and was responsible for overseeing the administration and managing the operations of the New York State and Local Retirement System. From 1996-2003, Ms. Anglin worked in the New York State Assembly where she served as Director of Budget Studies for the Assembly Ways and Means Committee and as First Deputy Fiscal Director for the Committee. Ms. Anglin has also held the position of Econometrician in the Department of Taxation and Finance from 1992-1996 and began her career as an Economist for the Department of Environmental Conservation. Ms. Anglin holds a Bachelor of Arts degree and a Masters degree in Economics from the State University of New York at Albany.

RICHARD F. DAINES, M.D., Commissioner of Health, Albany; ex-officio.

Richard F. Daines, M.D., became Commissioner of Health on March 21, 2007. Prior to his appointment he served as President and CEO at St. Luke's-Roosevelt Hospital Center since 2002. Before joining St. Luke's-Roosevelt Hospital Center as Medical Director in 2000, Dr. Daines served as Senior Vice President for Professional Affairs of St. Barnabas Hospital in the Bronx, New York since 1994 and as Medical Director from 1987 to 1999. Dr. Daines received a Bachelor of History degree from Utah State University in 1974 and served as a missionary for the Church of Jesus Christ of Latter-day Saints in Bolivia, 1970-1972. He received his medical degree from Cornell University Medical College in 1978. He served a residency in internal medicine at New York Hospital and is Board Certified in Internal Medicine and Critical Care Medicine.

The principal staff of the Authority is as follows:

MICHAEL T. CORRIGAN currently serves as the Acting Executive Director and chief administrative and operating officer of the Authority until such time as a new Executive Director is appointed by the Members of the Board of the Authority. In this capacity, Mr. Corrigan is responsible for the overall management of the Authority's administration and operations. He came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. In 2003, Mr. Corrigan became Deputy Executive Director and served in that capacity until becoming Acting Executive Director on May 15, 2008. He began his government service career in 1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, Mr. Corrigan served as the appointed Rensselaer County Executive for a short period. He holds a Bachelor's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

PORTIA LEE is the Managing Director of Public Finance and Portfolio Monitoring. She is responsible for supervising and directing Authority bond issuance in the capital markets, through financial feasibility analysis and financing structure determination for Authority clients; as well as implementing and overseeing financing programs, including interest rate exchange and similar agreements; overseeing the Authority's compliance with continuing disclosure requirements and monitoring the financial condition of existing Authority clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. In addition, Ms. Lee has extensive public service experience working for over 10 years in various positions in the Governor's Office, NYS Department of Social Services, as well as the New York State Assembly. She holds a Bachelor's degree from the State University of New York at Albany.

JOHN G. PASICZNYK is the Chief Financial Officer of the Authority. Mr. Pasicznyk is responsible for investment management and accounting, as well as the development of the financial policies for the Authority. Before joining the Authority in 1985, Mr. Pasicznyk worked in audit positions at KPMG Peat Marwick and Deloitte & Touche. He holds a Bachelor's degree from Syracuse University and a Master of Business Administration degree from the Fuqua School of Business at Duke University.

JEFFREY M. POHL is General Counsel to the Authority. Mr. Pohl is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all Authority financings. He is a member of the New York State Bar, and most recently served as a counsel in the public finance group of a large New York law firm. Mr. Pohl had previously served in various capacities in State government with the Office of the State Comptroller and the New York State Senate. He holds a Bachelor's degree from Franklin and Marshall College and a Juris Doctor degree from Albany Law School of Union University.

STEPHEN D. CURRO, P.E. is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. Mr. Curro joined the Authority in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and Rhode Island and has worked in the construction industry for over 20 years as a consulting structural engineer and a technology solutions provider. Mr. Curro is also an Adjunct Professor at Hudson Valley Community College and Bryant & Stratton College. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that these claims and litigation are covered by the Authority's insurance or by bonds filed with the Authority should the Authority be held liable in any of such matters, or that the Authority has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such litigation.

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority obtained the approval of the PACB for the issuance of the 2001 Bonds.

Legislation

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect the Authority and its operations. The Authority is not able to represent whether such bills will be introduced or become law in the future. In addition, the State undertakes periodic studies of public authorities in the State (including the Authority) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect the Authority and its operations.

Environmental Quality Review

The Authority complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder respecting the Project to the extent such acts and regulations are applicable.

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2007. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

Part 5—LEGALITY OF THE 2001 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the 2001 Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual authorities and public benefit corporations of the State may limit the investment of funds of such authorities and corporations in the 2001 Bonds.

The 2001 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

Part 6—NEGOTIABLE INSTRUMENTS

The 2001 Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the 2001 Bonds.

Part 7—STATE'S RIGHT TO REQUIRE REDEMPTION OF BONDS

Under Section 14 of the Act, notwithstanding and in addition to any provisions for redemption which may be contained in the Resolution, the Series Resolution or the 2001 Bonds, the State, upon furnishing sufficient funds therefor, has reserved the right to require the Authority to redeem, prior to maturity, as a whole, any issue of bonds on any interest payment date not less than twenty (20) years after the date of the bonds of such issue at a redemption price of one hundred five per centum (105%) of the face value and accrued interest or at such lower redemption price as may be provided in the bonds in case of redemption thereof as a whole on the redemption date.

Part 8—TAX MATTERS

On the date the 2001 Bonds originally were issued, Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), delivered an opinion to the effect that based upon an analysis of then existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2001 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). It was the further opinion of Bond Counsel that interest on the 2001 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel was also of the opinion that interest on the 2001 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). A complete copy of the forms of opinion of Bond Counsel delivered at the original issuance of the 2001 Bonds is set forth in Appendix E hereto. On the respective Conversion Dates, in connection with the reoffering of the 2001 Bonds, Bond Counsel will deliver its opinion (the "Reoffering Opinion") to the effect that such reoffering will not adversely affect the exclusion from gross income of interest on the Reoffered Bonds for federal income tax purposes. The text of the form of Reoffering Opinion to be delivered by Bond Counsel is included as Appendix F hereto. Bond Counsel is not rendering any opinion on the current tax status of the Reoffered Bonds.

2001 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received and a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

As described in the official statement relating to the original issuance of the 2001 Bonds, the Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2001 Bonds. The Authority, the City and HHC have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to insure that interest on the 2001 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2001 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2001 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2001 Bonds may adversely affect the value of, or the tax status of interest on, the 2001 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Certain agreements, requirements and procedures contained or referred to in the Resolution, the Agreement, the Tax Certificate and Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2001 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2001 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the 2001 Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York), the ownership or disposition of, or the accrual or receipt of interest on, the 2001 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2001 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2001 Bonds. Prospective purchasers of the 2001 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2001 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, the City or HHC, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority, the City and HHC covenanted, however, to comply with the requirements of the Code.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. Bond Counsel is not obligated to defend the owners regarding the tax-exempt status of the 2001 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the City and HHC and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority, the City or HHC legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2001 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2001 Bonds, and may cause the Authority, the City, HHC or the Beneficial Owners to incur significant expense.

Part 9—STATE NOT LIABLE ON THE 2001 BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Resolution specifically provides that the 2001 Bonds shall not be a debt of the State nor shall the State be liable thereon.

Part 10—COVENANT BY THE STATE

The Act states that the State pledges and agrees with the holders of the Authority's notes and bonds that the State will not limit or alter the rights vested in the Authority to fulfill the terms of any agreements made with the holders of the Authority's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with the Authority and with the holders of the Authority's notes or bonds.

Part 11—LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the 2001 Bonds by the Authority were subject to the approval of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel, whose approving opinion was delivered on December 21, 2001, in connection with the initial issuance of the 2001 Bonds and is set forth in Appendix E hereto. The proposed form of opinion to be delivered by Bond Counsel upon conversion of the 2001 Bonds is set forth in Appendix F hereto.

Certain legal matters will be passed upon for the City by its Corporation Counsel and by Fulbright & Jaworski L.L.P., New York, New York and for the Remarketing Agents by their Counsel, Clifford Chance US LLP, New York, New York.

There is not now pending any litigation seeking to restrain or enjoin the issuance or delivery of the 2001 Bonds or questioning or affecting the validity of the 2001 Bonds or the proceedings and authority under which they are to be issued.

Part 12—REMARKETING

The 2001 Bonds are being purchased for reoffering by the Remarketing Agents listed on the cover page hereof, for whom Morgan Stanley & Co. Incorporated and Lehman Brothers Inc. are acting as lead managers. The Remarketing Agents for the 2001 Bonds have jointly and severally agreed, subject to certain conditions, to purchase such 2001 Bonds from the tendering holders and to remarket such Bonds at prices that are not in excess of the initial public offering prices set forth on the inside cover pages of this Reoffering Circular. The Remarketing Agents for the 2001 Bonds will receive $2,400,710.51 as compensation for their services and will be obligated to purchase all the reoffered 2001 Bonds if any such Bonds are purchased.

The 2001 Bonds may be offered and sold to certain dealers (including the Remarketing Agents) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Remarketing Agents.

Part 13—CONTINUING DISCLOSURE

In connection with the issuance of the 2001 Bonds, to the extent that (i) Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "1934 Act"), required the underwriters for the 2001 Bonds to determine, as a condition to purchasing the 2001 Bonds, that the parties to the hereinafter defined Undertaking covenanted to the effect of the provisions hereinafter summarized (the "Undertaking") and (ii) the Rule as so applied is authorized by a Federal law that as so construed is within the powers of Congress, the City agreed with the record and beneficial owners from time to time of the Outstanding 2001 Bonds ("Bondholders") to provide:

(a) within 185 days after the end of its 2008 fiscal year and each subsequent fiscal year, to each Nationally Recognized Municipal Securities Information Repository (each a "Repository") and to any New York State information depository (the "State Information Depository"), core financial information and operating data for the prior fiscal year, including (i) the City's audited general purpose financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the City's revenues, expenditures, financial operations and indebtedness generally of the type found in Appendix B to this Reoffering Circular in Sections IV, V and VIII and under the captions "2003-2007 Summary of Operations" in Section VI and "Pension Systems" in Section IX; and

(b) in a timely manner, to each Repository or to the Municipal Securities Rulemaking Board, and to any State Information Depository, notice of any of the following events with respect to the 2001 Bonds, if material, provided that such events have not otherwise been the subject of notice pursuant to the Undertaking:

(1) principal and interest payment delinquencies;
(2) non-payment related defaults;
(3) unscheduled draws on the Debt Service Reserve Fund 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 2001 Bonds;
(7) modifications to rights of Bondholders;
(8) Bond calls;
(9) defeasances;
(10) release, substitution, or sale of property securing repayment of the 2001 Bonds;
(11) rating changes; and
(12) failure of the City to comply with clause (a) above.

With respect to the following numbered events:

Events (4) and (5). The City did not undertake to provide any notice with respect to a credit enhancement added after the primary offering of the 2001 Bonds, unless the City applies for or participates in obtaining the enhancement.

Event (6). For information on the tax status of the 2001 Bonds, see "Part 8—Tax Matters."

Event (8). The City did not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail herein, the only open issue is which 2001 Bonds will be redeemed in the case of a partial redemption, notice of a redemption is given to the Bondholders as required under the terms of the Resolution and public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or 2001 Bond purchases.

The Division of the Budget of the State of New York (the "Division of the Budget") undertook to provide within 120 days after the end of the State's 2007-2008 fiscal year and each subsequent fiscal year, to each such Repository and to any State Information Depository, the financial data of the type included in this Reoffering Circular under the heading "Part 2—Sources of Payment and Security for the 2001 Bonds—State Appropriations and Payments for Medicaid" which shall include information relating to the total amount of State aid paid to the City or on behalf of the City pursuant to Section 367-b and Section 368-a of the Social Services Law for the four most recent fiscal years.

The Authority also undertook, for the benefit of the Bondholders, to provide to the City, each such Repository and to any State Information Depository, in a timely manner, notice of the events described in clause (b) above.

The City has provided and expects to continue to provide the information described in clause (a) above by delivering its first bond official statement that includes its financial statements for the preceding fiscal year or, if no such official statement is issued by the 185-day deadline, by delivering the Comprehensive Annual Financial Report of the City Comptroller by such deadline.

At the date hereof, there is no New York State information depository and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; FT Interactive Data, 100 William Street, New York, New York 10038, Attn: NRMSIR; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

No Bondholder may institute any suit, action or proceeding at law or in equity ("Proceeding") against the City for the enforcement of the Undertaking or for any remedy for breach thereof, unless such Bondholder shall have filed with the Corporation Counsel of the City evidence of ownership and a written notice of and request to cure such breach, and the City shall have refused to comply within a reasonable time. All Proceedings against the City shall be instituted only as specified above, 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 Outstanding 2001 Bonds, and no remedy shall be sought or granted other than specific performance of the covenant at issue. In the case of challenges to the adequacy of the information provided by the City, the Trustee may bring such an action on behalf of the Bondholders only at the direction of the Bondholders of not less than 25% of the aggregate principal amount of the 2001 Bonds then Outstanding.

A Bondholder may enforce, for the equal benefit and protection of all Bondholders similarly situated, by mandamus or other proceeding at law or in equity, the Undertaking against the Division of the Budget or the Authority and any of the officers, agents and employees of the Division of the Budget or the Authority, and may compel the Division of the Budget or the Authority or any such officers, agents or employees to perform and carry out their duties under the Undertaking; provided that the sole and exclusive remedy for breach of the Undertaking shall be an action to compel specific performance of the obligations of the Division of the Budget or Authority thereunder and no person or entity shall be entitled to recover monetary damages thereunder under any circumstances; and provided, further, that in the case of challenges to the adequacy of the information provided by the Authority or the Division of the Budget, the Trustee may bring such an action on behalf of the Bondholders only at the direction of the Bondholders of not less than 25% of the aggregate principal amount of the 2001 Bonds then Outstanding.

Any amendment to the Undertaking may only take effect if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of award of the 2001 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; the amendment does not materially impair the interests of Bondholders as determined by parties unaffiliated with the City or the Authority (such as, but without limitation, the City's financial advisor, the Authority's Bond Counsel or the Trustee) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the staff of the SEC to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

(b) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the Undertaking, ceases to be in effect for any reason, and the City and the Authority elect that the Undertaking shall be deemed terminated or amended (as the case may be) accordingly.

For purposes of the Undertaking, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares investment power which includes the power to dispose, or to direct the disposition of, such security, subject to certain exceptions, as set forth in the Undertaking. Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request to the Corporation Counsel described above.

Failure of any party to perform its obligations under the Undertaking shall not constitute an "event of default" under the Resolution or the Agreement or any other agreement executed and delivered in connection with the issuance of the 2001 Bonds. In addition, if all or a portion of the Rule ceases to be in effect for any reason, then the information required to be provided under the Undertaking, insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

Copies of the Undertaking when executed by the parties thereto upon the delivery of the 2001 Bonds will be on file at the principal office of the Authority.

Part 14—RATINGS

The 2001 Bonds are rated "A1","AA-" and "A+" by Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services ("Standard & Poor's") and Fitch, Inc ("Fitch") respectively. Such ratings reflect only the views of Moody's, Standard & Poor's and Fitch from whom an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will not be withdrawn entirely. Any downward revision or withdrawal of such ratings could have an adverse effect on the market price of the 2001 Bonds.

Part 15—MISCELLANEOUS

Reference in this Reoffering Circular to the Act, the Resolution, the 2001 Resolution, the Continuing Disclosure Agreement and the Agreement do not purport to be complete. Refer to the Act, the Resolution, the 2001 Resolution, the Continuing Disclosure Agreement and the Agreement for full and complete details of their provisions. Copies of the Resolution, the 2001 Resolution, the Continuing Disclosure Agreement and the Agreement are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the 2001 Bonds are fully set forth in the Resolution and the 2001 Resolution. Neither any advertisement of the 2001 Bonds nor this Reoffering Circular is to be construed as a contract with purchasers of the 2001 Bonds.

Any statements in this Reoffering Circular involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding the City was supplied by the City. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

The information regarding DTC and DTC's book-entry only system has been furnished by DTC. The Authority believes that this information is reliable, but makes no representations or warranties whatsoever to the accuracy or completeness of this information.

"Appendix A—Definitions," "Appendix C—Summary of Certain Provisions of the Agreement," "Appendix D—Summary of Certain Provisions of the Resolution," "Appendix E—Form of Opinion of Bond Counsel delivered in 2001" and "Appendix F—Form of Opinion of Bond Counsel to be delivered on the Conversion Dates for the 2001 Bonds" have been prepared by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel.

"Appendix B—The City of New York" includes the audited financial statements of the City for the year ended June 30, 2007 and the report of the City's independent auditors on such financial statements.

The City has reviewed the parts of this Reoffering Circular describing the City and Appendix B. It is a condition to the sale and delivery of the 2001 Bonds that the City certify as of the dates of sale and delivery of the 2001 Bonds that such parts do not contain any untrue statement of a material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

The execution and delivery of this Reoffering Circular by an Authorized Officer have been duly authorized by the Authority.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

By: /s/Michael T. Corrigan
Authorized Officer

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<u>Appendix A</u>

DEFINITIONS

DEFINITIONS

The following definitions of certain of the terms defined herein or in the Resolution or in the Agreement and used in this Official Statement.

"Act" means the Dormitory Authority Act, being and constituting Title 4 of Article 8 of the Public Authorities Law of the State of New York, as amended by the Health Care Financing Consolidation Act, being and constituting Title 4-B of Public Authorities Law of the State of New York, whereby the Authority succeeded to the powers, functions and duties set forth in the New York State Medical Care Facilities Finance Agency Act, being Chapter 392 of Laws of New York, 1973, as amended, McKinney's Unconsolidated Laws, Sections 7411 to 7432, inclusive;

"Administrative Expenses" means expenses incurred by the Authority in carrying out its duties under the Agreement and under the Resolution, the City Lease, and any other document, instrument, agreement, law, rule or regulation related to any Leased Property other than the Construction Management Agreement, including, without limitation, accounting, administrative, financial advisory and legal expenses incurred in connection with the financing and construction of the Project (other than the Construction Management Fee and expenses paid by the Authority pursuant to the Construction Management Agreement), the fees and expenses of the Trustee, any Paying Agents or any other fiduciaries acting under the Resolution, the fees and expenses of any Facility Provider, the costs and expenses incurred in connection with the determination of the rate at which a Variable Interest Rate Bond is to bear interest and the remarketing of such Bond, the fees, expenses and other amounts payable by the Authority pursuant to an Interest Rate Exchange Agreement, the cost of providing insurance with respect to a Leased Property or a Health Facility, judgments or claims payable by the Authority for the payment of which the Authority has been indemnified or held harmless pursuant to the Agreement, but only to the extent that moneys in the Construction Fund are not available therefor, and expenditures to compel full and punctual performance of the City Lease, the Agreement, or any document, instrument or agreement related thereto in accordance with its terms;

"Agreement" means the Lease and Agreement between the Authority and the City, as amended;

"Annual Administrative Fee" means a fee payable during each Bond Year for a portion of the general administrative and overhead expenses of the Authority in an amount equal to 0.08% of the aggregate principal amount of Bonds issued by the Authority limited to a maximum amount of $100,000 in any year;

"Appreciated Value" means with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Deferred Income Bond or in the Bond Series Certificate relating to such Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation

Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve (12) thirty-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date;

"Arbitrage Rebate Fund" means the fund so designated, created and established pursuant to the Resolution;

"*Auction Rate Mode*" means the mode during which the duration of the Auction Period and the interest rate is determined in accordance the 2001 Series 2 Bond Series Certificate;

"Authority" means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the rights, powers, duties and functions of the Authority;

"*Authorized Denominations*" means maturity values of (i) during any Daily Rate Period, any Commercial Paper Rate Period, any Weekly Rate Period or any Initial Rate Period following a Conversion from the Auction Rate Mode, $100,000 or any integral multiple of $5,000 in excess thereof, (ii) during any Term Rate Period or the Fixed Rate Period, $5,000 or any integral multiple thereof, and (iii) during the Auction Rate Mode, except as otherwise may be provided herein, $25,000 and any integral multiple thereof;

"Authorized Newspaper" means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority;

"Authorized Officer" means (i) in the case of the Authority, the Chairman, the Vice-Chairman, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the First Deputy Executive Director, a Deputy Executive Director, the General Counsel, the Deputy General Counsel, an Assistant General Counsel, the Director, Asset Management and the Comptroller, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of the City, when used with reference to any act or document, means the person identified in the Resolution or in the Agreement as authorized to perform such act or execute such document, and in all other cases means the Mayor of the City or an officer or employee of the City authorized in a written instrument signed by the Mayor or by the Charter of the City or its Administrative Code to act on behalf of the Mayor; and (iii) in the case of the Trustee, the President, a Vice President, a Corporate Trust Officer, an Assistant Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other

person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee;

"Basic Rent" means that portion of Rentals payable as described in the first paragraph under the heading "Payment of Rentals" in Appendix C of this Official Statement;

"Bond or Bonds" means any of the bonds of the Authority authorized and issued pursuant to the Resolution and to a Series Resolution;

"Bond Counsel" means an attorney or a law firm, appointed by the Authority, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds, or the Attorney General of the State;

"Bond Series Certificate" means the certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds of a Series in accordance with the delegation of power to do so under the Resolution or under the Series Resolution authorizing the issuance of such Bonds;

"Bond Year" means a period of twelve (12) consecutive months beginning January 15 in any calendar year and ending on January 14 of the succeeding calendar year;

"*Bondholder, Holder of Bonds or Holder*" or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Bond;

"*Book Entry Bond*" means a Bond authorized to be issued to, and issued to and registered in the name of, a Depository directly or indirectly for the beneficial owners thereof;

"*Business Day*" means any day which is not a Saturday, Sunday or a day on which banking institutions chartered by the State or the United States of America are legally authorized to close in The City of New York; provided, however, that, with respect to Option Bonds or Variable Interest Rate Bonds of a Series, such term means any day which is not a Saturday, Sunday or a day on which the New York Stock Exchange, banking institutions chartered by the State or the United States of America, the Trustee or the issuer of a Credit Facility or Liquidity Facility for such Bonds are legally authorized to close in The City of New York;

"*Capital Appreciation Bond*" means any Bond as to which interest is compounded on each Valuation Date therefor and is payable only at the maturity or prior redemption thereof;

"*City* " means The City of New York, a municipal corporation of the State, constituting a political subdivision thereof;

"*City Lease*" means that certain Agreement of Lease, by and between the City, as lessor, and the Authority, as lessee, as it may be from time to time amended, modified and supplemented;

"*Code*" means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder;

"*Commercial Paper Mode*" means a Rate Mode in which a 2001 Series 2 Bond for its respective Commercial Paper Rate Period bears interest at a Commercial Paper Rate;

"*Commercial Paper Rate*" means, with respect to each 2001 Series 2 Bond in the Commercial Paper Mode, the rate at which each such 2001 Series 2 Bonds bears interest during the Commercial Paper Rate Period applicable thereto, as established in accordance with the 2001 Series 2 Bond Series Certificate;

"*Commercial Paper Rate Period*" means, with respect to a particular 2001 Series 2 Bond, a period of one to three hundred sixty-five (1 to 365) days during which such 2001 Series 2 Bond bears interest at a Commercial Paper Rate; provided, however, that the first day immediately following the last day of each Commercial Paper Rate Period shall in all events be a Business Day;

"*Comptroller*" means the Comptroller of the City or the Comptroller's Designee;

"*Construction Fund*" means the fund so designated, created and established pursuant to the Resolution;

"*Construction Management Agreement*" means the Operating Agreement, dated as of March 12, 1997, by and among the Authority, HHC and the City, as from time to time amended or supplemented in accordance with the terms and provisions thereof;

"*Construction Management Fee*" means a fee payable to the Authority for the management, supervision or review of the construction of a Health Facility, including the letting of contracts for the design, acquisition, construction, reconstruction, rehabilitation or improvement of a Health Facility, the performance of the duties and powers relating thereto expressly granted to the Authority pursuant to the Lease and all other matters incidental thereto;

"*Conversion*" means a change in the Rate Mode of a 2001 Series 2 Bond made in accordance with the provisions of the 2001 Series 2 Bond Series Certificate and, when a 2001 Series 2 Bond is in the Auction Rate Mode, also means a change from one Auction Period to another Auction Period for such 2001 Series 2 Bond;

"*Conversion Date*" means the day on which the interest rate on a 2001 Series 2 Bond is converted from one Rate Mode to a different Rate Mode or was proposed to be converted from one Rate Mode to another Rate Mode, which date must be a Reset Date or an Interest Payment Date for such 2001 Series 2 Bond.

"*Conversion Notice*" means a notice given pursuant to the 2001 Series 2 Bond Series Certificate;

"*Cost or Costs of Issuance*" means the items of expense incurred in connection with the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee or a Depository, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of Bonds, premiums, fees and charges for insurance on Bonds, commitment fees or similar charges of a Remarketing Agent or relating to a Credit Facility or a Liquidity Facility, costs and expenses of refunding Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing;

"*Cost or Costs of the Project*" means costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with the Project, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Health Facilities, (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of the Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising the Project, (v) costs and expenses required for the acquisition and installation of the original furnishings, equipment, machinery and apparatus needed to furnish and equip the Health Facilities upon completion thereof, (vi) all other costs which the City, HHC or the Authority shall be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Health Facilities, (vii) any sums required to reimburse the City, HHC or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with the Project (including interest on borrowed money), (viii) interest on the Bonds prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of the Health Facilities, (ix) fees, expenses and liabilities of the Authority incurred in connection with the Project or pursuant to the Resolution or to the Agreement, a Credit Facility, a Liquidity Facility or a Remarketing Agreement and (x) working capital, if authorized by the State Department of Health, in an amount determined by the Authority to be necessary or convenient in connection with a Health Facility; provided, however, the amount of such working capital costs shall not exceed that amount allowable under federal tax regulations;

"*Counterparty*" means any person with which the Authority has entered into an Interest Rate Exchange Agreement, provided that, at the time the Interest Rate Exchange Agreement is executed, the senior or uncollateralized long-term debt obligations of such person, or of any person that has guaranteed for the term of the Interest Rate Exchange

Agreement the obligations of such person thereunder, are rated, without regard to qualification of such rating by symbols such as "+" or "-" and numerical notation, not lower than "A" by Moody's and "A" by S&P, or the equivalent thereof by any successor thereto or by any nationally recognized rating agency then rating the obligations of such persons;

"*Credit Facility*" means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement or other agreement, facility or insurance or guaranty arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, pursuant to which the Authority is entitled to obtain moneys to pay the principal, purchase price or Redemption Price of Bonds due in accordance with their terms or tendered for purchase or redemption, plus accrued interest thereon to the date of payment, purchase or redemption thereof, in accordance with the Resolution and with the Series Resolution authorizing such Bonds or a Bond Series Certificate, whether or not the Authority is in default under the Resolution;

"*Daily Rate*" means the rate at which a 2001 Series 2 Bond in the Daily Rate Mode bears interest, as established in accordance with the 2001 Series 2 Bond Series Certificate;

"*Daily Rate Mode*" means a Rate Mode in which a 2001 Series 2 Bond in such Rate Mode bears interest at a Daily Rate;

"*Daily Rate Period*" means a period commencing on one Business Day and extending to, but not including, the next succeeding Business Day, during which 2001 Series 2 Bonds in the Daily Rate Mode bear interest at the Daily Rate;

"*Debt Service Fund*" means the fund so designated, created and established pursuant to the Resolution;

"*Debt Service Reserve Fund*" means the fund so designated, created and established pursuant to the Resolution;

"*Debt Service Reserve Fund Requirement*" means, as of any particular date of computation, an amount equal to the greatest amount required in the then current or any future calendar year to pay the sum of the principal and Sinking Fund Installments of and interest on Outstanding Bonds payable during such year, excluding interest accrued on the Bonds of a Series from the dated date of such Bonds to the January 15 or July 15 immediately preceding the first interest payment date for the Bonds of such Series, except that (to the extent permitted by the Act) if, upon the issuance of a Series of Bonds, such amount would require moneys, in an amount in excess of the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, to be deposited therein, the Debt Service Reserve Fund Requirement shall mean an amount equal to the sum of the Debt Service Reserve Fund Requirement immediately preceding issuance of such Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as certified by an Authorized Officer of the Authority; provided, however, that for purposes of this definition (a) the principal and interest portions of the Accreted Value of a Capital Appreciation Bond and the Appreciated Value of a Deferred Income Bond becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of interest and principal payable on January 15 of the year in which such Capital Appreciation Bond or Deferred Income Bond matures or in which such Sinking Fund Installment is due, (b) an Option Bond Outstanding during any Bond Year shall be assumed to mature on the stated maturity date thereof, and (c) it shall be assumed that a Variable Interest Rate Bond, prior to its conversion to bear interest at a fixed rate to its maturity, bears interest during any year at the higher of (1) the lesser of (x) a fixed rate of interest equal to that rate, as estimated by an Authorized Officer of the Authority, after consultation with the remarketing agent, if any, for such Variable Interest Rate Bond if it is also an Option Bond or, if it is not, with an investment banking firm which is regularly engaged in the underwriting of or dealing in bonds of substantially similar character, on a day not more than twenty (20) days prior to the date of initial issuance of such Variable Interest Rate Bond, which such Variable Interest Rate Bond would have had to bear to be marketed at par on such date as a fixed rate obligation maturing on the maturity date of such Variable Interest Rate Bond and (y) if the Authority or the City has in connection with such Variable Interest Rate Bond entered into an interest rate exchange or swap agreement which provides that the Authority is to pay to another person an amount determined based upon a fixed rate of interest on the Outstanding principal amount of the Variable Interest Rate Bonds to which such agreement relates, the fixed rate of interest set forth in or determined in accordance with such agreement, and (2) a rate, not less than the initial rate of interest on such Variable Interest Rate Bond, set forth in or determined pursuant to a formula set forth in the Series Resolution authorizing such Variable Interest Rate Bond or in the Bond Series Certificate relating to such Bond, and (d) if a Variable Interest Rate Bond shall be converted to a fixed rate Bond for the remainder of the term thereof and as a result of such conversion a deficiency shall be created in the Debt Service Reserve Fund, the Debt Service Reserve Fund Requirement shall be calculated so as to exclude the amount of such deficiency and the Debt Service Reserve Fund Requirement shall be increased in each of the five (5) years after the date of such conversion by an amount which shall be equal to twenty per centum (20%) of the aforesaid deficiency;

"*Defeasance Security*" means (a) a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment), an obligation to which the full faith and credit of the United States of America are pledged (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America, which, in each case, is not subject to redemption prior to maturity other than at the option of the holder thereof or which has been irrevocably called for redemption on a stated future date or (b) an Exempt Obligation (i) which is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) which is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or direct obligations of the United States of America which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) which are rated by Moody's and S&P in the highest rating category of each such rating service for such Exempt Obligation; provided, however, that such term shall not mean any interest in a unit investment trust or mutual fund;

"*Deferred Income Bond*" means any Bond as to which interest accruing thereon prior to the Interest Commencement Date of such Bond is compounded on each Valuation Date for such Deferred Income Bond, and as to which interest accruing after the Interest Commencement Date is payable semi-annually on January 15 and July 15 of each Bond Year;

"*Depository*" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating to a Series of Bonds to serve as securities depository for the Bonds of such Series;

"*Designee*" means an officer or employee of the City authorized in a written instrument signed by the Comptroller or Director, as the case may be, to act on behalf of such designating official under the Agreement;

"*Direct Participant*" means a participant in the book-entry system of recording ownership interests in the 2001 Series 2 Bonds;

"*Director*" means the Director of the Office of Management and Budget of the City or the Director's Designee;

"*Exempt Obligation*" means (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as "+" or "-" and numerical notation, not less than Aa by Moody's and AA by S&P, or, if such obligation is not rated by Moody's and S&P, by Moody's or S&P, or, if such obligation is rated by neither Moody's nor S&P, has been assigned a comparable rating by another nationally recognized rating service or (ii) United States Treasury Demand Deposit Certificates of Indebtedness - State and Local Government Series, to the extent treated as a tax exempt obligation for purposes of Section 148 of the Code;

"*Expiration Date*" means the scheduled expiration date of the Liquidity Facility for the 2001 Series 2 Bonds or such scheduled expiration date as it may be extended to from time to time as provided therein or the date on which such Liquidity Facility shall terminate pursuant to an election to terminate by the Authority or the Facility Provider;

"*Facility Provider*" means the issuer of a Credit Facility, a Liquidity Facility or a Reserve Fund Facility delivered to the Trustee pursuant to the Resolution;

"*Fixed Rate*" means the rate at which a 2001 Series 2 Bond bears interest during the Fixed Rate Period, as established in accordance with the 2001 Series 2 Bond Series Certificate;

"*Fixed Rate Mode*" means a Rate Mode in which a 2001 Series 2 Bond in such Rate Mode bears interest at a Fixed Rate;

"*Fixed Rate Period*" means the period from and including the Conversion Date and extending (i) to and including the date of maturity of a 2001 Series 2 Bonds in the Fixed Rate Mode or (ii) to, but not including, the Conversion Date on which 2001 Series 2 Bonds in the Fixed Rate Mode are converted to another Rate Mode;

"*Government Obligation*" means a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America, an obligation (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) to which the full faith and credit of the United States of America are pledged, an obligation of any federal agency approved by the Authority, a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or a share or interest in a mutual fund, partnership or other fund wholly comprised of such obligations;

"*Health Facility or Health Facilities*" means a building or unit within a building or structure or improvement acquired, constructed, reconstructed, rehabilitated or improved for use as a "health facility," as such term is defined in the Act, comprising or to comprise the Leased Property;

"*Initial Rate*" means the rate per annum at which 2001 Series 2 Bonds will bear interest during the Initial Rate Period, as set forth in a Certificate of Determination;

"*Initial Rate Period*" means the period commencing on the Conversion Date and extending to and including the date set forth in a Certificate of Determination as the last day of the Initial Rate Period;

"*Interest Commencement Date*" means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond, after which interest accruing on such Bond shall be payable on the interest payment date immediately succeeding such Interest Commencement Date and semi-annually thereafter on January 15 and July 15 of each Bond Year;

"*Interest Rate Exchange Agreement*" means an agreement entered into by the Authority in connection with the issuance of or which relates to Bonds of one or more Series which (i) provides that during the term of such agreement the Authority is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on an amount equal to the principal amount of such Bonds and that the Counterparty is to pay to the Authority an amount based on the interest accruing on a principal amount equal to the same principal amount of such Bonds at a fixed or variable rate per annum, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement and (ii) in the opinion of Bond Counsel, will not adversely affect the exclusion of interest on Bonds from gross income for the purposes of federal income taxation;

"*Investment Agreement*" means an agreement for the investment of moneys with a Qualified Financial Institution;

"*Lease Term*" means the duration of the leasehold estate or estates created as specified in the Agreement unless sooner terminated in accordance with the provisions of the Agreement;

"*Leased Property*" means the real property described in the Agreement, the buildings and improvements situated thereon or from time to time to be erected thereon, and the Personal Property now or hereafter situated on or used in connection therewith (but only to the extent such Personal Property is financed with the proceeds of Bonds) constituting "health facilities" as defined in the Act;

"*Liquidity Facility*" means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement, line of credit or other agreement or arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, pursuant to which moneys are to be obtained upon the terms and conditions contained therein for the purchase or redemption of Option Bonds tendered for purchase or redemption in accordance with the terms of the Resolution and of the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds;

"*Mandatory Tender Date*" means any date on which a 2001 Series 2 Bond is required to be purchased in accordance with the 2001 Series 2 Bond Series Certificate;

"*Maximum Interest Rate*" means, with respect to any particular Variable Interest Rate Bond, the numerical rate of interest, if any, set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond, that shall be the maximum rate at which such Bond may bear interest at any time;

"*Maximum Rate*" means (i) in the case of a 2001 Series 2 Bond bearing interest at an Auction Rate, fourteen percent (14%) per annum, (ii) in the case of a 2001 Series 2 Bond bearing interest at any Rate other than an Auction Rate or a Purchased Bond Rate, nine percent (9%) per annum and (iii) in the case of a 2001 Series 2 Bond bearing interest at a Purchased Bond Rate, twenty-five percent (25%) per annum; provided, however, that in no event shall the Rate at which any 2001 Series 2 Bond bears interest exceed the maximum rate permitted by law;

"*Minimum Interest Rate*" means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, if any, set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond, that shall be the minimum rate at which such Bonds may bear interest at any time;

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, or its successors and assigns;

"*Municipal Market Data General Obligation Yield*" means the yield indicated by the daily generic scale of unenhanced "AAA"-rated general obligation bonds, reflecting the offer-side of the market determined from trading activity, published by Municipal Market Data, a Thomson Financial Services Company, or its successor;

"*No Remarketing Notice*" means a notice given by a Facility Provider pursuant to the agreement with the Facility Provider of the Liquidity Facility to the effect that an event of default thereunder has occurred and that from and after the date specified therein no Tendered Bonds to which a Liquidity Facility issued by such Facility Provider relates are to be remarketed, or any comparable notice given by the Facility Provider of a substitute Liquidity Facility pursuant to the agreement by and between the Authority and such Facility Provider providing for issuance of the substitute Liquidity Facility;

"*Option Bond*" means any Bond which by its terms may be tendered by and at the option of the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof in accordance with the Series Resolution authorizing such Bonds or the Bond Series Certificate related to such Bonds;

"*Optional Tender Date*" means any Business Day during a Daily Rate Period or Weekly Rate Period;

"*Outstanding*" when used in reference to Bonds, means, as of a particular date, all Bonds authenticated and delivered under the Resolution and under any applicable Series Resolution except: (i) any Bond cancelled by the Trustee at or before such date; (ii) any Bond deemed to have been paid in accordance with the Resolution; (iii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution; and (iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Bonds or the Bond Series Certificate related to such Bonds on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Series Resolution authorizing such Bonds;

"*Paying Agent*" means, with respect to the Bonds of any Series, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of a Series Resolution, a Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or paying Agents shall be so appointed;

"*Permitted Encumbrances*" means and includes with respect to any Leased Property:

(i) the lien of taxes and assessments and water and sewer rents and charges which are not yet due and payable;

(ii) rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Leased Property which do not materially impair the use of the Leased Property for the purposes for which it is or may reasonably be expected to be held;

(iii) minor defects and irregularities in the title to the Leased Property which do not in the aggregate materially impair the use of the Leased Property for the purposes for which it is or may reasonably be expected to be held;

(iv) easements, exceptions or reservations for the purpose of pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is or may reasonably be expected to be held;

(v) present or future valid zoning laws and ordinances;

(vi) any purchase money security interests in any Personal Property, other than with respect to Personal Property financed with the proceeds of the Bonds and any replacements thereof;

(vii) all other matters of record and state of title at the commencement date of the Agreement, rights of parties in possession and any state of facts which an accurate survey or physical inspection would show;

(viii) the City Lease, the Sublease and the agreements and leases between HHC and the City with respect to the Health Facilities; and

(ix) such other encumbrances or items to which the City shall have consented in writing signed by an Authorized Officer;

"*Personal Property*" means all articles of tangible personal property of every kind and description presently located or hereafter placed on or used in connection with the manage mentor operation of the Leased Property other than those which, by the nature of their attachment to the Leased Property become real property pursuant to applicable law, including all escalators and elevators; all heating, ventilating, and air-conditioning equipment; all appliances, apparatus, machinery, motors and electrical equipment; all interior and exterior lighting equipment; all telephone, intercom, audio, music and other sound reproduction and communication equipment; all floor coverings, carpeting, wall coverings, drapes, furniture, trash containers, carts, decorative plants, planters, sculptures, fountains, artwork and other mall, common area, auditorium and office furnishings; all plumbing fixtures, facilities and equipment; all cleaning, janitorial, lawn, landscaping, disposal, fire fighting, sprinkler and maintenance equipment and supplies; all books, records, files, financial and accounting records relating to the ownership, operation or management of the Health Facilities; all drawings, plans and specifications relating to the improvements; and all other personal property whether similar or dissimilar to the foregoing which is now or in the future used in the ownership, operation or management of the Health Facilities, including all additions thereto, proceeds received upon voluntary or involuntary disposition thereof, and all renewals or replacements thereof or articles in substitution therefor.

"*Project*" means the acquisition, design, construction, reconstruction, rehabilitation, improvement and equipping of the Health Facilities;

"*Project Management Agreement*" means any agreement entered into between the Authority and the City, and/or any agency of the City, authorizing the authority to design, construct, reconstruct, rehabilitate, equip or otherwise improve a health facility as defined in subdivision 8 of section 7413 of the Unconsolidated Laws;

"*Provider Payments*" means the amount, certified by a Facility Provider to the Trustee, payable to such Facility Provider on account of amounts advanced by it under a Reserve Fund Facility, including interest on amounts advanced and fees and charges with respect thereto;

"*Purchased Bond*" means any 2001 Series 2 Bond during the period from and including the date it is purchased or paid for by a Facility Provider pursuant to a Liquidity Facility to, but excluding, the earliest of (i) the date on which the principal, Redemption Price or Purchase Price of such 2001 Series 2 Bond, together with all interest accrued thereon, is paid with amounts other than with amounts drawn under the Liquidity Facility, (ii) the date on which the registered owner of a 2001 Series 2 Bond has given written notice of its determination not to sell such 2001 Series 2 Bond following receipt of a purchase notice from the Remarketing Agent with respect to such 2001 Series 2 Bond, or, if notice of such determination is not given on or before the Business Day next succeeding the day such purchase notice is received, the second Business Day succeeding receipt of such purchase notice, or (iii) the date on which such 2001 Series 2 Bond is to be purchased pursuant to an agreement by the registered owner of such 2001 Series 2 Bond to sell such 2001 Series 2 Bond following receipt of a purchase notice from the Remarketing Agent with respect to such 2001 Series 2 Bond, if the Trustee then holds, in trust for the benefit of such registered owner, sufficient moneys to pay the Purchase Price of such 2001 Series 2 Bond, together with the interest accrued thereon to the date of purchase;

"*Purchased Bond Rate*" means the rate at which a Purchased Bond bears interest in accordance with a Liquidity Facility; provided, however, that in no event shall such rate exceed the Maximum Rate applicable thereto;

"*Qualified Financial Institution*" means (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, (ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, (iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity or (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; provided, however, that in the case of any entity described in (ii) or (iii) above, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by any such organization, at the time an Investment Agreement is entered into by the Authority are rated, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, "A" or better by Moody's and "A" or better by S&P, or, if such obligations are not rated by Moody's and S&P, by Moody's or S&P, or, if such obligations are rated by neither Moody's nor S&P, have been assigned a comparable rating by another nationally recognized rating service, but in no event shall such obligations be rated lower than the lowest rating assigned by Moody's or S&P to any Outstanding Bonds;

"*Rate*" means the Initial Rate, any Daily Rate, Commercial Paper Rate, Weekly Rate, Term Rate, Purchased Bond Rate, the Fixed Rate or the Auction Rate;

"*Rate Mode*" means the Daily Rate Mode, Commercial Paper Mode, Weekly Rate Mode, Term Rate Mode, Fixed Rate Mode or Auction Rate Mode;

"*Rate Period*" means the Initial Rate Period, any Daily Rate Period, any Commercial Paper Rate Period, any Weekly Rate Period, any Term Rate Period, the Fixed Rate Period or any Auction Period;

"*Record Date*" means, unless the Series Resolution authorizing Variable Interest Rate Bonds or Option Bonds or the Bond Series Certificate relating thereto provides otherwise with respect to such Variable Rate Bonds or Option Bonds, the first (1st) day (whether or not a Business Day) of the calendar month in which an interest payment date occurs. The 2001 Series 2 Bond Series Certificate provides that the Record Date for the 2001 Series 2 Bonds means, with respect to each Interest Payment Date, (i) during any Daily Rate Period, any Commercial Paper Rate Period, any Weekly Rate Period or any Auction Period, the close of business on the Business Day preceding such Interest Payment Date, and (ii) during any Term Rate Period or the Fixed Rate Period, the close of business on the last day of the calendar month immediately preceding any calendar month in which there occurs an Interest Payment Date, regardless of whether such day is a Business Day;

"*Redemption Price*", when used with respect to a Bond, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption prior to maturity thereof pursuant to the Resolution or to the applicable Series Resolution or Bond Series Certificate;

"*Refunding Bonds*" means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution;

"*Remarketing Agent*" means the person appointed by or pursuant to a Series Resolution authorizing the issuance of Option Bonds to remarket such Option Bonds tendered or deemed to have been tendered for purchase in accordance with such Series Resolution or the Bond Series Certificate relating to such Option Bonds;

"*Remarketing Agreement*" means, with respect to Option Bonds of a Series, an agreement between the Authority and the Remarketing Agent relating to the remarketing of such Bonds;

"*Rentals*' means the rent payable under the Agreement;

"*Reserve Fund Facility*" means a surety bond, insurance policy or letter of credit which constitutes any part of the Debt Service Reserve Fund Requirement authorized to be delivered to the Trustee pursuant to the Resolution;

"*Reset Date*" means, with respect to a 2001 Series 2 Bond in a Daily Rate Mode, a Commercial Paper Mode, a Weekly Rate Mode or a Term Rate Mode, the date on which the interest rate borne by such 2001 Series 2 Bonds is to be determined in accordance with the provisions of the 2001 Series 2 Bond Series Certificate;

"*Resolution*" means the Municipal Health Facilities Improvement Program Lease Revenue Bond Resolution (New York City Issue) of the Authority, adopted August 12, 1998, as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions of the Resolution;

"*Revenues*" means (i) the Basic Rent paid by the City pursuant to the Agreement, (ii) amounts paid to the Authority by the Comptroller of the State pursuant to Section 7418-(2)(b) of the Act, (iii) the payments made by a Counterparty pursuant to an Interest Rate Exchange Agreement and (iv) the right to receive the same and the proceeds thereof and of such right;

"*S&P*" means Standard & Poor's Ratings Group, a division of McGraw-Hill Corporation, or its successors and assigns;

"*Serial Bonds*" means the Bonds so designated in a Series Resolution or a Bond Series Certificate;

"*Series*" means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and to the Series Resolution authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions;

"*Series Resolution*" means a resolution of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution;

"*Sinking Fund Installment*" means, as of any date of calculation, when used with respect to any Bonds of a Series, other than Option Bonds or Variable Interest Rate Bonds, so long as any such Bonds are Outstanding, the amount of money required by the Resolution or by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating thereto, to be paid on a single future January 15 for the retirement of any Outstanding Bonds of said Series which mature after said future January 15, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future January 15 is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment, and when used with respect to Option Bonds or Variable Interest Rate Bonds of a Series, so long as such Bonds are Outstanding, the amount of money required by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating thereto, to be paid on a single future date for the retirement of any Outstanding Bonds of said Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future date is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Option Bonds or Variable Rate Interest Bonds of such Series are deemed to be Bonds entitled to such Sinking Fund Installment;

"*Standby Purchase Agreement*" means an agreement by and between the Authority and another person or by and among the Authority, the City and another person, pursuant to which such person is obligated to purchase an Option Bond tendered for purchase;

"*State*" means the State of New York;

"*Sublease* " means the Sublease Agreement by and between the City and HHC, as from time to time amended or supplemented in accordance with the terms and provisions thereof and of the Agreement;

"*Supplemental Resolution*" means any resolution of the Authority amending or supplementing the Resolution, any Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms and provisions of the Resolution;

"*TBMA Municipal Index*" means the TBMA Municipal Swap Index disseminated by Municipal Market Data, a Thomson Financial Services Company, or its successor; or, if at the time a Rate is to be determined Municipal Market Data has not provided the relevant information on the TBMA Municipal Index for the most recent Wednesday, then the rate determined by Municipal Market Data on the earliest day preceding such Wednesday for which Municipal Market Data has provided such information;

"*Tender Date*" means each Optional Tender Date or Mandatory Tender Date;

"*Tendered Bond*" means a 2001 Series 2 Bond or portion thereof of an Authorized Denomination mandatorily tendered or tendered at the option of the Holder thereof for purchase in accordance with the 2001 Series 2 Bond Series Certificate, including a 2001 Series 2 Bond or portion thereof deemed tendered, but not surrendered on the applicable Tender Date;

"*Term Bonds* " means the Bonds so designated in a Series Resolution or a Bond Series Certificate and payable from Sinking Fund Installments;

"*Term Rate*" means the rate at which a 2001 Series 2 Bond bears interest during a Term Rate Period, as established in accordance with the 2001 Series 2 Bond Series Certificate;

"*Term Rate Mode*" means a Rate Mode designated as such in a Conversion Notice in which each 2001 Series 2 Bond in such Rate Mode bears interest at a Term Rate;

"*Term Rate Period*" means a period commencing on the Conversion Date or a Reset Date and extending (i) to and including the next succeeding Reset Date which Reset Date must be a Business Day at least three hundred sixty-five (365) days from the Conversion Date or the immediately preceding Reset Date and (ii) to, but not including, the Conversion Date on which 2001 Series 2 Bonds in the Fixed Rate Mode are converted to another Rate Mode except as otherwise provided in the 2001 Series 2 Bond Series Certificate;

"*Trustee*" means the bank or trust company appointed as Trustee for the Bonds pursuant to the Resolution and having the duties, responsibilities and rights provided for in the Resolution, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution;

"*Valuation Date*" means (i) with respect to any Capital Appreciation Bond, the date or dates set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond on which specific Accreted Values are assigned to such Capital Appreciation Bond, and (ii) with respect to any Deferred Income Bond, the date or dates prior to the Interest Commencement Date and the Interest Commencement Date set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond on which specific Appreciated Values are assigned to such Deferred Income Bond;

"*Variable Interest Rate*" means the rate or rates of interest to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds which is or may be varied from time to time in accordance with the method of computing such interest rate or rates specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds, which shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g, a prime lending rate) which may be in effect from time to time or at a particular time or times or (ii) a stated interest rate that may be changed from time to time as provided in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bond; provided, however, that such variable interest rate may be subject to a Maximum Interest Rate and a Minimum Interest Rate and that there may be an initial rate specified, in each case as provided in such Series Resolution or a Bond Series Certificate; provided, further, that such Series Resolution or Bond Series Certificate shall also specify either (x) the particular period or periods of time or manner of determining such period or periods of time for which each variable interest rate shall remain in effect or (y) the time or times at which any change in such variable interest rate shall become effective or the manner of determining such time or times;

"*Variable Interest Rate Bond*" means any Bond which bears a Variable Interest Rate; provided, however, that a Bond the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be a Variable Interest Rate Bond;

"*Weekly Rate*" means the rate at which the 2001 Series 2 Bonds bear interest during a Weekly Rate Period, as established in accordance with the 2001 Series 2 Bond Series Certificate;

"*Weekly Rate Mode*" means a Rate Mode in which 2001 Series 2 Bonds in such Rate Mode bear interest at a Weekly Rate; and

"*Weekly Rate Period*" means a period commencing on a Conversion Date or the Wednesday of a calendar week and extending to and including the next succeeding Tuesday.

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Appendix B

THE CITY OF NEW YORK

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

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

Deloitte & Touche LLP, the City's independent auditor has not reviewed, commented on or approved, and is not associated with, this Appendix B. The report of Deloitte & Touche LLP relating to the City's financial statements for the fiscal years ended June 30, 2007 and 2006, which is a matter of public record, is included in this Appendix B. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the City, including without limitation any of the information contained in this Appendix B, since the date of such report and has not been asked to consent to the inclusion of its report in this Appendix B.

SECTION I: INTRODUCTORY STATEMENT

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

For each of the 1981 through 2007 fiscal years, the City's General Fund had an operating surplus, before discretionary and other transfers, and achieved balanced operating results as reported in accordance with then applicable generally accepted accounting principles ("GAAP"), after discretionary and other transfers. See "SECTION VI: FINANCIAL OPERATIONS—2003-2007 Summary of Operations." City fiscal years end on June 30 and are referred to by the calendar year in which they end. The City has been required to close substantial gaps between forecast revenues and forecast expenditures in order to maintain balanced operating results. There can be no assurance that the City will continue to maintain balanced operating results as required by New York State (the "State") law without proposed tax or other revenue increases or reductions in City services or entitlement programs, which could adversely affect the City's economic base.

As required by the New York State Financial Emergency Act For The City of New York (the "Financial Emergency Act" or the "Act") and the New York City Charter (the "City Charter"), the City prepares a four-year annual financial plan, which is reviewed and revised on a quarterly basis and which includes the City's capital, revenue and expense projections and outlines proposed gap-closing programs for years with projected budget gaps. The City's current financial plan projects budget balance in the 2008 and 2009 fiscal years in accordance with GAAP as in effect through June 30, 2008, and budget gaps for each of the 2010 through 2012 fiscal years. A pattern of current year balance and projected subsequent year budget gaps has been consistent through the entire period since 1982, during which the City has achieved an excess of revenues over expenditures, before discretionary transfers, for each fiscal year. For information regarding the current financial plan and recent actions by the Control Board with respect to GAAP as applicable to the City, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS" and "SECTION VII: FINANCIAL PLAN." The City is required to submit its financial plans to the New York State Financial Control Board (the "Control Board"). For further information regarding the Control Board, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Review and Oversight.*"

For its normal operations, the City depends on aid from the State both to enable the City to balance its budget and to meet its cash requirements. There can be no assurance that there will not be delays or reductions in State aid to the City from amounts currently projected; that State budgets will be adopted by the April 1 statutory deadline, or interim appropriations will be enacted; or that any such reductions or delays will not have adverse effects on the City's cash flow or expenditures. See "SECTION II: RECENT FINANCIAL DEVELOPMENTS—The State." In addition, the federal budget negotiation process could result in a reduction or a delay in the receipt of federal grants which could have adverse effects on the City's cash flow or revenues.

The Mayor is responsible for preparing the City's financial plan which relates to the City and certain entities that receive funds from the City, including the financial plan for the 2008 through 2011 fiscal years submitted to the Control Board on June 20, 2007 (the "June Financial Plan") and Modification No. 08-3 to the June Financial Plan submitted to the Control Board on May 2, 2008 which, among other things, contains the Mayor's Executive Budget for the 2009 fiscal year (as so modified the "2008-2012 Financial Plan" or "Financial Plan"). The City's projections set forth in the Financial Plan are based on various assumptions and contingencies which are uncertain and which may not materialize. Such assumptions and contingencies are described throughout this Official Statement and include the condition of the regional and local economies, the provision of State and federal aid, the impact on City revenues and expenditures of any future federal or State policies affecting the City and the cost of future labor settlements. See "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

Implementation of the Financial Plan is dependent upon the City's ability to market its securities successfully. Implementation of the Financial Plan is also dependent upon the ability to market the securities of other financing entities, including the New York City Municipal Water Finance Authority (the "Water Authority") and the New York City Transitional Finance Authority ("TFA"). See "SECTION VII: FINANCIAL PLAN—Financing Program." In addition, the City may issue revenue and tax anticipation notes to finance its seasonal working capital requirements. The success of projected public sales of City, Water Authority, TFA and other bonds and notes will be subject to prevailing market conditions. Future developments concerning the City and public discussion of such developments, as well as prevailing market conditions, may affect the market for outstanding City general obligation bonds and notes.

The City Comptroller and other agencies and public officials, from time to time, issue reports and make public statements which, among other things, state that projected revenues and expenditures may be different from those forecast in the City's financial plans. See "SECTION VII: FINANCIAL PLAN—Certain Reports."

The factors affecting the City's financial condition described throughout this Official Statement are complex and are not intended to be summarized in this Introductory Statement. The economic and financial condition of the City may be affected by various financial, social, economic, geo-political and other factors which could have a material effect on the City. This Official Statement should be read in its entirety.

SECTION II: RECENT FINANCIAL DEVELOPMENTS

2008-2012 Financial Plan

For the 2007 fiscal year, the City's General Fund had an operating surplus of $4.67 billion, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers. The 2007 fiscal year is the twenty-seventh consecutive year that the City has achieved balanced operating results when reported in accordance with GAAP.

The City's expense and capital budgets for the 2008 fiscal year were adopted on June 15, 2007. The June Financial Plan, which was consistent with the City's expense and capital budgets as adopted for the 2008 fiscal year, projected revenues and expenditures for the 2008 fiscal year balanced in accordance with GAAP, and projected gaps of $1.6 billion, $3.4 billion and $4.4 billion in fiscal years 2009 through 2011, respectively.

On May 1, 2008 the Mayor released his Executive Budget for the 2009 fiscal year. On May 2, 2008 the City submitted to the Control Board the Financial Plan for the 2008 through 2012 fiscal years which relates to the City and certain entities that receive funds from the City and which was consistent with the Mayor's Executive Budget. The Financial Plan is a modification to the June Financial Plan, as subsequently modified by the financial plans submitted to the Control Board on October 26, 2007, and January 25, 2008 (the "January Financial Plan"). The Financial Plan projects revenues and expenses for the 2008 and 2009 fiscal years balanced in accordance with GAAP, as in effect through June 30, 2008, and projects gaps of $1.3 billion, $4.6 billion and $4.5 billion in fiscal years 2010 through 2012, respectively, after the implementation of a gap-closing program described below.

The Financial Plan reflects, since the June Financial Plan, an increase in projected net revenues of $2.3 billion in fiscal year 2008 and decreases in projected net revenues of $398 million, $2 billion and $1.6 billion in fiscal years 2009 through 2011, respectively. Changes in projected tax revenues include (i) an increase in real property taxes of $25 million in fiscal year 2008 and decreases in real property taxes of $262 million, $318 million and $309 million in fiscal years 2009 through 2011, respectively; (ii) projected net increases in other tax revenues of $1.6 billion in fiscal year 2008 primarily due to increases in personal and unincorporated business income tax revenues; (iii) projected net decreases in other tax revenues of $578 million, $1.9 billion and $1.6 billion in fiscal years 2009 through 2011, respectively, primarily due to decreases in real property transfer and personal and business income tax revenues in fiscal years 2009 through 2011; (iv) an increase in tax audit revenues of $500 million in fiscal year 2008 primarily due to resolution of general corporation tax audits; (v) increases in the pass-through of personal income tax revenues of $50 million, $220 million, $260 million and $275 million in fiscal years 2008 through 2011, respectively; and (vi) increases in non-tax revenues of $126 million, $222 million and $45 million in fiscal years 2008, 2009 and 2011, respectively.

The Financial Plan also reflects, since the June Financial Plan, increases in projected net expenditures totaling $995 million, $356 million and $1.6 million in fiscal years 2008, 2009 and 2011, respectively, and decreases in projected net expenditures totaling $769 million in fiscal year 2010. Changes in projected expenditures include: (i) increases in labor costs totaling $93 million, $439 million, $1.1 billion and $1.6 billion in fiscal years 2008 through 2011, respectively, reflecting settlements of labor negotiations and the provision for similar increases for collective bargaining units not yet settled; (ii) a decrease in agency spending of $123 million in fiscal year 2008 and increases in agency spending of $524 million, $293 million and $282 million in fiscal years 2009 through 2011, respectively; (iii) decreases in debt service costs of $71 million, $200 million, $214 million and $253 million in fiscal years 2008 through 2011, respectively, in part due to the planned delay in capital commitments during the financial plan years; (iv) increases in pension contributions of $17 million, $152 million and $56 million in fiscal years 2008, 2010 and 2011, respectively, and a decrease in pension contributions of $211 million in fiscal year 2009; (v) increases in employee and retiree health insurance costs of $2 million, $39 million, $42 million and $46 million in fiscal years 2008 through 2011, respectively; (vi) an increase in debt service expenditure of $2 billion in fiscal year 2008 for the early payment of debt service resulting in a decrease in debt service cost of $2 billion in fiscal year 2010; (vii) decreases in City-funded fringe benefit costs of $126 million, $116 million, $89 million and $89 million in fiscal years 2008 through 2011, respectively, due to the increase in the federal fringe benefits reimbursement rate on categorical programs; (viii) increases in energy expenses of $17 million, $81 million, $158 million and $174 million in fiscal years 2008 through 2011, respectively; (ix) a reduction in prior year payables of $500 million and a reduction in the general reserve of $200 million in fiscal year 2008; and (x) the elimination of pay-as-you-go capital expenditures of $100 million in fiscal year 2008 and $200 million in each of fiscal years 2009 through 2011.

The Financial Plan also reflects the enactment of tax programs reducing tax revenues by $222 million, $268 million, $292 million and $333 million in fiscal years 2008 through 2011, respectively, which was previously reflected in a tax reduction program in the June Financial Plan. The enacted programs include (i) a childcare tax credit with an estimated cost of $42 million, $43 million, $44 million and $45 million in fiscal years 2008 through 2011, respectively, (ii) personal and small business income tax credits and reductions with an estimated cost of $70 million, $108 million, $129 million and $166 million in fiscal years 2008 through 2011, respectively; and (iii) the City sales tax exemption for clothing and footwear purchases with an estimated cost of $110 million, $117 million, $119 million and $122 million in fiscal years 2008 through 2011, respectively.

In addition, the Financial Plan sets forth gap-closing actions to eliminate the previously projected gap for fiscal year 2009 and to reduce previously projected gaps for fiscal years 2010 and 2011. The gap-closing actions include: (i) reduced agency expenditures or increased revenues totaling $618 million, $1.3 billion, $1.2 billion and $1.1 billion in fiscal years 2008 through 2011, respectively; (ii) the restructuring of employee health insurance programs with estimated annual savings of $200 million in each of fiscal years 2010 and 2011; and (iii) rescinding the 7% real property tax rate reduction effective July 1, 2009 with estimated increased real property tax revenues of $1.2 billion and $1.3 billion in fiscal years 2010 and 2011, respectively.

The Financial Plan also reflects, since the June Financial Plan, an increase in the provision for prepayments for future expenses of $2 billion in fiscal year 2008 resulting in net expenditure reductions of $1 billion, $619 million and $350 million in fiscal years 2009, 2010 and 2011, respectively.

The Financial Plan does not reflect the additional expense budget costs that may be incurred, commencing in fiscal year 2011, as a result of Statement No. 49 of the Governmental Accounting Standards Board ("GASB 49") relating to the accounting treatment of pollution remediation costs. Currently, many of these costs are included in the City's capital budget and financed through the issuance of bonds. On April 30, 2008, pursuant to existing authority under the Financial Emergency Act, the Control Board approved a phase-in of the budgetary impact of GASB 49, enabling the City to continue to finance with the issuance of bonds certain pollution remediation costs for projects authorized prior to fiscal year 2011 and, consequently, to achieve balance in fiscal year 2009 in accordance with GAAP as in effect through June 30, 2008. Without such action by the Control Board, OMB had preliminarily estimated that the additional expense budget costs as a result of GASB 49 would have been up to $500 million in fiscal year 2009. The City is proposing legislation amending the Financial Emergency Act to authorize the Control Board to permit the City's budget to permanently waive the budgetary impact of GAAP changes that would have a substantial adverse impact on the delivery of essential services in the City, such as those included in GASB 49. If such legislation were not enacted or the Control Board did not further delay or waive the implementation of GASB 49 for budgetary purposes, there would be significant increased costs to the City's expense budget as a result of GASB 49.

The Financial Plan does not reflect the incremental cost associated with the recent New York State Public Employment Relations Board ("PERB") arbitration award relating to the Patrolmen's Benevolent Association ("PBA") contract. The award covers the period August 1, 2004 through July 31, 2006 and provides for wage increases of 4.5% and 5%, on the first day of the agreement and the first day of the second year of the agreement, respectively, and salary enhancements, offset by givebacks and productivity increases. The net value of the award, equivalent to a 7.41% wage increase over the two year period, is greater than the uniformed forces pattern of 6.24% over the same period. The PBA award, and re-opener adjustments for the other uniformed unions to conform with such award, result in expenditures beyond those assumed in the Financial Plan of approximately $210 million, $276 million, $290 million, $271 million and $278 million in fiscal years 2008 through 2012, respectively, and a retroactive cost of $330 million for the period before fiscal year 2008. The City will reflect these anticipated expenses in its next financial plan.

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

The State

The State ended its 2007-2008 fiscal year on March 31, 2008 in balance on a cash basis, with a reported closing balance in the General Fund of $2.8 billion. The Governor's Executive Budget for the 2008-2009 fiscal year projected ending the 2008-2009 fiscal year in balance on a cash basis, with a closing balance in the General Fund of $2.2 billion, and projected gaps of $3.3 billion in fiscal year 2009-2010, $5.7 billion in fiscal year 2010-2011, and $6.8 billion in fiscal year 2011-2012, assuming that all of the Governor's Executive Budget savings proposals were implemented. The State Legislature completed action on the budget for the 2008-2009 fiscal year on April 9, 2008 (the "Enacted Budget").

The State released its Annual Information Statement on May 12, 2008 (the "Annual Information Statement"), which is expected to be updated quarterly, and which reflects the State Legislature's modifications to the Governor's Executive Budget for the 2008-2009 fiscal year, and revisions to spending estimates in the Enacted Budget through May 1, 2008, the date of the State financial plan. In the Annual Information Statement, the State Division of the Budget notes that the Enacted Budget, similar to the Governor's Executive Budget, also projects ending the 2008-2009 fiscal year in balance on a cash basis, but that the Enacted Budget projects a closing fund balance in the General Fund of $2.0 billion and projected gaps of approximately $5.0 billion in fiscal year 2009-2010, $7.7 billion in fiscal year 2010-2011 and $8.8 billion in fiscal year 2011-2012.

The State released a supplement to its Annual Information Statement on May 28, 2008 (the "Supplement"), which contains information regarding tentative collective bargaining agreements with public employee unions with the potential to adversely affect the State's finances. The State financial plan, as updated by the Supplement, projects ending fiscal year 2008-2009 in balance on a cash basis, with a closing balance in the General Fund of $1.89 billion, and projected gaps in the range of $70 million to $100 million in each of fiscal years 2009-2010, 2010-2011 and 2011-2012.

The Annual Information Statement and the Supplement identify a number of risks inherent in the implementation of the Enacted Budget and the State financial plan. Such risks include the performance of the national and State economies; the impact of continuing write-downs and other costs on the profitability of the financial services sector, and the concomitant effect on bonus income and capital gains realizations; litigation against the State, including potential challenges to the constitutionality of certain tax actions authorized in the Enacted Budget; costs that may materialize in connection with the State's negotiation of future collective bargaining agreements with the State's employee unions; and actions taken by the Federal government, including audits, disallowances, and changes in aid levels.

SECTION III: GOVERNMENT AND FINANCIAL CONTROLS

Structure of City Government

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

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

— *The City Comptroller.* William C. Thompson, Jr., the Comptroller of the City, took office on January 1, 2002 and was elected to a second term which commenced on January 1, 2006. The City Comptroller is elected in a general election for a four-year term and is the chief fiscal officer of the City. The City Comptroller has extensive investigative and audit powers and responsibilities which include keeping the financial books and records of the City. The City Comptroller's audit responsibilities include a program of performance audits of City agencies in connection with the City's management, planning and control of operations. In addition, the City Comptroller is required to evaluate the Mayor's budget, including the assumptions and methodology used in the budget. The Office of the City Comptroller is responsible under the City Charter and pursuant to State law and City investment guidelines for managing and investing City funds for operating and capital purposes. The City Comptroller is also a member of the Control Board and is a trustee, the custodian and the delegated investment manager of the City's five pension systems. The investments of those pension system assets, aggregating approximately $106.1 billion as of March 31, 2008, are made pursuant to the directions of the respective boards of trustees.

— *The City Council.* The City Council is the legislative body of the City and consists of the Public Advocate and 51 members elected for four-year terms who represent various geographic districts of the City. Under the City Charter, the City Council must annually adopt a resolution fixing the amount of the real estate tax and adopt the City's annual Expense Budget and Capital Budget (as defined below). The City Council does not, however, have the power to enact local laws imposing other taxes, unless such taxes have been authorized by State legislation. The City Council has powers and responsibilities relating to franchises and land use and as provided by State law.

— *The Public Advocate.* Elizabeth F. Gotbaum, the Public Advocate, took office on January 1, 2002 and was elected to a second term which commenced on January 1, 2006. The Public Advocate is elected in a general election for a four-year term. The Public Advocate is first in the line of succession to the Mayor in the event of the disability of the Mayor or a vacancy in the office, pending an election to fill the vacancy. The Public Advocate appoints a member of the City Planning Commission and has various responsibilities relating to, among other things, monitoring the activities of City agencies, the investigation and resolution of certain complaints made by members of the public concerning City agencies and ensuring appropriate public access to government information and meetings.

— *The Borough Presidents.* Each of the City's five boroughs elects a Borough President who serves for a four-year term concurrent with other City elected officials. The Borough Presidents consult with the Mayor in the preparation of the City's annual Expense Budget and Capital Budget. Five percent of discretionary increases proposed by the Mayor in the Expense Budget and, with certain exceptions, five percent of the appropriations supported by funds over which the City has substantial discretion proposed by the Mayor in the Capital Budget, must be based on appropriations proposed by the Borough Presidents. Each Borough President also appoints one member to the Panel for Educational Policy (as defined below) and has various responsibilities relating to, among other things, reviewing and making recommendations regarding applications for the use, development or improvement of land located within the borough, monitoring and making recommendations regarding the performance of contracts providing for the delivery of services in the borough and overseeing the coordination of a borough-wide public service complaint program.

The City Charter provides that no person shall be eligible to be elected to or serve in the office of Mayor, Public Advocate, Comptroller, Borough President or Council member if that person has previously held such office for two or more full consecutive terms, unless one full term or more has elapsed since that person last held such office.

City Financial Management, Budgeting and Controls

The Mayor is responsible under the City Charter for preparing the City's annual expense and capital budgets (as adopted, the "Expense Budget" and the "Capital Budget," respectively, and collectively, the "Budgets") and for submitting the Budgets to the City Council for its review and adoption. The Expense Budget covers the City's annual operating expenditures for municipal services, while the Capital Budget covers expenditures for capital projects, as defined in the City Charter. Operations under the Expense Budget must reflect the aggregate expenditure limitations contained in financial plans.

The City Council is responsible for adopting the Expense Budget and the Capital Budget. Pursuant to the City Charter, the City Council may increase, decrease, add or omit specific units of appropriation in the Budgets submitted by the Mayor and add, omit or change any terms or conditions related to such appropriations. The City Council is also responsible, pursuant to the City Charter, for approving modifications to the Expense Budget and adopting amendments to the Capital Budget beyond certain latitudes allowed to the Mayor under the City Charter. However, the Mayor has the power to veto any increase or addition to the Budgets or any change in any term or condition of the Budgets approved by the City Council, which veto is subject to an override by a two-thirds vote of the City Council, and the Mayor has the power to implement expenditure reductions subsequent to adoption of the Expense Budget in order to maintain a balanced budget. In addition, the Mayor has the power to determine the non-property tax revenue forecast on which the City Council must rely in setting the property tax rates for adopting a balanced City budget.

Office of Management and Budget

The City's Office of Management and Budget ("OMB"), with a staff of approximately 300, is the Mayor's primary advisory group on fiscal issues and is also responsible for the preparation, monitoring and control of the City's Budgets and four-year financial plans. In addition, OMB is responsible for the preparation of a Ten-Year Capital Strategy.

State law requires the City to maintain its Expense Budget balanced when reported in accordance with GAAP. In addition, the City Charter requires that the City Council set tax rates on real property at a level sufficient to produce a balanced budget in accordance with GAAP. In addition to the Budgets, the City prepares a four-year financial plan which encompasses the City's revenue, expenditure, cash flow and capital projections. All Covered Organizations (as defined below) are also required to maintain budgets that are balanced when reported in accordance with GAAP. From time to time certain Covered Organizations have had budgets providing for operations on a cash basis but not balanced under GAAP.

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

Office of the Comptroller

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

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

The Comprehensive Annual Financial Report of the Comptroller (the "CAFR") for the 2007 fiscal year, which includes, among other things, the City's financial statements for the 2007 fiscal year, was issued on October 30, 2007. The CAFR for the 2006 fiscal year has received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the twenty-seventh consecutive year the CAFR has won such award.

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

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

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

Financial Reporting and Control Systems

Since 1978, the City's financial statements have been required to be audited by independent certified public accountants and to be presented in accordance with GAAP. The City has completed twenty-seven consecutive fiscal years with a General Fund surplus when reported in accordance with then applicable GAAP.

In June 1999, Governmental Accounting Standards Board ("GASB") issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" ("GASB 34"). The City implemented these standards beginning in its financial statements for fiscal year 2001. GASB 34 requires, among other things, the presentation of government-wide financial statements that use the accrual method of accounting and are prepared on a different measurement focus than the City's fund financial statements, including the City's General Fund. The General Fund uses the modified accrual basis of accounting and the current financial resources measurement focus. A summary reconciliation of the differences between government-wide and fund financial statements is presented in the City's financial statements. See "APPENDIX B—FINANCIAL STATEMENTS." As more fully described in the section entitled "Management's Discussion and Analysis," the application of the accrual basis of accounting in the government-wide statements results in an excess of liabilities over assets in fiscal years 2003, 2004, 2005, 2006 and 2007, with declines in net assets in each of the fiscal years 2003, 2005, 2006 and 2007 and an increase in net assets in fiscal year 2004.

In June 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). GASB 45 establishes standards for the measurement, recognition, and display of other post-employment benefits ("OPEB") expense and related liabilities. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits such as life insurance, when provided separately from a pension plan. The approach followed in GASB 45 generally is consistent with the approach adopted with regard to accounting for pension expense and liabilities, with modifications to reflect differences between pension benefits and OPEB. Although GASB 45 was not required to be implemented by the City until its 2008 fiscal year, the City implemented GASB 45 in its financial statements for fiscal year 2006. For fiscal year 2007, the City reported an OPEB liability of $57.8 billion in its government-wide financial statements, based upon an actuarial valuation in accordance with GASB 45. See "APPENDIX B—FINANCIAL STATEMENTS—Note E-4." The component units currently included in the City's financial reporting entity implemented GASB 45 for their first fiscal year ending on or after June 30, 2006. There is no requirement to fund the future OPEB obligation and the City anticipates that the implementation of GASB 45 will not have an adverse impact on the budgets and financial plans of the City. For information on the trust established to fund a portion of the future OPEB liability, see "SECTION VI: FINANCIAL OPERATIONS—2003-2007 Summary of Operations."

In November 2006 GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." GASB 49 sets standards for the accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution through activities such as site assessments and cleanups.

Under GASB 49, costs incurred for pollution remediation obligations will be reported as expenses rather than as capital expenditures in the City's financial statements commencing in fiscal year 2009. On April 30, 2008, pursuant to existing authority under the Financial Emergency Act, the Control Board approved a phase-in of the budgetary impact of GASB 49, enabling the City to continue to finance with the issuance of bonds certain pollution remediation costs for projects authorized prior to fiscal year 2011 and, consequently, to achieve balance in fiscal year 2009 in accordance with GAAP as in effect through June 30, 2008. The City is proposing legislation amending the Financial Emergency Act to authorize the Control Board to permanently waive the budgetary impact of GAAP changes that would have a substantial adverse impact on the delivery of services in the City, such as those included in GASB 49. For further information on GASB 49, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

Both OMB and the Office of the Comptroller utilize a financial management system which provides comprehensive current and historical information regarding the City's financial condition. This information, which is independently evaluated by each office, provides a basis for City action required to maintain a balanced budget and continued financial stability.

The City's operating results and forecasts are analyzed, reviewed and reported on by each of OMB and the Office of the Comptroller as part of the City's overall system of internal control. Internal control systems are reviewed regularly, and the City Comptroller requires an annual report on internal control and accountability from each agency. Comprehensive service level and productivity targets are formulated and monitored for each agency by the Mayor's Office of Operations and reported publicly in a semiannual management report.

The City has developed and utilizes a cash forecasting system which forecasts its daily cash balances. This enables the City to predict more accurately its short-term borrowing needs and maximize its return on the investment of available cash balances. Monthly statements of operating revenues and expenditures, capital revenues and expenditures and cash flow are reported after each month's end, and major variances from the financial plan are identified and explained.

City funds held for operating and capital purposes are managed by the Office of the City Comptroller, with specific guidelines as to investment vehicles. The City does not invest such funds in leveraged products or use reverse repurchase agreements. The City invests primarily in obligations of the United States Government, its agencies and instrumentalities, high grade commercial paper and repurchase agreements with primary dealers. The repurchase agreements are collateralized by United States Government treasuries, agencies and instrumentalities, held by the City's custodian bank and marked to market daily.

More than 93% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of trustees. As of March 31, 2008 aggregate pension assets were allocated approximately as follows: 44% U.S. equities; 29% U.S. fixed income; 19% international equities; 7% private equity and real estate; and 1% cash.

Financial Emergency Act and City Charter

The Financial Emergency Act requires that the City submit to the Control Board, at least 50 days prior to the beginning of each fiscal year (or on such other date as the Control Board may approve), a financial plan for the City and certain State governmental agencies, public authorities or public benefit corporations ("PBCs") which receive or may receive monies from the City directly, indirectly or contingently (the "Covered Organizations") covering the four-year period beginning with such fiscal year. The New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, "New York City Transit" or "NYCT" or "Transit Authority"), Health and Hospitals Corporation ("HHC") and the New York City Housing Authority (the "Housing Authority" or "HA") are examples of Covered Organizations. The Act requires that the City's four-year financial plans conform to a number of standards. Subject to certain conditions, the Financial Emergency Act and the City Charter require the City to prepare and balance its budget covering all expenditures other than capital items so that the results of such budget will not show a deficit when reported in accordance with GAAP. Provision must be made, among other things, for the payment in full of the debt service on all City securities. The budget and operations of the City and the Covered Organizations must be in conformance with the financial plan then in effect.

From 1975 to June 30, 1986, the City was subject to a Control Period, as defined in the Act, which was terminated upon the satisfaction of the statutory conditions for termination, including the termination of all federal guarantees of obligations of the City, a determination by the Control Board that the City had maintained a balanced budget in accordance with GAAP for each of the three immediately preceding fiscal years and a certification by the State and City Comptrollers that sales of securities by or for the benefit of the City satisfied its capital and seasonal financing requirements in the public credit markets and were expected to satisfy such requirements in the 1987 fiscal year. With the termination of the Control Period, certain Control Board powers were suspended including, among others, its power to approve or disapprove certain contracts (including collective bargaining agreements), long-term and short-term borrowings, and the four-year financial plan and modifications thereto of the City and the Covered Organizations. Pursuant to the Act and the City Charter, the City is required to develop a four-year financial plan each year and to modify the plan as changing circumstances require. Under current law, prior to July 1, 2008 the Control Board must reimpose a Control Period upon the occurrence or substantial likelihood and imminence of the occurrence of any one of certain events specified in the Act. These events are (i) failure by the City to pay principal of or interest on any of its notes or bonds when due or payable, (ii) the existence of a City operating deficit of more than $100 million, (iii) issuance by the City of notes in violation of certain restrictions on short-term borrowing imposed by the Act, (iv) any violation by the City of any provision of the Act which substantially impairs the ability of the City to pay principal of or interest on its bonds or notes when due and payable or its ability to adopt or adhere to an operating budget balanced in accordance with the Act, or (v) joint certification by the State and City Comptrollers that they could not at that time make a joint certification that sales of securities in the public credit market by or for the benefit of the City during the immediately preceding fiscal year and the current fiscal year satisfied its capital and seasonal financing requirements during such period and that there is a substantial likelihood that such securities can be sold in the general public market from the date of the joint certification through the end of the next succeeding fiscal year in amounts that will satisfy substantially all of the capital and seasonal financing requirements of the City during such period in accordance with the financial plan then in effect.

In 2003, the State Legislature amended the Act to change its termination date from the *earlier* of July 1, 2008 or the date on which certain bonds are discharged to the *later* of July 1, 2008 or the date on which such bonds are discharged. The bonds referred to in the amended section of the Act are all bonds containing the State pledge and agreement authorized under section 5415 of the Act (the "State Covenant").

The State Covenant is authorized to be included in bonds of the Municipal Assistance Corporation For The City of New York ("MAC") and bonds of the City. Since enactment of this amendment to the Act, all of MAC's bonds have been discharged and the City has not issued bonds containing the State Covenant. However, many City bonds issued prior to the amendment do contain the State Covenant. Because the City has issued such bonds with maturities as long as 30 years, the effect of the amendment was to postpone termination of the Act from July 1, 2008 to 2033 (or earlier if all City bonds containing the State Covenant are discharged). The State Legislature could, without violation of the State Covenant contained in the City's outstanding bonds, enact legislation that would terminate the Control Board and the Act on or after July 1, 2008 because, at the time of issuance of those bonds, the termination date of the Act was July 1, 2008 (or the date of the earlier discharge of such bonds).

However, the power to impose or continue a Control Period terminates July 1, 2008. The power to impose or continue a Control Period is covered by a section of the Act that was not amended, providing that no Control Period shall continue beyond the earlier of July 1, 2008 or the date on which all bonds containing the State Covenant are discharged. The State Legislature did not amend this provision. Therefore, under current law, although the Act continues in effect beyond July 1, 2008, no Control Period may be imposed after July 1, 2008. The City is proposing legislation amending the section of the Financial Emergency Act governing the Control Board's authority to impose a Control Period as part of its proposed legislation authorizing the Control Board to permit the City's budget to exclude the impact of certain GAAP changes (see "SECTION II: RECENT FINANCIAL DEVELOPMENTS"). The legislation would, if approved by the State legislature in its current form, extend the ability of the Control Board to impose a Control Period until 2033 or earlier if all City bonds containing the State Covenant are discharged.

Financial Review and Oversight

The Control Board, with the Office of the State Deputy Comptroller ("OSDC"), reviews and monitors revenues and expenditures of the City and the Covered Organizations. In addition, the Independent Budget Office (the "IBO") has been established pursuant to the City Charter to provide analysis to elected officials and the public on relevant fiscal and budgetary issues affecting the City.

The Control Board is required to: (i) review the four-year financial plan of the City and of the Covered Organizations and modifications thereto; (ii) review the operations of the City and the Covered Organizations, including their compliance with the financial plan; and (iii) review certain contracts, including collective bargaining agreements, of the City and the Covered Organizations. The requirement to submit four-year financial plans and budgets for review was in response to the severe financial difficulties and loss of access to the credit markets encountered by the City in 1975. The Control Board must reexamine the financial plan on at least a quarterly basis to determine its conformance to statutory standards.

The *ex officio* members of the Control Board are the Governor of the State of New York (Chairman); the Comptroller of the State of New York; the Mayor of The City of New York; and the Comptroller of The City of New York. In addition, there are three private members appointed by the Governor. The Executive Director of the Control Board is appointed jointly by the Governor and the Mayor. The Control Board is assisted in the exercise of its responsibilities and powers under the Financial Emergency Act by the State Deputy Comptroller.

SECTION IV: SOURCES OF CITY REVENUES

The City derives its revenues from a variety of local taxes, user charges and miscellaneous revenues, as well as from federal and State unrestricted and categorical grants. State aid as a percentage of the City's revenues has remained relatively constant over the period from 1980 to 2007, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 72.1% of total revenues in the 2008 fiscal year while federal aid, including categorical grants, will provide 9.6%, and State aid, including unrestricted aid and categorical grants, will provide 18.3%. Adjusting the data for comparability, local revenues provided approximately 60.6% of total revenues in 1980, while federal and State aid each provided approximately 19.7%. A discussion of the City's principal revenue sources follows. For additional information regarding assumptions on which the City's revenue projections are based, see "SECTION VII: FINANCIAL PLAN—Assumptions." For information regarding the City's tax base, see "APPENDIX A—ECONOMIC AND DEMOGRAPHIC INFORMATION."

Real Estate Tax

The real estate tax, the single largest source of the City's revenues, is the primary source of funds for the City's General Debt Service Fund. The City expects to derive approximately 33.6% of its total tax revenues and 20.8% of its total revenues for the 2008 fiscal year from the real estate tax. For information concerning tax revenues and total revenues of the City for prior fiscal years, see "SECTION VI: FINANCIAL OPERATIONS—2003-2007 Summary of Operations."

The State Constitution authorizes the City to levy a real estate tax without limit as to rate or amount (the "debt service levy") to cover scheduled payments of the principal of and interest on indebtedness of the City. However, the State Constitution limits the amount of revenue which the City can raise from the real estate tax for operating purposes (the "operating limit") to 2.5% of the average full value of taxable real estate in the City for the current and the last four fiscal years less interest on temporary debt and the aggregate amount of business improvement district charges subject to the 2.5% tax limitation. The table below sets forth the percentage the debt service levy represents of the total levy. The City Council has adopted a distinct tax rate for each of the four categories of real property established by State legislation.

COMPARISON OF REAL ESTATE TAX LEVIES, TAX LIMITS AND TAX RATES

Fiscal Year	Total Levy(1)	Levy Within Operating Limit	Debt Service Levy(2)	Debt Service Levy as a Percentage of Total Levy	Operating Limit	Levy Within Operating Limit as a Percentage of Operating Limit	Rate Per $100 of Full Valuation(3)	Average Tax Rate Per $100 of Assessed Valuation(4)
	(Dollars in Millions, except for Tax Rates)							
2003	$10,688.8	$ 8,694.6	$1,982.3	18.5%	$ 8,925.2	97.4%	$2.52	$12.28
2004	12,250.7	9,387.4	2,821.2	23.0	9,893.5	94.9	2.50	12.28
2005	12,720.0	9,615.0	2,485.6	19.5	10,675.8	90.1	2.46	12.28
2006	13,668.1	11,633.5	1,141.0	8.3	11,666.2	99.7	2.49	12.28
2007	14,291.2	13,094.4	221.0	1.5	13,224.4	99.0	2.30	12.28
2008	14,356.2	10,462.4	2,952.1	20.6	14,949.0	70.0	2.02	11.42

(1) As approved by the City Council.

(2) The debt service levy includes a portion of the total reserve for uncollected real estate taxes.

(3) Full valuation is based on the special equalization ratios (discussed below) and the billable assessed valuation. Special equalization ratios and full valuations are revised periodically as a result of surveys by the State Board of Real Property Services (as defined below).

(4) The decrease in the rate between fiscal years 2007 and 2008 reflects the 7% decrease effective July 1, 2007.

Assessment

The City has traditionally assessed real property at less than market value. The State Board of Real Property Services (the "State Board") is required by law to determine annually the relationship between taxable assessed value and market value which is expressed as the "special equalization ratio." The special equalization ratio is used to compute full value for the purpose of measuring the City's compliance with the operating limit and general debt limit. For a discussion of the City's debt limit, see "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*" The ratios are calculated by using the most recent market value surveys available and a projection of market value based on recent survey trends, in accordance with methodologies established by the State Board from time to time. Ratios, and therefore full values, may be revised when new surveys are completed. The ratios and full values used to compute the 2008 fiscal year operating limit and general debt limit which are shown in the table below, have been established by the State Board and include the results of the calendar year 2006 market value survey.

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

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

(1) Also assessed by the City, but excluded from the computation of taxable real estate, are various categories of property exempt from taxation under State law. For the 2007 fiscal year, the billable assessed value of all real estate (taxable and exempt) was $201.4 billion comprised of $74.0 billion of fully exempt real estate, $45.9 billion of partially taxable real estate and $81.5 billion of fully taxable real estate.

(2) Figures are based on estimates of the special equalization ratio which are revised annually. These figures are derived from official City Council Tax Resolutions adopted with respect to the 2008 fiscal year. These figures differ from the assessed and full valuation of taxable real estate reported in the CAFR, which excludes veterans' property subject to tax for school purposes and is based on estimates of the special equalization ratio which are not revised annually.

State law provides for the classification of all real property in the City into one of four statutory classes. Class one primarily includes one-, two- and three-family homes; class two includes certain other residential property not included in class one; class three includes most utility real property; and class four includes all other real property. The total tax levy consists of four tax levies, one for each class. Once the tax levy is set for each class, the tax rate for each class is then fixed annually by the City Council by dividing the levy for such class by the billable assessed value for such class.

Assessment procedures differ for each class of property. For fiscal year 2008, class one was assessed at approximately 6% of market value and classes two, three and four were each assessed at 45% of market value. In addition, individual assessments on class one parcels cannot increase by more than 6% per year or 20% over a five-year period. Market value increases and decreases for most of class two and all of class four are phased in over a period of five years. Increases in class one market value in excess of applicable limitations are not phased in over subsequent years. There is also no phase in for class three property.

Class two and class four real property have three assessed values: actual, transition and billable. Actual assessed value is established for all tax classes without regard to the five-year phase-in requirement applicable to most class two and all class four properties. The transition assessed value reflects this phase-in. Billable assessed value is the basis for tax liability and is the lower of the actual or transition assessment.

The share of the total levy that can be borne by each class is regulated by the provisions of the State Real Property Tax Law. Each class share of the total tax levy is updated annually to reflect new construction, demolition, alterations or changes in taxable status and is subject to limited adjustment to reflect market value changes among the four classes. Class share adjustments are limited to a 5% maximum increase per year. Maximum class increases below 5% must be, and typically are, approved by the State legislature. Fiscal year 2008 tax rates were set on June 15, 2007 and reflect a 2% limitation on the market value adjustment for 2007 while the average tax rate was reduced to $11.42 per $100 of assessed value, and the individual class tax rates were lower than the prior year level.

City real estate tax revenues may be reduced in future fiscal years as a result of tax refund claims asserting overvaluation, inequality of assessment and illegality. The State Board annually certifies various class ratios and class equalization rates relating to the four classes of real property in the City. "Class ratios" are determined for each class by the State Board by calculating the ratio of assessed value to market value. Various proceedings challenging assessments of real property for real estate tax purposes are pending. For further information regarding the City's potential exposure in certain of these proceedings, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

Trend in Taxable Assessed Value

During the decade prior to fiscal year 1993, real estate tax revenues grew substantially. Because State law provides for increases in assessed values of most properties to be phased into property tax bills over five-year periods, billable assessed values continued to grow and real estate tax revenue increased through fiscal year 1993 even as market values declined during the local recession. From fiscal year 1994 through fiscal year 1997 billable assessed values declined, reflecting the impact of the protracted local recession on office vacancy rates and on office building valuations. Billable assessed value resumed slow growth in fiscal year 1998, growing 0.7%, 2.2%, 3.1%, and 4.0% in fiscal years 1998 through 2001, respectively, as the local recovery began to accelerate and office vacancy rates dropped below 10%.

For fiscal year 2002, billable assessed valuation rose by $5.0 billion to $88.3 billion. The billable assessed valuation as determined by the City Department of Finance and as reported in the CAFR rose to $93.3 billion, $98.6 billion, $102.4 billion, $110.0 billion, $115.1 billion and $124.5 billion for fiscal years 2003 through 2008, respectively. The Department of Finance released the tentative assessment roll for fiscal year 2009 on January 15, 2008. The billable assessed value rose by $9.8 billion over the 2008 assessment roll to $134.3 billion, a growth of 7.9%. However, the final roll for fiscal year 2009 to be released in May 2008 is expected to show a growth of 7.2% over fiscal year 2008. Billable assessed valuations are forecast to grow by 7.2%, 5.8% and 5.0% in fiscal years 2010 through 2012, respectively.

Collection of the Real Estate Tax

Real estate tax payments are due each July 1 and January 1. Owners of class one and class two properties assessed at $80,000 or less and cooperatives whose individual units on average are valued at $80,000 or less are eligible to make tax payments in quarterly installments on July 1, October 1, January 1 and April 1. An annual interest rate of 9% compounded daily is imposed upon late payments on properties with an assessed value of $80,000 or less except in the case of (i) any parcel with respect to which the real estate taxes are held in escrow and paid by a mortgage escrow agent and (ii) parcels consisting of vacant or unimproved land. An interest rate of 18% compounded daily is imposed upon late payments on all other properties. These interest rates are set annually.

The City primarily uses two methods to enforce the collection of real estate taxes. The City has been authorized to sell real estate tax liens on class one properties which are delinquent for at least three years and class two, three and four properties which are delinquent for at least one year. The authorization to sell real estate tax liens expired August 31, 2006 and was reauthorized on December 31, 2007 to be effective through December 31, 2010. In addition, the City is entitled to foreclose delinquent tax liens by *in rem* proceedings after one year of delinquency with respect to properties other than one- and two-family dwellings and condominium apartments for which the annual tax bills do not exceed $2,750, as to which a three-year delinquency rule is in effect.

The real estate tax is accounted for on a modified accrual basis in the General Fund. Revenue accrued is limited to prior year payments received, offset by refunds made, within the first two months of the following fiscal year. In deriving the real estate tax revenue forecast, a reserve is provided for cancellations or abatements of taxes and for nonpayment of current year taxes owed and outstanding as of the end of the fiscal year.

The following table sets forth the amount of delinquent real estate taxes (owed and outstanding as of the end of the fiscal year of levy) for each of the fiscal years indicated. Delinquent real estate taxes do not include real estate taxes subject to cancellation or abatement under various exemption or abatement programs. Delinquent real estate taxes generally increase during a recession and when the real estate market deteriorates. Delinquent real estate taxes generally decrease as the City's economy and real estate market recover.

In fiscal years 2003 through 2007, the City sold to separate statutory trusts real estate tax liens for which the City received net proceeds of approximately $22.6 million, $89.8 million, $37.7 million, $93.8 million and $40.2 million, respectively. The Financial Plan reflects receipt of $58 million in fiscal year 2008 from tax lien sales.

REAL ESTATE TAX COLLECTIONS AND DELINQUENCIES

Fiscal Year	Tax Levy(1)	Tax Collections on Current Year Levy(2)	Tax Collections as a Percentage of Tax Levy	Prior Year (Delinquent Tax) Collections	Refunds(3)	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of End of Fiscal Year(4)	Delinquency as a Percentage of Tax Levy	Lien Sale(5)
				(Dollars In Millions)					
2003	$10,688.8	$ 9,943.5	93.0%	$126.3	$(149.1)	$ (457.2)	$(288.1)	2.70%	$22.6
2004	12,250.7	11,370.3	92.8	180.1	(195.1)	(591.0)	(289.3)	2.36	89.8
2005	12,720.0	11,521.7	90.6	136.2	(231.4)	(898.0)	(300.3)	2.36	37.7
2006	13,668.1	12,459.0	91.2	140.3	(222.1)	(929.9)	(279.2)	2.04	93.8
2007	14,291.2	12,986.7	90.9	159.5	(228.8)	(1,067.4)	(306.4)	2.14	40.2
2008(6) . . .	14,356.2	13,037.1	90.6	166.0	(252.0)	(972.4)	(346.7)	2.41	58.0

(1) As approved by the City Council through fiscal year 2008.

(2) Quarterly collections on current year levy.

(3) Includes repurchases of defective tax liens amounting to $11.1 million, $5.6 million, $2.9 million, $0.2 million and $3.0 million in the 2003, 2004, 2005, 2006 and 2007 fiscal years, respectively.

(4) These figures include taxes due on certain publicly owned property and exclude delinquency on shelter rent and exempt property.

(5) Net of reserve for defective liens.

(6) Forecast.

Other Taxes

The City expects to derive 66.4% of its total tax revenues for the 2008 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4% sales and compensating use tax, in addition to the 4½% sales and use tax imposed by the State upon receipts from retail sales of tangible personal property and certain services in the City; (ii) the personal income tax on City residents; (iii) a general corporation tax levied on the income of corporations doing business in the City; and (iv) a banking corporation tax imposed on the income of banking corporations doing business in the City.

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

Revenues from taxes other than the real estate tax in the 2007 fiscal year increased by $2.216 billion, an increase of approximately 10.3% from the 2006 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real estate tax, for each of the City's 2003 through 2007 fiscal years.

	2003	2004	2005	2006	2007
			(In Millions)		
Personal Income(1)	$ 4,460	$ 5,984	$ 6,638	$ 7,657	$ 7,933
General Corporation	1,237	1,540	1,994	2,379	3,124
Banking Corporation	213	415	601	656	1,219
Unincorporated Business Income	832	908	1,117	1,308	1,670
Sales	3,535	4,018	4,355	4,418	4,619
Commercial Rent	397	426	445	477	512
Real Property Transfer	513	766	1,055	1,295	1,723
Mortgage Recording	526	817	1,250	1,353	1,570
Utility	295	291	340	391	360
Cigarette	159	138	125	123	122
Hotel	192	217	257	296	326
All Other(2)	367	487	475	448	457
Audits	571	576	600	775	1,085
Total	$13,297	$16,583	$19,250	$21,575	$24,719

Note: Totals may not add due to rounding.

(1) Personal Income excludes $537 million, $109 million, $497 million, $350 million and $685 million retained by the TFA in fiscal years 2003 through 2007, respectively. In fiscal years 2003 through 2007, Personal Income includes $540 million, $540 million, $632 million, $692 million and $928 million, respectively, which was provided to the City by the State as a reimbursement for the reduced personal income tax revenues resulting from the School Tax Relief Program (“STAR Program”). Personal Income taxes flow directly from the State to the TFA, and from the TFA to the City only to the extent not required by the TFA for debt service, reserves, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. Personal Income also reflects the impact of the early provision for TFA debt service payments in each of fiscal years 2003 through 2006, thereby increasing tax revenue by $624 million, $400 million, $947 million and $229 million in fiscal years 2004, 2005, 2006 and 2007, respectively.

(2) All Other includes, among others, surtax revenues from the New York City Off-Track Betting Corporation (“OTB”), beer and liquor taxes, and the automobile use tax, but excludes the State’s STAR Program aid of $660 million, $677 million, $784 million, $857 million and $1.093 billion in fiscal years 2003 through 2007, respectively.

Miscellaneous Revenues

Miscellaneous revenues include revenue sources such as charges collected by the City for the issuance of licenses, permits and franchises, interest earned by the City on the investment of City cash balances, tuition and fees at the Community Colleges, reimbursement to the City from the proceeds of water and sewer rates charged by the New York City Water Board (the “Water Board”) for costs of delivery of water and sewer services and paid to the City by the Water Board for its lease interest in the water and sewer system, rents collected from tenants in City-owned property and from The Port Authority of New York and New Jersey (the “Port Authority”) with respect to airports, and the collection of fines. The following table sets forth amounts of miscellaneous revenues for each of the City’s 2003 through 2007 fiscal years.

	2003	2004	2005	2006	2007
			(In Millions)		
Licenses, Permits and Franchises	$ 357	$ 374	$ 395	$ 418	$ 470
Interest Income	43	30	149	362	473
Charges for Services	501	592	614	611	613
Water and Sewer Payments	846	885	899	990	1,064
Rental Income	109	108	944	209	211
Fines and Forfeitures	548	697	745	723	741
Other	2,244	684	1,327	548	671
Total	$4,648	$3,370	$5,073	$3,862	$4,243

Note: Totals may not add due to rounding.

Rental income in fiscal year 2005 includes approximately $781.9 million in Port Authority payments for back rent and renegotiated lease payments for the City’s airports. Rental income in fiscal years 2006 and 2007 includes approximately $93.5 million and $98 million, respectively, in Port Authority lease payments for the City airports.

Fees and charges collected from the users of the water and sewer system of the City are revenues of the Water Board, a body corporate and politic, constituting a public benefit corporation, all of the members of which are appointed by the Mayor. The Water Board currently holds a long-term leasehold interest in the water and sewer system pursuant to a lease between the Water Board and the City.

Other miscellaneous revenues for fiscal years 2003 through 2006 include $150 million, $67 million, $68 million and $5 million, respectively, of tobacco settlement receivables ("TSRs") from the settlement of litigation with certain cigarette manufacturers, that were not retained by TSASC for debt service, trapping requirements and operating expenses or for later release to the City. Other miscellaneous revenues for fiscal years 2003 through 2007 do not include TSRs retained by TSASC for debt service, trapping requirements and operating expenses, or for later release to the City totaling $103 million, $147 million, $149 million, $194 million and $208 million, respectively. In June 2003, the downgrade of a major tobacco company below investment grade resulted in a trapping event for TSASC under its indenture pursuant to which it was required to retain a portion of the TSRs it received in a reserve account for the benefit of its bondholders. In February 2006, TSASC restructured all of its outstanding debt through the issuance of refunding bonds under an amended indenture. Pursuant to the TSASC debt restructuring, less than 40% of the TSRs are pledged to the TSASC bondholders and the remainder will flow to the City. The pledged TSRs will fund regularly scheduled TSASC debt service and operating expenses. Any pledged TSRs received in excess of those requirements will be used to pay the newly issued TSASC bonds. No TSRs are required to be retained or trapped for the benefit of bondholders beyond the pledged TSRs. The unpledged TSRs received in fiscal years 2006 and 2007 and funds in the trapping account have been released to the City in fiscal year 2008. For further information see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—4. Miscellaneous Revenues" and "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

Other miscellaneous revenues for fiscal year 2003 include $50 million in recovery of prior expenditures, $106 million in reimbursement for landfill closure costs and $1.5 billion of TFA bond proceeds to reimburse costs related to or arising from the September 11 attack ("Recovery Costs"). For information on TFA borrowing for Recovery Costs, see "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities." Other miscellaneous revenues for fiscal year 2004 include $95 million from the sale of 300 taxi medallions and $71 million from a financing by the New York City Industrial Development Agency ("IDA") which reimbursed the City for costs incurred in connection with the New York Stock Exchange project. Other miscellaneous revenues for fiscal year 2005 include $631 million from the refinancing of MAC debt by STAR Corp. which reimbursed the City for revenues retained by MAC in fiscal years 2004 and 2005, $97.9 million from the sale of 273 taxi medallions, $44.5 million from the sale of the former headquarters of the BOE (as defined below) and $39.6 million from the refund of prior year expenditures. Other miscellaneous revenues for fiscal year 2006 include a $49 million payment from the Fiscal Year 2005 Securitization Corp., $45 million from the release of remediation funds in a trust and agency account, $11 million from the refund of prior year expenditures, $9 million from the reimbursement for landfill closure costs and $7.9 million from HHC for City administrative support. Other miscellaneous revenues for fiscal year 2007 include $170 million from HHC reimbursement, $141 million from the sale of 308 taxi medallions and $39 million from the refund of prior year expenditures.

Unrestricted Intergovernmental Aid

Unrestricted federal and State aid has consisted primarily of per capita aid from the State government. These funds, which are not subject to any substantial restriction as to their use, are used by the City as general support for its Expense Budget. State general revenue sharing (State per capita aid) is allocated among the units of local government by statutory formulas which take into account the distribution of the State's population and the full valuation of taxable real property. In recent years, however, such allocation has been based on prior year levels in lieu of the statutory formula. For a further discussion of unrestricted State aid, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—5. Unrestricted Intergovernmental Aid."

The following table sets forth amounts of unrestricted federal and State aid received by the City in each of its 2003 through 2007 fiscal years.

	2003	2004	2005	2006	2007
			(In Millions)		
State Per Capita Aid	$ 400	$327	$327	$327	$20
Other(1)	1,043	636	277	167	15
Total	$1,443	$963	$604	$494	$35

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

Federal and State Categorical Grants

The City makes certain expenditures for services required by federal and State mandates which are then wholly or partially reimbursed through federal and State categorical grants. State categorical grants are received by the City primarily in connection with City welfare, education, higher education, health and mental health expenditures. The City also receives substantial federal categorical grants in connection with the federal Community Development Block Grant Program ("Community Development"). The federal government also provides the City with substantial public assistance, social service and education grants as well as reimbursement for all or a portion of certain costs incurred by the City in maintaining programs in a number of areas, including housing, criminal justice and health. All City claims for federal and State grants are subject to subsequent audit by federal and State authorities. Certain claims submitted to the State Medicaid program by the City are the subject of investigation by the Office of the Inspector General of the United States Department of Health and Human Services ("OIG"). For a discussion of claims for which a final audit report has been issued by OIG, see "SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous*." The City provides a reserve for disallowances resulting from these audits which could be asserted in subsequent years. Federal grants are also subject to audit under the Single Audit Act Amendments of 1996. For a further discussion of federal and State categorical grants, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—6. Federal and State Categorical Grants."

The following table sets forth amounts of federal and State categorical grants received by the City for each of the City's 2003 through 2007 fiscal years.

	2003	2004	2005	2006	2007
			(In Millions)		
Federal					
Community Development(1)	$ 226	$ 240	$ 268	$ 261	$ 241
Social Services	2,550	2,448	2,405	2,181	2,429
Education	1,595	1,770	1,909	1,693	1,745
Other(2)	1,247	957	2,072	1,108	1,056
Total	$5,618	$5,415	$6,654	$5,243	$ 5,471
State					
Social Services	$1,576	$1,724	$1,741	$1,906	$ 1,889
Education	5,834	5,873	6,177	6,702	7,145
Higher Education	133	139	140	153	165
Health and Mental Health	416	377	393	415	428
Other	358	342	372	410	559
Total	$8,317	$8,455	$8,823	$9,586	$10,186

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

(2) A total of approximately $1 billion reimbursement from FEMA for insurance covering claims relating to work at the World Trade Center site following the September 11 attack is included in Other in fiscal year 2005.

SECTION V: CITY SERVICES AND EXPENDITURES

Expenditures for City Services

Three types of governmental agencies provide public services within the City's borders and receive financial support from the City. One category is the mayoral agencies established by the City Charter which include, among others, the Police, Fire and Sanitation Departments. Another is the independent agencies which are funded in whole or in part through the City Budget by the City but which have greater independence in the use of appropriated funds than the mayoral agencies. Included in this category are certain Covered Organizations such as HHC and the Transit Authority. A third category consists of certain PBCs which were created to finance the construction of housing, hospitals, dormitories and other facilities and to provide other governmental services in the City. The legislation establishing this type of agency contemplates that annual payments from the City, appropriated through its Expense Budget, may or will constitute a substantial part of the revenues of the agency. Included in this category is, among others, the City University Construction Fund ("CUCF"). For information regarding expenditures for City services, see "SECTION VI: FINANCIAL OPERATIONS—2003-2007 Summary of Operations."

Federal and State laws require the City to provide certain social services for needy individuals and families who qualify for such assistance. The City receives the federal Temporary Assistance for Needy Families ("TANF") block grant funds through the State which, supplemented by City and State contributions, fund the Family Assistance Program. The Family Assistance Program provides benefits for households with minor children subject, in most cases, to a five-year time limit. The Safety Net Assistance Program provides benefits for adults without minor children, families who have reached the Family Assistance Program time limit, and others, including certain immigrants, who are ineligible for the Family Assistance Program but are eligible for public assistance. The cost of the Safety Net Assistance Program is borne equally by the City and the State.

The City also provides funding for many other social services such as day care, foster care, family planning, services for the elderly and special employment services for welfare recipients some of which are mandated, and may be wholly or partially subsidized, by either the federal or State government. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—6. FEDERAL AND STATE CATEGORICAL GRANTS."

As of July 2002, the Mayor assumed responsibility for the City's public schools. The Board of Education ("BOE") has been replaced by the Department of Education ("DOE") which is overseen by a Chancellor, appointed by the Mayor, and the 13-member Panel for Educational Policy where the Mayor appoints 8 members including the Chancellor, and the Borough Presidents each appoint one member. The number of pupils in the school system is estimated to be approximately 1 million in each of the 2008 through 2012 fiscal years. Actual enrollment in fiscal years 2003 through 2007 has been 1,065,363, 1,060,413, 1,048,662, 1,033,366 and 1,015,586, respectively. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. OTHER THAN PERSONAL SERVICES COSTS—*Department of Education.*" The City's system of higher education, consisting of its Senior Colleges and Community Colleges, is operated under the supervision of the City University of New York ("CUNY"). The City is projected to provide approximately 41.4% of the costs of the Community Colleges in the 2008 fiscal year. The State has full responsibility for the costs of operating the Senior Colleges, although the City is required initially to fund these costs.

The City administers health services programs for the care of the physically and mentally ill and the aged. HHC maintains and operates the City's eleven municipal acute care hospitals, four long-term care facilities, six free standing diagnostic and treatment centers, a certified home health-care program, many hospital-based and neighborhood clinics and a health maintenance organization. HHC is funded primarily by third party reimbursement collections from Medicare and Medicaid and by payments from Bad Debt/Charity Care Pools.

Medicaid provides basic medical assistance to needy persons. The City is required by State law to furnish medical assistance through Medicaid to all City residents meeting eligibility requirements established by the State. Prior to recent State legislation capping City Medicaid payments, the State had assumed 81.2% of the non-federal share of long-term care costs, all of the costs of providing medical assistance to the mentally disabled, and 50% of the non-federal share of Medicaid costs for all other clients. As a result of the recent State legislation, the State percentage of the non-federal share may vary. The federal government pays 50% of Medicaid costs for federally eligible recipients.

The City's Expense Budget increased during the five-year period ended June 30, 2007, due to, among other factors, the increasing costs of pensions and Medicaid, the costs of labor settlements and the impact of inflation on various other than personal services costs.

Employees and Labor Relations

Employees

The following table presents the number of full-time and full-time equivalent employees of the City, including the mayoral agencies, the DOE and CUNY, at the end of each of the City's 2003 through 2007 fiscal years.

	2003	2004	2005	2006	2007
Education	135,282	134,325	135,771	137,067	137,678
Police	50,787	50,544	50,141	51,223	51,957
Social Services, Homeless and Children's Services	22,361	23,340	23,060	23,178	23,034
City University Community Colleges and Hunter Campus Schools	6,039	6,450	6,582	6,444	6,608
Environmental Protection and Sanitation	14,933	15,473	15,570	15,800	16,092
Fire	15,180	15,522	15,902	16,140	16,216
All Other	49,982	50,903	52,645	53,186	54,697
Total	294,564	296,557	299,671	303,038	306,282

The following table presents the number of full-time employees of certain Covered Organizations, as reported by such Organizations, at the end of each of the City's 2003 through 2007 fiscal years.

	2003	2004	2005	2006	2007
Transit Authority	47,694	47,400	46,706	47,114	47,746
Housing Authority	14,673	13,841	13,128	12,751	12,398
HHC	35,956	35,833	36,227	36,727	37,799
Total(1)	98,323	97,074	96,061	96,592	97,943

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

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

Labor Relations

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

Collective bargaining for City employees is under the jurisdiction of either the New York City Office of Collective Bargaining, which was created under the New York City Collective Bargaining Law, or PERB, which was created under the State Employees Fair Employment Act. Collective bargaining matters relating to police, firefighters and pedagogical employees are under the jurisdiction of PERB. Under applicable law, the terms of future wage settlements could be determined through an impasse procedure which, except in the case of pedagogical employees, can result in the imposition of a binding settlement. Pedagogical employees do not have access to binding arbitration but are covered by a fact-finding impasse procedure under which a binding settlement may not be imposed.

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

Pensions

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

Capital Expenditures

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

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

On April 26, 2007, the City published the Ten-Year Capital Strategy for fiscal years 2008 through 2017. The Ten-Year Capital Strategy totals $83.7 billion, of which approximately 78% would be financed with City funds. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*"

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

Those programs in the Ten-Year Capital Strategy financed with City funds are currently expected to be funded primarily from the issuance of general obligation bonds by the City and bonds issued by the Water Authority and, if the TFA's statutory bonding capacity is increased, the TFA. From time to time in the past, during recessionary periods when operating revenues have come under increasing pressure, capital funding levels have been reduced from those previously contemplated in order to reduce debt service costs. For information concerning the City's long-term financing program for capital expenditures, see "SECTION VII: FINANCIAL PLAN—Financing Program."

The City's capital expenditures, including expenditures funded by State and federal grants, totaled $32.2 billion during the 2003 through 2007 fiscal years. City-funded expenditures, which totaled $26.8 billion during the 2003 through 2007 fiscal years, have been financed through the issuance of bonds by the City, the TFA, the Water Authority, TSASC, HHC and the Dormitory Authority of the State of New York ("DASNY"). The following table summarizes the major categories of capital expenditures in the City's 2003 through 2007 fiscal years.

	2003	2004	2005	2006	2007	Total
			(In Millions)			
Education	$1,315	$1,192	$ 975	$1,782	$2,132	$ 7,396
Environmental Protection	1,301	1,631	1,679	1,841	1,949	8,401
Transportation	739	763	786	657	757	3,702
Transit Authority(1)	446	199	160	126	70	1,001
Housing	301	360	343	459	436	1,899
Hospitals	67	35	346	232	187	867
Sanitation	114	173	159	94	131	671
All Other(2)	1,451	1,402	2,207	1,404	1,834	8,298
Total Expenditures(3)	$5,734	$5,755	$6,655	$6,595	$7,496	$32,235
City-funded Expenditures(4)	$5,376	$5,133	$5,274	$6,211	$4,799	$26,793

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

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

(3) Total Expenditures for the 2003 through 2007 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures for the 2003 through 2007 fiscal years are derived from the CAFR.

(4) City-funded Expenditures do not include accruals, but represent actual cash disbursements occurring during the fiscal year.

The City annually issues a condition assessment and a proposed maintenance schedule for the major portion of its assets and asset systems which have a replacement cost of $10 million or more and a useful life of at least ten years, as required by the City Charter. For information concerning a report which sets forth the recommended capital investment to bring certain identified assets of the City to a state of good repair, see "SECTION VII: FINANCIAL PLAN—Long-Term Capital Program."

SECTION VI: FINANCIAL OPERATIONS

The City's Basic Financial Statements and the independent auditors' opinion thereon are presented in "APPENDIX B—FINANCIAL STATEMENTS." Further details are set forth in the CAFR for the fiscal year ended June 30, 2007, which is available for inspection at the Office of the Comptroller. For a summary of the City's significant accounting policies, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A." For a summary of the City's operating results for the previous five fiscal years, see "2003-2007 Summary of Operations" below.

Except as otherwise indicated, all of the financial data relating to the City's operations contained herein, although derived from the City's books and records, are unaudited. In addition, neither the City's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Financial Plan or other estimates or projections contained elsewhere herein, nor have they expressed any opinion or any other form of assurance on such prospective financial information or its achievability, and assume no responsibility for, and disclaim any association with, all such prospective financial information.

The Financial Plan is prepared in accordance with standards set forth in the Financial Emergency Act and the City Charter. The Financial Plan contains projections and estimates that are based on expectations and assumptions which existed at the time such projections and estimates were prepared. The estimates and projections contained in this Section and elsewhere herein are based on, among other factors, evaluations of historical revenue and expenditure data, analyses of economic trends and current and anticipated federal and State legislation affecting the City's finances. The City's financial projections are based upon numerous assumptions and are subject to certain contingencies and periodic revisions which may involve substantial change. This prospective information is not fact and should not be relied upon as being necessarily indicative of future results. Readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. The City makes no representation or warranty that these estimates and projections will be realized. The estimates and projections contained in this Section and elsewhere herein were not prepared with a view towards compliance with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information.

2003-2007 Summary of Operations

The following table sets forth the City's results of operations for its 2003 through 2007 fiscal years in accordance with GAAP.

The information regarding the 2003 through 2007 fiscal years has been derived from the City's audited financial statements and should be read in conjunction with the notes accompanying this table and the City's 2006 and 2007 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 2003 through 2005 financial statements are not separately presented herein. For further information regarding the City's revenues and expenditures, see "SECTION IV: SOURCES OF CITY REVENUES" and "SECTION V: CITY SERVICES AND EXPENDITURES."

	Fiscal Year(1)				
	Actual				
	2003	2004	2005	2006	2007
	(In Millions)				
Revenues and Transfers					
Real Estate Tax(2)	$10,063	$11,582	$11,616	$12,636	$13,123
Other Taxes(3)(4)	13,297	16,583	19,250	21,575	24,719
Miscellaneous Revenues(3)	4,648	3,370	5,073	3,862	4,243
Other Categorical Grants	1,006	956	862	1,150	1,037
Unrestricted Federal and State Aid(3)	1,443	963	604	494	35
Federal Categorical Grants	5,618	5,415	6,654	5,243	5,471
State Categorical Grants	8,317	8,455	8,823	9,586	10,186
Less: Disallowances Against Categorical Grants	(47)	(27)	(87)	(542)	(103)
Total Revenues and Transfers(5)	$44,345	$47,297	$52,795	$54,004	$58,711
Expenditures and Transfers					
Social Services	$ 9,321	$ 9,650	$10,329	$10,148	$11,078
Board of Education	12,673	13,061	13,776	14,794	15,748
City University	444	493	567	550	577
Public Safety and Judicial	6,204	6,125	6,507	6,694	6,842
Health Services	2,241	2,418	2,424	2,758	2,272
Pensions(6)	1,631	2,308	3,234	3,879	4,846
Debt Service(3)(7)	2,309	3,472	4,023	4,510	4,334
MAC Debt Service and Administrative Expenses(3)(7)	225	502	111	10	10
All Other(7)(8)	9,292	9,263	11,819	10,656	12,999
Total Expenditures and Transfers(5)	$44,340	$47,292	$52,790	$53,999	$58,706
Surplus(7)(8)	$ 5	$ 5	$ 5	$ 5	$ 5

(1) The City's results of operations refer to the City's General Fund revenues and transfers reduced by expenditures and transfers. The revenues and assets of PBCs included in the City's audited financial statements do not constitute revenues and assets of the City's General Fund, and, accordingly, the revenues of such PBCs are not included in the City's results of operations. Expenditures required to be made and revenues earned by the City with respect to such PBCs are included in the City's results of operations. For further information regarding the particular PBCs included in the City's financial statements, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A."

(2) In fiscal years 2003 through 2007, Real Estate Tax includes $119.6 million, $137.3 million, $151.7 million, $165.4 million and $165.1 million, respectively, which was provided to the City by the State as a reimbursement for the reduced property tax revenues resulting from the State's STAR Program.

(3) Other Taxes and MAC Debt Service and Administrative Expenses include amounts paid to MAC by the State for debt service, operating expenses and State oversight costs from sales tax receipts, stock transfer tax receipts and State per capita aid otherwise payable by the State to the City. For more information see "SECTION IV: SOURCES OF CITY REVENUES—Other Taxes." MAC Debt Service and Administrative Expenses is reduced by payments by the City of debt service on City obligations held by MAC. Other Taxes excludes $537 million, $109 million, $497 million, $350 million and $685 million of personal income taxes in fiscal years 2003 through 2007, respectively, retained by the TFA. Debt Service does not include debt service on TFA bonds or TSASC bonds. Miscellaneous Revenues includes TSRs that are not retained by TSASC for debt service and operating expenses.

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(4) Other Taxes includes transfers of net OTB revenues. Other Taxes includes tax audit revenues. For further information regarding the City's revenues from Other Taxes, see "SECTION IV: SOURCES OF CITY REVENUES—Other Taxes."

(5) Total Revenues and Transfers and Total Expenditures and Transfers exclude Inter-Fund Revenues.

(6) For information regarding pension expenditures, see "SECTION IX: OTHER INFORMATION."

(7) Surplus is the surplus after discretionary and other transfers and expenditures. The City had general fund operating revenues exceeding expenditures of $4.670 billion, $3.756 billion, $3.534 billion, $1.928 billion and $1.422 billion before discretionary and other transfers and expenditures for the 2007, 2006, 2005, 2004 and 2003 fiscal years, respectively. Discretionary and other transfers are included in Debt Service, MAC Debt Service and Administrative Expenses and for transit and other subsidies, including grants and payments to the TFA, in All Other.

(8) All Other includes grants to the TFA of $624 million, $400 million and $947 million in fiscal years 2003, 2004 and 2005, respectively, which were used by the TFA to pay TFA debt service in each subsequent fiscal year and thereby increased tax revenue by $624 million, $400 million, and $947 million in fiscal years 2004, 2005 and 2006, respectively. All Other includes a grant to the TFA of $546 million in fiscal year 2007 which will be used by the TFA to pay debt service in fiscal year 2008 and result in increased personal income tax revenues of $546 million in that year. All Other includes a payment to the TFA of $718 million in fiscal year 2007 for the early retirement of TFA debt due in fiscal years 2009 and 2010 and will result in increased personal income tax revenues in those fiscal years. All Other includes deposits into a trust of $1 billion and $1.5 billion in fiscal years 2006 and 2007, respectively, to fund a portion of the future costs of OPEB for current and future retirees.

Forecast of 2008 Results

The following table compares the forecast for the 2008 fiscal year contained in the June Financial Plan, which was submitted to the Control Board in June 2007 (the "June 2007 Forecast") with the forecast contained in the Financial Plan, which was submitted to the Control Board on May 2, 2008 (the "May 2008 Forecast"). Each forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

	June 2007 Forecast	May 2008 Forecast	Increase/(Decrease) from June 2007 Forecast
		(In Millions)	
REVENUES			
Taxes			
General Property Tax	$12,984	$13,009	25
Other Taxes	22,676	24,079	(1,403)(1)
FY 2007 Discretionary Transfer	546	546	—
Tax Audit Revenue	559	1,059	500 (2)
Tax Reduction Program	(290)	—	290 (3)
Miscellaneous Revenues	5,997	6,423	426 (4)
Unrestricted Intergovernmental Aid	340	255	(85)
Less: Intra-City Revenues	(1,393)	(1,502)	(109)
Disallowances Against Categorical Grants	(15)	(15)	—
Subtotal – City Funds	$41,404	$43,854	$ 2,450
Other Categorical Grants	1,006	1,100	94
Inter-Fund Revenues	436	451	15
Total City Funds & Inter-Fund Revenues	$42,846	$45,405	$ 2,559
Federal Categorical Grants	5,295	5,993	698 (5)
State Categorical Grants	10,824	11,201	377 (6)
Total Revenues	$58,965	$62,599	$ 3,634
EXPENDITURES			
Personal Services			
Salaries and Wages	$20,979	$20,743	$ (236)(7)
Pensions	5,728	5,745	17
Fringe Benefits	6,374	6,349	(25)
Total – Personal Services	$33,081	$32,837	$ (244)
Other Than Personal Services			
Medical Assistance	5,714	5,797	83
Public Assistance	1,187	1,219	32
Pay-As-You-Go Capital	100	—	(100)
All Other	17,641	17,960	319 (8)
Total – Other Than Personal Services	$24,642	$24,976	$ 334
Debt Service & MAC Administrative Expenses	3,835	5,723	1,888 (9)
FY 2007 Budget Stabilization & Discretionary Transfers	(4,052)	(4,054)	(2)
FY 2008 Budget Stabilization & Discretionary Transfers	2,552	4,519	1,967 (10)
General Reserve	300	100	(200)
Total Expenditures	$60,358	$64,101	$ 3,743
Less: Intra-City Expenses	(1,393)	(1,502)	(109)
Net Total Expenditures	$58,965	$62,599	$ 3,634

(1) The increase in Other Taxes is due to increases in personal income tax of $941 million, banking corporation tax of $50 million, unincorporated business tax of $343 million, hotel occupancy tax of $34 million, cigarette tax revenue of $4 million, the State's STAR Program aid of $107 million, utility tax of $27 million, real property transfer tax of $33 million, sales tax of $173 million all other taxes of $42 million offset by net decreases in general corporation tax of $269 million and mortgage recording tax of $82 million. These changes reflect the enactment of some of the tax programs previously reflected in the Tax Reduction Program as described in footnote 3 below.

(2) The increase in Tax Audit Revenue reflects increases of $500 million in general corporation tax.

(3) The change to the Tax Reduction Program reflects the elimination of $68 million in tax reduction initiatives. It also reflects revenue reductions resulting from the enactment of the personal income tax child care tax credit with an estimated impact of $42 million, tax reductions for small businesses with an estimated impact of $70 million and the City sales tax exemption on clothing and footwear with an estimated impact of $110 million, which are now incorporated in Other Taxes above.

(4) The increase in Miscellaneous Revenues is due to increases of approximately $109 million in intra-City revenues, $50 million in licenses, permits and franchises, $99 million in fines and forfeitures, $52 million in charges for services, $38 million in water and sewer payments, $53 million in rental income and $55 million in other miscellaneous revenue offset by a decrease of $30 million in interest income.

(5) The increase in Federal Categorical Grants is due to increases of $301.6 million in social services funding, $112.6 million in police department funding, $84 million in health and mental hygiene funding, $48 million in transportation funding, $42.6 million in fire department funding, $76.1 million in housing development and preservation funding, $18.9 million in emergency management funding and $86.8 million in other grants offset by a decrease of $72.2 million in education funding.

(6) The increase in State Categorical Grants is due to increases of $164 million in social services funding, $54.2 million in transportation funding, $39.2 million in health and mental hygiene funding, $33.2 million in education funding, $16.2 million in police department funding and $70.2 million in other grants.

(7) The increase in Personal Services — Salaries and Wages is due to increases of $92 million for recent collective bargaining settlements, $26 million in budget modifications reflecting categorical expenditures which are offset by categorical grants, offset by decreases of $354 million in net agency expenditures.

(8) The increase in Other Than Personal Services — All Other is due to increases of $831 million in budget modifications reflecting categorical expenditures which are offset by categorical grants and $13 million in net agency expenditures, offset by the reduction of $500 million in prior year payables and a decrease of $25 million in energy expenditures.

(9) The increase in Debt Service & MAC Administrative Expense is due to the payment of $1.986 billion into the General Debt Service Fund for debt service due in fiscal year 2010 offset by decreases in debt service costs of $98 million.

(10) FY 2008 Budget Stabilization & Discretionary Transfers reflects the discretionary transfer of $3.073 billion into the General Debt Service Fund in fiscal year 2008 for debt service due in fiscal year 2009, the payment in fiscal year 2008 of $500 million in subsidies otherwise due in fiscal year 2009, a payment of $400 million to the retiree health benefits trust, and a grant of $546 million to the TFA which will be used to pay TFA debt service in fiscal year 2009 and result in increased personal income tax revenues of that amount in fiscal year 2009.

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SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP, as in effect through June 30, 2008, for the 2008 through 2012 fiscal years as contained in the Financial Plan. This table should be read in conjunction with the accompanying notes, "Actions to Close the Remaining Gaps" and "Assumptions" below. For information regarding recent developments, including recent actions by the Control Board with respect to modification to GAAP as applicable to the City, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

	Fiscal Years(1)(2)				
	2008	2009	2010 (In Millions)	2011	2012
REVENUES					
Taxes					
General Property Tax(3)	$13,009	$13,838	$14,868	$15,862	$16,664
Other Taxes(4)(5)	24,079	21,439	20,938	21,934	23,409
Discretionary Transfers(6)	546	546	—	—	
Tax Audit Revenue	1,059	577	579	579	579
Tax Program(7)	—	(3)	1,219	1,293	1,353
Miscellaneous Revenues(8)	6,423	5,567	5,278	5,355	5,363
Unrestricted Intergovernmental Aid	255	340	340	340	340
Less: Intra-City Revenues	(1,502)	(1,506)	(1,436)	(1,436)	(1,436)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$43,854	$40,783	$41,771	$43,912	$46,257
Other Categorical Grants	1,100	1,006	1,001	1,003	1,006
Inter-Fund Revenues(9)	451	458	425	419	419
Total City Funds and Inter-Fund Revenues	$45,405	$42,247	$43,197	$45,334	$47,682
Federal Categorical Grants	5,993	5,395	5,313	5,303	5,313
State Categorical Grants	11,201	11,505	11,938	12,801	13,101
Total Revenues	$62,599	$59,147	$60,448	$63,438	$66,906
EXPENDITURES					
Personal Services					
Salaries and Wages	$20,743	$21,646	$22,688	$24,132	$24,401
Pension	5,745	6,179	6,700	6,793	6,891
Fringe Benefits	6,349	6,740	7,028	7,627	8,229
Subtotal-Personal Services	$32,837	$34,565	$36,416	$38,552	$39,521
Other Than Personal Services					
Medical Assistance	5,797	5,602	5,756	5,916	6,089
Public Assistance	1,219	1,177	1,176	1,176	1,176
All Other(10)	17,960	17,946	18,435	19,076	19,579
Subtotal-Other Than Personal Services	$24,976	$24,725	$25,367	$26,168	$26,844
Debt Service & MAC Administrative Expenses(11)	5,723	3,717	2,111	4,789	5,319
FY 2007 Budget Stabilization & Discretionary Transfers(6)(12)	(4,054)	—	—	—	—
FY 2008 Budget Stabilization & Discretionary Transfers(6)(13)	4,519	(3,973)	—	—	—
FY 2009 Budget Stabilization	—	1,319	(1,319)	—	—
FY 2010 Budget Stabilization	—	—	350	(350)	—
General Reserve	100	300	300	300	300
	$64,101	$60,653	$63,225	$69,459	$71,984
Less: Intra-City Expenses	(1,502)	(1,506)	(1,436)	(1,436)	(1,436)
Total Expenditures	$62,599	$59,147	$61,789	$68,023	$70,548
GAP TO BE CLOSED	$ —	$ —	$(1,341)	$(4,585)	$(4,452)

(1) The four year financial plan for the 2008 through 2011 fiscal years, as submitted to the Control Board on June 20, 2007, contained the following projections for the 2008-2011 fiscal years: (i) for 2008, total revenues of $58.965 billion and total expenditures of $58.965 billion; (ii) for 2009, total revenues of $58.701 billion and total expenditures of $60.251 billion, with a gap to be closed of $1.550 billion; (iii) for 2010, total revenues of $61.433 billion and total expenditures of $64.830 billion, with a gap to be closed of $3.397 billion; and (iv) for 2011, total revenues of $63.551 billion and total expenditures of $67.920 billion, with a gap to be closed of $4.369 billion.

The four year financial plan for the 2007 through 2010 fiscal years, as submitted to the Control Board in July 2006, contained the following projections for the 2007-2010 fiscal years: (i) for 2007, total revenues of $52.940 billion and total expenditures of $52.940 billion; (ii) for 2008, total revenues of $53.589 billion and total expenditures of $57.399 billion, with a gap to be closed

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of $3.810 billion; (iii) for 2009, total revenues of $54.497 billion and total expenditures of $59.081 billion, with a gap to be closed of $4.584 billion; and (iv) for 2010, total revenues of $56.259 billion and total expenditures of $60.328 billion, with a gap to be closed of $4.069 billion.

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

The four year financial plan for the 2005 through 2008 fiscal years, as submitted to the Control Board on June 29, 2004, contained the following projections for the 2005-2008 fiscal years: (i) for 2005, total revenues of $47.210 billion and total expenditures of $47.210 billion; (ii) for 2006, total revenues of $45.827 billion and total expenditures of $49.501 billion, with a gap to be closed of $3.674 billion; (iii) for 2007, total revenues of $46.824 billion and total expenditures of $51.346 billion, with a gap to be closed of $4.522 billion; and (iv) for 2008, total revenues of $48.555 billion and total expenditures of $52.236 billion, with a gap to be closed of $3.681 billion.

(2) The Financial Plan combines the operating revenues and expenditures of the City, the DOE and CUNY. The Financial Plan does not include the total operations of HHC, but does include the City's subsidy to HHC and the City's share of HHC revenues and expenditures related to HHC's role as a Medicaid provider. Certain Covered Organizations and PBCs which provide governmental services to the City, such as the Transit Authority, are separately constituted and their revenues (other than net OTB revenues), are not included in the Financial Plan; however, City subsidies and certain other payments to these organizations are included. Revenues and expenditures are presented net of intra-City items, which are revenues and expenditures arising from transactions between City agencies.

(3) For a description of the effects of the 7% reduction in the average real estate tax rate effective July 1, 2007, the State's STAR Program, the real estate tax rebates to owner-occupants of houses, co-ops and condominiums, and other real estate tax assumptions, see ''SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—2. Real Estate Tax.''

(4) Other Taxes includes OTB surtax revenues. Personal income taxes flow directly from the State to the TFA, and from the TFA to the City only to the extent not required by the TFA for debt service, reserves, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. Sales taxes will flow directly from the State to the TFA, after any required payments are made to MAC, to the extent necessary to provide statutory coverage. Other Taxes does not include amounts that are expected to be retained by the TFA for its debt service and operating expenses. Estimates of Debt Service do not include debt service on TFA obligations.

(5) For Financial Plan assumptions, see ''SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—3. Other Taxes.''

(6) Discretionary Transfers reflects the impact of grants to the TFA of $546 million in each of fiscal years 2007 and 2008 which will be used by the TFA to pay debt service in the succeeding fiscal year and result in increased personal income tax revenues in each of fiscal years 2008 and 2009.

(7) Tax Program includes rescinding, effective July 1, 2009, the 7% reduction in average real estate tax rate resulting in estimated increases in tax revenues of $1,223 million, $1,298 million and $1,359 million in fiscal years 2010, 2011 and 2012, respectively, offset by certain green tax incentives with estimated decreases of $3 million, $4 million, $5.2 million and $6.3 million in fiscal years 2009, 2010, 2011 and 2012, respectively.

(8) Miscellaneous Revenues reflects the receipt by the City of TSRs not used by TSASC for debt service and other expenses. For information on TSASC, see ''SECTION IV: SOURCES OF CITY REVENUES—Miscellaneous Revenues.''

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

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

(11) Debt Service & MAC Administrative Expenses includes retention by MAC of sales tax revenues for State oversight costs and MAC operating expenses in fiscal year 2008. All outstanding MAC bonds were defeased with the proceeds of STAR Corp. bonds in November 2004. For further information see ''SECTION IV: SOURCES OF CITY REVENUES—Other Taxes.''

(12) FY 2007 Budget Stabilization & Discretionary Transfers reflects the discretionary transfer of $3.315 billion into the General Debt Service Fund in fiscal year 2007 for debt service due in fiscal year 2008, the payment in fiscal year 2007 of $100 million in lease debt service and $639 million in subsidies, respectively, otherwise due in fiscal year 2008.

(13) FY 2008 Budget Stabilization & Discretionary Transfers reflects the discretionary transfer of $3.073 billion into the General Debt Service Fund in fiscal year 2008 for debt service due in fiscal year 2009, the payment in fiscal year 2008 of $500 million in subsidies otherwise due in fiscal year 2009, a payment of $400 million to the retiree health benefits trust and a grant of $546 million to the TFA which will be used to pay TFA debt service in fiscal year 2009 and increase personal income tax revenues by that amount in fiscal year 2009.

Implementation of various measures in the Financial Plan may be uncertain. If these measures cannot be implemented, the City will be required to take actions to decrease expenditures or increase revenues to maintain a balanced financial plan. See "Assumptions" and "Certain Reports" below.

Actions to Close the Remaining Gaps

Although the City has maintained balanced budgets in each of its last twenty-seven fiscal years and is projected to achieve balanced operating results for the 2008 and 2009 fiscal years, there can be no assurance that the Financial Plan or future actions to close projected outyear gaps can be successfully implemented or that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

Assumptions

The Financial Plan is based on numerous assumptions, including the condition of the City's and the region's economies and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for City employees exceed the annual wage costs assumed for the 2008 through 2012 fiscal years; realization of projected interest earnings for pension fund assets and current assumptions with respect to wages for City employees affecting the City's required pension fund contributions; the willingness and ability of the State to provide the aid contemplated by the Financial Plan and to take various other actions to assist the City; the ability of HHC and other such entities to maintain balanced budgets; the willingness of the federal government to provide the amount of federal aid contemplated in the Financial Plan; the impact on City revenues and expenditures of federal and State welfare reform and any future legislation affecting Medicare or other entitlement programs; adoption of the City's budgets by the City Council in substantially the forms submitted by the Mayor; the ability of the City to implement cost reduction initiatives, and the success with which the City controls expenditures; the impact of conditions in the real estate market on real estate tax revenues; and the ability of the City and other financing entities to market their securities successfully in the public credit markets. See "SECTION II: RECENT FINANCIAL DEVELOPMENTS." Certain of these assumptions are reviewed in reports issued by the City Comptroller and other public officials. See "SECTION VII: FINANCIAL PLAN—Certain Reports."

The projections and assumptions contained in the Financial Plan are subject to revision which may involve substantial change, and no assurance can be given that these estimates and projections, which include actions which the City expects will be taken but which are not within the City's control, will be realized. For information regarding certain recent developments, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

Revenue Assumptions

1. GENERAL ECONOMIC CONDITIONS

The Financial Plan assumes a decrease in economic activity in calendar year 2008 compared to calendar year 2007. The following table presents a forecast of the key economic indicators for the calendar years 2007 through 2012. This forecast is based upon information available in March 2008.

FORECAST OF KEY ECONOMIC INDICATORS

U.S. ECONOMY	Calendar Years 2007	2008	2009	2010	2011	2012
Economic Activity and Income						
Real GDP (billions of 2000 dollars)	11,567	11,695	11,898	12,281	12,689	13,069
Percent Change	2.2	1.1	1.7	3.2	3.3	3.0
Non-Agricultural Employment (millions)	137.6	137.7	138.2	140.1	142.1	144.6
Change from Prior Year	1.5	0.0	0.6	1.8	2.4	2.2
CPI-All Urban (1982-84=100)	207.3	214.4	218.2	222.4	226.8	231.4
Percent Change	2.9	3.4	1.8	2.0	2.0	2.0
Wage Rate ($ per year)	46,214	47,824	49,410	51,085	52,917	54,919
Percent Change	4.5	3.5	3.3	3.4	3.6	3.8
Personal Income ($ billions)	11,659	12,137	12,597	13,251	14,021	14,865
Percent Change	6.1	4.1	3.8	5.2	5.8	6.0
Pre-Tax Corp Profits ($ billions)	1,882	1,625	1,949	1,962	1,987	1,967
Percent Change	4.2	(13.7)	20.0	0.7	1.2	(1.0)
Unemployment Rate (Percent)	4.6	5.4	5.9	5.7	5.3	4.9
10-Year Treasury Bond Rate	4.6	3.5	3.9	5.2	5.5	5.5
Federal Funds Rate	5.0	2.2	2.4	4.3	4.8	4.8
NEW YORK CITY ECONOMY						
Real Gross City Product (billions of dollars)	507	469	463	475	489	501
Percent Change	3.2	(7.5)	(1.3)	2.7	2.9	2.4
Non-Agricultural Employment (thousands)	3,745	3,734	3,688	3,715	3,756	3,795
Change from Prior Year	78.8	(10.7)	(46.3)	26.7	41.5	38.3
CPI-All Urban NY-NJ Area (1982-84=100)	226.9	235.1	240.2	245.3	250.7	256.4
Percent Change	2.8	3.6	2.1	2.2	2.2	2.3
Wage Rate ($ per year)	79,494	78,432	76,916	79,538	82,700	86,241
Percent Change	8.1	(1.3)	(1.9)	3.4	4.0	4.3
Personal Income ($ billions)	399.5	399.5	398.1	416.4	438.4	462.9
Percent Change	7.9	(0.0)	(0.3)	4.6	5.3	5.6
NEW YORK REAL ESTATE MARKET						
Manhattan Primary Office Market						
Asking Rental Rate ($ per square foot)	71.83	78.65	72.49	69.75	66.55	63.41
Percent Change	33.2	9.5	(7.8)	(3.8)	(4.6)	(4.7)
Vacancy Rate – Percent	5.4	7.0	10.4	10.5	10.6	10.2

Source: OMB.

2. REAL ESTATE TAX

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

The decrease in the average tax rate to $11.42 per $100 of assessed value for fiscal year 2008 is projected to remain in effect for the forecast period through 2012. Projections of real estate tax revenues reflect this 7% rate reduction with estimated costs of $1.05 billion, $1.14 billion, $1.22 billion, $1.3 billion and $1.36 billion in fiscal years 2008 through 2012, respectively.

Projections of real estate tax revenues include net revenues of $58 million, $38 million, $34 million, $31 million and $31 million in fiscal years 2008, 2009, 2010, 2011 and 2012, respectively, from the sale of real property tax liens. Although the authorization to sell such real estate tax liens expired on August 31, 2006, local legislation to reauthorize such sales was enacted on December 31, 2007. Projections of real estate tax revenues include the effects of the State's STAR Program which will reduce the real estate tax revenues by an estimated $136 million in each of fiscal years 2008 through 2012. Projections of real estate tax revenues reflect the estimated cost of extending the current tax reduction for owners of cooperative and condominium apartments amounting to $315 million, $330 million, $338 million, $353 million and $372 million in fiscal years 2008 through 2012, respectively. Projections of real estate tax revenues also reflect the real estate tax rebate of $400 to owner-occupants of houses, co-ops and condominiums which has an estimated cost of $256 million in each of fiscal years 2008 through 2012.

The delinquency rate was 2.4% for each of fiscal years 2004 and 2005, 2.0% in fiscal year 2006, and 2.1% in fiscal year 2007. The Financial Plan projects delinquency rates of 2.4%, 2.4%, 2.5%, 2.5% and 2.6% in fiscal years 2008 through 2012, respectively. For information concerning the delinquency rates for prior years, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Collection of the Real Estate Tax.*" For a description of proceedings seeking real estate tax refunds from the City, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes.*"

3. OTHER TAXES

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

	2008	2009	2010	2011	2012
			(In Millions)		
Personal Income(1)(2)	$ 7,893	$ 6,804	$ 6,271	$ 6,558	$ 7,066
General Corporation(2)	2,894	2,623	2,679	2,953	3,167
Banking Corporation	863	647	690	759	807
Unincorporated Business Income(2)	1,929	1,668	1,541	1,616	1,770
Sales(2)	4,817	4,666	4,668	4,839	5,164
Commercial Rent	550	566	583	601	623
Real Property Transfer	1,414	1,063	1,033	1,021	1,078
Mortgage Recording	1,167	871	850	839	890
Utility	382	377	408	430	452
Cigarette	121	102	99	97	94
Hotel	371	394	427	456	482
All Other(3)	1,678	1,658	1,689	1,766	1,816
Total	$24,079	$21,439	$20,938	$21,934	$23,409

Note: Totals may not add due to rounding.

(1) Personal Income does not include $157 million, $226 million, $763 million, $1.149 billion and $1.158 billion of personal income tax revenues projected to be retained by the TFA for debt service and other expenses in the 2008, 2009, 2010, 2011 and 2012 fiscal years, respectively. Personal Income includes $391 million, $361 million and $382 million of additional personal income tax revenues in fiscal years 2008 through 2010, respectively, reflecting the early provision for TFA debt service payments otherwise expected to be made in those fiscal years. Personal Income does not reflect the impact of the grants to the TFA of $546 million in each of fiscal years 2007 and 2008, which are reflected in the Financial Plan under Discretionary Transfers and will be used by the TFA to pay debt service in the subsequent fiscal year, thereby increasing personal income tax revenue by that amount in fiscal years 2008 and 2009, respectively. These projections reflect reductions in personal income tax revenues as a result of the State's STAR Program under law in effect at the date of the Financial Plan in the amount of $1.113 billion, $1.118 billion, $1.144 billion, $1.219 billion and $1.264 billion in the 2008 through 2012 fiscal years, respectively. The State will reimburse the City for reduced revenues resulting from the STAR Program. These projections include the effects of the earned income tax credit which will reduce personal income tax revenues by approximately $75 million, $78 million, $80 million, $82 million and $82 million in fiscal years 2008 through 2012, respectively.

(2) These projections include the enactment of tax programs previously reflected in the Tax Reduction Program. The enacted programs include a childcare tax credit which will reduce personal income tax revenues by $42 million, $43 million, $44 million, $45 million and $45 million in fiscal years 2008 through 2012, respectively; personal and small business income tax credits and reductions which will reduce tax revenues by $70 million, $108 million, $129 million, $166 million and $166 million in fiscal years 2008 through 2012, respectively; and the City sales tax exemption for clothing and footwear purchases which will reduce sales tax revenues by $110 million, $117 million, $119 million, $122 million and $122 million in fiscal years 2008 through 2012, respectively.

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(3) All Other includes, among others, OTB surtax revenues, beer and liquor taxes, and the automobile use tax. All Other also includes $1.255 billion, $1.318 billion, $1.359 billion, $1.389 billion and $1.439 billion in fiscal years 2008 through 2012, respectively, to be provided to the City by the State as reimbursement for the reduced property tax and personal income tax revenues resulting from the State's STAR Program.

The Financial Plan reflects the following assumptions regarding projected baseline revenues from Other Taxes: (i) with respect to the personal income tax, strong growth in fiscal year 2008 reflecting employment gains, strong bonus payouts on calendar 2007, strong capital gains realizations and payments from earnings tied to profitable hedge funds, a decline in growth in fiscal year 2009 reflecting employment losses, a forecast decline in Wall Street bonuses on calendar year 2008 stemming from Wall Street employment losses and decline in capital gains realizations, a decline in growth in fiscal year 2010 reflecting continuing and broader employment losses, and moderate growth in fiscal years 2011 and 2012 corresponding to trend growth in the national and local economies; (ii) with respect to the general corporation tax, a decline in growth in fiscal year 2008 reflecting Wall Street losses in the second half of calendar year 2007, the result of the subprime mortgage crisis, which reduces finance sector tax payments and increases refund payouts, a decline in growth in fiscal year 2009 as net operating loss carry-forwards, liquidation of past overpayments and large refunds suppress tax payments, minimal growth in fiscal year 2010 and a return to trend growth in fiscal years 2011 and 2012 reflecting renewed strength in Wall Street profitability and the national economy; (iii) with respect to the banking corporation tax, a decline in fiscal year 2008 due to the significant losses caused by the subprime mortgage related financial market turmoil and credit crunch, a decline in fiscal year 2009 despite a moderate rebound in Wall Street profitability as net operating loss carry-forwards, liquidation of past overpayments and large refunds suppress tax payments, a return to trend growth in fiscal years 2010 through 2012 reflecting the measures of the Federal Reserve to stabilize financial markets leading to renewed strength in Wall Street profitability and the national economy; (iv) with respect to the unincorporated business tax, strong growth in fiscal years 2008 reflecting strong payments from smaller finance sector firms, hedge funds and private equity firms from a strong calendar year 2007, a decline in fiscal year 2009 reflecting job losses in both the finance and non-finance sectors and the impact of the credit crisis, a decline in growth in fiscal year 2010 reflecting continued employment declines and increased refund payments, moderate growth in fiscal years 2011 and 2012 reflecting renewed strength in Wall Street profitability and the national economy; (v) with respect to the sales tax, moderate growth in fiscal year 2008, reflecting employment gains in calendar year 2007 as well as strength in tourist consumption from both international and domestic visitors, a decline in growth in fiscal year 2009 due to a decline in wage earnings growth, moderate growth in fiscal years 2010 through 2012 paralleling wage income growth; (vi) with respect to real property transfer tax, a decline in fiscal year 2008, as the number of transactions in the residential market declines sharply, the growth in the average sale price slows and the number and value of large commercial real estate transactions decreases due to the tighter credit market and re-pricing of real estate related risk, continuing decline in fiscal year 2009 as residential prices decline and the number and value of large commercial real estate transactions continue to decline, and forecast decline through fiscal year 2011 before a return to growth in fiscal year 2012; (vii) with respect to mortgage recording tax, a steep decline in fiscal year 2008, as the number of transactions in the residential market declines sharply and the slowing growth in average sale price, coupled with tighter credit standards requiring higher down payments, reduces the mortgage loan amount subject to tax, and continuing declines in fiscal years 2009 through 2011 as both the number of transactions and the average sale price for both the residential and commercial markets continue to decline before growth returns in fiscal year 2012; (viii) with respect to the commercial rent tax, strong growth in fiscal year 2008, reflecting lower vacancy rates and increased asking rents, with growth moderating from fiscal year 2009 through 2011 paralleling the slower employment growth forecast for the local economy.

4. Miscellaneous Revenues

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

	2008	2009	2010	2011	2012
			(In Millions)		
Licenses, Permits and Franchises	$ 469	$ 459	$ 455	$ 460	$ 464
Interest Income	357	85	89	136	141
Charges for Services	614	591	578	577	578
Water and Sewer Payments(1)	1,232	1,297	1,245	1,271	1.289
Rental Income	247	218	207	207	207
Fines and Forfeitures	823	748	747	746	746
Other	1,179	663	521	522	502
Intra-City Revenues	1,502	1,506	1,436	1,436	1,436
Total	$6,423	$5,567	$5,278	$5,355	$5,363

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

Miscellaneous Revenues—Rental Income reflects approximately $102.7 million in each of fiscal years 2008 through 2012 for lease payments for the City's airports.

Miscellaneous Revenues—Other reflects $552 million, $143 million, $145 million, $146 million and $148 million of projected resources in fiscal years 2008 through 2012, respectively, from the receipt by the City of TSRs. The Financial Plan reflects the release to the City in fiscal year 2008 of unpledged TSRs received by TSASC in fiscal years 2006 and 2007 and the funds in the trapping account. For more information, see "SECTION IV: SOURCES OF CITY REVENUES—Miscellaneous Revenues." Economic and legal uncertainties relating to the tobacco industry and the settlement, including pending anti-trust litigation challenging a State statute implementing the settlement agreement and adjustments provided for under the settlement agreement, may significantly affect the receipt of TSRs by TSASC and the City.

5. Unrestricted Intergovernmental Aid

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

	2008	2009	2010	2011	2012
			(In Millions)		
State Revenue Sharing	$242	$327	$327	$327	$327
Other Aid	13	13	13	13	13
Total	$255	$340	$340	$340	$340

The Other Aid category consists of $13 million in prior year claims settlements in fiscal years 2008 through 2012.

The receipt of State Revenue Sharing funds could be affected by potential prior claims asserted by the State. For information concerning projected State budget gaps, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS—The State."

6. Federal and State Categorical Grants

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

	2008	2009	2010	2011	2012
			(In Millions)		
Federal					
Community Development	$ 287	$ 277	$ 251	$ 248	$ 248
Welfare	2,593	2,486	2,455	2,455	2,455
Education	1,779	1,761	1,769	1,777	1,786
Other	1,334	871	838	823	824
Total	$ 5,993	$ 5,395	$ 5,313	$ 5,303	$ 5,313
State					
Welfare	$ 2,091	$ 1,954	$ 1,952	$ 1,952	$ 1,943
Education	7,905	8,513	8,951	9,814	10,123
Higher Education	209	211	211	211	211
Health and Mental Hygiene	496	447	456	460	463
Other	500	380	368	364	361
Total	$11,201	$11,505	$11,938	$12,801	$13,101

The Financial Plan assumes that all existing federal and State categorical grant programs will continue, unless specific legislation provides for their termination or adjustment, and assumes increases in aid where increased costs are projected for existing grant programs. For information concerning projected State budget gaps and the possible impact on State aid to the City, see "SECTION I: INTRODUCTORY STATEMENT" and "SECTION II: RECENT FINANCIAL DEVELOPMENTS—The State." As of March 31, 2008, approximately 13.3% of the City's full-time and full-time equivalent employees (consisting of employees of the mayoral agencies and the DOE) were paid by Community Development funds, water and sewer funds and from other sources not funded by unrestricted revenues of the City.

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

The City's receipt of categorical aid is contingent upon the satisfaction of certain statutory conditions and is subject to subsequent audits, possible disallowances and possible prior claims by the State or federal governments. The general practice of the State and federal governments has been to deduct the amount of any disallowances against the current year's payment. Substantial disallowances of aid claims may be asserted during the course of the Financial Plan. The amounts of such disallowances attributable to prior years increased from $124 million in the 1977 fiscal year to $542 million in the 2006 fiscal year. The amount of such disallowance was $103 million in the 2007 fiscal year. As of June 30, 2007, the City had an accumulated reserve of $1 billion for all disallowances of categorical aid.

The federal government is auditing and reviewing claims by the City for Medicaid reimbursement for special education programs, which may form the basis for a recommendation of a disallowance of a substantial portion of such Medicaid reimbursements made to the City since 1990. The City received approximately $100 million annually for such Medicaid reimbursements through fiscal year 2005 and approximately $17 million thereafter. The Financial Plan forecasts lower Medicaid payments for special education programs. The federal government has released its audit reports on the portion of such claims relating to speech and transportation services, respectively. The reserve for disallowances of categorical aid was increased in part in anticipation of such federal audits. For additional information see "SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous*."

Expenditure Assumptions

1. PERSONAL SERVICES COSTS

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

	2008	2009	2010	2011	2012
			(In Millions)		
Wages and Salaries	$20,225	$20,573	$20,553	$21,299	$21,077
Pensions	5,745	6,179	6,700	6,793	6,891
Other Fringe Benefits	6,349	6,740	7,028	7,627	8,229
Reserve for Collective Bargaining					
Department of Education	22	70	364	636	696
Other	496	1,003	1,771	2,197	2,628
Reserve Subtotal	518	1,073	2,135	2,833	3,324
Total	$32,837	$34,565	$36,416	$38,552	$39,521

The Financial Plan projects that the authorized number of City-funded full-time and full-time equivalent employees whose salaries are paid directly from City funds, as opposed to federal or State funds or water and sewer funds, will decrease from an estimated level of 270,802 on June 30, 2008 to an estimated level of 270,046 by June 30, 2012.

Other Fringe Benefits includes $1.8 billion, $1.2 billion, $1.7 billion, $1.9 billion and $2.1 billion in fiscal years 2008 through 2012, respectively, for OPEB expenditures for current retirees, which costs are currently paid by the City on a pay-as-you-go basis. Other Fringe Benefits in fiscal year 2008 includes a $400 million payment to the Retiree Health Benefits Trust which will lower expenses by $400 million in fiscal year 2009. For its fiscal year 2007, the City reported an OPEB liability of $57.8 billion in its government-wide financial statements, based upon an actuarial valuation and in accordance with GASB 45. There is no requirement to fund such liability. For information on deposits to a trust to fund a portion of the future cost of OPEB for current and future retirees, see "SECTION VI: FINANCIAL OPERATIONS—2003-2007 Summary of Operations." For information on the OPEB reporting requirement, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Reporting and Control Systems,*" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note E.4."

The Financial Plan reflects the costs of all labor contracts settled as of the date of the Financial Plan. The Reserve for Collective Bargaining contains funds for the cost of collective bargaining increases for labor contracts not yet settled, consistent with the settled contract patterns through final contract expiration dates in the period March 2010 to July 2012. The pattern for the final two years for each contract provides for 4% annual wage increases for all collective bargaining units and an additional 1.59% for longevity or salary schedule increases for uniformed employees. After the expiration of each contract, the Financial Plan assumes annual increases of 1.25%. For additional information, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

The Financial Plan does not reflect the incremental cost associated with the recent PERB arbitration award relating to the PBA contract. The award covers the period August 1, 2004 through July 31, 2006 and provides for wage increases of 4.5% and 5%, on the first day of the agreement and the first day of the second year of the agreement, respectively, and salary enhancements, offset by givebacks and productivity increases. The net value of the award, equivalent to a 7.41% wage increase over the two year period, is greater than the uniformed forces pattern of 6.24% over the same period. The PBA award, and re-opener adjustments for the other uniformed unions to conform with such award, result in expenditures beyond those assumed in the Financial Plan of approximately $210 million, $276 million, $290 million, $271 million and $278 million in fiscal years 2008 through 2012, respectively, and a retroactive cost of $330 million for the period before fiscal year 2008. The City will reflect these anticipated expenses in its next financial plan. For additional information, see "SECTION V: CITY SERVICES AND EXPENDITURES—Employee and Labor Relations—*Labor Relations*."

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

2. OTHER THAN PERSONAL SERVICES COSTS

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

	2008	2009	2010	2011	2012
			(In Millions)		
Administrative OTPS	$15,255	$15,295	$15,691	$16,212	$16,581
Public Assistance	1,219	1,177	1,176	1,176	1,176
Medical Assistance	5,797	5,602	5,756	5,916	6,089
HHC Support	262	174	177	178	178
Other	2,443	2,477	2,567	2,686	2,820
Total	$24,976	$24,725	$25,367	$26,168	$26,844

Administrative OTPS and Energy

The Financial Plan contains estimates of the City's administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services and estimates of energy costs in the 2008 fiscal year. Thereafter, to account for inflation, OTPS expenditures are projected to rise by 2.5% annually in fiscal years 2010 through 2012, respectively. Energy costs for each of the 2008 through 2012 fiscal years are assumed to vary annually, with total energy expenditures projected at $931 million in fiscal year 2008 and increasing to $1.1 billion by fiscal year 2012.

Public Assistance

The number of persons receiving benefits under public assistance programs is projected to average 349,670 per month in the 2008 fiscal year. Of total public assistance expenditures in the City for the 2008 fiscal year, the City-funded portion is projected to be $441 million and is projected to be $438 million in fiscal year 2009 and $437 million for each of fiscal years 2010 through 2012.

Medical Assistance

Medical assistance payments projected in the Financial Plan consist of payments to voluntary hospitals, skilled nursing facilities, intermediate care facilities, home care, pharmacy, managed care and physicians and other medical practitioners. The City-funded portion of medical assistance payments is estimated at $5.605 billion for the 2008 fiscal year and is expected to increase to $5.979 billion in fiscal year 2012. Such payments include, among other things, City-funded Medicaid payments, including City-funded Medicaid payments to HHC beginning in fiscal year 2008, as discussed below. City Medicaid costs (including City-funded Medicaid payments to HHC) assumed in the Financial Plan do not include the non-federal share of long-term care costs which have been assumed by the State.

Health and Hospitals Corporation

HHC operates under its own section of the Financial Plan as a Covered Organization. The HHC financial plan projects City-funded expenditures of $157.7 million in fiscal year 2008 increasing to $169.1 million in fiscal year 2012. City-funded expenditures include City subsidy, intra-City payments and grants.

On an accrual basis, HHC's total receipts before implementation of the HHC gap-closing program are projected to be $5.8 billion in fiscal year 2008 decreasing to $5.4 billion in fiscal year 2012. Total disbursements before implementation of the HHC gap-closing program are projected to be $6.0 billion in fiscal year 2008 increasing to $6.9 billion in fiscal year 2012. These projections assume increases in other than personal services costs and fringe benefits in fiscal years 2008 through 2012. Significant changes have been and may be made in Medicaid, Medicare and other third-party payor programs, which could have adverse impacts on HHC's financial condition.

Other

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

New York City Transit

NYCT operates under its own section of the Financial Plan as a Covered Organization. The financial plan for NYCT covering its 2008 through 2011 fiscal years was prepared in January 2008. The NYCT fiscal year coincides with the calendar year. The NYCT financial plan projects City assistance to the NYCT operating budget of $279.8 million in 2008 increasing to $316.9 million in 2011, in addition to real estate tax revenue dedicated for NYCT use of $669.2 million in 2008 decreasing to $637.3 million in 2011.

For 2008, the NYCT financial plan projects $7.0 billion in revenues and $7.2 billion in expenses, leaving a budget gap of $167.3 million. This gap will be offset by approximately $546.7 million in funds made available from a cash surplus in 2007, for a cash surplus of $379.4 million in 2008. The NYCT financial plan forecasts operating budget gaps of $244.8 million, $1.1 billion and $1.3 billion in 2009 through 2011, respectively, after the implementation of gap-closing actions. The Financial Plan does not require that the NYCT financial plan out-year gaps be funded by the City. The Financial Plan assumes that the gaps in 2009 through 2011 will be closed by NYCT in part by productivity measures, increased user charges, additional management actions, reduced service levels, or some combination of these actions.

On July 29, 2004, the MTA Board approved a proposed new five-year, $27.8 billion capital plan for the MTA for 2005 through 2009 (the "2005-2009 Capital Program"), including $17.2 billion for its basic infrastructure program, to be funded with federal, State and City capital funds, MTA bonds, and other MTA resources. The 2005-2009 Capital Program proposed to invest $12 billion of that $17.2 billion in the NYCT core system and over $5 billion in NYCT network expansion and security upgrades. The Capital Program Review Board ("CPRB") rejected the 2005-2009 Capital Program and on April 28, 2005, the MTA Board released an amended 2005-2009 Capital Program (the "Amended 2005-2009 Capital Program"). The Amended 2005-2009 Capital Program includes $21.15 billion for all MTA agencies, including $16 billion for its basic infrastructure program, $11.3 billion of which would be invested in the NYCT core system, and over $5 billion for NYCT network expansion and security upgrades. The Amended 2005-2009 Capital Program includes approximately $497 million to be funded with proceeds of City general obligation bonds and approximately $2 billion for extension of the Number 7 subway line and other public improvements which will be funded with proceeds of bonds issued by the Hudson Yards Infrastructure Corporation ("HYIC"), which are secured by and payable from payments in lieu of taxes and other revenues generated by development in the Hudson Yards area. To the extent such payments in lieu of taxes and other revenues are insufficient to pay interest on the HYIC bonds, the City has agreed to pay the amount of any shortfall in interest on such bonds, subject to appropriation. The City has no obligation to pay the principal of such bonds. The Amended 2005-2009 Capital Program was approved by the CPRB on July 13, 2005. A new Amended 2005-2009 Capital Program which reflects minor program changes and no change in funding levels, was approved by the MTA Board on January 25, 2006 and by the CPRB on March 14, 2006.

The Amended 2005-2009 Capital Program follows the $17.9 billion capital program for 2000 through 2004, which included $12.3 billion for NYCT. The capital program for 2000 through 2004 superseded the previous capital program for the period 1995 through 1999, which totaled $13.2 billion, with $9.3 billion in projects for NYCT.

In July 2007, legislation was enacted to, among other things, create a New York City Traffic Congestion Mitigation Commission to undertake a review and study of plans to reduce traffic congestion and other related health and safety issues within the City, including issues relating to implementing a traffic congestion mitigation plan to be developed by the City. Pursuant to the legislation, the MTA transmitted to the CPRB on March 31, 2008 a draft capital program for the period July 1, 2008 through December 31, 2013, which incorporated congestion mitigation measures. The State Legislature did not adopt proposed legislation necessary to implement the traffic congestion mitigation plan. The draft capital program reflecting the congestion mitigation measures is not expected to be adopted by the MTA. The Amended 2005-2009 Capital Program is currently being reviewed by the MTA and is expected to be amended to address revised forecasts of costs and funding.

There can be no assurance that all the necessary governmental actions will be taken to implement the Amended 2005-2009 Capital Program, that funding sources currently identified will not be reduced or eliminated, or that parts of the capital program will not be delayed or reduced. If the MTA's capital program is delayed or reduced, ridership and fare revenues may decline which could, among other things, impair the MTA's ability to meet its operating expenses without additional assistance.

Department of Education

State law requires the City to provide City funds for the DOE each year in an amount not less than the amount appropriated for the preceding fiscal year, excluding amounts for debt service and pensions for the DOE. Such City funding must be maintained, unless total City funds for the fiscal year are estimated to be lower than in the preceding fiscal year, in which case the mandated City funding for the DOE may be reduced by an amount up to the percentage reduction in total City funds.

Judgments and Claims

In the fiscal year ended on June 30, 2007, the City expended $564.0 million for judgments and claims, $155.7 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of $661.5 million, $687.7 million, $738.2 million, $795.3 million and $856.3 million for the 2008 through 2012 fiscal years, respectively. These projections incorporate a substantial amount of claims costs attributed to HHC for which HHC will reimburse the City. These amounts are estimated at $189.9 million for each of fiscal years 2008 through 2012. The City is a party to numerous lawsuits and is the subject of numerous claims and investigations. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 2007 amounted to approximately $5.4 billion. This estimate was made by categorizing the various claims and applying a statistical model, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and by supplementing the estimated liability with information supplied by the City's Corporation Counsel. For further information regarding certain of these claims, see "SECTION IX: OTHER INFORMATION—Litigation."

In addition to the above claims, numerous real estate tax *certiorari* proceedings involving allegations of inequality of assessment, illegality and overvaluation are currently pending against the City. The City's Financial Statements for the fiscal year ended June 30, 2007 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2007, could amount to approximately $751 million. Provision has been made in the Financial Plan for estimated refunds of $252 million, $365 million, $386 million, $319 million and $349 million for the 2008 through 2012 fiscal years, respectively. For further information concerning these claims, certain remedial legislation related thereto and the City's estimates of potential liability, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

3. DEBT SERVICE & MAC ADMINISTRATIVE EXPENSES

Debt service estimates for the 2008 through 2012 fiscal years include estimates of debt service costs on outstanding City bonds and notes and conduit debt and future debt issuances based on current and projected future market conditions. Such debt service estimates also include estimated payments pursuant to interest rate exchange agreements but do not reflect receipts pursuant to such agreements. MAC administrative expenses for the 2008 fiscal year are certified by MAC and include State oversight costs and MAC operating expenses.

Certain Reports

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

On May 28, 2008, the City Comptroller released a report on the Fiscal Year 2009 Executive Budget and the Financial Plan. The report notes that the Financial Plan proposes to restrain spending and apply a cumulative budget surplus of $6.5 billion to balance the fiscal year 2009 budget and reduce projected gaps in fiscal years 2010 and 2011.

In his report, the City Comptroller identified net risks for fiscal years 2008 through 2012 which, when added to the results projected in the Financial Plan, would result in gaps of $130 million, $156 million, $978 million, $4.64 billion and $4.27 billion in fiscal years 2008 through 2012, respectively. The differences from the Financial Plan result in part from the City Comptroller's expenditure projections, which exceed those in the Financial Plan by $130 million, $61 million, $202 million, $145 million and $84 million in fiscal years 2008 through 2012, respectively, resulting from: (i) the possibility that the Mayor's proposal to restructure the City's health insurance does not produce the Financial Plan's projected savings of $200 million in each of fiscal years 2010 through 2012; (ii) increased overtime expenditures of $109 million in fiscal year 2009 and $100 million in each of fiscal years 2010 through 2012; (iii) additional labor costs of $185 million in fiscal year 2008 and $40 million in each of fiscal years 2009 through 2012; (iv) projected savings in variable rate debt service of $20 million in fiscal year 2008; and (v) projected savings in judgment and claims expenses of $35 million, $88 million, $138 million, $195 million and $256 million in fiscal years 2008 through 2012, respectively. The differences from the Financial Plan also result from the City Comptroller's revenue projections. The report identified no additional revenues in fiscal year 2008, a shortfall in tax revenues of $95 million in fiscal year 2009, and additional tax revenues of $565 million, $90 million and $265 million in fiscal years 2010 through 2012, respectively. Of the report's net estimated increase in tax revenues over the fiscal years 2009 through 2012 of $825 million, $635 million is accounted for by the Comptroller's estimates for higher personal income tax collections of $40 million in fiscal year 2009, $465 million in fiscal year 2010, $60 million in fiscal year 2011 and $70 million in fiscal year 2012.

On June 5, 2008, the staff of the OSDC issued a report on the Financial Plan. The OSDC report found that notwithstanding a significant national and local economic slowdown, the City is on track to end fiscal year 2008 with a $6.5 billion surplus, including more than $2.5 billion that had been rolled over from the prior year, and that the fiscal year 2009 budget is balanced. The Mayor has proposed allocating the fiscal year 2008 surplus over the next three years in order to narrow projected budget gaps in subsequent fiscal years.

In its risk assessment of the Financial Plan, the OSDC restated the projected budget gaps in fiscal years 2010 through 2012. According to the OSDC report, the budget gaps projected by the City assume that the City Council agrees to rescind for fiscal year 2010 the 7 percent property tax cut implemented at the start of fiscal year 2008 and that the unions agree to restructure health insurance costs. When the resources from these anticipated actions are removed from the City's estimates, the projected budget gaps increase by $1.4 billion, $1.5 billion and $1.6 billion in fiscal years 2010 through 2012, respectively. The OSDC report then identified possible net risks to the Financial Plan of $100 million in fiscal year 2008, $215 million in fiscal year 2011 and $220 million in fiscal year 2012 and possible net additional resources to the Financial Plan of $350 million and $290 million in fiscal years 2009 and 2010, respectively, which, when added to the projected results in the Financial Plan as restated by OSDC, would result in a gap of $100 million in fiscal year 2008, a surplus of $350 million in fiscal year 2009 and gaps of $2.47 billion, $6.30 billion and $6.23 billion in fiscal years 2010 through 2012, respectively. The OSDC report identified risks to the Financial Plan of: (i) increased spending as a result of the PBA arbitration award of $200 million, $110 million, $110 million, $115 million and $120 million in each of fiscal years 2008 through 2012, respectively; and (ii) increased expense budget costs as a result of GASB Statement No. 49 of $500 million in each of fiscal years 2011 and 2012. The risks are offset by: (i) higher forecast tax revenues of $100 million in fiscal year 2008 and $400 million in each of fiscal years 2009 through 2012 and (ii) investment income on surplus resources of $60 million in fiscal year 2009.

In addition to the adjustments to the Financial Plan projections, the OSDC report identified additional risks and offsets that could have a significant impact on the City. The risks include: (i) the possibility that the PBA arbitration award increases, if applied to all other uniformed employees, would produce a net cost of $341 million, $166 million, $180 million, $156 million and $158 million in each of fiscal years 2008 through 2012, respectively; and (ii) the possibility that after the expiration of current or tentative collective bargaining agreements, wage increases are negotiated at the projected rate of inflation rather than the 1.25 percent per annum provided for in the Financial Plan, which would increase costs by $136 million and $363 million in fiscal years 2011 and 2012, respectively.

The OSDC report characterizes the fiscal year 2010 gap as manageable, noting that there is more than a year before the start of fiscal year 2010. The report also noted that although the Financial Plan is conservative in its economic assumptions, closing the budget gaps for fiscal years 2011 and 2012 represents a greater challenge because the City is less likely to have the benefit of large budget surpluses as it has had in recent years, because revenue growth is expected to be subdued during the Financial Plan period, and because debt service is projected to increase by more than 50 percent to $6.4 billion between fiscal years 2008 and 2012.

On June 5, 2008, the staff of the Control Board issued a report on fiscal year 2008, examining in detail the changes in the City's budget during fiscal year 2008 through the date of the report. The report states that the City continued to benefit in fiscal year 2008 from the tail end of a four year surge in tax revenues, and that the City has raised its forecast of total revenues by $3.6 billion in fiscal year 2008, of which $2.4 billion are City funds. The report projects that such revenues, together with more than $1.5 billion of reduced City spending in fiscal year 2008, will raise the accumulated surplus for fiscal year 2008 to approximately $6.5 billion. The Control Board staff is expected to issue its report on the Financial Plan in July.

On May 20, 2008, the IBO released a report and accompanying information analyzing the Financial Plan. The IBO projects that fiscal year 2008 will end with a surplus $70 million above the $4.52 billion surplus projected in the Financial Plan. The IBO further projects that revenues will be higher than in the Financial Plan by $403 million, $1.3 billion, $1.1 billion and $204 million in fiscal years 2009 through 2012, respectively, and that expenditures will be higher than projected in the Financial Plan by $56 million in fiscal year 2009, $80 million in fiscal year 2010 and $50 million in each of fiscal years 2011 and 2012. The largest revenue differences are in the IBO forecasts for personal income, general sales, general corporation and unincorporated business taxes. The report projects budget gaps of $3.3 billion in fiscal year 2011 and $4.3 billion in fiscal year 2012.

Long-Term Capital Program

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

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

City-funded commitments, which were $344 million in fiscal year 1979, are projected to reach $10.5 billion in fiscal year 2008. City-funded expenditures are forecast at $5.8 billion in fiscal year 2008; total expenditures are forecast at $8.7 billion in fiscal year 2008. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2008 through 2017, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures."

The following table sets forth the major areas of capital commitment projected for the 2008 through 2012 fiscal years. See "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures." See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness."* The table does not reflect the planned delay in capital commitments of 20% in fiscal years 2009 through 2012 assumed in the financial plan that is expected to be detailed in the capital commitment plan in September 2008.

2008-2012 CAPITAL COMMITMENT PLAN

	2008		2009		2010		2011		2012		Total	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
						(In Millions)						
Mass Transit(1)	$ 106	$ 162	$ 97	$ 105	$ 90	$ 90	$ 75	$ 75	$ 69	$ 69	$ 437	$ 501
Roadway, Bridges	903	1,340	1,610	2,171	1,150	1,367	597	823	563	579	4,823	6.281
Environmental Protection(2)	3,428	3,444	3,309	3,510	2,090	2,090	2,492	2,492	1,567	1,567	12,885	13,102
Education(3)	1,174	3,253	1,265	3,300	1,241	2,481	1,283	2,565	1,327	2,653	6,289	14,252
Housing	676	838	417	561	404	505	336	437	369	470	2,202	2,811
Sanitation	241	247	1,045	1,045	377	377	253	253	134	134	2,049	2,055
City Operations/Facilities	6,316	6,737	5,899	6,136	2,368	2,563	2,209	2,306	1,145	1,185	17,937	18,927
Economic and Port Development	1,426	1,713	697	763	108	108	189	189	114	114	2,535	2,887
Reserve for Unattained Commitments	(3,796)	(3,796)	(662)	(662)	549	549	274	274	762	762	(2,872)	(2,872)
Total Commitments(4)	$10,472	$13,938	$13,678	$16,929	$8,376	$10,129	$7,708	$ 9,414	$6,050	$7,533	$46,284	$57,944
Total Expenditures(5)	$ 5,823	$ 8,686	$ 7,239	$10,294	$9,013	$10,014	$8,501	$10,554	$7,589	$9,565	$38,165	$49,113

Note: Totals may not add due to rounding.

(1) Excludes NYCT's non-City portion of the MTA capital program.

(2) Includes water supply, water mains, water pollution control, sewer projects and related equipment.

(3) All Funds reflects State funding for the remaining years of the current five-year educational facilities capital plan in the amount of $1.1 billion to be provided in the form of State grants as well as $3.3 billion of debt to be issued by the TFA that is expected to be paid from State aid to education.

(4) Commitments represent contracts registered with the City Comptroller, except for certain projects which are undertaken jointly by the City and State.

(5) Expenditures represent cash payments and appropriations planned to be expended for capital costs, excluding amounts for original issue discount.

Currently, if all City capital projects were implemented, expenditures would exceed the City's financing projections in the current fiscal year and subsequent years. The City has therefore established capital budgeting priorities to maintain capital expenditures within the available long-term financing. Due to the size and complexity of the City's capital program, it is difficult to forecast precisely the timing of capital project activity so that actual capital expenditures may vary from the planned annual amounts.

In January 2008, the City issued an Asset Information Management System Report (the "AIMS Report"), which is its annual assessment of the asset condition and a proposed maintenance schedule for its assets and asset systems which have a replacement cost of $10 million or more and a useful life of at least ten years, as required by the City Charter. This report does not reflect any policy considerations which could affect the appropriate amount of investment, such as whether there is a continuing need for a particular facility or whether there have been changes in the use of a facility. The AIMS Report estimated that $5 billion in capital investment would be needed for fiscal years 2009 through 2012 to bring the assets to a state of good repair. The report also estimated that $310 million, $167 million, $207 million and $178 million should be spent on maintenance in fiscal years 2009 through 2012, respectively.

The recommended capital investment for each inventoried asset is not readily comparable to the capital spending allocated by the City in the Four-Year Capital Plan and the Ten-Year Capital Strategy. Only a portion of the funding set forth in the Four-Year Capital Plan is allocated to specifically identified assets, and funding in the subsequent years of the Ten-Year Capital Strategy is even less identifiable with individual assets. Therefore, there is a substantial difference between the amount of investment recommended in the report for all inventoried City assets and amounts allocated to the specifically identified inventoried assets in the Four-Year Capital Plan. The City also issues an annual report (the "Reconciliation Report") that compares the recommended capital investment with the capital spending allocated by the City in the Four-Year Capital Plan to the specifically identified inventoried assets.

The most recent Reconciliation Report, issued in June 2007, concluded that the capital investment in the Four-Year Capital Plan for the specifically identified inventoried assets funds 49% of the total investment recommended in the preceding AIMS Report issued in December 2006. Capital investment allocated in the Ten-Year Capital Strategy published in April 2007 will fund an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 45% of the expense maintenance levels recommended were included in the financial plan.

Financing Program

The following table sets forth the par amount of bonds issued and expected to be issued during the 2008 through 2012 fiscal years to implement the Four-Year Capital Program. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

2008-2012 FINANCING PROGRAM

	2008	2009	2010	2011	2012	Total
			(In Millions)			
City General Obligation Bonds	$3,675	$4,800	$6,800	$6,200	$5,400	$26,875
Water Authority Bonds (1)(2)	2,484	2,514	2,320	2,305	2,206	11,830
Total	$6,159	$7,314	$9,120	$8,505	$7,606	$38,705

Note: Totals may not add due to rounding.

(1) Figures include notes and exclude refunding bonds.

(2) Water Authority Bonds includes a total allocation for reserve funds and costs of issuance of $618 million.

The City's financing program includes the issuance of water and sewer revenue bonds by the Water Authority which is authorized to issue bonds to finance capital investment in the City's water and sewer system. Pursuant to State law, debt service on this indebtedness is secured by water and sewer fees paid by users of the water and sewer system. Such fees are revenues of the Water Board, which holds a lease interest in the City's water and sewer system. After providing for debt service on obligations of the Water Authority and certain incidental costs, the revenues of the Water Board are paid to the City to cover the City's costs of operating the water and sewer system and as rental for the system. The City's Ten-Year Capital Strategy applicable to the City's water and sewer system covering fiscal years 2008 through 2017, projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately $19.3 billion. The City's Capital Commitment Plan for fiscal years 2008 through 2012 reflects total anticipated City-funded water and sewer commitments of $12.8 billion which are expected to be financed with the proceeds of Water Authority debt.

The TFA is authorized to issue $13.5 billion of obligations for general City capital purposes, all of which have been issued. Such obligations are secured by the City's personal income tax revenues and, to the extent such revenues do not satisfy specified debt ratios, sales tax revenues. In addition, the TFA is authorized to have outstanding $9.4 billion of Building Aid Revenue Bonds to pay for a portion of the City's five-year educational facilities capital plan. Building Aid Revenue Bonds are secured by State building aid, which the Mayor has assigned to the TFA. To date, the TFA has issued $1.3 billion of Building Aid Revenue Bonds and expects to issue $1.394 billion, $1.394 billion and $698 million of such bonds in fiscal years 2008 through 2010, respectively.

Implementation of the financing program is dependent upon the ability of the City and other financing entities to market their securities successfully in the public credit markets which will be subject to prevailing market conditions at the times of sale. No assurance can be given that the credit markets will absorb the projected amounts of public bond sales. A significant portion of bond financing is used to reimburse the City's General Fund for capital expenditures already incurred. If the City and such other entities are unable to sell such amounts of bonds, it would have an adverse effect on the City's cash position. In addition, the need of the City to fund future debt service costs from current operations may also limit the City's capital program. The Ten-Year Capital Strategy for fiscal years 2008 through 2017 totals $83.7 billion, of which approximately 78% is to be financed with funds borrowed by the City and such other entities. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness*." Congressional developments affecting federal taxation generally could reduce the market value of tax-favored investments and increase the debt-service costs of carrying out the major portion of the City's capital plan which is currently eligible for tax-exempt financing.

Interest Rate Exchange Agreements

In an effort to reduce its borrowing costs over the life of its bonds, the City began entering into interest rate exchange agreements commencing in fiscal year 2003. For a description of such agreements, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A.13." As of March 31, 2008, the aggregate notional amount of the City's interest rate exchange agreements was $3,035,780,000 and the total marked-to-market value of such agreements was ($93,013,954).

In addition, in connection with its Courts Facilities Lease Revenue Bonds (The City of New York Issue) Series 2005A and B, DASNY entered into interest rate exchange agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. and JPMorgan Chase Bank, National Association. The City is obligated, subject to appropriation, to make lease payments to DASNY reflecting DASNY's obligations under these interest rate exchange agreements. Pursuant to such agreements with a notional amount of $125,500,000, an effective date of May 15, 2013 and a termination date of May 15, 2032, DASNY is to make payments based on the Securities Industry and Financial Markets Association Index ("SIFMA") and receive a fixed rate of 4.179%. Pursuant to such agreements with a notional amount of $125,500,000, an effective date of June 15, 2005 and a termination date of May 15, 2039, DASNY pays a fixed rate of 3.017% and receives payments based on a LIBOR-indexed variable rate. As of March 31, 2008, the total marked-to-market value of the DASNY agreements was ($2,706,747).

In addition, in connection with its Special Revenue Bonds, Fiscal 2004 Series A and B (New York Stock Exchange Project), the IDA entered into eight interest rate exchange agreements with Morgan Stanley Capital Services Inc., each with an effective date of August 21, 2003. The City is obligated, subject to appropriation, to make payments to the IDA reflecting the IDA's obligations under these interest rate exchange agreements. Pursuant to an agreement with a notional amount, as of December 31, 2007, of $13,190,000 and a termination date of May 29, 2008 (subject to certain early termination events), the IDA makes payments based on SIFMA and receives a fixed rate of 4.8%. Pursuant to an agreement with a notional amount of $2,580,000 and a termination date of March 1, 2012 (subject to certain early termination events), the IDA makes payments based on SIFMA and receives a fixed rate of 5%. Pursuant to an agreement with a notional amount of $2,710,000 and a termination date of December 14, 2012 (subject to certain early termination events), the IDA makes payments based on SIFMA and receives a fixed rate of 5.125%. Pursuant to an agreement with a notional amount of $2,850,000 and a termination date of October 3, 2013 (subject to certain early termination events), the IDA makes payments based on SIFMA and receives a fixed rate of 5.2%. Pursuant to an agreement with a notional amount of $3,000,000 and a termination date of July 24, 2014 (subject to certain early termination events), the IDA makes payments based on SIFMA and receives a fixed rate of 5.3%. Pursuant to an agreement with a notional amount of $3,155,000 and a termination date of May 14, 2015 (subject to certain early termination events), the IDA makes payments based on SIFMA and receives a fixed rate of 5.4%. Pursuant to an agreement with a notional amount of $3,325,000 and a termination date of February 26, 2016 (subject to certain early termination events), the IDA makes payments based on SIFMA and receives a fixed rate of 5.4%. Pursuant to an agreement with a notional amount of $41,820,000 and a termination date of August 20, 2020 (subject to certain early termination events), the IDA makes payments based on SIFMA and receives a fixed rate of 5.625%. As of March 31, 2008, the total marked-to-market value of these IDA interest rate exchange agreements was $1,477,852.

Seasonal Financing Requirements

The City since 1981 has fully satisfied its seasonal financing needs in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. To finance its projected cash flow needs, the City issued $1.5 billion of short-term obligations in fiscal years 2002, 2003 and 2004. No short-term obligations were required to be issued in each of fiscal years 2005, 2006 and 2007. The City regularly reviews its cash position and the need for short-term borrowing. The Financial Plan does not include the issuance of short term obligations in fiscal year 2008. The Financial Plan reflects the issuance of short term obligations in the amount of $2.4 billion in each of fiscal years 2009 through 2012.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City and PBC Indebtedness

The following table sets forth outstanding City and PBC indebtedness as of March 31, 2008. "City indebtedness" refers to general obligation debt of the City, net of reserves. "PBC indebtedness" refers to obligations of the City, net of reserves, to the following public benefit corporations ("PBCs"): the Housing Authority, the New York City Educational Construction Fund ("ECF"), New York State Housing Finance Agency ("HFA"), DASNY, CUCF, and the New York State Urban Development Corporation ("UDC"). PBC indebtedness is not debt of the City. However, the City has entered into agreements to make payments, subject to appropriation, to PBCs to be used for debt service on certain obligations constituting PBC indebtedness. Neither City indebtedness nor PBC indebtedness includes outstanding debt of the TFA, TSASC, Fiscal Year 2005 Securitization Corp., STAR Corp., or MAC, which are not obligations of, and are not paid by, the City; nor does such indebtedness include obligations of HYIC, for which the City has agreed to pay, as needed and subject to appropriation, interest on but not principal of such obligations.

(In Thousands)

Gross City Long-Term Indebtedness(1)	$35,259,704	
Less: Assets Held for Debt Service(2)	(164,420)	
Net City Long-Term Indebtedness		$35,095,284
PBC Indebtedness		
Bonds Payable	335,665	
Capital Lease Obligations	1,460,548	
Gross PBC Indebtedness	1,796,213	
Less: Assets Held for Debt Service	(256,757)	
Net PBC Indebtedness		1,539,456
Combined Net City and PBC Indebtedness		$36,634,740

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

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

Trend in Outstanding Net City and PBC Indebtedness

The following table shows the trend in the outstanding City and PBC indebtedness as of June 30 of each of the fiscal years 1997 through 2007 and at March 31, 2008.

	City Indebtedness		PBC	
	Long-Term	Short-Term	Indebtedness	Total
	(In Millions)			
1997	$26,180	$—	$1,182	$27,362
1998	25,917	—	1,129	27,046
1999	26,287	—	1,403	27,690
2000	25,543	—	1,575	27,118
2001	25,609	—	1,533	27,142
2002	27,312	—	1,537	28,849
2003	29,043	—	2,059	31,102
2004	30,498	—	1,766	32,264
2005	33,688	—	1,941	35,629
2006	34,076	—	1,751	35,827
2007	34,396	—	1,637	36,033
March 31, 2008	35,095	—	1,539	36,635

Rapidity of Principal Retirement

The following table details, as of March 31, 2008, the cumulative percentage of total City indebtedness that is scheduled to be retired in accordance with its terms in each prospective five-year period.

Period	Cumulative Percentage of Debt Scheduled for Retirement
5 years	20.52%
10 years	46.38
15 years	69.99
20 years	87.93
25 years	97.38
30 years	99.98

City and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of March 31, 2008, on City and PBC indebtedness.

	City Long-Term Debt			
Fiscal Years	Principal	Interest	PBC Indebtedness	Total
		(In Thousands)		
2008	$ 258,017	$ 422,451	$ (10,945)	$ 669,523
2009	1,566,405	1,607,297	60,739	3,234,441
2010	1,629,289	1,538,718	72,194	3,240,201
2011	1,899,685	1,458,837	65,699	3,424,221
2012 through 2147	29,906,308	12,575,567	1,608,526	44,090,401
Total	$35,259,704	$17,602,870	$1,796,213	$54,658,787

Certain Debt Ratios

The following table sets forth the approximate ratio of City long-term indebtedness to taxable property value as of June 30 of each of the fiscal years 1998 through 2007.

Fiscal Year	City Long-Term Indebtedness	Percentage of Actual Taxable Value of Property(1)	Per Capita
	(In Millions)		
1998	$27,310	34.67%	$3,475
1999	27,834	33.88	3,502
2000	27,245	31.73	3,398
2001	27,147	29.97	3,361
2002	28,465	29.20	3,511
2003	29,679	28.90	3,664
2004	31,378	29.38	3,837
2005	33,903	30.73	4,128
2006	35,844	29.26	4,364
2007	34,506	27.03	4,201

Source: CAFR for the fiscal year ended June 30, 2007.

(1) Based on full valuations for each fiscal year derived from the application of the special equalization ratio reported by the State Board for such fiscal year.

Indebtedness of the City and Related Issuers

The following table sets forth obligations of the City and other issuers as of June 30 of each of the fiscal years 1998 through 2007. General obligation bonds are debt of the City. Although IDA Stock Exchange bonds and PBC indebtedness are not debt of the City, the City has entered into agreements to make payments, subject to appropriation, to the respective issuers to be used for debt service on the indebtedness included in the following table. ECF bonds are also not debt of the City. ECF bonds are expected to be paid from revenues of ECF, provided, however, that if such revenues are insufficient, the City has agreed to make payments, subject to appropriation, to ECF for debt service on its bonds. Indebtedness of the TFA, TSASC, STAR Corp. and MAC does not constitute debt of, and is not paid by, the City.

Fiscal Year	General Obligation Bonds(1)	ECF	MAC(2)	TFA	TSASC	STAR	SFC(3)	PBC Indebtedness and Other(4)	IDA Stock Exchange
				(In Millions)					
1998	$27,310	$188	$4,066	$ 2,150	$ —	$ —	$200	$1,141	$ —
1999	27,834	150	3,832	4,150	—	—	160	1,525	—
2000	27,245	142	3,532	5,923	709	—	120	1,803	—
2001	27,147	134	3,217	7,386	704	—	80	1,805	—
2002	28,465	125	2,880	8,289	740	—	40	2,298	—
2003	29,679	117	2,151	12,024	1,258	—	—	2,211	—
2004	31,378	107	1,758	13,364	1,256	—	—	2,346	108
2005	33,903	135	—	12,977	1,283	2,552	—	3,044	106
2006	35,844	84	—	12,233	1,334	2,470	—	2,925	104
2007	34,506	123	—	14,607	1,317	2,368	—	2,832	102

Source: CAFR for the fiscal year ended June 30, 2007.

(1) General Obligation Bonds include general obligation bonds held by MAC, the debt service on which was used by MAC to pay debt service on its bonds. Such general obligation ''mirror'' bonds totaled $365 million, $299 million, $230 million, $168 million, $116 million, $64 million, $52 million and $39 million in fiscal years 1998 through 2005, respectively. All of such general obligation ''mirror'' bonds have been paid.

(2) All MAC bonds outstanding after 2004 were defeased with a portion of the proceeds of STAR Corp. bonds issued in November 2004.

(3) The City issued general obligation bonds to the New York City Samurai Funding Corp. (''SFC'') in order to provide funds to SFC for the payment of its bonds. Such general obligation bonds are reflected under SFC in the table.

(4) PBC Indebtedness and Other includes PBC indebtedness (excluding ECF) and includes capital leases of the City.

As of June 30, 2007, $2 billion aggregate principal amount of HYIC bonds were outstanding. Such bonds were issued to finance the extension of the Number 7 subway line and other public improvements. They are secured by and payable from payments in lieu of taxes and other revenues generated by development in the Hudson Yards area. To the extent such payments in lieu of taxes and other revenues are insufficient to pay interest on the HYIC bonds, the City has agreed to pay the amount of any shortfall in interest on such bonds, subject to appropriation. The City has no obligation to pay the principal of such bonds.

Certain Provisions for the Payment of City Indebtedness

The State Constitution requires the City to make an annual appropriation for: (i) payment of interest on all City indebtedness; (ii) redemption or amortization of bonds; (iii) redemption of other City indebtedness (except bond anticipation notes ("BANs"), tax anticipation notes ("TANs"), revenue anticipation notes ("RANs") and urban renewal notes ("URNs") contracted to be paid in that year out of the tax levy or other revenues); and (iv) redemption of short-term indebtedness issued in anticipation of the collection of taxes or other revenues, such as TANs, RANs and URNs, and renewals of such short-term indebtedness which are not retired within five years of the date of original issue. If this appropriation is not made, a sum sufficient for such purposes must be set apart from the first revenues thereafter received by the City and must be applied for these purposes.

The City's debt service appropriation provides for the interest on, but not the principal of, short-term indebtedness, which has in recent years been issued as TANs and RANs. If such principal were not provided for from the anticipated sources, it would be, like debt service on City bonds, a general obligation of the City.

Pursuant to the Financial Emergency Act, a general debt service fund (the "General Debt Service Fund" or the "Fund") has been established for the purpose of paying Monthly Debt Service, as defined in the Act. In addition, as required under the Act, accounts have been established by the State Comptroller within the Fund to pay the principal of outstanding City TANs and RANs. For the expiration date of the Financial Emergency Act, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Emergency Act.*"

Limitations on the City's Authority to Contract Indebtedness

The Financial Emergency Act imposes various limitations on the issuance of City indebtedness. No TANs may be issued by the City which would cause the principal amount of such issue of TANs to exceed 90% of the "available tax levy," as defined in the Act, with respect to such issue; TANs and renewals thereof must mature not later than the last day of the fiscal year in which they were issued. No RANs may be issued by the City which would cause the principal amount of RANs outstanding to exceed 90% of the "available revenues," as defined in the Act, for that fiscal year; RANs must mature not later than the last day of the fiscal year in which they were issued; and in no event may renewals of RANs mature later than one year subsequent to the last day of the fiscal year in which such RANs were originally issued. No BANs may be issued by the City in any fiscal year which would cause the principal amount of BANs outstanding, together with interest due or to become due thereon, to exceed 50% of the principal amount of bonds issued by the City in the twelve months immediately preceding the month in which such BANs are to be issued; BANs must mature not later than six months after their date of issuance and may be renewed once for a period not to exceed six months. Budget Notes may be issued only to fund cost overruns in the expense budget; no Budget Notes, or renewals thereof, may mature later than sixty days prior to the last day of the fiscal year next succeeding the fiscal year during which the Budget Notes were originally issued.

The State Constitution provides that, with certain exceptions, the City may not contract indebtedness, including contracts for capital projects to be paid with the proceeds of City bonds ("contracts for capital projects"), in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years (the "general debt limit"). See "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Assessment*." Certain indebtedness ("excluded debt") is excluded in ascertaining the City's authority to contract indebtedness within the constitutional limit. TANs, RANs, BANs, URNs and Budget Notes and long-term indebtedness issued for certain types of public improvements and capital projects are considered excluded debt. The City's authority for variable rate bonds is currently limited, with statutory exceptions, to 25% of the general debt limit. The State Constitution also provides that, subject to legislative implementation, the City may contract indebtedness for low-rent housing, nursing homes for persons of low income and urban renewal purposes in an amount not to exceed 2% of the average assessed valuation of the taxable real estate of the City for the most recent five years (the "2% debt limit"). Excluded from the 2% debt limit, after approval by the State Comptroller, is indebtedness for certain self-supporting programs aided by City guarantees or loans. None of Water Authority, TFA, TSASC indebtedness or the City's commitments with other PBCs or related issuers is chargeable against the City's constitutional debt limits.

The TFA and TSASC were created to provide financing for the City's capital program. Debt of the TFA and TSASC is not subject to the general debt limit of the City. Without the TFA and TSASC, or other legislative relief, new contractual commitments for the City's general obligation financed capital program would have been virtually brought to a halt during the financial plan period beginning early in the 1998 fiscal year. TSASC has issued approximately $1.3 billion of bonds that are payable from TSRs. TSASC does not intend to issue additional bonds. The TFA has issued its statutory maximum of $13.5 billion of obligations for general City capital purposes. Such TFA bonds are secured by the City's personal income tax revenues and sales tax revenues, if personal income tax revenues do not satisfy specified debt ratios.

The following table sets forth the calculation of the debt-incurring power of the City as of April 30, 2008.

(In Thousands)

Total City Debt-Incurring Power under General Debt Limit		$60,102,403
Gross Debt-Funded	$35,913,654	
Less: Excluded Debt	(342,682)	
	35,570,972	
Less: Appropriations for Payment of Principal	(123,214)	
	35,447,758	
Contracts and Other Liabilities, Net of Prior Financings Thereof	8,364,495	
Total Indebtedness		43,812,253
City Debt-Incurring Power		$16,209,150

Note: Numbers may not add due to rounding.

Federal Bankruptcy Code

Under the Federal Bankruptcy Code, a petition may be filed in the federal bankruptcy court by a municipality which is insolvent or unable to meet its debts as they mature. The filing of such a petition would operate as a stay of any proceeding to enforce a claim against the City. The Federal Bankruptcy Code requires the municipality to file a plan for the adjustment of its debts, which may modify or alter the rights of creditors and may provide for the municipality to issue indebtedness, which could have priority over existing creditors and which could be secured. Any plan of adjustment confirmed by the court must be approved by the requisite majority of creditors. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it. Each of the City and the Control Board, acting on behalf of the City pursuant to the Financial Emergency Act, has the legal capacity to file a petition under the Federal Bankruptcy Code. For the expiration date of the Financial Emergency Act, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Emergency Act*."

Public Benefit Corporation Indebtedness

City Financial Commitments to PBCs

PBCs are corporate governmental agencies created by State law to finance and operate projects of a governmental nature or to provide governmental services. Generally, PBCs issue bonds and notes to finance construction of housing, hospitals, dormitories and other facilities and receive revenues from the collection of fees, charges or rentals for the use of their facilities, including subsidies and other payments from the governmental entity whose residents have benefited from the services and facilities provided by the PBC. These bonds and notes do not constitute debt of the City.

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

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

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

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

Certain PBCs are further described below.

New York City Educational Construction Fund

As of March 31, 2008, $123.2 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF's leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

Dormitory Authority of the State of New York

As of March 31, 2008, $615.2 million principal amount and $809.3 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities and health facilities, respectively, in the City were outstanding. The court facilities and health facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

City University Construction Fund

As of March 31, 2008, approximately $452.3 million principal amount of DASNY bonds, relating to Community College facilities, subject to capital lease arrangements was outstanding. The City and the State are each responsible for approximately one-half of the CUCF's annual rental payments to DASNY for Community College facilities which are applied to the payment of debt service on the DASNY's bonds issued to finance the leased projects plus related overhead and administrative expenses of DASNY.

New York State Urban Development Corporation

As of March 31, 2008, $36.1 million principal amount of UDC bonds subject to executed or proposed lease arrangements was outstanding. The City leases schools and certain other facilities from UDC.

SECTION IX: OTHER INFORMATION

Pension Systems

The City maintains a number of pension systems providing benefits for its employees and employees of various independent agencies (including certain Covered Organizations). The systems combine features of a defined benefit pension plan with those of a defined contribution pension plan. Membership in the City's five major actuarial systems on June 30, 2006 consisted of approximately 359,000 active employees, of whom approximately 83,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there were approximately 269,000 retirees and beneficiaries currently receiving benefits and other vested members terminated but not receiving benefits. The City also contributes to three other actuarial systems, maintains a non-actuarial retirement system for retired individuals not covered by the five major actuarial systems, provides other supplemental benefits to retirees and makes contributions to certain union annuity funds.

Each of the City's five major actuarial pension systems is managed by a board of trustees which includes representatives of the City and the employees covered by such system. The City Comptroller is the custodian of, and has been delegated investment responsibilities for, the major actuarial systems, subject to the policies established by the boards of trustees of the systems and State law.

For fiscal year 2007, the City's pension contributions for the five major actuarial pension systems, made on a statutory basis based on actuarial valuations performed as of June 30, 2005, plus the other pension expenditures were approximately $4.850 billion. Expense projections for fiscal years 2008 through 2012 are estimated at $5.745 billion, $6.179 billion, $6.700 billion, $6.793 billion and $6.891 billion, respectively. These projections are based on actuarial valuation estimates and reflect funding assumptions formulated by the Chief Actuary and the assumed rate of return on pension investments of eight percent as governed by State Law. The projections incorporate the impact of pension fund investment performance since 2002 which include losses in fiscal year 2003, followed by investment gains in fiscal years 2004 through 2007 and projected lower than required earnings in fiscal year 2008. The costs or incremental benefit of the return on pension investments in any given year is phased in using six-year averaging periods under the Chief Actuary's funding assumptions. In addition, these projections reflect the costs of settling certain litigation and the expected cost of recently enacted changes to the pension program for teachers. For further information on recent litigation, see "SECTION IX: OTHER INFORMATION—Litigation."

An independent actuarial firm issued a report in November 2006 on its statutory audit of the actuarial assumptions and methods governing City pension contributions. The Chief Actuary of the City is reviewing the report and may recommend revised funding assumptions to the trustees of the City's pension funds. Although the report is advisory and not binding, it calls for changing certain actuarial assumptions such as life expectancy which, with other recommendations, could result in net increased annual pension contributions of up to $500 million. The Financial Plan includes increased pension funding of $200 million in each of fiscal years 2010 through 2012 to address this issue.

The City funds its pensions consistent with the requirements of GASB, which has resulted in the City's pensions being 99.8% funded. In recent comprehensive annual financial reports for each of the pension systems, the Chief Actuary has included two alternative measures of funded status, along with the required calculation, for the purpose of providing additional insight on the funded status of each plan. One of the alternative measures utilizes different assumptions including a conservative investment rate based on government securities rather than the actuarial assumed rate of 8%, which results in increased liability of approximately $48 billion as of June 30, 2006. The second of the two alternative measures results in approximately the same funded status as the required calculation.

Certain of the systems provide pension benefits of 50% to 55% of "final pay" after 20 to 25 years of service with additional benefits for subsequent years of service. For the 2007 fiscal year, the City's total annual pension costs, including the City's pension costs not associated with the five major actuarial systems, plus Federal Social Security tax payments by the City for the year, were approximately 32% of total payroll costs. In addition, contributions are also made by certain component units of the City and other government units directly to the three cost sharing multiple employer actuarial systems. The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired.

Annual pension costs are computed in accordance with GASB Statement No. 27 and are consistent with generally accepted actuarial principles. Actual pension contributions are less than annual pension costs, primarily because the City is only one of the participating employers in the New York City Employees' Retirement System ("NYCERS"), the Teachers' Retirement System of The City of New York (the "Teachers System") and the New York City Board of Education Retirement System (the "BOE System").

For the New York City Police Pension Fund, Subchapter Two (the "Police Fund") and the New York City Fire Department Pension Fund, Subchapter Two, Net Pension Obligations, which reflect the current funding assumptions which commenced in fiscal year 2000, of approximately $513.3 million and approximately $213.3 million, respectively, were recorded as of June 30, 2007.

The following table sets forth, for the five major actuarial pension systems, the amounts by which the actuarial accrued liabilities exceeded the actuarial values of assets for June 30, 1995 to June 30, 2005. For those retirement systems where the actuarial asset values exceeded the actuarial accrued liabilities (i.e., NYCERS for June 30, 1995 to 1999, the Teachers System for June 30, 1999 only, the BOE System for June 30, 1999 to 2002 and the Police Fund for June 30, 1999 to 2005), the amounts shown include zero for these retirement systems.

June 30	Unfunded Pension Liability Amount(1) (In Billions)
1995	$4.03
1996	4.29
1997	4.28
1998	4.64
1999	.15
2000	.17
2001	.21
2002	.19
2003	.33
2004	.27
2005	.21

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

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

Litigation

The following paragraphs describe certain material legal proceedings and claims involving the City and Covered Organizations other than routine litigation incidental to the performance of their governmental and other functions and certain other litigation arising out of alleged constitutional violations, torts, breaches of contract and other violations of law and condemnation proceedings. While the ultimate outcome and fiscal impact, if any, on the City of the proceedings and claims described below are not currently predictable, adverse determinations in certain of them might have a material adverse effect upon the City's ability to carry out the Financial Plan. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 2007 amounted to approximately $5.4 billion. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Services Costs—*Judgments and Claims*."

Taxes

Numerous real estate tax *certiorari* proceedings alleging overvaluation, inequality and illegality are pending against the City. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential future liability for outstanding *certiorari* proceedings to be $751 million at June 30, 2007. For a discussion of the City's accounting treatment of its inequality and overvaluation exposure, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

Miscellaneous

1. In March 2005, the United Federation of Teachers, the union that represents the teachers in the New York City public school system, commenced an action and an Article 78 proceeding in New York Supreme Court, New York County, against the Teachers' System and the City alleging that, due to certain miscalculations relating, *inter alia*, to the interest earned on member contributions to a retirement plan known as the 20 Year Pension Plan, teachers who retired under this plan do not receive the entire amount of retirement benefits to which they are entitled. Plaintiffs sought declaratory relief and an award to 20 Year Pension Plan members of not less than $800 million to equal the difference between what plaintiffs allege they are entitled to under the 20 Year Pension Plan and the amount actually received. The City

moved to dismiss the Article 78 proceeding and submitted an answer in the action. By decision dated October 17, 2006, the Court denied the City's motion to dismiss the Article 78 proceeding but granted the City's motion to dismiss the petitioners' contract claims. In October of 2007, the action and Article 78 proceeding were resolved by agreement of the parties. The parties agreed to resolve the dispute by supplementing the retirement benefits for the affected group by a total of $160 million over the appropriate actuarially calculated period, which is normally approximately ten years. The settlement is subject to the approval of the Court.

2. In February 1997, a former New York City school principal filed an action in New York State Supreme Court challenging the investment policies and practices of the Retirement Board of the Teachers' System with regard to a component of the Teachers' System consisting of member contributions and earnings thereon known as the Variable B Fund. Plaintiff alleges that the trustees of the Teachers' System illegally maintained the Variable B Fund as a fixed-income fund and ignored a requirement that a substantial amount of the Variable B Fund's assets be invested in equity securities. The defendants are the Teachers' System and its individual trustees. Plaintiff seeks damages on behalf of all Variable B Fund participants in excess of $2 billion. In May 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendants' motion for summary judgment. On November 19, 2003, the defendants again moved for summary judgment. On May 2, 2005, the Supreme Court denied defendants' second motion for summary judgment and ordered the matter to trial. On January 26, 2006, following a trial, the Supreme Court held that the Teachers' System and its individual trustees had not breached their fiduciary duty in establishing and operating the Variable B Fund as a stable value fund. On June 2, 2006, plaintiff served a notice of appeal of the judgment. On December 27, 2007, the Appellate Division upheld the judgment dismissing the complaint. On April 29, 2008, the Court of Appeals denied plaintiff's motion for leave to appeal the Appellate Division's decision.

3. Numerous proceedings alleging respiratory or other injuries from alleged exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City and other entities involved in the post-September 11 rescue and recovery process. Plaintiffs include, among others, Department of Sanitation employees, firefighters, police officers, construction workers and building clean-up workers. Complaints on behalf of approximately 10,000 plaintiffs alleging similar causes of action have been filed naming the City or other defendants. Approximately 5,000 of these plaintiffs have to date named the City as a defendant. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to federal District Court pursuant to the Air Transportation and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (2001), which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions on immunity grounds was denied on October 17, 2006 by the District Court. On March 26, 2008, the Second Circuit upheld the District Court's decision, holding that determining whether the City had immunity for its actions requires developing the factual record. A not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the "WTC Insurance Company") has been formed to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of $999,900,000. Most of the claims set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims.

One property damage claim relating to the September 11 attack alleges significant damages. The claim, which relates to the original 7 World Trade Center ("7 WTC"), alleges damages to Con Edison and its insurers of $214 million, subject to clarification, for the loss of the electrical substation over which 7 WTC was built. The claim alleges that a diesel fuel tank, which stored fuel for emergency back-up power to the City's Office of Emergency Management facility on the 23rd floor, contributed to the building's collapse. Con Edison and its insurers filed suit based on the allegations in their claim. Plaintiff has submitted to the Court a claim form required of all property damage plaintiffs in the September 11 litigation in the amount of approximately $750 million for damages suffered at several different locations in the aftermath of the September 11 attacks. Although it is not clear what portion of the increased damages plaintiff alleges to be the responsibility of the City, it appears that no part of the increased claim can be attributed to the City's actions. The City's motion for summary judgment was granted in January 2006. The action, however, is proceeding against other defendants, and plaintiff intends to appeal the dismissal of its claim against the City when discovery is complete or at the conclusion of the case.

4. One hundred ninety-one notices of claim were filed and of these, 179 actions have been commenced in federal court against the City in connection with the Staten Island Ferry accident on October 15, 2003. The notices and actions seek damages exceeding $3 billion for various claims including personal injury, wrongful death and emotional distress. On December 1, 2003 the City filed a limitation complaint in federal court pursuant to federal maritime law seeking to limit its potential liability to approximately $14 million, the value of the ferry involved in the accident. On August 3, 2005, plaintiffs brought a motion to dismiss the limitation complaint. On February 26, 2007, the City's limitation complaint was decided against the City. On March 27, 2008, the Second Circuit affirmed the District Court's opinion, denying the City's petition to limit its damage exposure to the value of the vessel. Currently, 55 cases are still pending in connection with the accident.

5. The Office of the Inspector General of the United States Department of Health and Human Services ("HHS") has issued audit reports on claims submitted to the New York State Medicaid program by DOE with respect to services for students with disabilities. The audits state generally that the State improperly billed HHS approximately $800 million in Federal Financial Participation ("FFP") for State Medicaid expenditures for 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 responses raising objections, based in law and policy, to the audits' findings and requesting no further federal action be taken in response to the audits. The Centers for Medicare and Medicaid Services has not imposed any disallowances of FFP to date. The audits may be the subject of further administrative or judicial review that may result in changes in amounts alleged to be owed by the State. In the event that FFP is ultimately disallowed and found to be owed by the State to HHS, the State may in turn seek to collect amounts received by DOE for services that are the subject of such disallowances, or may attempt to offset amounts owed to DOE. Further, in agreements with DOE related to these audits concerning the tolling of any applicable statute of limitations, the United States Department of Justice has taken the position that the United States believes it has certain civil causes of action against DOE under the False Claims Act, the Civil Monetary Penalties Law and the common law in relation to the submission of claims to the Medicaid Program with respect to school and preschool supportive health services. The False Claims Act, in certain circumstances, permits recovery by the United States of three times the amount of actual damages as well as penalties of up to $11,000 per claim, and the Civil Monetary Penalties Law provides for similarly substantial civil damages.

6. In 2002, more than sixteen thousand police officers and detectives opted into Scott v. City of New York, a collective action brought in the United States District Court for the Southern District of New York, pursuant to the Fair Labor Standards Act (the "FLSA"). The police officers allege that the New York City Police Department has violated the overtime provisions of the FLSA in a number of ways. Under the FLSA, successful plaintiffs would be entitled to double damages for a period going back three years from the filing of the case in 2002, and attorneys' fees. Plaintiffs seek damages in excess of $333 million. The matter is currently in discovery. An adverse determination in this case could result in substantial costs to the City.

Further Information

The references herein to, and summaries of, provisions of federal, State and local laws, including but not limited to the State Constitution, the Financial Emergency Act and the City Charter, and documents, agreements and court decisions, including but not limited to the Financial Plan, are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions, copies of which are available for inspection during business hours at the office of the Corporation Counsel.

Copies of the most recent financial plan submitted to the Control Board are available upon written request to the Office of Management and Budget, Attn: Director of Investor Relations, 75 Park Place, New York, New York 10007, and copies of the published Comprehensive Annual Financial Reports of the

Comptroller are available upon written request to the Office of the Comptroller, Deputy Comptroller for Public Finance, Fifth Floor, Room 517, Municipal Building, One Centre Street, New York, New York 10007. Financial plans are prepared quarterly, and the Comprehensive Annual Financial Report of the Comptroller is typically prepared at the end of October of each year.

Neither this Appendix B nor any statement which may have been made orally or in writing shall be construed as a contract or as a part of a contract with the original purchaser or any holders of the Bonds.

THE CITY OF NEW YORK

APPENDIX A
TO APPENDIX B

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

New York City Economy

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

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

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s which was followed by an expansion that lasted until 2001. The economic slowdown that began in 2001 as a result of the September 11 attack, a national economic recession, and a downturn in the securities industry came to an end in 2003. Since then, Wall Street activity, tourism, and the real estate market have driven a broad based economic recovery. The Financial Plan assumes that a decrease in economic activity began in the second half of calendar year 2007 and will persist through 2008.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1996 to 2006 (the most recent year for which City personal income data are available). From 1996 to 2006, personal income in the City averaged 5.1% growth compared to 5.4% for the nation. After increasing by 7.9% in 2005, total personal income increased by 8.4% in 2006. The following table sets forth information regarding personal income in the City from 1996 to 2006.

PERSONAL INCOME(1)

Year	Total NYC Personal Income ($ billions)	Per Capita Personal Income NYC	Per Capita Personal Income U.S.	NYC as a Percent of U.S.
1996	$234.1	$30,407	$24,175	125.8%
1997	245.5	31,579	25,334	124.6
1998	262.0	33,341	26,883	124.0
1999	275.4	34,658	27,939	124.0
2000	296.0	36,914	29,845	123.7
2001	302.7	37,508	30,574	122.7
2002	299.8	37,046	30,821	120.2
2003	306.1	37,590	31,504	119.3
2004	327.8	40,055	33,123	120.9
2005	353.6	43,047	34,757	123.9
2006	383.1	46,434	36,714	126.5

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

(1) In current dollars. Personal Income is based on the place of residence and is measured from income which includes wages and salaries, supplements to wages and salaries, proprietors' income, personal dividend income, personal interest income, rental income of persons, and transfer payments.

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1992 through 2000, the City experienced significant private sector job growth with the addition of approximately 452,700 new private sector jobs (an average annual growth rate of approximately 2.0%). Between 2000 and 2003 the City lost 174,300 private sector jobs. From 2003 through 2007, the City fully recovered those jobs, adding a total of 211,200 private sector jobs.

As of April 2008, total employment in the City was 3,765,900 compared to 3,725,100 in April 2007, an increase of approximately 1.1%.

The table below shows the distribution of employment from 1997 to 2007.

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Goods Producing Sectors											
Construction	93	101	112	120	122	116	113	112	113	118	127
Manufacturing	201	196	187	177	156	139	127	121	114	106	101
Service Producing Sectors											
Trade Transportation and Utilities	537	542	556	570	557	536	534	539	547	558	571
Information	163	166	173	187	200	177	164	160	163	165	166
Financial Activities	468	477	481	489	474	445	434	435	445	458	468
Professional and Business Services	494	525	553	587	582	550	537	541	555	571	591
Education and Health Services	576	589	604	615	627	646	658	665	679	695	707
Leisure and Hospitality	228	236	244	257	260	255	260	270	277	285	297
Other Services	129	134	142	147	149	150	149	151	153	154	158
Total Private	2,890	2,966	3,053	3,154	3,127	3,015	2,975	2,995	3,047	3,111	3,186
Government	550	560	567	569	562	566	557	554	556	555	559
Total	3,442	3,528	3,621	3,723	3,692	3,584	3,532	3,549	3,602	3,666	3,745

Note: Totals may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics. Data are presented using the North American Industry Classification System ("NAICS").

Sectoral Distribution of Employment and Earnings

In 2006, the City's service producing sectors provided approximately 2.9 million jobs and accounted for approximately 79% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2006, the employment share for the financial activities and professional and business services sectors was approximately 28% while the earnings share for that same sector was approximately 50%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 26% of earnings in 2006. Due to the earnings distribution in the City, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

The City's and the nation's employment and earnings by sector for 2006 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2006(1)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.5%	0.2%	1.3%
Construction	3.2	5.7	2.8	6.5
Manufacturing	2.9	10.4	2.3	12.5
Total Goods Producing	6.1	16.6	5.3	20.3
Service Producing Sectors				
Trade, Transportation and Utilities	15.2	19.3	8.5	16.0
Information	4.5	2.2	7.6	3.6
Financial Activities	12.5	6.1	30.8	10.2
Professional and Business Services	15.6	12.9	19.4	15.6
Education and Health Services	18.9	13.1	10.1	10.7
Leisure & Hospitality	7.8	9.6	3.8	3.8
Other Services	4.2	4.0	2.4	2.9
Total Service Producing	78.7	67.3	82.7	62.8
Total Private Sector	84.9	83.9	89.6	83.4
Government(3)	15.1	16.1	10.4	16.6

Note: Data may not add due to rounding or restrictions on reporting earnings data. Data are presented using NAICS.
Sources: The two primary sources are the U.S. Department of Labor, Bureau of Labor Statistics and the U.S. Department of Commerce, Bureau of Economic Analysis.

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

(2) Includes the sum of wage and salary disbursements, other labor income and proprietor's income. The latest information available is 2006 data.

(3) Excludes military establishments.

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

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

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

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

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

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

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

(3) Excludes military establishments.

Unemployment

As of April 2008, the total unemployment rate in the City was 4.5%, as it was in April 2007. The annual unemployment rate of the City's resident labor force is shown in the following table.

ANNUAL UNEMPLOYMENT RATE(1)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
New York City	9.4%	7.9%	6.9%	5.8%	6.1%	8.0%	8.3%	7.1%	5.8%	5.0%	5.0%
United States	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%

Note: Monthly and semi-annual data are not seasonally adjusted. Because these estimates are based on a sample rather than a full count of population, these data are subject to sampling error. Accordingly, small differences in the estimates over time should be interpreted with caution. The Current Population Survey includes wage and salary workers, domestic and other household workers, self-employed persons and unpaid workers who work 15 hours or more during the survey week in family businesses.

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

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

Public Assistance

As of April 2008, the number of persons receiving public assistance in the City was 346,740 compared to 363,392 in April 2007. The following table sets forth the number of persons receiving public assistance in the City.

PUBLIC ASSISTANCE

(Annual Averages in Thousands)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1,003.3	873.6	760.1	668.2	573.0	492.8	434.0	424.7	434.8	416.9	393.1	360.8

Taxable Sales

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. The sales tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. The total taxable sales volume has grown steadily since 1996 with a growth rate averaging over 4.4%. It is projected that total taxable sales will increase in 2007. The following table illustrates the volume of sales and purchases subject to the sales tax from 1996 to 2006.

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

Year(1)	Retail(2)	Utility & Communication Sales(3)	Services(4)	Manufacturing	Other(5)	All Total
1996	$29.1	$ 9.8	$11.4	$3.6	$ 9.3	$63.2
1997	31.5	9.8	13.5	3.9	8.8	67.5
1998	33.4	9.8	14.8	4.2	9.7	71.9
1999	35.0	9.6	16.1	4.2	9.6	74.5
2000(6)	29.9	9.8	19.4	2.1	15.4	76.6
2001(6)	25.1	11.3	21.4	2.2	19.0	79.1
2002(6)	25.6	11.9	20.7	2.0	15.2	75.5
2003(6)	26.1	11.4	21.0	1.9	14.8	75.2
2004(6)	32.3	11.6	21.7	1.9	14.8	82.3
2005(6)	36.5	12.0	24.1	2.1	16.2	90.9
2006(6)	37.7	13.1	26.2	2.2	18.2	97.4

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

(1) For 1996 through 1999, the yearly data is for the period from September 1 of the year prior to the listed year through August 31 of the listed year. For 2000 through 2006 the yearly data is for the period from March 1 of the year prior to the listed year through the last day of February of the listed year.

(2) Retail sales include building materials, general merchandise, food, auto dealers/gas stations, apparel, furniture, eating and drinking and miscellaneous retail.

(3) Utility and Communication sales include electric and gas and communication.

(4) Services include business services, hotels, personal services, auto repair and other services.

(5) Other sales include construction, wholesale trade and others. Beginning in 2000, Other sales also includes arts, entertainment and recreation.

(6) Prior to 2000, the sectors were classified according to SICS. Beginning in 2000, the sectors are classified according to NAICS. The definitions of certain categories have changed.

Population

The City has been the most populous city in the United States since 1790. The City's population is almost as large as the combined population of Los Angeles, Chicago and Houston, the three next most populous cities in the nation.

POPULATION

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

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

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

DISTRIBUTION OF POPULATION BY AGE

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

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

Housing

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

HOUSING INVENTORY
(In Thousands)

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

Note: Details may not add up to totals due to rounding.

Sources: U.S. Bureau of the Census, 1981, 1984, 1987, 1991, 1993, 1996, 1999, 2002 and 2005 New York City Housing and Vacancy Surveys.

(1) Vacant units that are dilapidated, intended for seasonal use, held for occasional use, held for maintenance purposes or other reasons.

LARGEST REAL ESTATE TAXPAYERS

No single taxpayer accounts for 10% or more of the City's real property tax. For the 2008 fiscal year, the billable assessed valuation of real estate of utility corporations is $11.1 billion. The following table presents the 40 non-utility properties having the greatest assessed valuation in the 2008 fiscal year as indicated in the tax rolls.

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

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

FINANCIAL STATEMENTS
OF
THE CITY OF NEW YORK

Basic Financial Statements of The City of New York
June 30, 2007 and 2006

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INDEPENDENT AUDITORS' REPORT

The People of The City of New York:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City of New York (The "City") as of and for the years ended June 30, 2007 and 2006, which collectively comprise The City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The City's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of those entities disclosed in Note E.1 which represent 37 percent and 20 percent and 35 percent and 16 percent, as of and for the years ended June 30, 2007 and 2006 respectively, of the assets and revenues of the government-wide financial statements and 22 percent and 15 percent and 21 percent and 17 percent, as of and for the years ended June 30, 2007 and 2006 respectively, of the assets and revenues of the fund financial statements of The City. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities disclosed in Note E.1, are based solely on the reports of other auditors. The report of the independent auditor for the New York City Off-Track Betting Corporation contained an explanatory paragraph regarding its ability to continue as a going concern (see Note A.1).

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City, as of June 30, 2007 and 2006, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis as listed in the foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of The City's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2007 and 2006 supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

October 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of The City of New York (City) for the fiscal years ended June 30, 2007 and 2006. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in *net assets* may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes, and earned, but unused vacation leave).

The government-wide financial statements present information about the City as a primary government, which includes the City's blended component units. All of the activities of the primary government are considered to be governmental activities. This information is presented separately from the City's discretely presented component units.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, including the Financial Emergency Act.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of a fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds and governmental activities.*

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The fiduciary funds include the Pension and Other Employee Benefit Trust Funds and the Agency Funds.

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB43) in fiscal year 2006. GASB43 establishes financial reporting standards for other postemployment benefits (OPEB) plans that are administered by a trust. The City also established the New York City Retiree Health Benefits Trust (RHBT), for the administration of the City's OPEB Plan (Plan). The RHBT is reported in the City's financial statement as a fiduciary component unit. The RHBT was established for the exclusive benefit of the City's retired employees and their dependents in providing the following current postemployment benefits: a health insurance program, Medicare Part B premium reimbursements and welfare fund contributions. The City is not required to provide funding for the Plan other than the "pay-as-you-go" amount necessary to provide these benefits to current eligible retirees and their dependents. During fiscal year 2007, the City contributed $2.9 billion to RHBT, $1.4 billion was considered pay-as-you-go.

Notes to financial statements

The notes to financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements. The notes also present certain required supplementary information concerning the City's progress in funding its obligation to provide pension and OPEB benefits to its employees and retirees and their dependents.

Financial Reporting Entity

The financial reporting entity consists of the primary government including the Department of Education of The City of New York and the community colleges of the City University of New York, other organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to either impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Blended Component Units

Certain component units, despite being legally separate from the primary government, are blended with the primary government. Blended component units all provide services exclusively to the City and thus are reported as if they were part of the primary government. The blended component units, which are all reported as nonmajor governmental funds, comprise the following:

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

Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government and are reported as discretely presented component units because the City appoints a majority of these organizations' boards, is able to impose its will on them, or a financial benefit/burden situation exists.

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

New York City Water and Sewer System (NYW)
- New York City Water Board (Water Board)
- New York City Municipal Water Finance Authority (Water Authority)

New York City Housing Authority (HA)
New York City Housing Development Corporation (HDC)
New York City Health and Hospitals Corporation (HHC)
New York City Economic Development Corporation (EDC)
New York City Off-Track Betting Corporation (OTB)

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

WTC Captive Insurance Company, Inc. (WTC Captive)
Jay Street Development Corporation (JSDC)
Brooklyn Navy Yard Development Corporation (BNYDC)
New York City Industrial Development Agency (IDA)
Business Relocation Assistance Corporation (BRAC)
New York City Marketing Development Corporation (MDC)
New York City Capital Resource Corporation (CRC)

Financial Analysis of the Government-wide Financial statements

In the government-wide financial statements, all of the activities of the City, aside from its discretely presented component units, are considered governmental activities. Governmental activities decreased the City's net assets by $2.8 billion during fiscal year 2007, and decreased net assets by $53.7 billion during fiscal year 2006, and decreased net assets by $671 million during fiscal year 2005.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2007 governmental funds statement of revenues, expenditures, and changes in fund balances which reports an increase of $2.9 billion in fund balances and the reported decrease in the excess of liabilities over assets reported in the government-wide statement of activities $2.8 billion, a difference of $5.7 billion. A similar reconciliation is provided for fiscal year 2006 amounts.

Key elements of the reconciliation of these two statements are that the government-wide statement of activities report the issuance of debt as a liability, the purchases of capital assets as assets which are then charged to expense over their useful lives (depreciated) and changes in long-term liabilities as adjustments of expenses. Conversely, the governmental funds statements report the issuance of debt as an other financing source of funds, the repayment of debt as an expenditure, the purchase of capital assets as an expenditure and do not reflect changes in long-term liabilities.

Key elements of these changes are as follows:

	Governmental Activities for the fiscal years ended June 30,		
	2007	2006	2005
		(in thousands)	
Revenues:			
Program revenues:			
Charges for services	$ 3,766,023	$ 3,345,160	$ 4,143,436
Operating grants and contributions	16,296,835	15,126,979	15,936,907
Capital grants and contributions	882,239	475,674	366,432
General revenues:			
Taxes	38,778,225	35,381,695	31,708,689
Investment income	669,173	465,685	232,109
Unrestricted Federal and State aid	560,964	973,766	1,258,399
Other	297,427	319,122	581,497
Total revenues	61,250,886	56,088,081	54,227,469
Expenses:			
General government	3,057,503	3,861,343	3,374,268
Public safety and judicial	15,510,212	38,107,802	12,696,849
Education	19,645,691	34,564,249	15,613,925
City University	675,888	907,472	646,397
Social services	12,080,533	13,025,782	10,882,448
Environmental protection	3,218,040	6,906,033	2,375,604
Transportation services	1,839,849	2,155,180	1,827,871
Parks, recreation and cultural activities	780,515	974,610	628,807
Housing	1,287,183	1,711,951	1,007,341
Health (including payments to HHC)	3,025,268	4,699,686	3,186,166
Libraries	375,453	301,342	389,739
Debt service interest	2,560,133	2,573,905	2,269,181
Total expenses	64,056,268	109,789,355	54,898,596
Change in net assets	(2,805,382)	(53,701,274)	(671,127)
Net Deficit—Beginning	(80,893,815)	(27,192,541)	(26,521,414)
Net Deficit—Ending	$ (83,699,197)	$ (80,893,815)	$(27,192,541)

In fiscal year 2007, the government-wide revenues increased from fiscal year 2006 levels by approximately $5.2 billion, while government-wide expenses decreased by approximately $45.7 billion. The primary cause of the large decrease in expenses is due to the City's implementation of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB45) in fiscal year 2006.

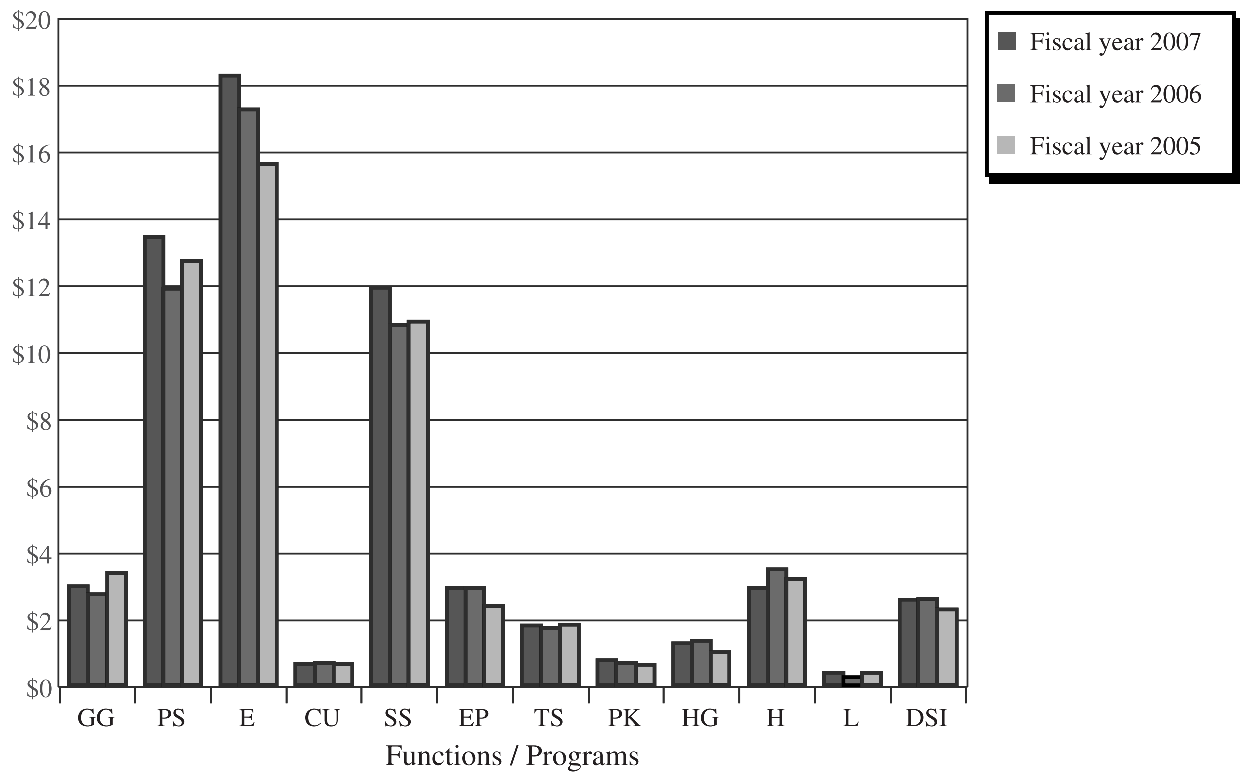
GASB45 establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Postemployment benefits are part of an exchange of current salaries and benefits for employee services rendered. Prior to GASB45, most OPEB Plans were reported on a pay-as-you-go basis and a government's financial statements did not report the financial effects of these postemployment benefits until paid.

GASB45 requires the financial reports of governments to provide a systematic, accrual-basis measurement of an annual OPEB cost. The following schedule displays the effect of the GASB45 expenses as they appear in the Statement of Activities for fiscal year 2007 and a comparison to fiscal year 2006:

	Fiscal Year 2007 (in thousands)		
Functions/Programs	**Expenses per Statement of Activities**	**GASB45 Expenses**	**Expenses excluding GASB45**
General government (GG)	$ 3,057,503	$ 96,945	$ 2,960,558
Public safety and judicial (PS)	15,510,212	2,074,002	13,436,210
Education (E)	19,645,691	1,388,841	18,256,850
City University (CU)	675,888	18,370	657,518
Social services (SS)	12,080,533	178,666	11,901,867
Environmental protection (EP)	3,218,040	311,083	2,906,957
Transportation services (TS)	1,839,849	35,645	1,804,204
Parks, recreation and cultural activities (PK)	780,515	21,659	758,856
Housing (HG)	1,287,183	28,427	1,258,756
Health, including payments to HHC (H)	3,025,268	96,812	2,928,456
Libraries (L)	375,453	4,037	371,416
Debt service interest (DSI)	2,560,133	—	2,560,133
Total expenses	$ 64,056,268	$ 4,254,487	$59,801,781

	Fiscal Year 2006 (in thousands)			
Functions/Programs	**Expenses per Statement of Activities**	**GASB45 Expenses**	**Expenses excluding GASB45**	**Fiscal Year 2005 Expenses per Statement of Activities**
General government (GG)	$ 3,861,343	$ 1,118,835	$ 2,742,508	$ 3,374,268
Public safety and judicial (PS)	38,107,802	26,228,204	11,879,598	12,696,849
Education (E)	34,564,249	17,319,446	17,244,803	15,613,925
City University (CU)	907,472	231,978	675,494	646,397
Social services (SS)	13,025,782	2,256,234	10,769,548	10,882,448
Environmental protection (EP)	6,906,033	3,996,576	2,909,457	2,375,604
Transportation services (TS)	2,155,180	450,137	1,705,043	1,827,871
Parks, recreation and cultural activities (PK)	974,610	273,514	701,096	628,807
Housing (HG)	1,711,951	358,978	1,352,973	1,007,341
Health, including payments to HHC (H)	4,699,686	1,222,566	3,477,120	3,186,166
Libraries (L)	301,342	50,983	250,359	389,739
Debt service interest (DSI)	2,573,905	—	2,573,905	2,269,181
Total expenses	$109,789,355	$53,507,451	$56,281,904	$54,898,596

Expenses — Governmental Activities[(1)]
for the fiscal years ending June 30, 2007, 2006 and 2005
(in billions)



(1) Expenses exclude GASB45.

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

- The increase in operating grants and contributions is primarily composed of:
  - An increase in federal grants for social services that reflects higher rates paid for children in foster care and for adoption placements.
  - An increase in Medicaid reimbursements that reflects higher medical and administrative costs of the program.
  - An increase in education state aid that is primarily due to an increase in education formula aid.
- The increase in the real estate tax revenues is due to growth of 4.6 percent in the billable assessed value of real property.
- An increase in taxable sales is due to increased employment and an increase in wage rates of those living and working in the City.
- The NYS School Tax Relief program was expanded by the state legislature leading to an increase in revenues to the City.
- Strong personal income tax revenue growth is due to a near record of $20.9 billion in Wall Street profits in calendar year 2006 leading to strong bonus payouts, as well as strong non-finance sector job growth.
- An increase in other taxes is primarily due to a large increase in real property transaction taxes and mortgage recording taxes. This growth was the result of the continued real estate boom as homeowners moved to lock-in historically low interest rates and as investor interest in Manhattan commercial real estate continued.

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

- The fiscal year 2006 expense numbers include the recognition of $53.5 billion of unfunded retirement health and related benefits earned by employees in fiscal year 2006 and prior years as part of the City's implementation of GASB45. The fiscal year 2007 expense numbers include $4.3 billion of unfunded retirement health and related benefits earned by employees in fiscal year 2007. (This should be considered when reviewing the year-to-year change in expenses.)
- Expenses for education grew due to collective bargaining increases, the opening of new schools, the implementation or expansion of policy initiatives such as collaborative team teaching, the lead teacher program, and improving translation and interpretation services.
- City-wide, pension costs increased due to investment losses in previous years, a growth in wages, and changes in actuarial assumptions; fringe benefits costs increased due to increases in health insurance and the Medicare Part B premiums. Generally, pension and fringe benefit costs increased disproportionately for uniform employees, which are reflected in the increase in the public safety and judicial expense category.
- Social service expenses increased due to an increase in Medicaid costs, some of which are reflected as social service expenses rather than health expenses for the first time in fiscal year 2007. Social service expenses reflect higher rates paid for children in foster care and for adoption placements.

In fiscal year 2006, the government-wide revenues increased from fiscal year 2005 by approximately $1.9 billion. The government-wide expenses grew by approximately $54.9 billion, which includes the recording of GASB45 expenses in the amount of $53.5 billion.

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

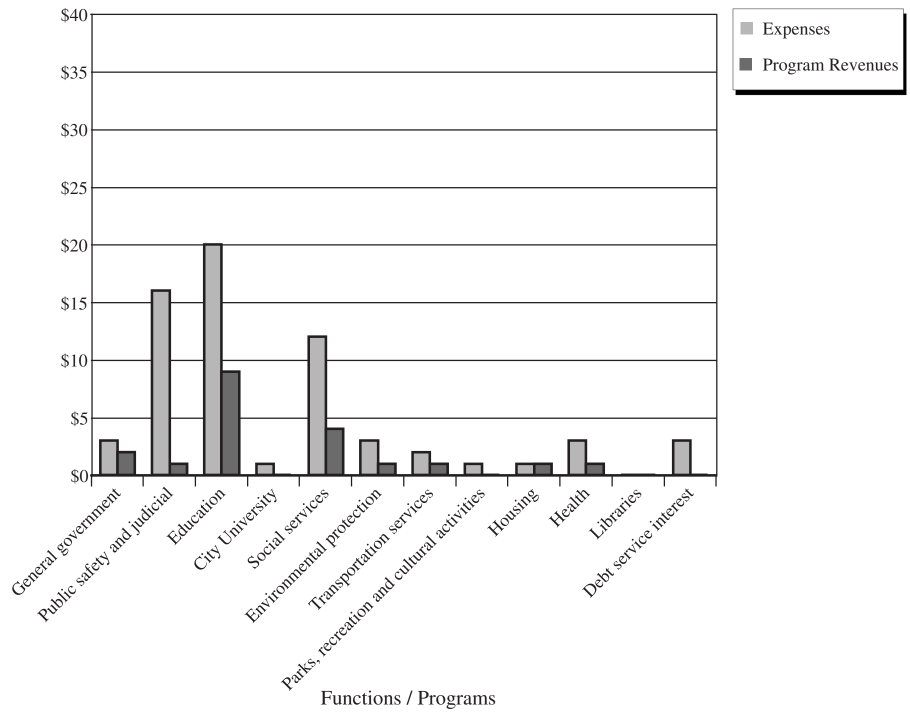
- An increase in the real estate tax resulting primarily from the continuing increase in billable assessed value.
- An increase in taxable sales due to increased employment (the addition of 52,000 jobs) and an increase in wage rate. In addition, an increase in sales tax from construction related taxable sales related to the strong housing market as well as continued strength in tourist spending.
- An increase in personal income tax resulting from strong installment payments resulting from a 37% growth in non-wage income, as well as increased employment and the overall wage rate.
- An increase in business income taxes (the general corporation, banking corporation and the unincorporated business tax) resulting from increased tax payments from large Wall Street firms. In addition, national corporate profits posted double digit growth over the period lifting payments from the City's non-finance sectors of the business taxes.
- An increase in other taxes resulting primarily from the large increase in collections seen in the real estate transaction taxes. The real property transaction tax grew 23% in fiscal year 2006 while the mortgage recording tax grew 8%. The growth resulted from the continuation of the real estate boom as homeowners moved to lock-in historically low interest rates and as investor interest in Manhattan commercial real estate, precipitated by low vacancy rates and high rents, continued apace.
- Decreases in charges for services results primarily because fiscal year 2005 included a one time settlement of a dispute over back rent with the Port Authority of New York and New Jersey.
- A decrease in operating grants because fiscal year 2005 included a one-time pass through of Federal funds to capitalize the WTC Captive.
- An increase in capital grants, primarily as a result of increased Federal funds used for housing.

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

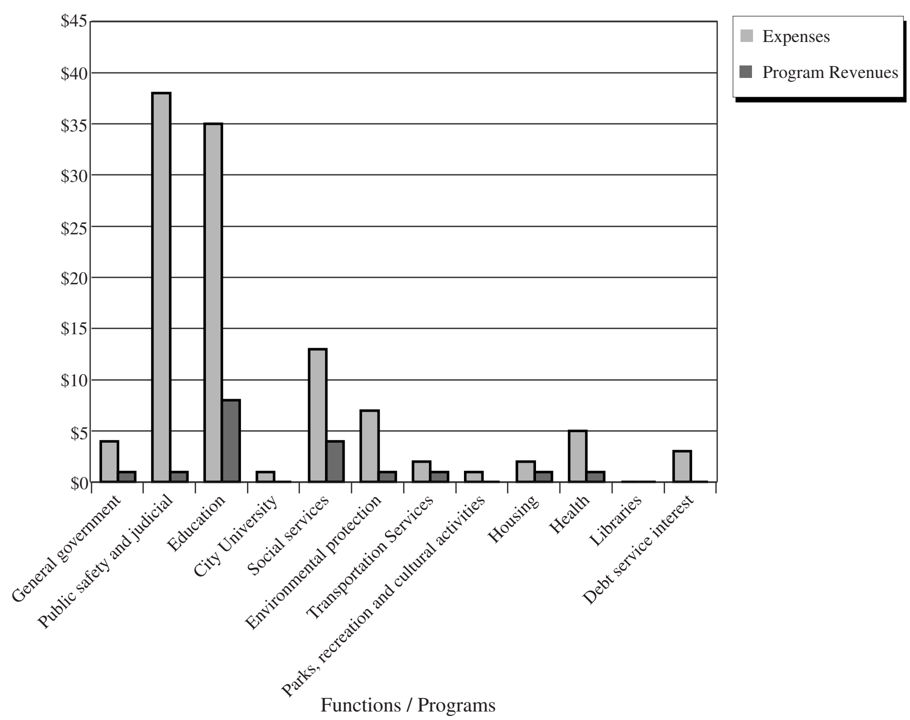
- Recognition of $53.5 billion of unfunded retirement health and related benefits earned by employees in fiscal year 2006 and prior years as part of the City's implementation of GASB45. These costs disproportionately impact uniform employees whose average length of retirement is longer than the general civilian workforce.
- An increase in salaries and wages City-wide of approximately $300 million in fiscal year 2006, reflecting collective bargaining increases.
- An increase in pension and fringe benefit payments for active and retired employees, including a $1 billion contribution to the New York City Retiree Health Benefits Trust.
- An increase in education spending resulting primarily from increased cost for pupil transportation and payments to contract schools.
- An increase in Medicaid payments to the Health and Hospitals Corporation of $645 million, offset by a decrease in subsidy payments in fiscal year 2005 to the Corporation of $172 million, and a one-time $120 million subsidy to the New York City Housing Authority.
- A decrease of general government spending because fiscal year 2005 included a one-time pass through of Federal funds to capitalize the WTC Captive.

The following charts compare the amounts of expenses and program revenues for fiscal years 2007 and 2006:

Expenses and Program Revenues — Governmental Activities(1)
June 30, 2007
(in billions)



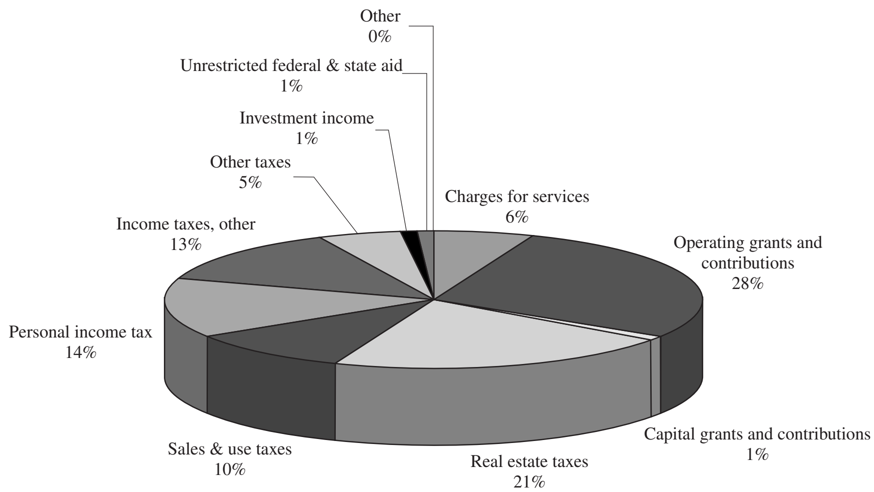
Expenses and Program Revenues — Governmental Activities(1)
June 30, 2006
(in billions)



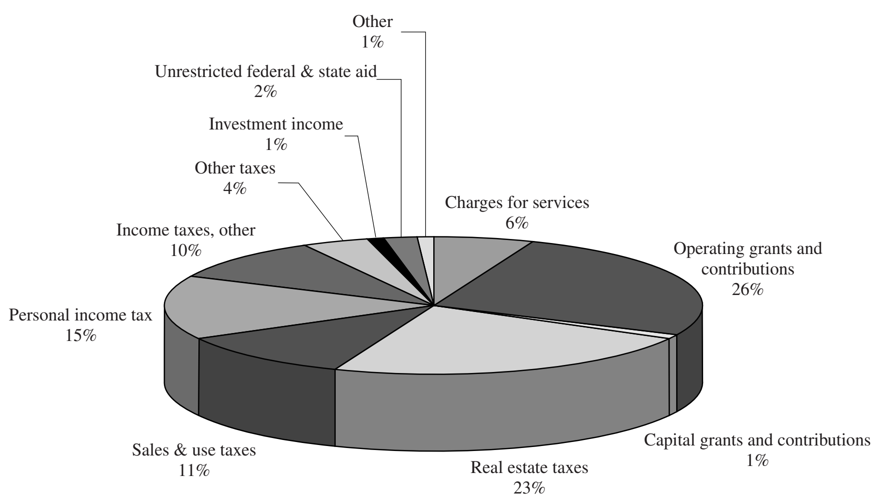
(1) Expenses include GASB45.

The following charts compare the amounts of program and general revenues for fiscal years 2007 and 2006:

Revenues by Source — Governmental Activities for the Year Ended June 30, 2007



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



As noted earlier, increases and decreases of net assets may over time serve as a useful indicator of changes in a government's financial position. In the case of the City, liabilities exceed assets by $83.7 billion at the close of the most recent fiscal year, an increase in the excess of liabilities over assets of $2.8 billion from June 30, 2006, compared with an increase of $53.7 billion in the prior fiscal year.

	Governmental Activities		
	2007	2006	2005
		(in thousands)	
Current and other assets	$ 30,998,631	$ 27,878,882	$ 27,783,430
Capital assets (net of depreciation)	34,331,152	32,170,950	30,682,882
Total assets	65,329,783	60,049,832	58,466,312
Long-term liabilities	130,201,374	121,963,394	66,590,911
Other liabilities	18,827,606	18,980,253	19,067,942
Total liabilities	149,028,980	140,943,647	85,658,853
Net assets:			
Invested in capital assets, net of related debt	(5,239,185)	(5,373,813)	(6,611,918)
Restricted	6,797,652	5,246,663	4,640,370
Unrestricted	(85,257,664)	(80,766,665)	(25,220,993)
Total net deficit	$(83,699,197)	$(80,893,815)	$(27,192,541)

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest components of the net deficit are the result of the City having long-term debt with no corresponding capital assets and the City's OPEB liability. The following summarizes the main components of the net deficit as of June 30, 2007 and 2006:

Components of Net Deficit	2007	2006
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable life used for financial reporting that is different from the period over which the related debt principal is being repaid. Schools and related education assets depreciate more quickly than their related debt is paid, and they comprise one of the largest components of this difference	$ (5.2)	$ (5.3)
Net Assets Restricted for:		
Debt Service	5.4	4.8
Capital Projects	1.4	.5
Total net assets restricted	6.8	5.3
Unrestricted Net Assets		
TFA issued debt to finance costs related to the recovery from the September 11, 2001 World Trade Center disaster, which are operating expenses of the City	(1.8)	(1.8)
STAR issued debt related to the defeasance of the MAC issued debt	(2.4)	(2.5)
The City has issued debt for the acquistion and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority (TA), NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end.	(11.1)	(12.1)
Certain long-term obligations do not require current funding:		
OPEB liability	(57.8)	(53.5)
Judgments and claims	(5.4)	(5.0)
Vacation and sick leave	(3.1)	(2.8)
Pension liability	(0.7)	(0.8)
Landfill closure and postclosure costs	(1.6)	(1.7)
Other:	(1.4)	(.7)
Total unrestricted net assets	(85.3)	(80.9)
Total net deficit	$(83.7)	$(80.9)

Financial Analysis of the Governmental Funds

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

Governmental Funds

	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total
			(in thousands)			
Fund balances (deficit), June 30, 2005	$ 417,841	$(1,460,885)	$ 2,088,280	$ 2,973,638	$ 1,829	$ 4,020,703
Revenues	53,900,778	2,155,522	27,350	2,550,523	(1,717,466)	56,916,707
Expenditures	(49,508,064)	(6,594,587)	(3,160,474)	(3,691,821)	1,715,637	(61,239,309)
Other financing sources (uses)	(4,388,072)	3,696,009	4,288,516	(10,065)	—	3,586,388
Fund balances (deficit), June 30, 2006	$ 422,483	$(2,203,941)	$ 3,243,672	$ 1,822,275	$ —	$ 3,284,489
Revenues	58,710,797	2,797,692	22,148	3,255,673	(1,861,580)	62,924,730
Expenditures	(53,107,582)	(7,496,388)	(3,919,643)	(3,929,254)	1,861,580	(66,591,287)
Other financing sources (uses)	(5,598,400)	3,573,719	4,025,819	4,546,550	—	6,547,688
Fund balances (deficit), June 30, 2007	$ 427,298	$(3,328,918)	$ 3,371,996	$ 5,695,244	$ —	$ 6,165,620

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies and other payments that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of $4.670 billion and $3.756 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2007 and 2006, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of $5 million in both fiscal years 2007 and 2006, which resulted in an increase in fund balance by this amount.

The General Debt Service Fund receives transfers (discretionary and other) from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2007, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling $3.315 billion in fiscal year 2007. Similar transfers in fiscal year 2006 of $3.205 billion also primarily account for the General Debt Service Fund fund balance at June 30, 2006.

The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resource is obtained from the issuance of City and TFA debt. Capital-related expenditures are first paid from the General Fund, which is reimbursed for these expenditures by the New York City Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, and other revenues and financing sources, the Capital Projects Fund will have a deficit. The deficit fund balances at June 30, 2007 and 2006, represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

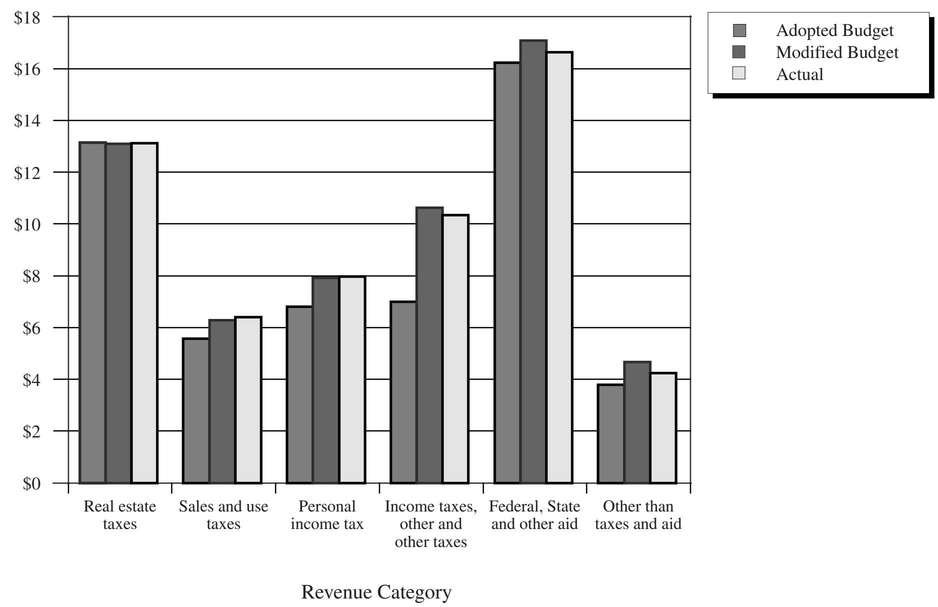
General Fund Budgetary Highlights

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

General Fund Revenues

The following charts and tables summarize actual revenues by category for fiscal years 2007 and 2006 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

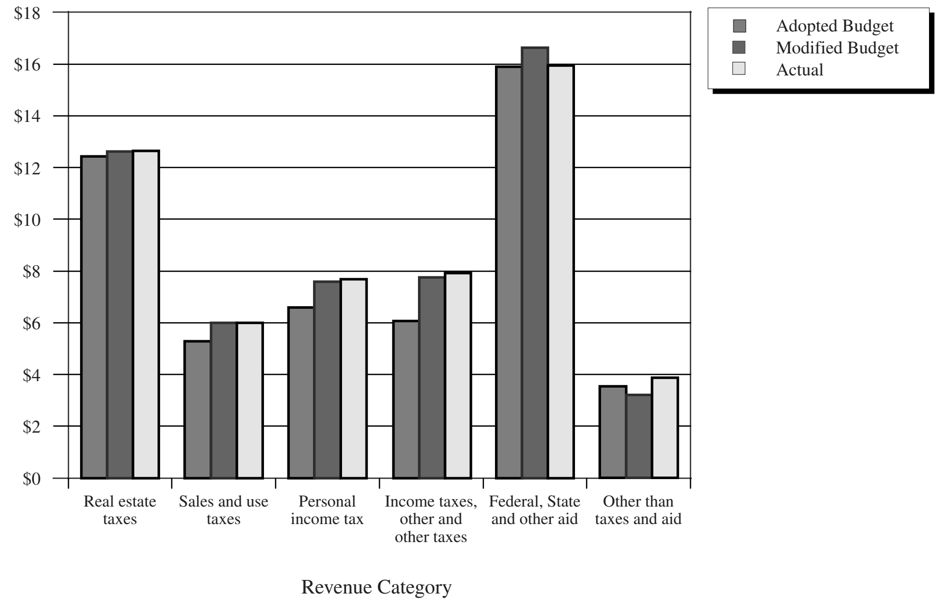
General Fund Revenues
Fiscal Year 2007
(in billions)



General Fund Revenues
Fiscal Year 2007
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	$13,140	$13,098	$13,123
Sales and use taxes	5,580	6,281	6,412
Personal income tax	6,812	7,930	7,963
Income taxes, other	4,584	6,645	7,451
Other taxes	2,405	3,981	2,892
Taxes (net of refunds)	32,521	37,935	37,841
Federal, State and other aid:			
Categorical	15,884	17,041	16,591
Unrestricted	340	33	35
Federal, State and other aid	16,224	17,074	16,626
Other than taxes and aid:			
Charges for services	1,820	1,914	1,921
Other revenues	1,980	2,743	2,323
Other than taxes and aid	3,800	4,657	4,244
Total revenues	$52,545	$59,666	$58,711

General Fund Revenues
Fiscal Year 2006
(in billions)

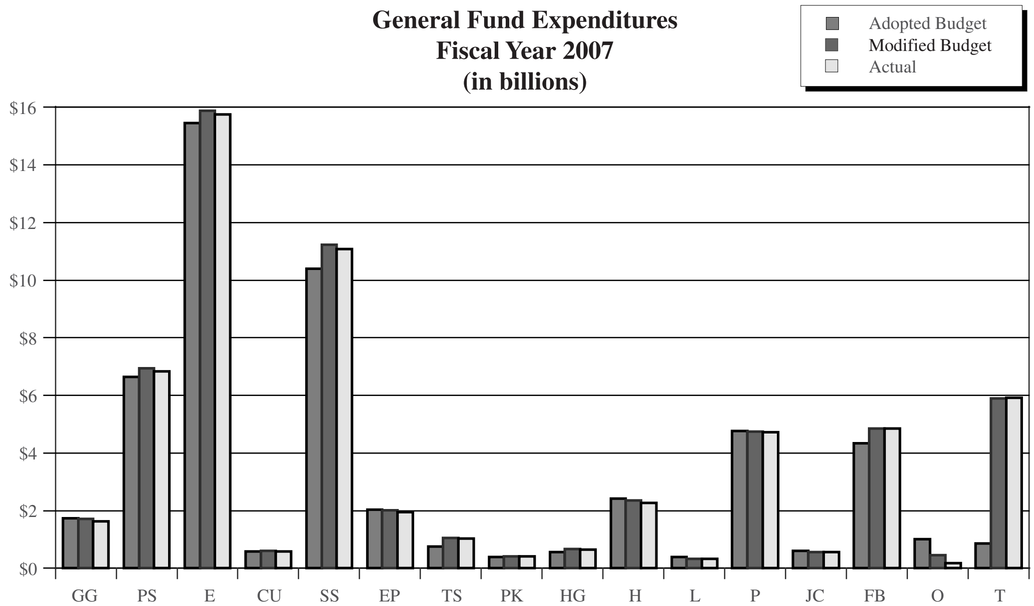


General Fund Revenues
Fiscal Year 2006
(in millions)

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

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2007 and 2006 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

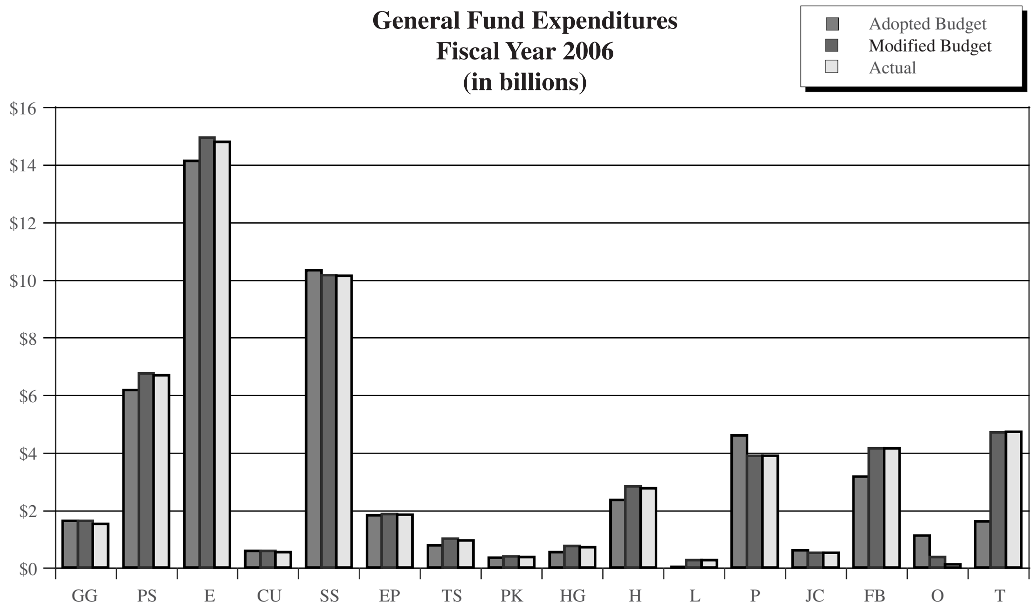


General Fund Expenditures

Fiscal Year 2007

(in millions)

	Adopted Budget	Modified Budget	Actual
General government (GG)	$ 1,731	$ 1,704	$ 1,620
Public safety and judicial (PS)	6,652	6,932	6,842
Education (E)	15,446	15,876	15,748
City University (CU)	574	601	577
Social services (SS)	10,388	11,227	11,078
Environmental protection (EP)	2,027	2,005	1,943
Transportation services (TS)	749	1,060	1,021
Parks, recreation and cultural activities (PK)	392	417	411
Housing (HG)	560	666	641
Health, including HHC (H)	2,413	2,346	2,273
Libraries (L)	39	331	330
Pensions (P)	4,755	4,737	4,726
Judgments and claims (JC)	602	564	564
Fringe benefits and other benefit payments (FB)	4,337	4,846	4,846
Other (O)	1,015	464	178
Transfers and other payments for debt service (T)	865	5,890	5,908
Total expenditures	$52,545	$59,666	$58,706



General Fund Expenditures

Fiscal Year 2006

(in millions)

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

General Fund Surplus

The City had General Fund operating surpluses of $4.670 billion, $3.756 billion and $3.534 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2007, 2006 and 2005, respectively. For the fiscal years 2007, 2006 and 2005, the General Fund surplus was $5 million after expenditures and transfers (discretionary and other).

The expenditures and transfers (discretionary and other) made by the City after the adoption of its fiscal years 2007, 2006, and 2005 budgets follow:

	2007	2006 (in millions)	2005
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	$ 153	$ 98	$ 341
Discretionary transfers to the General Debt Service Fund	3,160	3,106	1,507
Net equity contribution in bond refunding that accrued to future years debt service savings	2	1	1
Debt service prepayments for lease purchase debt service due in the fiscal year	165	74	88
Grant to TFA	546	—	947
Advance cash subsidies to the Public Library system	273	224	225
Advance cash subsidies to the TA and Metropolitan Transportation Authority (MTA)	275	248	248
Advance cash subsidies to the HHC	91	—	172
Total expenditures and transfers (discretionary and other)	4,665	3,751	3,529
Reported operating surplus	5	5	5
Total operating surplus	$4,670	$3,756	$3,534

Fiscal Year 2007

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2007 Adopted Budget:

	2007
Additional resources:	(in millions)
Greater than expected personal income tax collections	$1,133
Greater than expected general corporation tax collections	1,219
Greater than expected mortgage tax collections	688
Greater than expected sales tax collections	117
Greater than expected banking corporation tax collections	762
Greater than expected unincorporated business tax collections	444
Greater than expected property transfer tax collections	855
Greater than expected commercial rent tax collections	26
Greater than expected all other tax collections	96
Federal categorical aid	408
State categorical aid	316
Greater than expected charges for services	101
Greater than expected interest income	160
Greater than expected non-grant revenues	70
Greater than expected revenues from licenses, permits, privileges, and franchises	76
Greater than expected fines and forfeitures	14
Lower than expected all other general administrative OTPS spending	630
Lower than expected supplies and materials costs	83
Lower than expected debt service costs	315
Lower than expected all other health insurance expenditures	204
Lower than expected public assistance spending	179
Greater than expected asset sales	12
Lower than expected judgments & claims expenditures	103
Lower than expected fuel and energy costs	103
Lower than expected all other social services spending (net of Medicaid and Public Assistance)	35
Greater than expected all other miscellaneous revenues	81
Lower than expected pension costs	40
General Reserve	300
All other net underspending and revenues above budget	22
Total	8,592
Enabled the City to provide for:	
Higher than expected personal services spending (net of pension, health insurance and overtime)	150
Additional contribution to the Retiree Health Benefits Trust Fund	500
Higher than expected spending for contractual services	667
Higher than expected overtime costs	296
Higher than expected Medicaid spending (including HHC)	289
Higher than expected all other fixed and miscellaneous charges	84
Higher than expected property and equipment costs	99
Higher than expected provisions for disallowance reserve	88
Lower than expected unrestricted Federal and State aid	305
Additional prepayment of certain debt service costs and subsidies due in fiscal years 2008-2010	4,663
Retirement of capital debt	1,254
Additional pay-as-you-go capital spending	100
Higher than expected payments to the HHC	55
Lower than expected real estate tax collections	17
Higher than expected payments to the libraries	20
Total	8,587
Reported Surplus	$ 5

Fiscal Year 2006

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2006 Adopted Budget:

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

Capital Assets

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

	Governmental Activities		
	2007	**2006**	**2005**
		(in millions)	
Land*	$ 1,067	$ 968	$ 948
Buildings	20,205	19,319	19,006
Equipment	1,301	1,393	1,574
Infrastructure**	8,132	7,537	7,101
Construction work-in-progress*	3,626	2,954	2,054
Total	$34,331	$32,171	$30,683

* not depreciable

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

The net increase in the City's capital assets during fiscal year 2007 was $2.160 billion, a 6.7% increase. Capital assets additions in fiscal year 2007 were $6.140 billion, an increase of $1.158 billion from fiscal year 2006. Capital assets additions in the Education program totaling $1.312 billion and total new construction work-in-progress (the majority of which are in the Education program) totaling $2.644 billion accounted for 64% of the capital assets additions in fiscal year 2007.

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

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

Debt Administration

The City, through the Comptroller's Office of Public Finance, in conjunction with the Mayor's Office of Management and Budget, is charged with issuing debt to finance the implementation of the City's capital program. The following table summarizes the debt outstanding for New York City and City-related issuing entities at the end of fiscal years 2007, 2006 and 2005.

	New York City and City-Related Debt		
	2007	**2006**	**2005**
		(in millions)	
General Obligation Bonds[(a)]	$34,506	$35,844	$33,903
TFA Bonds	11,542	10,392	11,022
TFA Recovery Bonds	1,765	1,841	1,955
TFA BARBS	1,300	—	—
TSASC Bonds	1,317	1,334	1,283
IDA Bonds	102	104	106
STAR Bonds	2,368	2,470	2,552
FSC Bonds	337	387	460
HYIC Bonds	2,000	—	—
HYIC Notes	100	—	—
ECF Bonds	123	84	135
Total bonds and notes payable	55,460	52,456	51,416
Less treasury obligations	—	—	(39)
Net outstanding debt	$55,460	$52,456	$51,377

(a) Does not include capital contract liabilities.

General Obligation

On July 1, 2007, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled $39.5 billion (compared with $39.7 and $37.9 billion as of July 1, 2006 and 2005, respectively). The State Constitution provides that, with certain exceptions, the City may not contract indebtedness in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years. As of July 1, 2007, the City's 10% general limitation was $60 billion (compared with $53 and $47 billion as of July 1, 2006 and 2005 respectively). The City's remaining GO debt incurring power as of July 1, 2007, after providing for capital contract liabilities, totaled $20.6 billion.

As of June 30, 2007, the City's outstanding GO variable and fixed rate debt totaled $6.65 billion and $27.85 billion, respectively. During fiscal year 2007, the City's GO tax exempt daily and weekly variable rate debt averaged 3.59% and 3.6%, respectively. Of the $1.95 billion in GO bonds issued by the City in fiscal year 2007, a total of $1.13 billion was issued to refund certain outstanding bonds and a total of $820 million was issued for new money capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produced debt service savings of $97 thousand, $37.67 million and $12.03 million in fiscal years 2007, 2008 and 2009, respectively. The refundings will generate approximately $44.12 million in net present value savings throughout the life of the bonds.

A total of $70 million of the $1.95 billion GO bonds issued during fiscal year 2007 were issued as taxable debt. The taxable debt issued in fiscal year 2007 was sold on a competitive basis.

On June 5, 2007, Standard & Poor's (S&P) improved its rating on New York City General Obligation bonds from AA- to AA. On June 29, 2007, Fitch Ratings (Fitch) improved its rating on New York City General Obligation bonds from A+ to AA-. On July 18, 2007, Moody's Investors Service (Moody's) improved its rating on New York City General Obligation bonds from A1 to Aa3.

Short-term Financing

In fiscal year 2007, the City had no short-term borrowings.

TFA

The New York City Transitional Finance Authority (TFA) is a separate legal entity, created by the New York State Legislature in 1997 in order to ease the constraints imposed by the City's debt limit. TFA was originally authorized to issue up to $7.5 billion of debt. In fiscal year 2000, this authorization was increased by $4 billion, allowing TFA a total debt incurring capacity of $11.5 billion. On July 26, 2006, the debt incurring authorization was increased by $2 billion to a total of $13.5 billion. As of June 30, 2007, TFA had reached its debt limit and did not have the authority to issue new money bonds pursuant to this authorization.

In fiscal year 2007, TFA issued $2.89 billion of Bonds and Notes. Of the $2.89 billion, $1.4 billion of bonds and $600 million of Bond Anticipation Notes (BANs) were issued for new money capital purposes, $589 million of bonds was issued to redeem the BANs and a total of $300 million was issued to refund certain outstanding bonds. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds.

The refundings produce debt service savings of $128 thousand, $1.01 million and $12.6 million in fiscal years 2007, 2008 and 2009, respectively. The refundings will generate approximately $12.4 million in net present value savings throughout the life of the bonds.

In September, 2001, the New York State Legislature approved a special TFA authorization of $2.5 billion to fund capital and operating costs related to or arising from the events of September 11, 2001 (Recovery Bonds). The Legislature also authorized TFA to issue debt without limit as to principal amount, secured solely by state or federal aid received as a result of the disaster. To date, TFA issued $2 billion in Recovery Bonds pursuant to this authorization.

In fiscal year 2006, the New York State Legislature authorized TFA to issue bonds and notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's educational facilities capital plan and authorized the City to assign to TFA all or any portion of the state aid payable to the City or its school district pursuant to section 3602.6 of the New York State Education Law (State Building Aid) as security for the obligations. Pursuant to this authority, the Building Aid Revenue Bond (BARB) credit was created. The City assigned all the State Building Aid to the TFA. In fiscal year 2007, the City issued $1.3 billion in new money BARBs to finance a portion of the City's educational facilities capital plan. The BARBs are rated AA- by S&P, A1 by Moody's and A+ by Fitch.

As of June 30, 2007, the TFA's fixed rate debt outstanding, including Recovery bonds and Subordinate Lien bonds, totaled approximately $10.20 billion. This figure does not include $537 million of bonds legally defeased through the 2007 TFA prepayment.

As of June 30, 2007, the TFA's outstanding variable rate debt, which included $1.72 billion of TFA Recovery Bonds, totaled $3.10 billion. During fiscal year 2007 TFA's tax exempt daily and weekly variable rate debt averaged 3.59% and 3.60% respectively.

S&P maintained its rating on TFA Bonds at AAA. Moody's maintained its rating on TFA (senior lien) Bonds at Aa1 and maintained its rating on TFA (Subordinate Lien) Bonds at Aa2. Fitch maintained its rating on TFA Bonds at AA+.

TSASC

TSASC is a special purpose, bankruptcy-remote local development corporation created pursuant to the Not-for-Profit Corporation Law of the State of New York. TSASC is authorized to issue bonds to purchase from the City its future right, title and interest under a Master Settlement Agreement (the MSA) between participating cigarette manufacturers and 46 states, including the State of New York.

TSASC had no financing activity in fiscal year 2007. As of June 30, 2007, TSASC had approximately $1.32 billion of bonds outstanding.

As of June 30, 2007, TSASC's bonds are rated BBB by both S&P and Fitch.

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

Sales Tax Asset Receivable Corporation

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

As of June 30, 2007, STAR has $2.37 billion bonds outstanding.

Fiscal Year 2005 Securitization Corporation

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

As of June 30, 2007, Fiscal Year 2005 Securitization Corporation has $337.12 million bonds outstanding.

Hudson Yards Infrastructure Corporation

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

As of June 30, 2007, Hudson Yards Infrastructure Corporation has $2.0 billion bonds and $100 million notes outstanding. The bonds are rated A3 by Moody's, A by S&P and A- by Fitch.

New York City Educational Construction Fund

In January, 2007, $51.34 million of tax-exempt bonds were issued by the New York City Educational Construction Fund (ECF), a public benefit corporation, established to facilitate the construction and improvement of City elementary and secondary school buildings in combination with other compatible lawful uses such as housing, office or other commercial buildings. The City is required to make rental payments on the school portions of the ECF projects sufficient to make debt service payments as they come due on ECF Bonds, less the revenue received by the ECF from the non-school portions of the ECF projects.

As of June 30, 2007, New York City Educational ConstructionFund has $123 million bonds outstanding. The bonds are rated A1 by Moody's and A+ by S&P.

Interest Rate Exchange Agreements

In an effort to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has from time to time entered into interest rate exchange agreements (Swaps) and sold options related to some of these Swaps. No new Swaps were initiated in fiscal year 2007. The City and a Counterparty did amend one Swap comfirmation, agreeing to eliminate the Counterparty's existing cancellation option in exchange for the City's agreement to increase its fixed rate payment from 2.818% per annum to 3.109% per annum starting on August 1, 2007. The City received specific authorization to enter into these agreements, or Swaps, under Section 54.90 of the New York State Local Finance Law. As of June 30, 2007, the City's outstanding notional amount on the various Swap agreements was $3.04 billion.

Subsequent Events

Subsequent to June 30, 2007, the City and TFA completed the following long-term financing:

City Debt: On August 15, 2007, the City sold its Series A and B bonds of $1.245 billion for refunding purposes.

On October 4, 2007, the City sold its Series C bonds of $1.050 billion for capital purposes.

TFA Debt: On September 4, 2007, TFA redeemed $170.3 million of TFA Recovery bonds with funds from an unrestricted City grant.

Commitments

At June 30, 2007, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $15.1 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates New York City Capital Projects Fund expenditures of $83.7 billion over the remaining fiscal years 2008 through 2017. To help meet its capital spending program, the City and TFA borrowed $4.1 billion in the public credit market in fiscal year 2007.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The City of New York, Office of the Comptroller, Bureau of Accountancy, 1 Centre Street, Room 808, New York, New York 10007-2341.

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THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2007
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 8,792,731	$ 3,388,233
Investments, including accrued interest	1,897,633	2,467,516
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $352,926)	557,878	—
Federal, State and other aid	4,826,378	—
Taxes other than real estate	4,982,417	—
Other	1,237,987	2,751,656
Mortgage loans and interest receivable, net	79	5,146,770
Inventories	261,568	40,313
Due from Primary Government	—	15,718
Due from Component Units	1,221,880	—
Restricted cash and investments	5,783,996	3,418,626
Deferred charges	1,079,700	—
Capital assets:		
Land and construction work-in-progress	4,693,685	5,101,639
Other capital assets (net of depreciation):		
Property, plant and equipment	21,505,610	21,030,895
Infrastructure	8,131,857	—
Other	356,384	698,968
Total assets	65,329,783	44,060,334
LIABILITIES:		
Accounts payable and accrued liabilities	11,362,553	1,995,932
Accrued interest payable	731,737	107,401
Unearned revenues:		
Prepaid real estate taxes	2,695,880	—
Other	2,686,198	230,143
Due to Primary Government	—	1,221,880
Due to Component Units	15,718	—
Estimated disallowance of Federal, State and other aid	1,000,243	—
Payable for investment securities purchased	257,000	—
Other	78,277	81,190
Noncurrent liabilities:		
Due within one year	3,946,241	1,445,210
Due in more than one year	126,255,133	30,689,978
Total liabilities	149,028,980	35,771,734
NET ASSETS:		
Invested in capital assets, net of related debt	(5,239,185)	8,619,868
Restricted for:		
Capital projects	1,410,481	94,494
Debt service	5,387,171	912,804
Loans/security deposits	—	67,410
Donor/statutory restrictions	—	43,751
Operations	—	175,161
Unrestricted (deficit)	(85,257,664)	(1,624,888)
Total net assets (deficit)	$ (83,699,197)	$ 8,288,600

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2006
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
Assets:		
Cash and cash equivalents	$ 10,097,096	$ 2,268,908
Investments, including accrued interest	1,975,921	2,164,852
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $380,276)	610,317	—
Federal, State and other aid	4,801,976	—
Taxes other than real estate	4,183,489	—
Other	1,207,376	2,855,359
Mortgage loans and interest receivable, net	101	4,589,845
Inventories	243,868	38,933
Due from Primary Government	—	8,506
Due from Component Units	1,248,261	—
Restricted cash and investments	2,197,224	2,237,996
Deferred charges	1,172,211	—
Capital assets:		
Land and construction work-in-progress	3,921,932	4,992,385
Other capital assets (net of depreciation):		
Property, plant and equipment	20,712,461	19,624,510
Infrastructure	7,536,557	—
Other	141,042	313,950
Total assets	60,049,832	39,095,244
Liabilities:		
Accounts payable and accrued liabilities	11,057,803	1,865,272
Accrued interest payable	631,506	97,878
Unearned revenues:		
Prepaid real estate taxes	3,722,964	—
Other	2,374,653	213,088
Due to Primary Government	—	1,248,261
Due to Component Units	8,506	—
Estimated disallowance of Federal, State and other aid	898,858	—
Payable for investment securities purchased	257,000	—
Other	28,963	50,738
Noncurrent Liabilities:		
Due within one year	4,127,130	843,801
Due in more than one year	117,836,264	25,577,904
Total liabilities	140,943,647	29,896,942
Net Assets:		
Invested in capital assets, net of related debt	(5,373,813)	8,792,877
Restricted for:		
Capital projects	506,564	120,593
Debt service	4,740,099	776,200
Loans/security deposits	—	70,220
Donor/statutory restrictions	—	43,684
Operations	—	157,806
Unrestricted (deficit)	(80,766,665)	(763,078)
Total net assets (deficit)	$(80,893,815)	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Units
Primary government:						
General government	$ 3,057,503	$ 716,687	$ 750,801	$ 52,268	$ (1,537,747)	$ —
Public safety and judicial	15,510,212	384,840	576,334	2,552	(14,546,486)	—
Education	19,645,691	61,056	8,843,004	480,026	(10,261,605)	—
City University	675,888	195,766	166,392	1,133	(312,597)	—
Social services	12,080,533	44,388	4,446,502	4,609	(7,585,034)	—
Environmental protection	3,218,040	1,205,445	9,959	17,664	(1,984,972)	—
Transportation services	1,839,849	801,441	175,737	200,890	(661,781)	—
Parks, recreation and cultural activities	780,515	75,798	9,698	18,230	(676,789)	—
Housing	1,287,183	208,802	365,056	104,698	(608,627)	—
Health (including payments to HHC)	3,025,268	71,799	953,352	—	(2,000,117)	—
Libraries	375,453	1	—	169	(375,283)	—
Debt service interest	2,560,133	—	—	—	(2,560,133)	—
Total primary government	$64,056,268	$3,766,023	$16,296,835	$ 882,239	(43,111,171)	—
Component Units	$14,173,615	$9,484,142	$ 2,251,452	$ 920,387	—	(1,517,634)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					12,891,783	—
Sales and use taxes					6,430,020	—
Personal income tax					8,715,777	—
Income taxes, other					7,877,281	—
Other taxes					2,863,364	—
Investment income					669,173	292,609
Unrestricted Federal and State aid					560,964	3,237
Other					297,427	312,086
Total general revenues					40,305,789	607,932
Change in net assets					(2,805,382)	(909,702)
Net Assets (Deficit) - Beginning					(80,893,815)	9,198,302
Net Assets (Deficit) - Ending					$(83,699,197)	$ 8,288,600

See accompanying notes to financial statements.

THE CITY OF NEW YORK

STATEMENT OF ACTIVITIES

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Units
Primary Government:						
General government	$ 3,861,343	$ 579,356	$ 843,680	$ 30,220	$ (2,408,087)	$ —
Public safety and judicial	38,107,802	254,835	562,163	21,394	(37,269,410)	—
Education	34,564,249	65,288	7,909,702	10,775	(26,578,484)	—
City University	907,472	189,293	156,367	—	(561,812)	—
Social services	13,025,782	54,595	4,218,203	3,205	(8,749,779)	—
Environmental protection	6,906,033	1,101,564	23,424	31,266	(5,749,779)	—
Transportation services	2,155,180	783,563	152,945	214,943	(1,003,729)	—
Parks, recreation and cultural activities	974,610	64,856	16,442	7,706	(885,606)	—
Housing	1,711,951	194,468	323,761	154,423	(1,039,299)	—
Health (including payments to HHC)	4,699,686	57,342	920,292	1,742	(3,720,310)	—
Libraries	301,342	—	—	—	(301,342)	—
Debt service interest	2,573,905	—	—	—	(2,573,905)	—
Total primary government	$109,789,355	$ 3,345,160	$15,126,979	$ 475,674	(90,841,542)	—
Component Units	$ 13,931,527	$ 9,023,077	$ 1,954,404	$ 831,956	—	(2,122,090)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					12,723,800	—
Sales and use taxes					5,974,655	—
Personal income tax					8,533,813	—
Income taxes, other					5,768,620	—
Other taxes					2,380,807	—
Investment income					465,685	225,382
Unrestricted Federal and State aid					973,766	8,231
Other					319,122	90,462
Total general revenues					37,140,268	324,075
Change in net assets					(53,701,274)	(1,798,015)
Net Assets (Deficit) — Beginning					(27,192,541)	10,996,317
Net Assets (Deficit) — Ending					$(80,893,815)	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2007
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 6,429,077	$ 36,277	$2,284,172	$ 43,205	$ —	$ 8,792,731
Investments, including accrued interest	136,728	—	1,094,258	666,647	—	1,897,633
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $352,926)	557,878	—	—	—	—	557,878
Federal, State and other aid	4,211,523	614,855	—	—	—	4,826,378
Taxes other than real estate	4,397,260	—	—	585,157	—	4,982,417
Other	1,154,897	—	—	83,000	—	1,237,897
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $317,010)	—	—	—	79	—	79
Due from other funds	2,956,382	249,638	—	311,411	(311,411)	3,206,020
Due from Component Units	860,020	361,860	—	—	—	1,221,880
Restricted cash and investments	—	488,443	—	5,295,553	—	5,783,996
Other	—	45,193	—	270,107	—	315,300
Total assets	$20,703,765	$ 1,796,266	$3,378,430	$7,255,159	$(311,411)	$32,822,209
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 9,196,929	$ 1,772,144	$ 6,434	$ 387,046	$ —	$11,362,553
Accrued tax refunds:						
Real estate taxes	48,544	—	—	—	—	48,544
Personal income tax	46,513	—	—	45,149	—	91,662
Other	39,646	—	—	—	—	39,646
Accrued judgments and claims	375,288	85,247	—	—	—	460,535
Deferred revenues:						
Prepaid real estate taxes	2,695,880	—	—	—	—	2,695,880
Uncollected real estate taxes	493,601	—	—	—	—	493,601
Taxes other than real estate	3,934,476	—	—	—	—	3,934,476
Other	2,429,629	—	—	621,082	—	3,050,711
Due to other funds	—	3,267,793	—	249,638	(311,411)	3,206,020
Due to Component Units	15,718	—	—	—	—	15,718
Estimated disallowance of Federal, State and other aid	1,000,243	—	—	—	—	1,000,243
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	20,276,467	5,125,184	6,434	1,559,915	(311,411)	26,656,589
Fund balances:						
Reserved for:						
Capital projects	—	282,088	—	1,128,393	—	1,410,481
Debt service	—	—	3,371,996	2,015,096	—	5,387,092
Noncurrent mortgage loans	—	—	—	79	—	79
Unreserved (deficit), reported in:						
General Fund	427,298	—	—	—	—	427,298
New York City Capital Projects Fund	—	(3,611,006)		—	—	(3,611,006)
Nonmajor Capital Projects Funds	—	—	—	1,910,089	—	1,910,089
Nonmajor Debt Service Funds	—	—	—	641,587	—	641,587
Total fund balances (deficit)	427,298	(3,328,918)	3,371,996	5,695,244	—	6,165,620
Total liabilities and fund balances	$20,703,765	$ 1,796,266	$3,378,430	$7,255,159	$(311,411)	$32,822,209

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2006
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 7,936,278	$ 54,871	$1,790,997	$ 314,950	$ —	$10,097,096
Investments, including accrued interest	258,405	—	1,459,987	257,529	—	1,975,921
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $380,276)	610,317	—	—	—	—	610,317
Federal, State and other aid	4,211,299	590,677	—	—	—	4,801,976
Taxes other than real estate	3,678,014	—	—	505,475	—	4,183,489
Other	1,136,038	—	—	77,000	—	1,213,038
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $314,550)	—	—	—	101	—	101
Due from other funds	2,289,648	—	—	200,733	(200,733)	2,289,648
Due from Component Units	922,137	326,124	—	—	—	1,248,261
Restricted cash and investments	—	680,148	—	1,517,076	—	2,197,224
Other	—	49,531	—	47,961	—	97,492
Total assets	$21,042,136	$ 1,701,351	$3,250,984	$2,920,825	$ (200,733)	$28,714,563
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 9,517,809	$ 1,276,179	$ 7,312	$ 256,503	$ —	$11,057,803
Accrued tax refunds:						
Real estate taxes	29,257	—	—	—	—	29,257
Personal income tax	33,672	—	—	38,475	—	72,147
Other	25,898	—	—	—	—	25,898
Accrued judgments and claims	394,244	138,732	—	—	—	532,976
Deferred revenues:						
Prepaid real estate taxes	3,722,964	—	—	—	—	3,722,964
Uncollected real estate taxes	561,308	—	—	—	—	561,308
Taxes other than real estate	3,202,691	—	—	—	—	3,202,691
Other	2,224,446	—	—	546,572	—	2,771,018
Due to other funds	—	2,490,381	—	—	(200,733)	2,289,648
Due to Component Units	8,506	—	—	—	—	8,506
Estimated disallowance of Federal, State and other aid	898,858	—	—	—	—	898,858
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	20,619,653	3,905,292	7,312	1,098,550	(200,733)	25,430,074
Fund balances:						
Reserved for:						
Capital projects	—	501,828	—	4,736	—	506,564
Debt service	—	—	3,243,672	1,496,326	—	4,739,998
Noncurrent mortgage loans	—	—	—	101	—	101
Unreserved (deficit), reported in:						
General Fund	422,483	—	—	—	—	422,483
New York City Capital Projects Fund	—	(2,705,769)	—	—	—	(2,705,769)
Nonmajor Capital Projects Funds	—	—	—	16,079	—	16,079
Nonmajor Debt Service Funds	—	—	—	305,033	—	305,033
Total fund balances (deficit)	422,483	(2,203,941)	3,243,672	1,822,275	—	3,284,489
Total liabilities and fund balances	$21,042,136	$ 1,701,351	$3,250,984	$2,920,825	$ (200,733)	$28,714,563

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2007
(in thousands)

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

Total fund balances—governmental funds	$ 6,165,620
Inventories recorded in the Statement of Net assets are recorded as expenditures in the governmental funds	261,568
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	34,331,152
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	5,913,464
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(56,281,716)
OPEB liability	(57,761,938)
Accrued interest payable	(731,737)
Capital lease obligations	(2,831,919)
Accrued vacation and sick leave	(3,110,959)
Pension liability	(726,600)
Landfill closure and post-closure care costs	(1,612,871)
Other long-term liabilities	(7,313,261)
Net assets (deficit) of governmental activities	$(83,699,197)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006
(in thousands)

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

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$13,122,812	$ —	$ —	$ —	$ —	$13,122,812
Sales and use taxes	6,412,020	—	—	—	—	6,412,020
Personal income tax	7,963,170	—	—	684,607	—	8,647,777
Income taxes, other	7,451,281	—	—	—	—	7,451,281
Other taxes	2,892,579	—	—	—	—	2,892,579
Federal, State and other categorical aid	16,590,572	875,011	—	232,173	—	17,697,756
Unrestricted Federal and State aid	35,054	—	—	—	—	35,054
Charges for services	1,920,752	—	—	—	—	1,920,752
Tobacco settlement	—	—	—	208,433	—	208,433
Investment income	473,060	—	22,067	169,966	—	665,093
Interest on mortgages, net	—	—	—	4,080	—	4,080
Other revenues	1,849,497	1,922,681	81	1,956,414	(1,861,580)	3,867,093
Total revenues	58,710,797	2,797,692	22,148	3,255,673	(1,861,580)	62,924,730
EXPENDITURES:						
General government	1,619,918	945,278	—	118,080	—	2,683,276
Public safety and judicial	6,841,914	206,533	—	—	—	7,048,447
Education	15,748,016	2,131,709	—	1,863,048	(1,861,580)	17,881,193
City University	577,201	18,409	—	—	—	595,610
Social services	11,078,051	72,644	—	—	—	11,150,695
Environmental protection	1,943,299	2,079,965	—	—	—	4,023,264
Transportation services	1,020,892	827,678	—	—	—	1,848,570
Parks, recreation and cultural activities	410,671	494,052	—	—	—	904,723
Housing	641,216	436,007	—	—	—	1,077,223
Health (including payments to HHC)	2,272,482	246,256	—	—	—	2,518,738
Libraries	330,061	37,857	—	—	—	367,918
Pensions	4,726,200	—	—	—	—	4,726,200
Judgments and claims	564,037	—	—	—	—	564,037
Fringe benefits and other benefit payments	4,846,211	—	—	—	—	4,846,211
Administrative and other	177,801	—	127,567	99,643	—	405,011
Debt Service:						
Interest	—	—	1,626,585	799,987	—	2,426,572
Redemptions	—	—	2,165,491	1,048,496	—	3,213,987
Lease payments	309,612	—	—	—	—	309,612
Total expenditures	53,107,582	7,496,388	3,919,643	3,929,254	(1,861,580)	66,591,287
Excess (deficiency) of revenues over expenditures	5,603,215	(4,698,696)	(3,897,495)	(673,581)	—	(3,666,557)
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	300,000	4,024,185	1,274,215	—	5,598,400
Transfers from Nonmajor Capital Projects Funds	—	2,383,609	—	114,492	—	2,498,101
Principal amount of bonds issued	—	820,000	—	5,340,710	—	6,160,710
Bond premium	—	24,845	44,792	264,555	—	334,192
Capitalized leases	—	45,265	—	—	—	45,265
Refunding bond proceeds	—	—	1,127,830	321,400	—	1,449,230
Transfers to New York City Capital Projects Fund	(300,000)	—	—	(2,383,609)	—	(2,683,609)
Transfers from (to) General Debt Service Fund	(4,024,185)	—	—	4,605	—	(4,019,580)
Transfers to Nonmajor Debt Service Funds, net	(1,274,215)	—	(4,605)	(114,492)	—	(1,393,312)
Payments to refunded bond escrow holder	—	—	(1,166,383)	(377,671)	—	(1,544,054)
Transferable development rights installment purchase agreement	—	—	—	102,345	—	102,345
Total other financing sources (uses)	(5,598,400)	3,573,719	4,025,819	4,546,550	—	6,547,688
Net change in fund balances	4,815	(1,124,977)	128,324	3,872,969	—	2,881,131
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	422,483	(2,203,941)	3,243,672	1,822,275	—	3,284,489
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 427,298	$(3,328,918)	$ 3,371,996	$ 5,695,244	$ —	$ 6,165,620

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

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

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$12,636,355	$ —	$ —	$ —	$ —	$12,636,355
Sales and use taxes	5,986,655	—	—	—	—	5,986,655
Personal income tax	7,675,813	—	—	350,000	—	8,025,813
Income taxes, other	5,531,620	—	—	—	—	5,531,620
Other taxes	2,380,744	—	—	—	—	2,380,744
Federal, State and other categorical aid	15,436,591	438,021	—	170,000	—	16,044,612
Unrestricted Federal and State aid	494,154	—	—	—	—	494,154
Charges for services	1,836,959	—	—	—	—	1,836,959
Tobacco settlement	5,410	—	—	193,688	—	199,098
Investment income	362,197	—	27,350	67,018	(1,829)	454,736
Interest on mortgages, net	—	—	—	4,809	—	4,809
Other revenues	1,554,280	1,717,501	—	1,765,008	(1,715,637)	3,321,152
Total revenues	53,900,778	2,155,522	27,350	2,550,523	(1,717,466)	56,916,707
EXPENDITURES:						
General government	1,530,074	665,096	—	3,235	—	2,198,405
Public safety and judicial	6,693,911	212,111	—	—	—	6,906,022
Education	14,794,254	1,781,904	—	1,715,593	(1,715,637)	16,576,114
City University	550,366	13,780	—	—	—	564,146
Social services	10,147,669	39,308	—	—	—	10,186,977
Environmental protection	1,836,396	1,935,273	—	—	—	3,771,669
Transportation services	954,155	782,904	—	—	—	1,737,059
Parks, recreation and cultural activities	376,808	382,845	—	—	—	759,653
Housing	721,483	459,376	—	—	—	1,180,859
Health (including payments to HHC)	2,757,802	269,673	—	—	—	3,027,475
Libraries	261,140	52,317	—	—	—	313,457
Pensions	3,878,950	—	—	—	—	3,878,950
Judgments and claims	516,801	—	—	—	—	516,801
Fringe benefits and other benefit payments	4,154,015	—	—	—	—	4,154,015
Administrative and other	105,394	—	145,324	58,209	—	308,927
Debt Service:						
Interest	—	—	1,559,898	818,904	—	2,378,802
Redemptions	—	—	1,455,252	1,095,880	—	2,551,132
Lease payments	228,846	—	—	—	—	228,846
Total expenditures	49,508,064	6,594,587	3,160,474	3,691,821	(1,715,637)	61,239,309
Excess (deficiency) of revenues over expenditures	4,392,714	(4,439,065)	(3,133,124)	(1,141,298)	(1,829)	(4,322,602)
OTHER FINANCING SOURCES (USES):						
Transfers from (to) General Fund	—	200,000	4,281,010	(92,938)	—	4,388,072
Transfers to Nonmajor Capital Projects Funds	—	—	—	(1,500)	—	(1,500)
Principal amount of bonds issued	—	3,405,000	—	—	—	3,405,000
Bond premium	—	76,818	64,182	—	—	141,000
Capitalized leases	—	14,191	—	—	—	14,191
Refunding bond proceeds	—	—	1,421,810	1,942,974	—	3,364,784
Transfers to New York City Capital Projects Fund	(200,000)	—	—	—	—	(200,000)
Transfers from (to) General Debt Service Fund	(4,281,010)	—	—	198	—	(4,280,812)
Transfers from (to) Nonmajor Debt Service Funds, net	92,938	—	(198)	1,500	—	94,240
Payments to refunded bond escrow holder	—	—	(1,478,288)	(1,860,299)	—	(3,338,587)
Total other financing sources (uses)	(4,388,072)	3,696,009	4,288,516	(10,065)	—	3,586,388
Net change in fund balances	4,642	(743,056)	1,155,392	(1,151,363)	(1,829)	(736,214)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	417,841	(1,460,885)	2,088,280	2,973,638	1,829	4,020,703
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 422,483	$(2,203,941)	$ 3,243,672	$ 1,822,275	$ —	$ 3,284,489

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

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

Net change in fund balances—governmental funds		$ 2,881,131
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 4,168,181	
Depreciation expense	(1,994,493)	2,173,688
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.* sales, trade-ins, and donations) is to decrease net assets		96,914
The issuance of long-term debt (*i.e.,* bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(7,709,940)	
Principal payments of bonds	4,423,849	
Other	(65,000)	(3,351,091)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(594,990)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		243,453
OPEB obligation		(4,254,487)
Change in net assets—governmental activities		$ (2,805,382)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

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

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

Net change in fund balances—governmental funds		$ (736,214)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 3,522,523	
Depreciation expense	(2,018,812)	1,503,711
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.* sales, trade-ins, and donations) is to decrease net assets		106,750
The issuance of long-term debt (*i.e.,* bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(6,769,784)	
Principal payments of bonds	5,748,719	
Other	(154,437)	(1,175,502)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(764,653)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		872,085
OPEB obligation		(53,507,451)
Change in net assets—governmental activities		$(53,701,274)

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

	Budget			Better (Worse) Than Modified Budget
	Adopted	Modified	Actual	
REVENUES:				
Real estate taxes	$13,140,204	$13,097,924	$13,122,812	$ 24,888
Sales and use taxes	5,580,300	6,281,000	6,412,020	131,020
Personal income tax	6,812,101	7,930,450	7,963,170	32,720
Income taxes, other	4,583,500	6,645,000	7,451,281	806,281
Other taxes	2,404,964	3,980,942	2,892,579	(1,088,363)
Federal, State and other categorical aid	15,884,228	17,040,746	16,590,572	(450,174)
Unrestricted Federal and State aid	339,797	33,461	35,054	1,593
Charges for services	1,819,560	1,914,051	1,920,752	6,701
Interest income	313,220	477,160	473,060	(4,100)
Other revenues	1,667,050	2,265,348	1,849,497	(415,851)
Total revenues	52,544,924	59,666,082	58,710,797	(955,285)
EXPENDITURES:				
General government	1,731,098	1,704,281	1,619,918	84,363
Public safety and judicial	6,652,146	6,931,718	6,841,914	89,804
Education	15,446,218	15,875,591	15,748,016	127,575
City University	573,801	601,186	577,201	23,985
Social services	10,388,283	11,226,460	11,078,051	148,409
Environmental protection	2,027,331	2,005,268	1,943,299	61,969
Transportation services	749,457	1,060,096	1,020,892	39,204
Parks, recreation and cultural activities	391,695	416,875	410,671	6,204
Housing	559,497	665,793	641,216	24,577
Health (including payments to HHC)	2,413,440	2,345,777	2,272,482	73,295
Libraries	39,377	330,697	330,061	636
Pensions	4,754,616	4,736,838	4,726,200	10,638
Judgments and claims	601,506	564,380	564,037	343
Fringe benefits and other benefit payments	4,337,174	4,846,210	4,846,211	(1)
Interest on short-term borrowings	36,685	—	—	—
Lease payments for debt service	284,773	312,380	309,612	2,768
Other	1,014,626	464,250	177,801	286,449
Total expenditures	52,001,723	54,087,800	53,107,582	980,218
Excess of revenues over expenditures	543,201	5,578,282	5,603,215	24,933
OTHER FINANCING USES:				
Transfer to Nonmajor Debt Service Fund	(10,000)	(1,274,215)	(1,274,215)	—
Transfer to New York City Capital Projects Fund	(200,000)	(300,000)	(300,000)	—
Transfers and other payments for debt service	(333,201)	(4,004,067)	(4,024,185)	(20,118)
Total other financing uses	(543,201)	(5,578,282)	(5,598,400)	(20,118)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	$ —	$ —	4,815	$ 4,815
FUND BALANCE AT BEGINNING OF YEAR			422,483	
FUND BALANCE AT END OF YEAR			$ 427,298	

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006
(in thousands)

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 1,359,747	$ 802,795
Receivables:		
Member loans	1,330,296	—
Investment securities sold	4,922,027	—
Accrued interest and dividends	503,496	—
Other	76,395	—
Investments:		
Other short-term investments	3,287,284	—
Debt securities	27,436,521	897,893
Equity securities	62,274,477	—
Guaranteed investment contracts	2,472,629	—
Management investment contracts	89,908	—
Mutual funds	30,110,263	—
Collateral from securities lending transactions	21,119,743	—
Due from Pension Funds	4,355	—
Other	88,107	—
Total assets	155,075,248	1,700,688
LIABILITIES:		
Accounts payable and accrued liabilities	1,408,044	728,045
Payable for investment securities purchased	6,935,436	—
Accrued benefits payable	574,015	—
Due to Variable Supplements Trust Funds	4,355	—
Securities lending transactions	21,163,951	—
Other	531	972,643
Total liabilities	30,086,332	1,700,688
NET ASSETS:		
Held in Trust for Benefit Payments	$124,988,916	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 54,543	$ 716,762
Receivables:		
Member loans	1,313,092	—
Investment securities sold	3,551,934	—
Accrued interest and dividends	456,588	—
Investments:		
Other short-term investments	3,610,840	—
Debt securities	24,444,649	776,714
Equity securities	53,735,093	—
Guaranteed investment contracts	2,273,787	—
Management investment contracts	104,297	—
Mutual funds	25,438,964	—
Collateral from securities lending transactions	18,163,920	—
Due from Pension Funds	3,498	—
Other	51,960	—
Total assets	133,203,165	1,493,476
LIABILITIES:		
Accounts payable and accrued liabilities	488,698	548,376
Payable for investment securities purchased	7,122,561	—
Accrued benefits payable	376,803	—
Due to Variable Supplements Trust Funds	3,498	—
Securities lending transactions	18,215,247	—
Other	983	945,100
Total liabilities	26,207,790	1,493,476
NET ASSETS:		
Held in Trust for Benefit Payments	$106,995,375	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions	$ 1,409,070
Employer contributions	8,323,415
Other employer contributions	21,839
Total contributions	9,754,324
Investment income:	
Interest income	1,987,595
Dividend income	2,072,722
Net appreciation in fair value of investments	15,925,884
Less investment expenses	275,408
Investment income, net	19,710,793
Securities lending transactions:	
Securities lending income	1,253,727
Securities lending fees	(1,195,918)
Net securities lending income	57,809
Payments from Pension Funds	7,608
Other	84,929
Total additions	29,615,463
DEDUCTIONS:	
Benefit payments and withdrawals	11,497,207
Payments to Variable Supplements Trust Funds	7,608
Other	4,754
Administrative expenses	112,353
Total deductions	11,621,922
Increase in plan net assets	17,993,541
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	106,995,375
End of Year	$124,988,916

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

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

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions	$ 1,339,584
Employer contributions	5,378,294
Other employer contributions	21,727
Total contributions	6,739,605
Investment income:	
Interest income	1,854,082
Dividend income	1,037,506
Net appreciation in fair value of investments	7,461,387
Less investment expenses	204,720
Investment income, net	10,148,255
Securities lending transactions:	
Securities lending income	768,826
Securities lending fees	(709,760)
Net securities lending income	59,066
Payments from Pension Funds	5,479
Other	35,972
Total additions	16,988,377
DEDUCTIONS:	
Benefit payments and withdrawals	9,753,958
Payments to Variable Supplements Trust Funds	5,479
Other	7,578
Administrative expenses	105,707
Total deductions	9,872,722
Increase in plan net assets	7,115,655
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	99,879,720
End of Year	$106,995,375

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2007
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2006	Housing Development Corporation October 31, 2006	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 1,175,086	$ 569,379	$ 224,082	$ 1,225,523	$ 85,159	$ 20,471	$ 88,533	$ 3,388,233
Investments, including accrued interest	437,464	681,862	267,132	100,814	240	—	980,004	2,467,516
Other receivables	447,486	104,747	337,518	1,263,437	112,677	644	485,147	2,751,656
Mortgage loans and interest receivable, net	—	83	5,095,738	—	50,949	—	—	5,146,770
Inventories	—	10,134	—	30,179	—	—	—	40,313
Due from Primary Government	15,718	—	—	—	—	—	—	15,718
Restricted cash and investments	—	250,635	1,491,539	178,667	114,621	8,088	1,375,076	3,418,626
Capital assets:								
Construction work-in-progress	4,766,145	—	—	335,494	—	—	—	5,101,639
Property, plant and equipment	20,795,397	10,807,988	4,609	5,266,501	9,433	68,539	189,180	37,141,647
Accumulated depreciation	(7,125,846)	(5,684,444)	(2,828)	(3,182,663)	(5,770)	(57,079)	(52,122)	(16,110,752)
Other	134,673	79,610	46,585	19,587	31,884	—	386,629	698,968
Total assets	20,646,123	6,819,994	7,464,375	5,237,539	399,193	40,663	3,452,447	44,060,334
LIABILITIES:								
Accounts payable and accrued liabilities	42,898	632,408	263,248	914,776	92,455	41,334	8,813	1,995,932
Accrued interest payable	34,609	7,726	53,267	11,799	—	—	—	107,401
Deferred revenues	87,381	30,764	104,571	—	4,022	—	3,405	230,143
Due to Primary Government	361,860	—	859,819	—	—	201	—	1,221,880
Other	—	30,174	—	583	13,625	5,381	31,427	81,190
Noncurrent Liabilities:								
Due within one year	1,010,971	60,339	180,809	153,184	—	7,377	32,530	1,445,210
Due in more than one year	16,691,440	2,046,026	4,968,605	3,547,892	119,911	138,720	3,177,384	30,689,978
Total liabilities	18,229,159	2,807,437	6,430,319	4,628,234	230,013	193,013	3,253,559	35,771,734
NET ASSETS:								
Invested in capital assets, net of related debt	2,130,364	4,967,031	—	1,371,576	2,569	11,270	137,058	8,619,868
Restricted for:								
Capital projects	—	—	—	20,669	67,628	6,197	—	94,494
Debt service	161,661	—	448,713	114,237	—	—	188,193	912,804
Loans/security deposits	—	—	—	—	63,828	—	3,582	67,410
Statutory reserve	—	—	—	32,667	—	—	—	32,667
Donor restrictions	—	—	—	11,084	—	—	—	11,084
Operations	175,161	—	—	—	—	—	—	175,161
Unrestricted (deficit)	(50,222)	(954,474)	585,343	(940,928)	35,155	(169,817)	(129,945)	(1,624,888)
Total net assets (deficit)	$ 2,416,964	$ 4,012,557	$ 1,034,056	$ 609,305	$ 169,180	$ (152,350)	$ 198,888	$ 8,288,600

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2006
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2005	Housing Development Corporation October 31, 2005	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 966,959	$ 459,057	$ 242,950	$ 446,058	$ 44,565	$ 18,595	$ 90,724	$ 2,268,908
Investments, including accrued interest	515,317	525,035	95,520	53,562	237	—	975,181	2,164,852
Other receivables	463,495	120,805	303,841	1,239,975	100,214	675	626,354	2,855,359
Mortgage loans and interest receivable, net	—	100	4,546,842	—	42,903	—	—	4,589,845
Inventories	—	11,435	—	27,498	—	—	—	38,933
Due from Primary Government	8,506	—	—	—	—	—	—	8,506
Restricted cash and investments	—	311,914	1,507,687	195,926	139,643	10,358	72,468	2,237,996
Capital assets:								
Construction work-in-progress	4,546,209	—	—	446,176	—	—	—	4,992,385
Property, plant and equipment	19,224,903	10,403,479	4,579	4,863,452	10,051	65,583	164,783	34,736,830
Accumulated depreciation	(6,615,509)	(5,382,475)	(2,443)	(3,008,082)	(5,344)	(53,797)	(44,670)	(15,112,320)
Other	130,728	67,603	54,913	21,933	31,951	—	6,822	313,950
Total assets	19,240,608	6,516,953	6,753,889	4,286,498	364,220	41,414	1,891,662	39,095,244
LIABILITIES:								
Accounts payable and accrued liabilities	15,361	638,752	240,355	847,932	81,090	33,724	8,058	1,865,272
Accrued interest payable	33,558	9,955	42,070	12,295	—	—	—	97,878
Deferred revenues	93,289	16,922	92,307	—	1,323	—	9,247	213,088
Due to Primary Government	326,124	—	921,928	—	—	209	—	1,248,261
Other	—	28,659	—	583	12,983	5,458	3,055	50,738
Noncurrent Liabilities:								
Due within one year	566,061	53,702	55,352	141,257	—	6,644	20,785	843,801
Due in more than one year	15,306,834	520,939	4,552,018	3,301,559	109,427	117,669	1,669,458	25,577,904
Total liabilities	16,341,227	1,268,929	5,904,030	4,303,626	204,823	163,704	1,710,603	29,896,942
NET ASSETS:								
Invested in capital assets, net of related debt	2,556,766	4,911,341	—	1,189,552	3,612	11,493	120,113	8,792,877
Restricted for:								
Capital projects	—	—	—	38,646	73,568	8,379	—	120,593
Debt service	171,859	—	420,095	113,596	—	—	70,650	776,200
Loans/security deposits	—	—	—	—	67,849	—	2,371	70,220
Statutory reserve	—	—	—	31,530	—	—	—	31,530
Donor restrictions	—	—	—	12,154	—	—	—	12,154
Operations	157,806	—	—	—	—	—	—	157,806
Unrestricted (deficit)	12,950	336,683	429,764	(1,402,606)	14,368	(142,162)	(12,075)	(763,078)
Total net assets (deficit)	$ 2,899,381	$ 5,248,024	$ 849,859	$ (17,128)	$ 159,397	$ (122,290)	$ 181,059	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMPONENT UNITS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2006	Housing Development Corporation October 31, 2006	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
Expenses	$ 2,804,227	$ 4,277,850	$ 235,353	$ 5,887,605	$ 592,280	$ 285,943	$ 90,357	$14,173,615
Program Revenues:								
Charges for services	2,133,077	696,612	256,767	5,863,324	210,484	252,068	71,810	9,484,142
Operating grants and contributions	—	1,911,829	—	307,770	31,853	—	—	2,251,452
Capital grants, contributions and other	—	356,611	—	199,350	346,193	—	18,233	920,387
Total program revenues	2,133,077	2,965,052	256,767	6,370,444	588,530	252,068	90,043	12,655,981
Net (expenses) program revenues.	(671,150)	(1,312,798)	21,414	482,839	(3,750)	(33,875)	(314)	(1,517,634)
General Revenues:								
Investment income	98,132	52,596	64,629	49,416	8,646	1,588	17,602	292,609
Unrestricted Federal and State aid	—	—	—	—	3,237	—	—	3,237
Other	90,601	24,735	98,154	94,178	1,650	2,227	541	312,086
General revenues	188,733	77,331	162,783	143,594	13,533	3,815	18,143	607,932
Change in net assets	(482,417)	(1,235,467)	184,197	626,433	9,783	(30,060)	17,829	(909,702)
Net Assets—Beginning	2,899,381	5,248,024	849,859	(17,128)	159,397	(122,290)	181,059	9,198,302
Net Assets (deficit)—Ending	$ 2,416,964	$ 4,012,557	$1,034,056	$ 609,305	$ 169,180	$ (152,350)	$ 198,888	$ 8,288,600

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMPONENT UNITS
STATEMENT OF ACTIVITIES

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

	Water and Sewer System	Housing Authority December 31, 2005	Housing Development Corporation October 31, 2005	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
EXPENSES	$ 2,428,339	$2,785,900	$ 178,558	$ 7,456,772	$ 624,094	$ 382,973	$ 74,891	$ 13,931,527
PROGRAM REVENUES:								
Charges for services	1,978,930	676,545	180,915	5,533,361	319,790	257,911	75,625	9,023,077
Operating grants and contributions	—	1,669,448	—	258,309	26,647	—	—	1,954,404
Capital grants, contributions and other	—	330,538	—	223,174	266,018	—	12,226	831,956
Total program revenues	1,978,930	2,676,531	180,915	6,014,844	612,455	257,911	87,851	11,809,437
Net (expenses) program revenues	(449,409)	(109,369)	2,357	(1,441,928)	(11,639)	(125,062)	12,960	(2,122,090)
GENERAL REVENUES:								
Investment income	105,239	37,496	43,389	20,140	6,065	996	12,057	225,382
Unrestricted Federal and State aid	—	—	—	—	8,231	—	—	8,231
Other	88,447	57,343	—	(59,109)	1,245	2,418	118	90,462
General revenues	193,686	94,839	43,389	(38,969)	15,541	3,414	12,175	324,075
Change in net assets	(255,723)	(14,530)	45,746	(1,480,897)	3,902	(121,648)	25,135	(1,798,015)
Net Assets—Beginning	3,155,104	5,262,554	804,113	1,463,769	155,495	(642)	155,924	10,996,317
Net Assets (deficit)—Ending	$ 2,899,381	$5,248,024	$ 849,859	$ (17,128)	$ 159,397	$ (122,290)	$ 181,059	$ 9,198,302

See accompanying notes to financial statements.

A. Summary of Significant Accounting Policies

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

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

1. Reporting Entity

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

The financial reporting entity consists of the primary government including the Department of Education and the community colleges of the City University of New York, other organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Most component units are included in the financial reporting entity by discrete presentation. Some component units, despite being legally separate from the primary government, are so integrated with the primary government that they are in substance part of the primary government. These component units are blended with the primary government.

The New York City Transit Authority is an affiliated agency of the Metropolitan Transportation Authority of the State of New York which is a component unit of New York State and is excluded from the City's financial reporting entity.

Blended Component Units

These component units, although legally separate, all provide services exclusively to the City and thus are reported as if they were part of the primary government. They include the following:

Municipal Assistance Corporation for The City Of New York (MAC). MAC is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation. MAC was created by State legislation enacted in 1975 (as amended to date, the Act) for purposes of providing financing assistance including funding for certain oversight of the City's financial activities. To carry out such purposes, MAC was empowered to sell bonds and notes for the purpose of paying or loaning the proceeds of such sales to the City and to exchange its obligations for those of the City.

The Act provides that MAC shall continue for a term ending the later of July 1, 2008 or one year after all its liabilities have been fully paid and discharged. On July 1, 2008, MAC will have paid in full all its previously defeased bonds from amounts placed in an irrevocable trust. On July 1, 2008, MAC will have other liabilities such as accounts payable outstanding. MAC's current plan is to have these other liabilities fully paid and discharged by August 30, 2008. Upon the termination of the existence of MAC, all of its rights and property shall pass to and be vested in the State of New York.

New York City Transitional Finance Authority (TFA). TFA, a corporate governmental agency constituting a public benefit corporation and instrumentality of the State of New York was created in 1997 to assist the City in funding its capital program, the purpose of which is to maintain, rebuild, and expand the infrastructure of the City.

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

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

TSASC, Inc. (TSASC). TSASC is a special purpose, local development corporation organized in 1999 under the not-for-profit corporation law of the State of New York. TSASC is an instrumentality of the City, but is a separate legal entity from the City.

Pursuant to a purchase and sale agreement with the City, the City sold to TSASC all of its future right, title, and interest in the tobacco settlement revenues (TSRs) under the Master Settlement Agreement and the Decree and Final Judgment. This settlement agreement resolved cigarette smoking-related litigation between the settling states and participating manufacturers, released the participating manufacturers from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The City is allocated a share of the TSRs received by New York State. The future rights, title, and interest of the City to the TSRs were sold to TSASC.

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

On February 8, 2006, TSASC restructured all outstanding indebtedness by issuing Series 2006-1 bonds in the amount of $1.353 billion. The restructuring relieved TSASC of its obligations under the original Indenture to deposit a portion of the TSRs and other revenue (Collections) into a trapping account.

Under the Amended and Restated Indenture dated January 1, 2006, the Residual Certificate represents the entitlement to receive all amounts in excess of specified percentages of collections used to fund debt service and operating expenses of TSASC. The collections in excess of the specified percentages will be transferred to the TSASC Tobacco Settlement Trust (Trust), as owner of the Residual Certificate and then to the City as the beneficial owner of the Trust. The Indenture allows transfers to the Trust after December 6, 2007.

The new Indenture provides that a specified percentage of collections are pledged, and required to be applied to the payment of debt and operating costs. That percentage is 37.40% and is subject to reduction at June 1, 2024, and at each June 1st thereafter, depending on the magnitude of cumulative bond redemptions under the turbo redemption feature of Series 2006-1 bonds (which requires all pledged collections, after payment of operating costs, to be applied to payment of principal of and interest on Series 2006-1 bonds).

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

New York City Educational Construction Fund (ECF). ECF was created in 1967 as a corporate governmental agency of the State of New York, constituting a public benefit corporation. ECF was established to develop combined occupancy structures containing school and nonschool portions. ECF was created by the Education Law of the State and is authorized to issue bonds, notes, or other obligations to finance the construction and improvement of elementary and secondary school buildings within the City.

New York City School Construction Authority (SCA). SCA is a public benefit corporation created by the New York State Legislature in 1988. SCA's responsibilities as defined in the enabling legislation are the design, construction, reconstruction, improvement, rehabilitation and repair of the City's public schools. SCA is governed by a three-member Board of Trustees, all of whom are appointed by the Mayor which includes the Schools Chancellor of the City who serves as the Chairman.

SCA's operations are almost entirely funded by appropriations made by the City and are guided by five-year capital plans, developed by the Department of Education of the City.

As SCA represents a pass-through entity, in existence for the sole purpose of capital projects, all expenditures are capitalized. Upon substantial completion of the capital projects, the assets are transferred to the City.

Fiscal Year 2005 Securitization Corporation (FSC). FSC was established in 2004 as a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York. FSC is a financing instrumentality of the City, but is a separate legal entity from the City. FSC was formed for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing City general obligation bonds. The securities, which are held by the trustee for FSC, as they mature will fully fund the debt service and operational expenditures of FSC for the life of FSC's bonds.

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

Sales Tax Asset Receivable Corporation (STAR). STAR is a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York in 2003. STAR is a financing instrumentality of the City, but is a separate legal entity from the City. STAR was created to issue debt to finance the payment of principal, interest, and redemption premium (if any), on all outstanding bonds of MAC, on all outstanding bonds of the City held by MAC, and to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service. The payment of the outstanding MAC bonds results in the receipt by the City of tax revenues that would otherwise be paid to MAC for the payment of debt service on MAC's bonds. The foregoing was consideration for an assignment by the City of all of its rights and interest in the $170 million annual payment by the New York State Local Government Assistance Corporation which commenced with fiscal year 2004 and will terminate with fiscal year 2034 and which will be used for debt service on STAR bonds.

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

Hudson Yards Development Corporation (HYDC). HYDC, a local development corporation organized by the City under the not-for-profit corporation law of the State of New York began operations in 2005 to manage and implement the City's economic development initiative for the development and redevelopment activities (Project) of the Hudson Yards area on the West Side of Manhattan (Project Area). HYDC is governed by a Board of Directors, a majority of whom are appointed by the Mayor. HYDC works with various City and State agencies and authorities and with private developers on the design and construction and implementation of the various elements of the Project, and to further private development and redevelopment of the Project Area.

Hudson Yards Infrastructure Corporation (HYIC). HYIC, a local development corporation organized by the City under the not-for-profit corporation law of the State of New York began operations in 2005 for the purpose of financing certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (Project). HYIC does not engage in development directly, but finances development to be spearheaded by HYDC and carried out by existing public entities. HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and to collect revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from the City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by a Board of Directors elected by its five Members, all of whom are officials of the City. HYIC's Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions.

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

Discretely Presented Component Units

All discretely presented component units are legally separate from the primary government. These entities are reported as discretely presented component units because the City appoints a majority of these organizations' boards, is able to impose its will on them, or a financial benefit/burden situation exists.

The component units column in the government-wide financial statements include the financial data of these entities, which are reported in a separate column to emphasize that they are legally separate from the City. They include the following:

New York City Health and Hospitals Corporation (HHC). HHC, a public benefit corporation, assumed responsibility for the operation of the City's municipal hospital system in 1970. HHC's integrated health care networks provide the full continuum of care—primary and specialty care, inpatient acute, outpatient, long-term care, and home health services—under a single medical and financial management structure. HHC's financial statements include the accounts of HHC and its blended component units, MetroPlus Health Plan, Inc., HHC Insurance Company, Inc., HHC Capital Corporation, and a closely affiliated not-for-profit corporation, The HHC Foundation of New York City, Inc.

HHC mainly provides, on behalf of the City, comprehensive medical and mental health services to City residents regardless of ability to pay. Funds appropriated from the City are payments, either directly or indirectly, for services rendered by HHC. The City pays for patient care rendered to prisoners, uniformed City employees, and various discretely funded facility-specific programs. HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City which includes settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts, as well as other HHC costs including interest on City debt which funded HHC capital acquisitions. HHC reimburses the City for medical malpractice settlements it pays on behalf of HHC, up to an agreed upon amount to be negotiated each year.

New York City Off-Track Betting Corporation (OTB). OTB was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City. OTB earns: (i) revenues on its betting operations ranging between 15% and 31% of wagers handled, depending on the type of wager; (ii) a 5% surcharge and surcharge breakage on pari-mutuel winnings; (iii) a 1% capital acquisition surcharge on multiple, exotic, and super exotic wagering pools; (iv) breakage, the revenue resulting from the rounding down of winning payoffs; (v) uncashed pari-mutuel tickets which represent winning tickets outstanding; and (vi) 50% of all out-of-state and 45% of all Finger Lakes simulcasting surcharge revenues. Pursuant to State law, OTB: (i) distributes various portions of the surcharge to other localities in the State; (ii) allocates various percentages of wagers handled to the racing industry; (iii) allocates various percentages of wagers handled together with all uncashed pari-mutuel tickets to the State; (iv) pays regulatory fees (.50% of OTB's gross handle) to the Racing and Wagering Board and (v) distributes to the City the remaining portion of surcharge (surcharge revenue), generally 50% from the tracks after deducting the amounts payable to other local governments and the revenue derived from surcharge. Also, after deducting the Corporation's operating expenses and statutory distributions any remaining net income, except for amounts retained for capital acquisitions, is distributable to the City. There are no such amounts available for distribution for fiscal years 2007 and 2006. In addition, OTB acts as a collection agent for the City with respect to surcharge and surcharge breakage due from other community off-track betting corporations.

OTB's current liabilities exceeded its current assets by $31.1 million and coupled with an increase in the net asset deficit by $30.1 million during fiscal year 2007 raises questions concerning OTB's ability to operate as a "going concern." Operating initiatives instituted by OTB to reduce expenses, including a reduction in its workforce and maximizing branch profitability have not been sufficient to offset increases in operating expenses and statutory distributions. OTB has continued to seek legislative relief from the statutory distribution requirements of New York State laws. There is no assurance that the New York State legislature will adopt the necessary changes to New York State laws to provide relief to OTB.

Jay Street Development Corporation (JSDC). JSDC is a special purpose, local development corporation organized by the City in 2000 under the not-for-profit corporation law of the State of New York. JSDC is an instrumentality of the City, but is a separate legal entity from the City. JSDC was created to purchase, lease, sublease, own, hold, sell, assign, or pledge the real property known as the Court Unit of 330 Jay Street Condominium located at 330 Jay Street in Brooklyn, New York and to finance the costs of construction of a building thereon which will be used for the "Courts Facility."

The City entered into a Lease and Agreement with JSDC for the City to lease the Courts Facility in exchange for rental payments in amounts sufficient to pay the principal of and interest (and redemption premium, if any) on JSDC's bonds, financing costs for the bonds, administrative expenses of JSDC, and certain other costs. The City also entered into a ground lease with the Developer for an undivided interest in the land appurtenant to the Courts Facility (Ground Lease). On April 1, 2005, JSDC purchased the Courts Facility from the Developer pursuant to its purchase option under the lease with the Developer. The City assigned to JSDC its purchase option under the Ground Lease, and on April 1, 2005, JSDC also purchased the undivided interest in the land appurtenant to the Courts Facility from the Developer, pursuant to that assigned option. The lease and agreement will expire in 2022 (when all of JSDC's outstanding bonds will have been paid), at which time the title for the Courts Facility and the undivided interest in the land appurtenant will transfer to the City. The City has the option to purchase the Courts Facility and the undivided interest in the land appurtenant to the Courts Facility at any time prior to the expiration of the lease and agreement by providing 60 days written notice and making payment to JSDC of an amount sufficient to pay in full all principal and interest on bonds outstanding and all other obligations of JSDC.

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

New York City Housing Development Corporation (HDC). HDC, a corporate governmental agency constituting a public benefit corporation and instrumentality of the State of New York was established in 1971 to encourage private housing development by providing low interest mortgage loans. The combined financial statements include: (i) the accounts of HDC and (ii) two active discretely presented component units: Housing Assistance Corporation and the New York City Residential Mortgage Insurance Corporation. Also, HDC includes the Housing New York Corporation which became an inactive subsidiary of HDC on November 3, 2003 and is not expected to be dissolved and the NYC HDC Real Estate Owned Corporation which was established as a subsidiary of HDC on September 20, 2004 and during HDC's last fiscal year, there was no activity by this subsidiary. It is treated as a blended component of HDC. HDC finances significant amounts of its activities through issuance of HDC bonds and notes. The bonds and notes of HDC are not debts of either the State or the City. HDC has a fiscal year ending October 31.

HDC operates in a manner similar to a private business that includes activities such as financing of real estate development, investment banking, and commercial lending. HDC is supported by various loan and bond program fees that may include commitment, financing, and mortgage insurance and servicing fees on certain of its mortgage loans and for loans serviced for the City. Mortgage loan earnings and other loan-related interests represent HDC's major source of operating revenue. HDC maintains separate accounts for each bond issue and component unit, and its general operating fund to control and manage money for particular purposes and to demonstrate that it is properly using specific resources.

New York City Housing Authority (HA). HA is a public benefit corporation chartered in 1934 under the New York State Public Housing Law. HA develops, constructs, manages, and maintains low cost housing for eligible low income families in the City. HA also maintains a leased housing program which provides housing assistance payments to families.

Substantial operating deficits result from the essential services that HA provides, and such operating deficits will continue in the foreseeable future. To meet the funding requirements of these operating deficits, HA receives subsidies from: (a) the Federal government, primarily the U.S. Department of Housing and Urban Development, in the form of annual grants for operating assistance, debt service payments, contributions for capital, and reimbursement of expenditures incurred for certain Federal housing programs; (b) New York State in the form of debt service and capital payments; and (c) the City in the form of capital and debt service payments. Subsidies are established through budgetary procedures which establish amounts to be funded by the grantor agencies. Projected operating surplus or deficit amounts are budgeted on an annual basis and approved by the grantor agency. Capital project budgets are submitted at various times during the year. HA has a calendar year-end.

New York City Industrial Development Agency (IDA). IDA is a public benefit corporation established in 1974 to actively promote, retain, attract, encourage, and develop an economically sound commerce and industry base to prevent unemployment and economic deterioration in the City. IDA assists industrial, commercial, and not-for-profit organizations in obtaining long-term, low-cost financing for fixed assets through a financing transaction which includes the issuance of double and triple tax-exempt industrial development bonds (IDBs) and, in turn, the participating organizations must meet certain economic development criteria, the most important of which is job creation and/or retention. In addition, IDA assists participants who do not qualify for IDBs through a "straight lease" structure. The straight lease also provides tax benefits to the participants without having to issue IDBs or otherwise take part in the participants' financing. Whether IDA issues IDBs or merely enters into a straight lease, IDA may provide one or more of the following tax benefits: exemption from mortgage recording tax; payments in lieu of real property taxes that are less than full taxes; and exemption from City and State sales and use taxes as applied to construction materials and machinery and equipment. IDA is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financing assistance. Its membership is prescribed by statute and includes public officials and private business leaders.

New York City Economic Development Corporation (EDC). EDC is a local development corporation organized in 1966 according to the not-for-profit corporation law of the State of New York. EDC's financial statements include the accounts of EDC and its affiliates, Metropolitan Business Assistance, Ltd. and Apple Industrial Development Corporation. EDC renders a variety of services and administers certain economic development programs on behalf of the City relating to attraction, retention, and expansion of commerce and industry in the City. These services and programs include encouragement of construction, acquisition, rehabilitation, and improvement of commercial and industrial enterprises within the City, and provision of grants to qualifying business enterprises as a means of helping to create and retain employment therein.

New York City Marketing Development Corporation (MDC). MDC is a local development corporation organized in 2003 under the not-for-profit corporation law of the State of New York. MDC is the City's central office for sponsorship, licensing, brand management, media management, advertising, and marketing. MDC assists the City through the development, enhancement, and protection of the trademarks, patents, copyrights, and other unique intangible assets of the City and by utilizing these assets in developing marketing partnerships, sponsorships, and licensing and other agreements for the financial benefit of the City. MDC's goals are to generate revenue for the City without raising taxes; support City agencies and important City initiatives; and promote the City for economic development, business prosperity, and growth in employment and tourism.

For fiscal year 2007, MDC operated under an extension of its contract with the City for fiscal year 2006. Midway through fiscal year 2007, the City decided to transition the functions and operations of MDC to another City-affiliated not-for-profit, NYC & Company, Inc. (NYCC). During this process, all employees of MDC became employees of NYCC effective February 1, 2007. The transition was completed with the registration of the NYCC contract with the City on June 14, 2007, which incorporated all the services formerly provided by MDC, and with the assignment of all MDC's revenue contracts to NYCC as of June 28, 2007. As a result, MDC's contract with the City was allowed to expire on June 30, 2007 and will only function to meet any outstanding financial and legal obligations incurred prior to that date.

Business Relocation Assistance Corporation (BRAC). BRAC is a not-for-profit corporation incorporated in 1981 according to the not-for-profit corporation law of the State of New York for the purpose of implementing and administering the Relocation Incentive Program (RIP) and other related programs. BRAC provides relocation assistance to qualifying commercial and manufacturing firms moving within the City.

The funds for RIP were provided by owners/developers of certain residential projects which caused the relocation of commercial and manufacturing businesses previously located at those sites. These funds consist of conversion contributions or escrow payments mandated by the City's Zoning Resolution for this type of development. The ability of BRAC to extract fees for residential conversion ended as of January 1, 1998 per the Zoning Resolution.

As required by the Zoning Resolution, developers/owners of specific City properties needed to pay a conversion contribution (BRAC payment) in order to receive a building permit for the conversion of space from commercial to residential use. As stipulated by the Zoning Resolution, in the event that such conversion resulted in the displacement of industrial and/or commercial firms located within the City, the developer was required to establish an escrow account. The funds were released to the displaced firm once eligible relocation had taken place.

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

All conversion contributions received by BRAC are restricted for the use of administering industrial retention/relocation programs consistent with the Zoning Resolution. One such program, the Industrial Relocation Grant Program provides grants up to $30,000 to eligible New York City manufacturing firms to defray their moving costs. Grants are awarded after a firm completes its relocation. This program will continue to operate only with the current accumulated net assets now available.

Brooklyn Navy Yard Development Corporation (BNYDC). BNYDC was organized in 1966 as a not-for-profit corporation according to the not-for-profit corporation law of the State of New York. The primary purpose of BNYDC is to provide economic rehabilitation in Brooklyn, to revitalize the economy, and create job opportunities. In 1971, BNYDC leased the Brooklyn Navy Yard from the City for the purpose of rehabilitating it and attracting new businesses and industry to the area. The Mayor appoints the majority of the members of the Board of Directors.

New York City Water Board (Water Board) and New York City Municipal Water Finance Authority (Water Authority). The Water and Sewer System (NYW), consisting of two legally separate and independent entities, the Water Board and the Water Authority began operations in 1985. NYW provides for water supply and distribution, and sewage collection, treatment, and disposal for the City. The Water Authority was established to issue debt to finance the cost of capital improvements to the water distribution and sewage collection system, and to refund any and all outstanding bonds and general obligation bonds of the City issued for water and sewer purposes. The Water Board was established to lease the water distribution and sewage collection system from the City and to establish and collect rates, fees, rents, and other charges for the use of, or for services furnished, rendered, or made available by the water distribution and sewage collection system to produce cash sufficient to pay debt service on the Water Authority's bonds and to place NYW on a self-sustaining basis.

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

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

CRC is a self-supporting entity and charges various program fees which may include application fees, financing fees, legal fees, and compliance fees. CRC is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financing assistance. Its membership is prescribed by statute and includes public officials and private business leaders.

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

2. Basis of Presentation

Government-wide Statements: The government-wide financial statements (*i.e.,* the statement of net assets and the statement of activities), display information about the primary government and its component units. These statements include the financial activities of the overall government except for fiduciary activities. Eliminations of internal activity have been made in these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. All of the activities of the City as primary government are governmental activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (i) charges for services such as rental revenue from operating leases on markets, ports, and terminals and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other revenues not properly included among program revenues are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for the governmental and fiduciary fund categories are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, fiduciary, and proprietary. Except for proprietary (the only organizations that would be categorized as proprietary funds are reported as component units), each category, in turn, is divided into separate "fund types."

The City reports the following major governmental funds:

General Fund. This is the general operating fund of the City. Substantially all tax revenues, Federal and State aid (except aid for capital projects), and other operating revenues are accounted for in the General Fund. This fund also accounts for expenditures and transfers as appropriated in the Expense Budget, which provides for the City's day-to-day operations, including transfers to Debt Service Funds for payment of long-term liabilities.

New York City Capital Projects Fund. This fund is used to record all revenues, expenditures, assets, and liabilities associated with City capital projects. It accounts for resources used to construct or acquire fixed assets and make capital improvements. Resources of the New York City Capital Projects Fund are derived principally from proceeds of City and TFA bond issues, payments from the Water Authority, and from Federal, State, and other aid.

General Debt Service Fund. This fund, required by State legislation on January 1, 1979 is administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this fund.

Additionally, the City reports the following fund types:

Fiduciary Funds

The Fiduciary Funds are used to account for assets and activities when a governmental unit is functioning either as a trustee or an agent for another party. They include the following:

The **Pension and Other Employee Benefit Trust Funds** account for the operations of:

- New York City Employees' Retirement System (NYCERS)
- New York City Teachers' Retirement System—Qualified Pension Plan (TRS)
- New York City Board of Education Retirement System—Qualified Pension Plan (BERS)
- New York City Police Pension Fund (POLICE)
- New York City Fire Pension Fund (FIRE)
- New York City Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York City Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York City Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York City Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- Transit Police Officers' Variable Supplements Fund (TPOVSF)
- Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)

- Housing Police Officers' Variable Supplements Fund (HPOVSF)
- Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- Correction Officers' Variable Supplements Fund (COVSF)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/457 Plan)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(k) Plan)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/408(q) Plan)
- New York City Retiree Health Benefits Trust (RHBT)

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

These funds use the accrual basis of accounting and a measurement focus on the periodic determination of additions, deductions, and net assets held in trust for benefit payments.

The **Agency Funds** account for miscellaneous assets held by the City for other funds, governmental units, and individuals. The Agency Funds are custodial in nature and do not involve measurement of results of operations.

Discretely Presented Component Units

The discretely presented component units consist of **HHC, OTB, HDC, HA, EDC, NYW** and the nonmajor component units. These activities are accounted for in a manner similar to private business enterprises, in which the focus is on the periodic determination of revenues, expenses, and net income.

3. Basis of Accounting

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

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

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

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

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

4. Encumbrances

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

5. Cash and Investments

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

Cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during fiscal years 2007 and 2006 were approximately $1,228 million and $785 million, respectively.

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

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

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

A description of the City's securities lending activities for the Pension and certain Other Employee Benefit Trust Funds in fiscal years 2007 and 2006 is included in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2007 and 2006 (estimated at $262 million and $244 million, respectively, based on average cost) have been reported on the government-wide statement of net assets. Inventories are recorded as expenditures in governmental funds at the time of purchase, and accordingly have not been reported on the governmental funds balance sheet.

7. Restricted Cash and Investments

Certain proceeds of the City and component unit bonds, as well as certain resources set aside for bond repayment, are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants. None of the government-wide statement of net assets is restricted by enabling legislation.

8. Capital Assets

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection system, and other elements of the City's infrastructure having a minimum useful life of five years, having a cost of more than $35,000, and having been appropriated in the Capital Budget (see Note C.1.). Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported in the government-wide financial statements. These statements also contain the City's infrastructure elements that are now required to be capitalized under GAAP. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, park land and improvements, and tunnels. The capital assets of the water distribution and sewage collection system are recorded in the Water and Sewer System component unit financial statements under a lease agreement between the City and the Water Board.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated capital assets are stated at their fair market value as of the date of the donation. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease (see Note D.3.).

Accumulated depreciation and amortization are reported as reductions of capital assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 40 to 50 years for buildings; 5 to 35 years for equipment; and 15 to 50 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is less.

9. Allowance for Uncollectible Mortgage Loans

Mortgage loans and interest receivable in the Debt Service Funds are net of an allowance for uncollectible amounts of $317.0 million and $314.6 million for fiscal years 2007 and 2006, respectively. The allowance is composed of the balance of first mortgages one or more years in arrears and the balance of refinanced mortgages where payments to the City are not expected to be completed for approximately 25 to 30 years.

10. Vacation and Sick Leave

Earned vacation and sick leave is recorded as an expenditure in the period when it is payable from current financial resources in the fund financial statements. The estimated value of vacation leave earned by employees which may be used in subsequent years or earned vacation and sick leave paid upon termination or retirement, and therefore payable from future resources, is recorded as a liability in the government-wide financial statements.

11. Judgments and Claims

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers' compensation. In the fund financial statements, expenditures for judgments and claims (other than workers' compensation and condemnation proceedings) are recorded on the basis of settlements reached or judgments entered within the current fiscal year. Expenditures for workers' compensation are recorded when paid. Settlements relating to condemnation proceedings are reported when the liability is estimable. In the government-wide financial statements, the estimated liability for all judgments and claims is recorded as a noncurrent liability.

12. Long-term Liabilities

For long-term liabilities, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide financial statement of net assets. Long-term liabilities expected to be financed from discretely presented component unit operations are accounted for in those component unit financial statements.

13. Derivatives

The City did not enter into any new derivative transactions during fiscal years 2007 and 2006. In April, 2007, the City and a counterparty did amend one swap confirmation in connection with a synthetic fixed rate swap that had been entered into in January, 2003 with a notional amount of $80 million. The City and the counterparty agreed to eliminate the counterparty's existing cancellation option in exchange for the City's agreement to increase its fixed rate payment from 2.818% per annum to 3.109% per annum starting on August 1, 2007. Certain disclosures have been made for the cumulative derivatives contracted since fiscal year 2003 which are reported at fair value on the government-wide statement of net assets and include disclosure of the objectives for entering into the derivatives and the derivatives' fair values and risk exposures.

Swap Transaction Summary

In an effort to lower its borrowing costs over the life of its bonds and to diversify some of its existing derivatives portfolio, the City has entered into Interest Rate Exchange Agreements (swaps) and sold options related to some of these swaps. As of June 30, 2007 and 2006, the total notional amount of the City's swaps and swaptions outstanding was $3.045 billion and $3.053 billion, respectively. The total marked to market value of the City's swaps and swaptions as of June 30, 2007 and 2006 was approximately $14.3 million and $(14.8) million, respectively, which were reported on the government-wide statement of net assets. The table includes certain significant terms and the marked to market values for the City's cumulative swap transactions.

Transaction Number	Prior Years Since Fiscal Year 2003 1-14(a) (in thousands)
Notional Amount:	
as of 6/30/07	$3,044,785
as of 6/30/06	$3,053,445
Up-front Cash Payment to the City	$ 40,585
Option Premium	$ 19,860
Payments Made by the City:	
as of 6/30/07	$ (294,385)
as of 6/30/06	$ (191,192)
Payments Received by the City(b):	
as of 6/30/07	$ 352,865
as of 6/30/06	$ 180,748
Marked to Market Value:	
as of 6/30/07	$ 14,326
as of 6/30/06	$ (14,828)

(a) No new swap transactions were entered into by the City during fiscal years 2007 and 2006.

(b) Includes Up-front Cash Payment and Option Premium.

Risks

While the City did not enter into any new swap transactions during fiscal years 2007 and 2006, below is a list of risks inherent in the types of swap transactions that the City has entered into since fiscal year 2003.

Counterparty Risk: The risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If a counterparty were to default under its agreement when the counterparty would owe a termination payment to the City, the City may have to pay another entity to assume the position of the defaulting counterparty. The City has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Termination Risk: The risk that a counterparty will terminate a swap at a time when the City owes it a termination payment. The City has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the City; other City defaults which remain uncured for 30 days after notice; City bankruptcy; insolvency of the City (or similar events); or a downgrade of the City's credit rating below investment grade (i.e., BBB-/Baa3). The total return swap has additional termination events in addition to those just described, including: the counterparty may terminate the swap on any business day on which the par value of the bonds exceeds the market value of the bonds by $75 million. The likelihood of such a discrepancy between the par and market values is mitigated by a reset mechanism which adjusts the bond coupon upward or downward by an amount equal to the movement of the AAA Municipal Market Data Index since its previous reset.

Basis Risk: The risk that the City's variable rate payments will not equal its variable rate receipts because they are based on different indices. Under the terms of its synthetic fixed rate swap transactions, the City pays a variable rate on its bonds based on the Securities Industry and Financial Markets Association Index (SIFMA) but receives a variable rate on the swap based on a percentage of the London Interbank Offered Rate (LIBOR). In its August, 2004 basis swap, the City's variable payer rate is based on SIFMA and its variable receiver rate on a percentage of LIBOR. However, the stepped percentages of LIBOR received by the City mitigate the risk that the City will be harmed in low interest rate environments by the compression of the SIFMA and LIBOR indices. As the overall level of interest rates decreases, the percentage of LIBOR received by the City increases.

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

14. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2007 were due July 1, 2006 and January 1, 2007 except that payments by owners of real property assessed at $80,000 or less and cooperatives whose individual units on average are valued at $80,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2007 taxes was June 29, 2006. The lien date is the date taxes are due.

Real estate tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first two months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government-wide financial statements recognize real estate tax revenue (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied.

The City offered an actual 1.5% discount for the prepayment of real estate taxes for fiscal years 2008 and 2007. Payment of real estate taxes before July 15, 2007, on properties with an assessed value of $80,000 or less and before July 1, 2007, on properties with an assessed value over $80,000 received the discount. Collections of these real estate taxes received on or before June 30, 2007 and 2006 were $2.7 billion and $3.7 billion, respectively. These amounts were recorded as deferred revenue.

The City sold approximately $45.2 million of real property tax liens, fully attributable to fiscal year 2007, at various dates in fiscal year 2007. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $3.3 million worth of liens sold in fiscal year 2007 will require replacement. The estimated refund accrual amount of $4 million, including the surcharge and interest, resulted in fiscal year 2007 net sale proceeds of $41.2 million.

In fiscal year 2007, $10.0 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2006 sale. This resulted in a decrease to fiscal year 2007 revenue of $1.0 million for the refund amount in excess of the fiscal year 2006 accrual of $9 million and decreased the proceeds of the fiscal year 2006 sale to $82.0 million down from the original fiscal year 2006 proceeds reported last year of $83.0 million.

The City sold approximately $92.0 million of real property tax liens, fully attributable to fiscal year 2006, at various dates in fiscal year 2006. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $7.3 million worth of liens sold in fiscal year 2006 will require replacement. The estimated refund accrual amount of $9 million, including the surcharge and interest, resulted in fiscal year 2006 net sale proceeds of $83.0 million.

In fiscal year 2006, $.2 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2005 sale. This resulted in an increase to fiscal year 2006 revenue of $10.8 million for the refund amount was less than the fiscal year 2005 accrual of $11 million and increased the proceeds of the fiscal year 2005 sale to $48.5 million up from the original fiscal year 2005 proceeds reported last year of $37.7 million.

In fiscal years 2007 and 2006, $353 million and $380 million, respectively, were provided as allowances for uncollectible real estate taxes against the balance of the receivable. Delinquent real estate taxes receivable that are estimated to be collectible but which are not collected in the first two months of the next fiscal year are recorded as deferred revenues in the governmental funds balance sheet but included in general revenues on the government-wide statement of activities.

The City is permitted to levy real estate taxes for general operating purposes in an amount up to 2.5% of the average full value of taxable real estate in the City for the last five years and in unlimited amounts for the payment of principal and interest on long-term City debt. Amounts collected for payment of principal and interest on long-term debt in excess of that required for that purpose in the year of the levy must be applied towards future years' debt service. For the fiscal years ended June 30, 2007 and 2006, excess amounts of $153 million and $98 million, respectively, were transferred to the General Debt Service Fund.

15. Other Taxes and Other Revenues

Taxpayer-assessed taxes, such as sales and income taxes, net of refunds, are recognized in the accounting period in which they become susceptible to accrual for the fund financial statements. Additionally, the government-wide financial statements recognize sales and income taxes (net of refunds) which are not available to the governmental fund type in the accounting period for which the taxes are assessed.

16. Federal, State, and Other Aid

For the government-wide and fund financial statements, categorical aid, net of a provision for estimated disallowances is reported as receivables when the related eligibility requirements are met. Unrestricted aid is reported as revenue in the fiscal year of entitlement.

17. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized as expenditures in the period incurred. Bond discounts in the government-wide financial statements units are deferred and amortized over the term of the bonds using a method which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges. Bond issuance costs are amortized in the government-wide financial statements over the term of the bonds using the straight-line method.

18. Intra-entity Activity

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as transfers. Such payments include transfers for debt service and capital construction. In the government-wide financial statements, resource flows between the primary government and the discretely presented component units are reported as if they were external transactions.

19. Subsidies

The City makes various payments to subsidize a number of organizations which provide services to City residents. These payments are recorded as expenditures in the year paid.

20. Pensions

Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Note E.5.), regardless of the amount recognized as pension expense on the modified accrual basis of accounting. Annual pension cost should be equal to the annual required contributions to the pension plan, calculated in accordance with certain parameters.

21. Other Postemployment Benefits

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

22. Estimates and Assumptions

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

23. Pronouncements Issued But Not Yet Effective

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

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

In addition to clarifying guidance (supersedes Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues* and amends Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*) on accounting for sales and pledges of receivables and future revenues, Statement No. 48:

- Requires enhanced disclosures pertaining to future revenues that have been pledged or sold. These disclosures are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so.
- Provides guidance on sales of receivables and future revenues within the same financial reporting entity.
- Provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues, including residual interests and recourse provisions.

The City will be required to implement Statement No. 48 in fiscal year ending June 30, 2008. While earlier application of the Statement is encouraged, the City has not completed the task of estimating the impact of Statement No. 48 on its financial statements.

In November, 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution (e.g., hazardous wastes spills and asbestos contamination) by participating in pollution remediation activities such as site assessments and cleanups. Pollution remediation obligations exclude pollution prevention or control obligations relating to current operations and future pollution remediation activities such as landfill closure and postclosure care. Statement No. 49 identifies the obligating events which require a governmental entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The Statement amends: NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*, GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, to provide specific reporting guidance for pollution remediation obligations, including disclosure requirements. Comparability of financial statements among governments will be enhanced by Statement No. 49 requiring all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported. The Statement also will enhance users' ability to assess governments' obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable.

The requirements of Statement No. 49 are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented. While earlier application of the Statement is encouraged, the City has not completed the process of evaluating the impact of Statement No. 49 on its financial statements.

In May, 2007, GASB issued Statement No. 50 *Pension Disclosures,* an amendment of GASB Statements No. 25 and No. 27. The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The Statement more closely aligns the financial reporting requirements for pensions with those for Other Postemployment Benefits (OPEB) and consequently, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by Statement No. 50 amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers.

The requirements of Statement No. 50 are effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. While earlier application of the Statement is encouraged, the City has not completed the task of evaluating the impact of Statement No. 50 on its financial statements. In the initial year of implementation, defined benefit pension plans and sole and agent employers that use the aggregate actuarial cost method to determine the ARC are required to present elements of information in the schedule of funding progress using the entry age actuarial cost method as of the most recent actuarial valuation date. In subsequent years, plans and employers should add to that schedule information as of subsequent actuarial valuation dates until the requirements of Statements 25 and 27, as amended, with regard to the minimum number of years or actuarial valuations to be included have been met.

In June, 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Statement No. 51 also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The objective of Statement No. 51 is to establish accounting and financial reporting requrements for intangible assets to reduce inconsistencies relating to recognition, initial measurement, and amortization, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered indentifiable. Additionally, the Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. Statement No. 51 also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software. The Statement also establishes guidance specific to intangible assets related to amortization. Guidance is provided on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

The requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For the City, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of the Statement and those that would be considered internally generated. Early implementation of this Statement is not encouraged. The City has not completed the process of evaluating the impact of Statement No. 51 on its financial statements.

B. Reconciliation of Government-wide and Fund Financial Statements

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

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

C. Stewardship, Compliance, and Accountability

1. Budgets and Financial Plans

Budgets

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

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

Expenditures made against the Expense Budget are controlled through the use of quarterly spending allotments and units of appropriation. A unit of appropriation represents a subdivision of an agency's budget and is the level of control at which expenditures may not legally exceed the appropriation. The number of units of appropriation and the span of operating responsibility which each unit represents, differs from agency to agency depending on the size of the agency and the level of control required. Transfers between units of appropriation and supplementary appropriations may be made by the Mayor subject to the approval provisions set forth in the City Charter. Supplementary appropriations increased the Expense Budget by $7.121 billion and $4.941 billion subsequent to its original adoption in fiscal years 2007 and 2006, respectively.

Financial Plans

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

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

2. Deficit Fund Balance

The New York City Capital Projects Fund has cumulative deficits of $3.3 billion and $2.2 billion at June 30, 2007 and 2006, respectively. These deficits represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

D. Detailed Notes on All Funds

1. Deposits and Investments

Deposits

The City's bank depositories are designated by the Banking Commission, which consists of the Comptroller, the Mayor, and the Finance Commissioner. Independent bank rating agencies are used to determine the financial soundness of each bank, and the City's banking relationships are under periodic operational and credit reviews.

The City Charter limits the amount of deposits at any time in any one bank or trust company to a maximum of one-half of the amount of the capital and net surplus of such bank or trust company. The discretely presented component units included in the City's reporting entity maintain their own banking relationships which generally conform with the City's. Bank balances are currently insured up to $100,000 in the aggregate by the Federal Deposit Insurance Corporation (FDIC) for each bank for all funds other than monies of the retirement systems, which are held by well-capitalized banks and are insured by the FDIC up to $100,000 per retirement system member. At June 30, 2007 and 2006, the carrying amount of the City's unrestricted cash and cash equivalents was $8.793 billion and $10.097 billion, respectively, and the bank balances were $2.371 billion and $2.204 billion, respectively. Of the unrestricted bank balances, $11 million and $8 million were exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it or the City will not be able to recover collateral securities that are in the possession of an outside party) because the respective bank balances were uninsured and uncollateralized at June 30, 2007 and 2006, respectively. Neither the blended component units: SCA, HYDC, and Private Housing Loan Programs as of June 30, 2007 and 2006, respectively, nor the City's General Debt Service Fund as of June 30, 2006 had a deposit policy for custodial credit risk. At June 30, 2007 and 2006, the carrying amount of the restricted cash and cash equivalents was $1.528 billion and $1.055 billion, respectively, and the bank balances were $3.6 million and $.7 million, respectively. Of the restricted bank balances, $3.5 million and $.6 million were exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it or the City will not be able to recover collateral securities that are in the possession of an outside party) because the respective bank balances were uninsured and uncollateralized at June 30, 2007 and 2006, respectively. TFA, a blended component unit did not have a deposit policy for custodial credit risk as of June 30, 2007 and 2006; also, the blended component units: HYIC, FSC, and STAR lacked a deposit policy for custodial credit risk as of June 30, 2007.

Investments

The City's investment of cash in its governmental fund types is currently limited to U.S. Government guaranteed securities and U.S. Government agency securities purchased directly and through repurchase agreements from primary dealers as well as commercial paper rated A1 and P1 by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively. The repurchase agreements must be collateralized by U.S. Government guaranteed securities, U.S. Government agency securities, or eligible commercial paper in a range of 100% to 102% of the matured value of the repurchase agreements. The following is a summary of the fair value of investments of the City as of June 30, 2007 and 2006:

Governmental activities:

	Investment Maturities (in years)			
	2007		2006	
Investment Type	Less than 1	1 to 5	Less than 1	1 to 5
	(in thousands)			
Unrestricted				
U.S. Government securities	$1,139,158	$ —	$1,700,040	$ 18,352
U.S. Government agency obligations	349,328	—	257,529	—
Commercial paper	409,147	—	—	—
Total unrestricted	$1,897,633	$ —	$1,957,569	$ 18,352
Restricted				
U.S. Government securities	$ 50,968	$ 311,868	$ 444,210	$328,374
Commercial paper	395,978	—	85,960	—
U.S. Government agency obligations	1,394,414	238,198	—	266,351
Repurchase agreements	77,153	1,787,760	17,475	—
Total restricted	$1,918,513	$2,337,826	$ 547,645	$594,725

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

Credit risk. Investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. As of June 30, 2007 and 2006, investments in Federal National Mortgage Association (FNMA or Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and Federal Home Loan Bank (FHLB) were rated in the highest long-term or short-term ratings category (as applicable) by Standard & Poor's and/or Moody's Investor Service. These ratings were AAA and A-1+ by Standard & Poor's and Aaa and P-1 by Moody's for long-term and short-term instruments respectively. The majority of these investments were not rated by Fitch ratings, but those that were carried its highest long-term or short-term ratings of AAA or F1+, respectively. Investments in commercial paper were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor's, P-1 by Moody's, and/or F1+ by Fitch ratings). Repurchase agreements are not rated. Resolution Funding Strip investments are guaranteed by the U.S. Treasury.

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

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

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

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

1. Fixed income investments may be made in U.S. Government guaranteed securities or securities of U.S. Government agencies, securities of companies rated BBB or better by both Standard and Poor's Corporation and Moody's Investors Service, Inc., and any bond that meets the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.
2. Equity investments may be made only in those stocks that meet the qualifications of the New York State Retirement and Social Security Laws, the New York State Banking Law, and the New York City Administrative Code.
3. Short-term investments may be made in the following:
   a. U.S. Government guaranteed securities or U.S. Government agency securities.
   b. Commercial paper rated A1 or P1 or F1 by Standard & Poor's Corporation or Moody's Investors Service, Inc. or Fitch, respectively.
   c. Repurchase agreements collateralized in a range of 100% to 102% of matured value, purchased from primary dealers of U.S. Government securities.
   d. Investments in bankers' acceptances, certificates of deposit, and time deposits are limited to banks with worldwide assets in excess of $50 billion that are rated within the highest categories of the leading bank rating services and selected regional banks also rated within the highest categories.
4. Investments up to 25% of total pension fund assets in instruments not specifically covered by the New York State Retirement and Social Security Law.
5. No investment in any one corporation can be: (i) more than 2% of the pension plan net assets; or (ii) more than 5% of the total outstanding issues of the corporation.

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

Securities Lending

State statutes and boards of trustees policies permit the Pension and certain Other Employee Benefit Trust Funds (Systems and Funds) to lend their securities (the underlying securities) to brokers-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Systems' and Funds' custodians lend the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Government and U.S. Government agencies' bonds, asset-backed securities, and international equities and bonds held in collective investment funds. In return, the Systems and Funds receive collateral in the form of cash and U.S. Government agency securities at 100% to 105% of the principal plus accrued interest for reinvestment. At year-end, the Systems and Funds had no credit risk exposure to borrowers because the amounts the Systems and Funds owe the borrowers exceed the amounts the borrowers owe the Systems and Funds. The contracts with the Systems' and Funds' custodian requires borrowers to indemnify the Systems and Funds if the borrowers fail to return the securities, if the collateral is inadequate, and if the borrowers fail to pay the Systems and Funds for income distributions by the securities' issuers while the securities are on loan.

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

All securities loans can be terminated on demand within a period specified in each agreement by either the Systems and Funds or the borrowers. The underlying fixed income securities have an average maturity of 10 years. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. During fiscal year 2003, the value of certain underlying securities became impaired because of the credit failure of the issuer. Accordingly, the carrying amounts of the collateral reported in four of the Systems' statements of fiduciary net assets were reduced by a total of $80 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions. During fiscal years 2004 through 2006, $10.4 million was recovered as a distribution of bankruptcy proceeds and $18.2 million was received as a partial settlement from litigation. In fiscal year 2007, an additional $7.1 million was recovered as an ongoing distribution of bankruptcy proceeds.

The City reports securities loaned as assets on the Statement of Fiduciary Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are also recorded as assets. Liabilities resulting from these transactions are reported on the Statement of Fiduciary Net Assets. Accordingly, the City records the investments purchased with the cash collateral as Investments, Collateral From Securities Lending Transactions with a corresponding liability as Securities Lending Transactions.

2. Capital Assets

The following is a summary of capital assets activity for the fiscal years ended June 30, 2006 and 2007:

Primary Government	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
				(in thousands)			
Governmental activities:							
Capital assets, not being depreciated:							
Land	$ 948,235	$ 35,362	$ 15,643	$ 967,954	$ 99,417	$ —	$ 1,067,371
Construction work-in-progress	2,054,131	2,358,965	1,459,118	2,953,978	2,643,836	1,971,500	3,626,314
Total capital assets, not being depreciated	3,002,366	2,394,327	1,474,761	3,921,932	2,743,253	1,971,500	4,693,685
Capital assets, being depreciated:							
Buildings	30,412,179	1,459,118	165,292	31,706,005	1,971,500	54,197	33,623,308
Equipment	5,524,903	186,148	251,772	5,459,279	273,044	177,858	5,554,465
Infrastructure	11,105,898	942,048	433,537	11,614,409	1,151,884	391,451	12,374,842
Total capital assets, being depreciated	47,042,980	2,587,314	850,601	48,779,693	3,396,428	623,506	51,552,615
Less accumulated depreciation:							
Buildings	11,406,060	1,128,775	147,934	12,386,901	1,084,673	53,420	13,418,154
Equipment	3,951,515	359,687	245,280	4,065,922	353,235	165,148	4,254,009
Infrastructure	4,004,889	530,350	457,387	4,077,852	556,585	391,452	4,242,985
Total accumulated depreciation	19,362,464	2,018,812 (1)	850,601	20,530,675	1,994,493 (1)	610,020	21,915,148
Total capital assets, being depreciated, net	27,680,516	568,502	—	28,249,018	1,401,935	13,486	29,637,467
Governmental activities capital assets, net	$30,682,882	$2,962,829	$1,474,761	$32,170,950	$4,145,188	$1,984,986	$34,331,152

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2007 and 2006 as follows:

	2007	2006
	(in thousands)	
Governmental activities:		
General government	$ 299,883	$ 350,163
Public safety and judicial	214,052	223,287
Education	622,883	577,368
City University	10,500	10,487
Social services	80,178	73,874
Environmental protection	97,786	125,214
Transportation services	402,983	391,729
Parks, recreation and cultural activities	187,378	189,524
Housing	35,771	33,917
Health	30,360	30,363
Libraries	12,719	12,886
Total depreciation expense—governmental activities	$1,994,493	$2,018,812

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2007 and 2006. Sources of funding for capital assets are not available prior to fiscal year 1987.

	2007	2006
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	$ 5,105,519	$ 5,105,519
City bonds	45,872,338	42,395,200
Federal grants	1,073,013	1,050,947
State grants	105,538	105,331
Private grants	330,493	330,494
Capitalized leases	3,759,399	3,714,134
Total funding sources	$56,246,300	$52,701,625

At June 30, 2007 and 2006, governmental activities capital assets include approximately $1.2 billion of City-owned assets leased for $1 per year to the New York City Transit Authority which operates and maintains the assets. In addition, assets leased to HHC and to the Water and Sewer System are excluded from the governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in buildings at June 30, 2007 and 2006 are leased properties that have elements of ownership. These assets are recorded as capital assets as follows:

	Capital Leases	
Governmental activities:	2007	2006
	(in thousands)	
Capital asset:		
Buildings, gross	$3,759,399	$3,714,134
Less accumulated amortization	927,480	789,515
Buildings, net	$2,831,919	$2,924,619

Capital Commitments

At June 30, 2007, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $15.1 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates New York City Capital Projects Fund expenditures of $83.7 billion over fiscal years 2008 through 2017. To help meet its capital spending program, the City and TFA borrowed $4.1 billion in the public credit market in fiscal year 2007. The City and TFA plan to borrow $5.6 billion in the public credit market in fiscal year 2008.

3. Leases

The City leases a significant amount of property and equipment from others. Leased property having elements of ownership is recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property not having elements of ownership are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when payable. Total expenditures on such leases for the fiscal years ended June 30, 2007 and 2006 were approximately $603 million and $587 million, respectively.

As of June 30, 2007, the City (excluding discretely presented component units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	Capital Leases	Operating Leases (in thousands)	Total
Governmental activities:			
Fiscal year ending June 30:			
2008	$ 257,604	$ 368,441	$ 626,045
2009	231,952	352,443	584,395
2010	240,556	333,726	574,282
2011	239,767	308,351	548,118
2012	238,466	289,577	528,043
2013-2017	1,115,878	1,195,575	2,311,453
2018-2022	963,512	762,861	1,726,373
2023-2027	425,436	292,458	717,894
2028-2032	316,396	24,787	341,183
2033-2037	101,887	18,480	120,367
2038-2042	37,849	87	37,936
Future minimum payments	4,169,303	$3,946,786	$8,116,089
Less interest	1,337,384		
Present value of future minimum payments	$2,831,919		

The present value of future minimum lease payments includes approximately $1.527 billion for leases with Public Benefit Corporations (PBC) where State law generally provides that in the event the City fails to make any required lease payment, the amount of such payment will be deducted from State aid otherwise payable to the City and paid to PBC.

The City also leases City-owned property to others, primarily for markets, ports, and terminals. Total rental revenue on these capital and operating leases for the fiscal years ended June 30, 2007 and 2006 was approximately $211 million and $209 million, respectively. As of June 30, 2007, the following future minimum rentals are provided for by the leases:

	Capital Leases	Operating Leases (in thousands)	Total
Governmental activities:			
Fiscal year ending June 30:			
2008	$ 4,265	$ 167,169	$ 171,434
2009	4,295	161,498	165,793
2010	4,334	157,010	161,344
2011	4,184	152,467	156,651
2012	1,882	146,635	148,517
2013-2017	11,270	708,200	719,470
2018-2022	12,676	673,445	686,121
2023-2027	13,259	628,380	641,639
2028-2032	14,290	613,952	628,242
2033-2037	10,694	613,948	624,642
2038-2042	2,888	569,606	572,494
2043-2047	1,994	566,723	568,717
2048-2052	1,800	408,984	410,784
2053-2057	1,800	45,956	47,756
2058-2062	1,800	45,956	47,756
2063-2067	1,800	45,956	47,756
2068-2072	1,800	44,893	46,693
2073-2077	1,800	43,599	45,399
2078-2082	900	29,256	30,156
2083-2087	—	25,700	25,700
Thereafter until 2106	—	2	2
Future minimum lease rentals	97,731	$5,849,335	$5,947,066
Less interest	56,647		
Present value of future minimum lease rentals	$ 41,084		

4. Short-Term Liabilities

Changes in Short-term liabilities

In fiscal years 2006 and 2007, the changes in short-term liabilities were as follows:

Primary Government	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
				(in thousands)			
Governmental activities:							
Notes payable:							
Bond anticipation notes (1)	$ —	$ —	$ —	$ —	$ 600,000	$ 600,000	$ —
Total notes payable	$ —	$ —	$ —	$ —	$ 600,000	$ 600,000	$ —

(1) The Bond anticipation notes are used by TFA to provide financing for the City's capital expenditures.

5. Long-Term Liabilities

Changes in Long-term liabilities

In fiscal years 2006 and 2007, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
				(in thousands)				
Governmental activities:								
Bonds and notes payable:								
General obligation bonds	$33,903,279	$ 4,826,810	$ 2,885,657	$ 35,844,432	$ 1,947,830	$ 3,286,551	$ 34,505,711	$1,764,660
TFA bonds	12,976,615	597,235	1,341,305	12,232,545	3,589,370	1,215,090	14,606,825	105,905
TSASC bonds	1,283,297	1,353,778	1,303,510	1,333,565	—	16,705	1,316,860	—
IDA bonds	106,265	—	1,775	104,490	—	1,860	102,630	1,950
STAR bonds	2,551,435	—	81,030	2,470,405	—	102,290	2,368,115	15,485
FSC bonds	460,295	—	73,735	386,560	—	49,440	337,120	16,110
HYIC bonds	—	—	—	—	2,000,000	—	2,000,000	—
HYIC notes	—	—	—	—	200,000	100,000	100,000	33,333
ECF bonds	134,960	—	51,015	83,945	51,340	12,095	123,190	13,910
Total before treasury obligations and discounts	51,416,146	6,777,823	5,738,027	52,455,942	7,788,540	4,784,031	55,460,451	1,951,353
Less treasury obligations	38,852	—	38,852	—	—	—	—	—
Total before discounts	51,377,294	6,777,823	5,699,175	52,455,942	7,788,540	4,784,031	55,460,451	1,951,353
Less premiums/discounts (net)	(615,503)	97,728	226,096	(743,871)	308,403	385,797	(821,265)	—
Total bonds and notes payable	51,992,797	6,680,095	5,473,079	53,199,813	7,480,137	4,398,234	56,281,716	1,951,353
Capital lease obligations	3,044,080	14,191	133,652	2,924,619	45,265	137,965	2,831,919	132,854
Other tax refunds	1,421,538	98,045	31,538	1,488,045	380,308	98,045	1,770,308	131,308
Judgments and claims	4,810,171	1,263,000	1,054,263	5,018,908	1,441,714	1,106,513	5,354,109	1,314,253
Real estate tax certiorari	622,352	92,374	146,381	568,345	233,986	51,377	750,954	88,121
Vacation and sick leave	2,593,691	494,459	247,937	2,840,213	522,766	252,020	3,110,959	252,020
Pension liability	806,200	64,500	106,700	764,000	61,100	98,500	726,600	—
OPEB liability	—	55,690,322	2,182,871	53,507,451	7,164,986	2,910,499	57,761,938	—
Landfill closure and postclosure care costs	1,300,082	381,578	29,660	1,652,000	13,066	52,195	1,612,871	76,332
Total changes in governmental activities long-term liabilities	$66,590,911	$64,778,564	$ 9,406,081	$121,963,394	$17,343,328	$ 9,105,348	$130,201,374	$3,946,241

Note: City bonds and notes payable are generally liquidated with resources of the General Debt Service Fund. Other long-term liabilities are generally liquidated with resources of the General Fund.

The bonds and notes payable, net of treasury obligations, at June 30, 2007 and 2006 summarized by type of issue are as follows:

Primary Government	2007 General Obligations	2007 Revenue	2007 Total	2006 General Obligations	2006 Revenue	2006 Total
			(in thousands)			
Governmental activities:						
Bonds and notes payable:						
General obligation bonds	$34,505,711	$ —	$34,505,711	$35,844,432	$ —	$35,844,432
TFA bonds	13,306,825	1,300,000	14,606,825	12,232,545	—	12,232,545
TSASC bonds	1,316,860	—	1,316,860	1,333,565	—	1,333,565
IDA bonds	102,630	—	102,630	104,490	—	104,490
STAR bonds	2,368,115	—	2,368,115	2,470,405	—	2,470,405
FSC bonds	337,120	—	337,120	386,560	—	386,560
HYIC bonds	—	2,000,000	2,000,000	—	—	—
HYIC notes	—	100,000	100,000	—	—	—
ECF bonds	—	123,190	123,190	—	83,945	83,945
Total bonds and notes payable	$51,937,261	$3,523,190	$55,460,451	$52,371,997	$ 83,945	$52,455,942

The following table summarizes future debt service requirements as of June 30, 2007:

Primary Government	Governmental Activities: General Obligation Bonds Principal	General Obligation Bonds Interest(1)	Revenue Bonds and Notes Principal	Revenue Bonds and Notes Interest
		(in thousands)		
Fiscal year ending June 30:				
2008	$ 1,904,110	$ 2,412,416	$ 46,998	$ 180,307
2009	1,902,841	2,336,715	59,618	164,397
2010	1,881,310	2,252,998	58,964	163,400
2011	2,393,021	2,157,821	26,275	162,472
2012	2,548,220	2,105,218	31,870	161,325
2013-2017	12,537,883	8,934,106	157,720	785,620
2018-2022	12,228,527	5,855,850	192,975	744,990
2023-2027	9,188,644	3,001,939	252,075	690,905
2028-2032	5,244,747	1,107,787	308,275	623,072
2033-2037	1,543,133	267,234	388,420	541,937
2038-2042	564,778	143,425	—	487,500
2043-2047	3	16	2,000,000	487,500
Thereafter until 2147	44	153	—	—
	51,937,261	30,575,678	3,523,190	5,193,425
Less interest component	—	30,575,678	—	5,193,425
Total future debt service requirements	$51,937,261	$ —	$3,523,190	$ —

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

The average (weighted) interest rates for outstanding City general obligation bonds as of both June 30, 2007 and 2006 was 4.7% and both ranged from 0% to 10%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2007 and 2006, the City issued $1.13 billion and $1.422 billion, respectively, of general obligation bonds to advance refund general obligation bonds of $1.11 billion and $1.424 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of $1.86 million and $810 thousand, respectively, were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the government-wide financial statements. In fiscal year 2007, the refunding transactions will decrease the City's aggregate debt service payments by $71.58 million and provide an economic gain of $44.12 million. In fiscal year 2006, the refunding transactions decreased the City's aggregate debt service payments by $114.1 million and provided an economic gain of $91.2 million. At June 30, 2007 and 2006, $10.820 billion and $10.279 billion, respectively, of the City's outstanding general obligation bonds were considered defeased.

The State Constitution requires the City to pledge its full faith and credit for the payment of the principal and interest on City term and serial bonds and guaranteed debt. The general debt-incurring power of the City is limited by the Constitution to 10% of the average of five years' full valuations of taxable real estate. Excluded from this debt limitation is certain indebtedness incurred for water supply, certain obligations for transit, sewage, and other specific obligations which exclusions are based on a relationship of debt service to net revenue.

As of July 1, 2007, the 10% general limitation was approximately $60.102 billion (compared with $53.336 billion as of July 1, 2006). Also, as of July 1, 2007, the City's remaining debt-incurring power totaled $20.598 billion, after providing for capital commitments.

Pursuant to State legislation on January 1, 1979, the City established a General Debt Service Fund administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this Fund. In fiscal year 2007, discretionary and other transfers of $3.315 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2008 debt service. In addition, in fiscal year 2007, discretionary transfers of $711 million were made for lease purchase debt service and for a transfer to a component unit of the Debt Service Funds. In fiscal year 2006, discretionary and other transfers of $3.205 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2007 debt service. In addition, in fiscal year 2006, discretionary transfers of $74 million were made for lease purchase debt service.

Swap payments and associated debt

The table that follows represents debt service payments on certain general obligation variable-rate bonds, net of swap payments (see Note A.13.) associated with those bonds, as of June 30, 2007. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2007 remains constant over the life of the bonds.

	Governmental Activities			
	General Obligation Bonds			
Primary Government	Principal	Interest	Interest Rate Swaps, Net	Total
	(in thousands)			
Fiscal year ending June 30:				
2008	$ 9,005	$ 120,917	$ (13,448)	$ 116,474
2009	19,845	120,118	(13,407)	126,556
2010	49,705	118,427	(13,321)	154,811
2011	37,900	116,825	(13,227)	141,498
2012	39,325	115,043	(13,154)	141,214
2013-2017	426,910	526,939	(58,959)	894,890
2018-2022	701,325	383,935	(44,965)	1,040,295
2023-2027	527,470	234,685	(34,833)	727,322
2028-2032	673,350	120,992	(20,873)	773,469
2033-2037	111,980	5,081	(967)	116,094
Total	$ 2,596,815	$1,862,962	$(227,154)	$4,232,623

Judgments and Claims

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

As of June 30, 2007 and 2006, claims in excess of $601 billion and $548 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be $5.4 billion and $5.0 billion, respectively.

As explained in Note A.11., the estimate of the liability for unsettled claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by categorizing the various claims and applying a historical average percentage, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and supplemented by information provided by the New York City Law Department with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information and application of the foregoing procedures.

Numerous proceedings alleging respiratory or other injuries from alleged exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City and other entities involved in the post-September 11 rescue and recovery process. Plaintiffs include, among others, Department of Sanitation employees, firefighters, police officers, construction workers, and building clean-up workers. Several summonses with notices filed on behalf of a total of approximately 7,000 plaintiffs and alleging similar causes of action have also been filed naming the City and dozens of other defendants. However, only approximately 4,400 of these plaintiffs have to date served complaints on the City. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to Federal court pursuant to the Air Transportation and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (2001), which grants exclusive Federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions on immunity grounds was denied on October 17, 2006. The City is appealing the denial of its immunity motion. Oral argument is currently scheduled before the United States Court of Appeals for the Second Circuit on October 1, 2007. Plaintiffs' motion to dismiss the appeal will be heard at the same time. On December 4, 2006, the court confirmed Federal jurisdiction in the action brought on behalf of building clean-up workers. The City has formed a not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the WTC Insurance Company) to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of $999,900,000. Most of the claims set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims.

One property damage claim relating to the September 11 attack alleges significant damages. The claim, which relates to the original 7 World Trade Center (7 WTC), alleges damages to Con Edison and its insurers of $214 million, subject to clarification, for the loss of the electrical substation over which 7 WTC was built. The claim alleges that a diesel fuel tank, which stored fuel for emergency back-up power to the City's Office of Emergency Management facility on the 23rd floor, contributed to the building's collapse. Con Edison and its insurers filed suit based on the allegations in their claim. Plaintiff has submitted to the Court a claim form required of all property damage plaintiffs in the September 11 litigation in the amount of approximately $750 million for damages suffered at several different locations in the aftermath of the September 11 attacks. Although it is not clear what portion of the increased damages plaintiff alleges to be the responsibility of the City, it appears that no part of the increased claim can be attributed to the City's actions. In January, 2006, the City's motion for summary judgment was granted. The action, however, is proceeding against other defendants, and plaintiff intends to appeal the dismissal of its claim against the City when discovery is complete or at the conclusion of the case.

One hundred ninety-one notices of claim were filed and of these, 179 actions have been commenced in Federal court against the City in connection with the Staten Island Ferry accident on October 15, 2003. The notices and actions seek damages exceeding $3 billion for various claims including personal injury, wrongful death, and emotional distress. On December 1, 2003, the City filed a limitation complaint in Federal court pursuant to Federal maritime law seeking to limit its potential liability to approximately $14 million, the value of the ferry involved in the accident. On August 3, 2005, plaintiffs brought a motion to dismiss the limitation complaint. On February 26, 2007, the City's limitation complaint was decided against the City and an appeal by the City is pending.

In February, 1997, a former New York City school principal filed an action in New York State Supreme Court challenging the investment policies and practices of the Retirement Board of the New York City Teachers' Retirement System (TRS) with regard to a component of TRS consisting of member contributions and earnings thereon known as the Variable B Fund. Plaintiff alleges that the trustees of TRS illegally maintained the Variable B Fund as a fixed-income fund and ignored a requirement that a substantial amount of the Variable B Fund's assets be invested in equity securities. The defendants are TRS and its individual trustees. Plaintiff seeks damages on behalf of all Variable B Fund participants in excess of $2 billion. In May, 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendants' motion for summary judgment. On November 19, 2003, the defendants again moved for summary judgment. On May 2, 2005, the Supreme Court denied defendants' second motion for summary judgment and ordered the matter to trial. On January 26, 2006, following a trial, the Supreme Court held that TRS and its individual trustees had not breached their fiduciary duty in establishing and operating the Variable B Fund as a stable value fund. On June 2, 2006, plaintiff served a notice of appeal of the judgment. The appeal is presently scheduled to be heard during the October term of the Appellate Division, First Department. If the plaintiff were to ultimately prevail in this action, it could result in substantial costs to the City.

In March, 2005, the United Federation of Teachers, the union that represents the teachers in the New York City public school system, commenced an action and an Article 78 proceeding in New York Supreme Court, New York County, against the New York City Teachers' Retirement System and the City alleging that, due to certain miscalculations relating, *inter alia,* to the interest earned on member contributions to a retirement plan known as the 20 Year Pension Plan, teachers who retired under this plan do not receive the entire amount of retirement benefits to which they are entitled. Plaintiffs seek declaratory relief and an award to 20 Year Pension Plan members of not less than $800 million to equal the difference between what plaintiffs allege they are entitled to under the 20 Year Pension Plan and the amount actually received. The City has moved to dismiss the Article 78 proceeding and has submitted an answer in the action. By decision dated October 17, 2006, the Court denied the City's motion to dismiss the Article 78 proceeding but granted the City's motion to dismiss the petitioners' contract claims. If plaintiffs were to prevail in this matter, it could result in substantial costs to the City.

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

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

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality, and illegality of assessment. In response to these actions, in December, 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential liability for outstanding certiorari proceedings to be $751 million and $568 million at June 30, 2007 and 2006, respectively, as reported in the government-wide financial statements.

Pension Liability

For fiscal years 2001 through 2005 inclusive, the City incurred a pension liability that was the result of Chapter 125 of the Laws of 2000 (Chapter 125/00) which provided for a five-year phase-in schedule for funding the additional actuarial liabilities created by providing eligible retirees and eligible beneficiaries with increased Supplementation as of September, 2000 and with automatic Cost-of-Living Adjustments (COLA) beginning September, 2001. Chapter 278 of the Laws of 2002 (Chapter 278/02) extended the phase-in period for funding the additional liabilities attributable to the benefits provided under Chapter 125/00 to ten years from five years. Chapter 152 of the Laws of 2006 eliminated for fiscal year 2006 and thereafter the ten-year phase-in period arising under Chapter 278/02 and instead, the additional actuarial liabilities created by the benefits provided by Chapter 125/00 are funded as part of the normal contribution (see Note E.5.).

Landfill Closure and Postclosure Care Costs

Heretofore, the City's only active landfill available for waste disposal was the Fresh Kills landfill which initially ceased landfill operations in March, 2001. The landfill was reopened per the Governor's amended Executive Order No. 113, which authorized the City to continue the acceptance and disposal of waste materials received from the site of the World Trade Center disaster of September 11, 2001. The landfill subsequently closed in August, 2002. For government-wide financial statements, the measurement and recognition of the liability for closure and postclosure care is based on total estimated current cost and landfill usage to date. For fund financial statements, expenditures are recognized using the modified accrual basis of accounting where a liability is recognized only when liquidated with expendable financial resources.

Upon the landfill becoming inactive, the City is required by Federal and State law to close the landfill, including final cover, stormwater management, landfill gas control, and to provide postclosure care for a period of 30 years following closure. The City is also required under Consent Order with the New York State Department of Environmental Conservation to conduct certain corrective measures associated with the landfill. The corrective measures include construction and operation of a leachate mitigation system for the active portions of the landfill as well as closure, postclosure, and groundwater monitoring activities for the sections no longer accepting solid waste.

The liability for these activities as of June 30, 2007 which equates to the total estimated current cost is $1.385 billion based on the maximum cumulative landfill capacity used to date. There are no costs remaining to be recognized. During fiscal year 1996, New York State legislation was enacted which states that no waste will be accepted at the Fresh Kills landfill on or after January 1, 2002. Accordingly, the liability for closure and postclosure care costs is based upon an effective cumulative landfill capacity used to date of approximately 100%. Cost estimates are based on current data including contracts awarded by the City, contract bids, and engineering studies. These estimates are subject to adjustment for inflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates.

During fiscal year 2007, expenditures for landfill closure and postclosure care costs totaled $56.4 million.

Resource Conservation and Recovery Act Subtitle D Part 258, which became effective April, 1997, requires financial assurance regarding closure and postclosure care. This assurance was most recently provided, on March 7, 2007, by the City's Chief Financial Officer placing in the Fresh Kills landfill operating record representations in satisfaction of the Local Government Financial Test.

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

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

	Amount (in thousands)
Landfill	$1,385,254
Hazardous waste sites	227,617
Total landfill and hazardous waste sites liability	$1,612,871

6. Interfund Receivables, Payables, and Transfers

At June 30, 2007 and 2006, primary government and discretely presented component unit receivable and payable balances and interfund transfers were as follows:

Governmental activities:

Due from/to other funds:

Receivable Fund	Payable Fund	2007	2006
		(in thousands)	
General Fund	New York City Capital Projects Fund	$2,956,382[(1)]	$2,289,648[(1)]
New York City Capital Projects Fund	TFA	249,638	—
Total due from/to other funds		3,206,020	2,289,648

Component units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity	2007	2006
Primary government—General Fund:	Component units: HDC	859,819	921,928
	OTB	201	209
		860,020	922,137
Primary government—New York City Capital Projects Fund	Component unit—Water Authority	361,860	326,124
Total due from component units		1,221,880	1,248,261
Component unit—Water Board	Primary government—General Fund	15,718	8,506
Total due to component units		15,718	8,506
Total due from/to primary government and component units		1,237,598	1,256,767
Total primary government and component units receivable and payable balances		$4,443,618	$3,546,415

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

Note: During both fiscal years 2007 and 2006, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

Governmental activities:

Interfund transfers:

	Transfer To:											
	General Fund		New York City Capital Projects Fund		General Debt Service Fund		Nonmajor Capital Projects Funds		Nonmajor Debt Service Funds		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	(in thousands)											
Transfer From:												
General Fund	$ —	$ —	$ 300,000	$ 200,000	$4,024,185	$4,281,010	$ —	$ —	$1,274,215	$ —	$5,598,400	$4,481,010
General Debt Service Fund	—	—	—	—	—	—	—	—	4,605	198	4,605	198
Nonmajor Capital Projects Funds	—	—	2,383,609	—	—	—	—	—	114,492	—	2,498,101	—
Nonmajor Debt Service Funds	—	92,938	—	—	—	—	—	1,500	—	—	—	94,438
Total	$ —	$ 92,938	$2,683,609	$ 200,000	$4,024,185	$4,281,010	$ —	$ 1,500	$1,393,312	$ 198	$8,101,106	$4,575,646

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

In the year ended June 30, 2007, the City made the following one-time transfer:

A transfer of an unrestricted grant of $1.264 billion on June 28, 2007 to TFA. These funds are being used: (i) to fund debt service requirements for tax secured debt during fiscal year 2008, (ii) for a cash defeasance escrow of $546 million, and (iii) for the early retirement of $170.3 million of tax secured variable rate debt on September 4, 2007.

E. Other Information

1. Audit Responsibility

In fiscal years 2007 and 2006, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than Deloitte & Touche LLP are the Municipal Assistance Corporation for The City of New York, New York City Transitional Finance Authority, New York City School Construction Authority, New York City Health and Hospitals Corporation, New York City Off-Track Betting Corporation, Jay Street Development Corporation, New York City Housing Development Corporation, New York City Industrial Development Agency, New York City Economic Development Corporation, Business Relocation Assistance Corporation, Brooklyn Navy Yard Development Corporation, New York City Water Board and New York City Municipal Water Finance Authority, Deferred Compensation Plans, WTC Captive Insurance Company, Inc., New York City Capital Resource Corporation, and the New York City Educational Construction Fund.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2007 and 2006:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2007	2006	2007	2006	2007	2006	2007	2006
					(percent)			
Total assets	6	3	85	83	51	58	6	6
Revenues / additions (deductions) and other financing sources	8	3	77	77	64	13	4	9

The report of independent auditors dated October 17, 2007 on the New York City Off-Track Betting Corporation's financial statements included an explanatory paragraph stating that "...the Corporation's current liabilities exceed its current assets, it has a net deficit, and the statutory distribution requirements of New York State laws raise substantial doubt about its ability to continue as a going concern..."

2. Subsequent Events

Subsequent to June 30, 2007, the City and TFA completed the following long-term financing:

Long-term Financing

City Debt: On August 15, 2007, the City sold its Series A and B bonds of $1.245 billion for refunding purposes.
On October 4, 2007, the City sold its Series C bonds of $1.050 billion for capital purposes.

TFA Debt: On September 4, 2007, TFA redeemed $170.3 million of TFA Recovery bonds with funds from an unrestricted City grant.

3. Other Employee Benefit Trust Funds

Deferred Compensation Plans For Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

DCP through the City offers its employees two defined contribution plans and a deemed IRA created in accordance with Internal Revenue Code Sections 457, 401(k), and 408(q). DCP is available to certain employees of The City of New York and related agencies and instrumentalities. The deemed IRA, called the NYCE IRA is available as both a traditional and Roth IRA to those employees eligible to participate in the 457 Plan and 401(k) Plan and their spouses along with former employees and their spouses. DCP permits employees to defer a portion of their salary on either a pre-tax (traditional) or after-tax (Roth) basis until future years. The compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency or hardship (as defined by the Internal Revenue Code). Deferred assets in the NYCE IRA are available for withdrawal at anytime.

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

Participants in DCP can choose among eight investment options, or one of twelve pre-arranged portfolios (effective 2007) consisting of varying percentages of those investment options.

New York City Retiree Health Benefits Trust (RHBT)

RHBT was established for the exclusive benefit of the City's retired employees and their dependents who meet the eligibility requirements to fund the postemployment benefits (other than those paid through the Management Benefits Fund) provided through the welfare benefit plans and welfare benefit funds and the reimbursement of certain Medicare premiums. RHBT was enacted by local law to afford the City the ability to address the ongoing liability of funding the costs of health benefits for the City's retired workers and their dependents covered under the City's health and welfare plans. Amounts contributed to RHBT by the City are held in trust and are irrevocable and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants. Consequently, RHBT is presented as an Other Employee Benefit Trust Fund in the City's financial statements. The separate annual financial statements of RHBT are available at: Office of the Comptroller, Bureau of Accountancy — Room 808, 1 Centre Street, New York, New York 10007.

Summary of Significant Accounting Policies:

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

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

Required Supplementary Information

The schedule of funding progress presents the results of OPEB valuations as of June 30, 2006 and 2005 for the fiscal year ending June 30, 2007. Looking forward, the schedule will eventually provide additional multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)*	(3) Unfunded AAL (UAAL)	(4) Funded Ratio	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll
			(2)-(1)	(1)÷(2)		(3)÷(5)
			(in thousands)			
6/30/06	$1,001,332	$56,077,151	$55,075,819	1.8%	$16,546,829	332.8%
6/30/05	0	50,543,963	50,543,963	0.0	15,737,531	321.2

*Based on the Frozen Entry Age Actuarial Cost Method.

4. Other Postemployment Benefits

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

Funding Policy. The Administrative Code of The City of New York (ACNY) defines OPEB to include Health Insurance and Medicare Part B Reimbursments; Welfare Benefits stem from the City's various collective bargaining agreements all of which are to be funded by RHBT. The City is not required by law or contractual agreement to provide funding for RHBT other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal year ended June 30, 2007, the City paid $2.9 billion on behalf of the Plan. Based on current practice (the Substantive Plan which is derived from ACNY), the City pays the full cost of basic coverage for non-Medicare-eligible/Medicare-eligible retiree participants. The costs of these benchmark plans are reflected in the actuarial valuations by using age-adjusted premium amounts. Plan retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for the benchmark plans. The City also reimburses covered employees 100% of the Medicare Part B premium rate applicable to a given year and there is no retiree contribution to the Welfare Funds. The City pays per capita contributions to the Welfare Funds the amounts of which are based on negotiated contract provisions.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was actuarially determined by using the Frozen Entry Age Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB45). Under this method, in general, the excess of the Actuarial Present Value of Projected Benefits over the sum of: (i) the Actuarial Value of Assets plus (ii) the Unfunded Frozen Actuarial Accrued Liability is allocated on a level basis over the earnings of the covered active employees between the valuation date and assumed exit. This allocation is performed for the group as a whole. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. Under this method, actuarial gains/losses, as they occur, reduce/increase future Normal Costs. The following table shows the elements of the City's annual OPEB cost for the year, the amount actually paid on behalf of the Plan, and changes in the City's net OPEB obligation to the Plan for the year ended June 30, 2007:

	Amount (in thousands)
Annual required contribution	$60,672,437
Interest on net OPEB obligation	2,140,298
Adjustment to annual required contribution	(55,647,749)
Annual OPEB cost (expense)	7,164,986
Payments made	2,910,499
Increase in net OPEB obligation	4,254,487
Net OPEB obligation—beginning of year	53,507,451
Net OPEB obligation—end of year	$57,761,938

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2007 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
	(in thousands)		
6/30/07	$ 7,164,986	40.6%	$57,761,938
6/30/06	55,690,322	3.9	53,507,451

Funded Status and Funding Progress. As of June 30, 2006, the most recent (initial) actuarial valuation date, the Plan was 1.8% funded. The actuarial accrued liability for benefits was $56.1 billion, and the actuarial value of assets was $1.0 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $55.1 billion. The covered payroll (annual payroll of active employees covered by the Plan) was $16.5 billion, and the ratio of the UAAL to the covered payroll was 332.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The determined actuarial valuations of OPEB provided under the Plan incorporated the use of demographic and salary increase assumptions among others as reflected below. While the use of estimating techniques and the reliance on available data were required to meet legally-imposed deadlines for early implementation of GASB45 for fiscal year 2006, equivalent results for fiscal year 2007 reflect refinements to the data and a reduction in the use of estimations. Amounts determined regarding the funded status of the Plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information in Note E.3. disclosures required by GASB43 for OPEB Plan reporting presents the results of OPEB valuations as of June 30, 2006 and 2005 and looking forward, the schedule will eventually provide additional multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Valuation Date . . . . June 30, 2006.

Discount Rate . . . . 4.0% per annum.[1]

Per Capita Claims Costs . . . .

HIP HMO and GHI/EBCBS benefit costs reflect age adjusted premiums, with age adjustments from assumed average age of covered population. Insured premiums without age adjustment for other coverage. Premiums assumed to include administrative costs.

For the June 30, 2005 valuation, the HIP HMO premium rate was used for all non-Medicare-eligible retirees and dependents with basic medical coverage. The Mental Health/Substance Abuse rider is reflected for pre-Medicare retirees in HIP HMO and GHI/EBCBS. The GHI/EBCBS Senior Care premium is used for all Medicare-eligible retirees and dependents with basic medical coverage except those in HIP HMO.

For the June 30, 2006 valuation, fiscal year 2007 monthly employer premium contributions were reported by the Mayor's Office of Labor Relations. In most cases, the premium contributions remained the same throughout the year. HIP HMO Medicare rates varied by month and by specific Plan option. These variations are the result of differing Medicare Advantage reimbursements. We blended the various monthly rates by proportion of enrollment. The GHI/EBCBS rates increased during September, 2006 and the increased premium rate is reflected in the calculations.

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

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

	Monthly Rate for Fiscal Year 2006[1]	
Plan	**Basic**	**MH/SA Rider[2]**
HIP HMO		
Non-Medicare Single	$286.86	$ 5.04
Non-Medicare Family	702.83	12.34
Medicare	58.15	NA
GHI/EBCBS Senior Care	140.23	NA

	Monthly Rate for Fiscal Year 2007[3]	
Plan	**Basic**	**MH/SA Rider**
HIP HMO		
Non-Medicare Single	$311.67	NA
Non-Medicare Family	763.57	NA
Medicare	57.88	NA
GHI/EBCBS		
Non-Medicare Single	306.51	NA
Non-Medicare Family	796.94	NA
Medicare	146.90	NA
Others		
Non-Medicare Single	311.67	NA
Non-Medicare Family	763.57	NA
Medicare	146.90	NA

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1 Used for June 30, 2005 actuarial valuation.

2 Included in June 30, 2005 OPEB obligations for both HIP HMO and GHI-CBP/EBCBS non-Medicare-eligible retirees but later determined to be provided only for HIP HMO retirees.

3 Used in June 30, 2006 actuarial valuation.

NA: Not Applicable.

Welfare Funds . . . . Reported annual contribution amounts for fiscal year 2006 used for current retirees.

Weighted average contribution rates for fiscal year 2007 used for future retirees.

Contributions assumed to increase by Medicare Plans trend rates.

For Welfare Fund contribution amounts reflected in the June 30, 2005 actuarial valuation, see “Report on the First Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program” dated October 11, 2006.

Medicare Part B Premiums . . . .

Calendar Year	Monthly Premium
2005	$78.20
2006	88.50
2007	93.50*

* Reflected only in the June 30, 2006 actuarial valuation.

2007 Medicare Part B premium assumed to increase by Part B trend rates.

For the June 30, 2006 valuation, overall Part B premium amounts assumed to increase by the following percentages to reflect the income-related increases in Part B premiums effective 2007 and later:

Fiscal Year Beginning	Part B Increase
6/30/2006	0.7%
6/30/2007	2.2
6/30/2008	3.7
6/30/2009	4.5
6/30/2010	4.6

Increasing by 0.1% each year thereafter.

For the June 30, 2005 valuation, no retiree assumed to have income in excess of threshold which would result in increasing Medicare Part B premium above 25% of Part B costs.

The actual 2008 Medicare Part B premium, which was announced on October 1, 2007, just prior to issuance of this Report was not reflected in the June 30, 2006 valuation.

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

	HCCTR Assumptions		
Year Ending[1]	Pre-Medicare Plans	Medicare Plans	Part B Premium
2007[2]	10.0%	8.0%	10.0%
2008	9.5	7.0	9.5
2009	9.0	6.0	9.0
2010	8.5	5.0	8.5
2011	8.0	5.0	8.0
2012	7.5	5.0	7.5
2013	7.0	5.0	7.0
2014	6.5	5.0	6.5
2015	6.0	5.0	6.0
2016	5.5	5.0	5.5
2017 and later	5.0	5.0	5.0

[1] Fiscal year for Pre-Medicare Plans and Medicare Plans and calendar year for Medicare Part B Premiums.

[2] For the June 30, 2006 actuarial valuation, rates shown for 2007 were not reflected since actual values for the fiscal year 2007 per capita costs, fiscal year 2007 Welfare Fund contributions, and calendar year 2007 Medicare Part B premium amounts were used.

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

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

The premiums are age adjusted for HIP HMO and GHI/EBCBS participants from assumed age 40 for non-Medicare-eligible retirees and from assumed age 73 for Medicare-eligible retirees.

Medicare . . . . Medicare is assumed to be the primary payer over age 65 and for retirees currently on Medicare. For future disability retirements, Medicare is assumed to start 2.5 years after retirement in the June 30, actuarial valuation for the following portion of retirees:

	Valuation as of June 30	
	2006	2005
NYCERS	35%	35%
TRS	45	45
BERS	45	45
POLICE	15	15
FIRE	20	25

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

Plan Participation Assumptions

Benefits	June 30, 2006 Valuation				
	NYCERS	TRS	BERS	POLICE	FIRE
Pre-Medicare					
–GHI/EBCBS	65%	83%	73%	76%	71%
–HIP HMO	22	6	16	13	16
–Other HMO	8	4	3	9	12
–Waiver	5	7	8	2	1
Medicare					
–GHI	72	87	78	82	77
–HIP HMO	21	9	16	12	16
–Other HMO	4	2	2	4	6
–Waiver	3	2	4	2	1
Post-Medicare Migration					
–Other HMO to GHI	50	0	33	50	50
–HIP HMO to GHI	0	0	0	0	0
–Pre-Med. Waiver					
** to GHI @ 65	13	35	50	0	0
** to HIP @ 65	13	35	0	0	0

Plan Participation Assumptions

Benefits	June 30, 2005 Valuation				
	NYCERS	TRS	BERS	POLICE	FIRE
Pre-Medicare					
–GHI/EBCBS	63%	83%	67%	73%	71%
–HIP HMO	20	6	20	13	16
–Other HMO	12	4	5	9	12
–Waiver	5	7	8	5	1
Medicare					
–GHI	70	87	85	76	77
–HIP HMO	20	9	10	13	16
–Other HMO	7	2	2	9	6
–Waiver	3	2	3	2	1
Post-Medicare Migration					
–Other HMO to GHI	50	0	0	50	50
–HIP HMO to GHI	0	0	50	0	0
–Pre-Med. Waiver					
** to GHI @ 65	13	35	38	30	1
** to HIP @ 65	13	35	38	30	1

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

(i) Lifetime coverage is provided to the surviving spouse or domestic partner and coverage to age 19 (or 23 if full-time student) for children of uniformed members of the Police or Fire Departments who died in the Line-of-Duty.

(ii) Effective November 13, 2001, other surviving spouses of retired uniformed members of the Police and Fire Departments may elect to continue coverage for life by paying 102% of stated premium.

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

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

Dependent Coverage Assumptions

Group	**June 30, 2006 Valuation**				
	NYCERS	**TRS**	**BERS**	**POLICE**	**FIRE**
Male					
–Single Coverage	30%	45%	35%	15%	10%
–Spouse	40	35	55	15	20
–Child/No Spouse	5	5	2	5	5
–Spouse and Child	25	15	8	65	65
Total	100%	100%	100%	100%	100%
Female					
–Single Coverage	70%	60%	60%	45%	10%
–Spouse	20	32	35	10	20
–Child/No Spouse	5	3	2	25	5
–Spouse and Child	5	5	3	20	65
Total	100%	100%	100%	100%	100%

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

Dependent Coverage Assumptions

Group	**June 30, 2005 Valuation**				
	NYCERS	**TRS**	**BERS**	**POLICE**	**FIRE**
Male					
–Single Coverage	30%	45%	35%	15%	10%
–Spouse	40	35	55	15	35
–Child/No Spouse	5	5	2	5	5
–Spouse and Child	25	15	8	65	50
Total	100%	100%	100%	100%	100%
Female					
–Single Coverage	70%	60%	60%	45%	10%
–Spouse	20	32	35	10	35
–Child/No Spouse	5	3	2	25	5
–Spouse and Child	5	5	3	20	50
Total	100%	100%	100%	100%	100%

For accidental death, 85% of POLICE and FIRE members are assumed to have family coverage.

Demographic Assumptions	The same assumptions that were used to value the pension benefits of NYCRS for determining employer contributions for fiscal years beginning 2006 were adopted by each respective Board of Trustees.
COBRA Benefits	Although COBRA beneficiaries pay 102% of "premiums," typical claim costs for COBRA participants run about 50% greater than other participants. There is no cost to the City for COBRA beneficiaries in community-rated HMOs, including HIP, since these individuals pay their full community rate. However, the City's costs under the experience-rated GHI/EBCBS coverage is affected by the claims for COBRA-covered individuals. In order to reflect the cost of COBRA coverage, the cost of excess claims for GHI covered individuals and families is estimated assuming 15% of employees not eligible for other benefits included in the valuation elect COBRA coverage for 15 months. These assumptions are based on experience of other large employers. This percentage is applied to the overall enrollment in the active plan and reflects a load for individuals not yet members of the retirement systems who are still eligible for COBRA benefits. This results in an assumption in the June 30, 2006 actuarial valuation of a lump sum COBRA cost of $500 for terminations during fiscal year 2007 ($450 lump sum cost during fiscal year 2006 was assumed in the June 30, 2005 actuarial valuation). The $500 ($450) lump sum amount is increased by the HCCTR for future years but is not adjusted for age-related morbidity.
Stabilization Fund	For the June 30, 2006 valuation, a 1.6% load on all City GASB45 obligations only. For the June 30, 2005 valuation, a 0.25% load on all benefit costs.
Educational Construction Fund	The actuarial assumptions used for determining obligations for ECF are shown in Appendix E of the Report on the Second Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated October 4, 2007. The Report was prepared as of June 30, 2006 in accordance with GASB45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 808, 1 Centre Street, New York, NY 10007.
CUNY TIAA	The actuarial assumptions used for determining obligations for CUNY TIAA are shown in Appendix F of the Report on the Second Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated October 4, 2007. The Report was prepared as of June 30, 2006 in accordance with GASB45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 808, 1 Centre Street, New York, NY 10007.

5. Pension and Other Employee Benefit Trust Funds

Pension Systems

Plan Descriptions

The City sponsors or participates in pension systems providing benefits to its employees. The pension systems function in accordance with existing State statutes and City laws. Each system combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employers and the members.

The majority of City employees are members of one of the following five major actuarially-funded pension systems collectively known as the New York City Retirement Systems (NYCRS):

1. New York City Employees' Retirement System (NYCERS) is a cost-sharing, multiple-employer public employee retirement system, for employees of the City not covered by one of the other pension systems and employees of certain component units of the City and certain other government units.

2. New York City Teachers' Retirement System-Qualified Pension Plan (TRS) is a cost-sharing, multiple-employer public employee retirement system, for pedagogical employees in the public schools of the City and Charter Schools and certain other specified school and college employees.

3. New York City Board of Education Retirement System-Qualified Pension Plan (BERS) is a cost-sharing, multiple-employer public employee retirement system, for nonpedagogical employees of the Department of Education and Charter Schools and certain employees of the School Construction Authority.

4. New York City Police Pension Fund (POLICE) is a single-employer public employee retirement system, for full-time uniformed employees of the Police Department. Note: In conjunction with the establishment of an administrative staff separate from the New York City Police Department in accordance with Chapter 292 of the Laws of 2001, the New York City Police Department, Subchapter Two Pension Fund is generally referred to herein as the New York City Police Pension Fund as set forth in the Administrative Code of The City of New York (ACNY) Section 13-214.1.

5. New York City Fire Pension Fund (FIRE) is a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department. Note: The New York City Fire Department, Subchapter Two Pension Fund is generally referred to herein as the New York City Fire Pension Fund as set forth in ACNY Section 13-313.1.

NYCRS provide pension benefits to retired employees based on salary, length of service, and member contributions. In addition, NYCRS provide automatic Cost-of-Living Adjustments (COLA) and other supplemental pension benefits to certain retirees and beneficiaries. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. NYCRS also provide death benefits.

Subject to certain conditions, members become fully vested as to benefits upon the completion of 5 years of service. Except for NYCERS, permanent, full-time employees are generally required to become members of NYCRS upon employment. Permanent full-time employees who are eligible to participate in NYCERS are required to become members within six months of their permanent employment status but may elect to become members earlier. Other employees who are eligible to participate in NYCERS and BERS may become members at their option. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances.

Plan Membership

As of June 30, 2006, June 30, 2005 and June 30, 2004, the membership of NYCRS[1] consisted of:

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Plan membership at June 30, 2006:						
Retirees and beneficiaries receiving benefits	128,863	67,576	12,573	42,474	17,485	268,971
Terminated vested members not yet receiving benefits	7,302	5,801	265	752	24	14,144
Other inactives*	29,119	10,604	3,185	2,405	31	45,344
Active members	178,741	109,992	23,095	35,194	11,641	358,663
Total plan membership	344,025	193,973	39,118	80,825	29,181	687,122

* Represents members no longer on payroll, including pending withdrawals, members on leaves of absence, members awaiting refunds of contributions or benefit determinations, etc.

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Plan membership at June 30, 2005:						
Retirees and beneficiaries receiving benefits	127,714	65,168	11,971	41,131	17,443	263,427
Terminated vested members not yet receiving benefits	6,775	5,172	200	650	21	12,818
Other inactives*	29,717	12,638	3,112	2,181	153	47,801
Active members	175,332	104,850	23,005	35,324	11,470	349,981
Total plan membership	339,538	187,828	38,288	79,286	29,087	674,027

* Represents members no longer on payroll, including members on leaves of absence and members awaiting refunds of contributions or benefit determinations, etc.

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Plan membership at June 30, 2004:						
Retirees and beneficiaries receiving benefits	127,345	62,728	11,625	39,452	17,459	258,609
Terminated vested members not yet receiving benefits	5,888	4,754	187	597	12	11,438
Other inactives*	29,425	9,094	4,775	2,221	60	45,575
Active members	174,997	105,391	20,899	35,049	11,239	347,575
Total plan membership	337,655	181,967	37,486	77,319	28,770	663,197

* Represents members no longer on payroll, including members on leaves of absence and members awaiting refunds of contributions or benefit determinations, etc.

[1] Effective with fiscal year 2006, employer contributions are determined under One-Year Lag methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. Therefore, the June 30, 2005 (Lag) valuation date was used for determining the fiscal year 2007 employer contributions.

Funding Policy

The City's funding policy is to contribute statutorily-required contributions (statutory contributions). Together with member contributions and investment income, these statutory contributions would ultimately be sufficient to pay benefits when due.

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

Member contributions are established by law and vary by Plan. In general, Tier I and Tier II member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees, are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Effective December, 2000, certain Transit Authority Tier III and Tier IV members make basic member contributions of 2.0% of salary in accordance with Chapter 10 of the Laws of 2000. Certain members of NYCERS and BERS also make additional member contributions.

During the Spring 2000 session, the New York State Legislature approved and the Governor signed laws which provided Supplementation benefits and COLA for retirees (Chapter 125 of the Laws of 2000), additional service credits for certain Tier I and Tier II members, reduced member contributions for certain Tier III and Tier IV members (Chapter 126 of the Laws of 2000), and several other changes in benefits for various groups. Except for the statutory limitations for funding certain Supplementation benefits and COLA, these enhancements are fully reflected in the actuarial valuations as of June 30, 2004, 2003, 2002, 2001, and 2000.

Chapter 152 of the Laws of 2006 (Chapter 152/06) implemented changes in the actuarial procedures for determining employer contributions beginning fiscal year 2006. In particular Chapter 152/06 provided the One-Year Lag methodology and Chapter 152/06 also eliminated the use of the ten-year phase-in of Chapter 278 of the Laws of 2002 (Chapter 278/02) for funding the additional actuarial liabilities created by Chapter 125 of the Laws of 2000 (Chapter 125/00). These enhancements are fully reflected, without phase-in, in the June 30, 2005 (Lag) and the June 30, 2004 (Lag) actuarial valuations (i.e., fiscal year 2007 and fiscal year 2006 employer contributions, respectively).

Annual Pension Costs

NYCRS annual pension costs and the City's statutory contributions for fiscal year 2007 were determined as part of the June 30, 2005 (Lag) actuarial valuations on the basis of revised actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

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

The annual pension costs for NYCRS, for the fiscal years ended June 30, 2007, 2006, and 2005 were as follows:

	2007	2006	2005
		(in millions)	
NYCERS	$1,471.0	$1,024.4	$1,020.4
TRS	1,600.9	1,316.6	1,304.0
BERS	129.8	90.8	106.4
POLICE	1,513.7	1,302.6	1,105.9
FIRE	676.4	601.7	515.1
Total annual pension costs	$5,391.8	$4,336.1	$4,051.8

For fiscal year 2007, the City's statutory contributions for NYCRS based on the actuarial valuations performed as of June 30, 2005 (Lag), plus other pension expenditures were approximately $4,856.3 million.

For fiscal years 2007 and 2006, the annual pension costs for NYCERS, TRS, and BERS computed in accordance with GASB27 and consistent with generally accepted actuarial principles are greater than the statutory contributions paid by the City, primarily because the City is only one of the participating employers in NYCERS, TRS, and BERS.

For fiscal years 2007 and 2006, the annual pension costs for POLICE and FIRE computed in accordance with GASB27 and consistent with generally accepted actuarial principles are less than the statutory contributions, primarily because of the interest on and amortization of the Net Pension Obligations for POLICE and FIRE.

For fiscal year 2005, the annual pension costs for NYCRS computed in accordance with GASB27 and consistent with generally accepted actuarial principles, are greater than the statutory contributions paid by the City primarily because (1) the City is only one of the participating employers in NYCERS, TRS, and BERS and (2) Chapter 125/00, as later modified by Chapter 278/02, provided for a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

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

The City's statutory contributions for the fiscal years ended June 30, 2007, 2006, and 2005 were as follows:

	2007	2006	2005
		(in millions)	
NYCERS*	$ 824.1	$ 584.8	$ 455.7
TRS*	1,581.3	1,300.8	1,212.5
BERS*	124.5	87.1	92.6
POLICE	1,544.3	1,337.7	1,033.3
FIRE	683.2	608.8	489.5
OTHER**	98.9	95.8	86.3
Total actual pension contributions	$4,856.3	$4,015.0	$3,369.9

* NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems. The City's statutory contributions as a percentage of the total statutory contributions (calculated for fiscal year 2005 on a basis reflecting the phase-in of liabilities required under Chapter 278/02 and Chapter 125/00) for all employers participating in NYCERS, TRS, and BERS for fiscal years ended June 30, 2007, 2006, and 2005 were:

	2007	2006	2005
NYCERS	56.02%	57.09%	55.38%
TRS	98.78	98.80	98.71
BERS	95.87	95.86	95.85

In accordance with GASB27, the City's obligation for NYCERS, TRS, and BERS is fulfilled by paying its portion of the total statutory contributions determined.

** Other pension expenditures represent contributions to other actuarial and pay-as-you-go pension systems for certain employees, retirees, and beneficiaries not covered by any of NYCRS. The City also contributes per diem amounts into certain union-administered annuity funds.

Net Pension Obligations

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

Note: The annual pension costs for these systems are the statutory contributions. For fiscal year 2007, the actuarially-required contributions equal the statutory contributions.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for fiscal year 2007 are as follows:

	POLICE	FIRE	TOTAL
		(in millions)	
(1) Annual Required Contribution	$1,544.3	$683.2	$2,227.5
(2) Interest on Net Pension Obligation	43.5	17.6	61.1
(3) Adjustment to Annual Required Contribution	74.1	24.4	98.5
(4) Annual Pension Cost=(1)+(2)-(3)	1,513.7	676.4	2,190.1
(5) Statutory Contribution	1,544.3	683.2	2,227.5
(6) Decrease in Net Pension Obligation=(4)-(5)	(30.6)	(6.8)	(37.4)
(7) Net Pension Obligation Beginning of Year	543.9	220.1	764.0
(8) Net Pension Obligation End of Year=(6)+(7)	$ 513.3	$213.3	$ 726.6

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

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
		(in millions)		
POLICE	6/30/07	$1,513.7	102%	$513.3
	6/30/06	1,302.6	103	543.9
	6/30/05	1,105.9	93	579.0
FIRE	6/30/07	676.4	101	213.3
	6/30/06	601.7	101	220.1
	6/30/05	515.1	95	227.2

Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the actuarially-funded pension systems for the fiscal years ending June 30, 2007 and 2006 are as follows:

	2007	2006
Valuation Date	*June 30, 2005 (Lag).(1)*	*June 30, 2004 (Lag).(1)*
Actuarial Cost Method	*Frozen Initial Liability.(2)*	*Frozen Initial Liability.(2)*
Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)	*Increasing dollar for FIRE.(3) Level dollar for UAAL attributable to BERS, NYCERS, and TRS 2002 ERI (Part A only). (4) All outstanding components of UAAL are being amortized over closed periods.*	*Increasing dollar for FIRE.(3) Level dollar for UAAL attributable to NYCERS 2000 Early Retirement Incentive (ERI); BERS, NYCERS, and TRS 2002 ERI (Part A only). (4) All outstanding components of UAAL are being amortized over closed periods.*
Remaining Amortization Period	*4 years for FIRE(3) and 2 years for 2002 ERI (Part A only).*	*5 years for FIRE(3), 1 year for 2000 ERI, and 3 years for 2002 ERI (Part A only).*
Actuarial Asset Valuation Method	*Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.*	*Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.*
Investment Rate of Return	*8.0% per annum(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*	*8.0% per annum(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*
Post-Retirement Mortality	*Tables adopted by Boards of Trustees during fiscal year 2006.*	*Tables adopted by Boards of Trustees during fiscal year 2006.*
Active Service: Withdrawal Death, Disability, Retirement	*Tables adopted by Board of Trustees during fiscal year 2006.*	*Tables adopted by Board of Trustees during fiscal year 2006.*
Salary Increases	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)*	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)*
Cost-of-Living Adjustments	*1.3% per annum.(5)*	*1.3% per annum.(5)*

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

(2) Under the Frozen Initial Liability Actuarial Cost Method, the excess of the Actuarial Present Value (APV) of projected benefits of the membership as of the valuation date, over the sum of the Actuarial Value of Assets plus the UAAL, if any, and the APV of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll as of the valuation date. The Initial Liability was reestablished by the Entry Age Actuarial Cost Method as of June 30, 1999 but with the UAAL not less than $0. Actuarial gains and losses are reflected in the employer normal contribution rate. For NYCERS, TRS, and BERS, the financial results using this Frozen Initial Liability Actuarial Cost Method differ minimally from those that would be produced using the Aggregate Actuarial Cost Method. For POLICE and FIRE, the financial results using this Frozen Initial Liability Actuarial Cost Method are the same as those that would be produced using the Aggregate Actuarial Cost Method and the Frozen Entry Age Actuarial Cost Method, respectively.

(3) *In conjunction with Chapter 85 of the Laws of 2000 (Chapter 85/00), there is an amortization method. However, the initial UAAL of NYCERS, TRS, BERS, and POLICE equal $0 and no amortization periods are required.*
(4) *Laws established UAAL for Early Retirement Incentive Programs to be amortized on a level dollar basis over periods of 5 years.*
(5) *Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.*

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

The most recent actuarial study analyzed experience for fiscal years 2002 through 2005. In a report dated November, 2006, the independent actuarial auditor made recommendations to the actuarial assumptions and methods. The Actuary is reviewing these recommendations.

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

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

Chapter 152/06 provides effective for fiscal years 2006 and after for the changes in actuarial assumptions and methods that require legislation, including the continuation of the AIR assumption of 8.0% per annum and continuation of the current Frozen Initial Liability (FIL) Actuarial Cost Method and the existing Unfunded Actuarial Accrued Liability (UAAL). In addition, Chapter 152/06 provides for elimination of the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

Chapter 152/06 also established the One-Year Lag methodology (OYLM). Under this methodology a fiscal year 20XX employer contribution is determined using a June 20XX-2 valuation date. This methodology requires technical adjustments to certain components determined as of a valuation date used to compute a fiscal year employer contribution.

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

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

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

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

Under this prior AAVM, any UIR for fiscal years 2000 through 2005 inclusive were phased into AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25%, and 30% per year (or at a cumulative rate of 10%, 25%, 45%, 70%, and 100% over five years).

Chapter 85/00 reestablished UAAL and eliminated the Balance Sheet Liability (BSL) for actuarial purposes as of June 30, 1999. The schedule of payments toward the reestablished UAAL provides that the UAAL, if any, be amortized over a period of 11 years beginning fiscal year 2000, where each annual payment after the first equals 103% of its preceding annual payment.

Chapter 86 of the Laws of 2000 established UAAL as of June 30, 2001 for an Early Retirement Incentive Program to be amortized on a level basis over a period of 5 years beginning in fiscal year 2002.

Chapter 69 of the Laws of 2002 established UAAL as of June 30, 2003 for an Early Retirement Incentive Program (Part A only) to be amortized on a level basis over a period of 5 years beginning in fiscal year 2004.

Other Employee Benefit Trust Funds

Fund Descriptions

Per enabling State legislation, certain retirees of POLICE, FIRE, and NYCERS are eligible to receive scheduled supplemental benefits from certain Variable Supplements Funds (VSFs).

Under current state law, VSFs are not to be construed as constituting pension or retirement system funds. Instead, they provide scheduled supplemental payments, in accordance with applicable statutory provisions. While a portion of these payments are guaranteed by the City, the Legislature has reserved to itself and the State of New York, the right and power to amend, modify, or repeal VSFs and the payments they provide.

POLICE administers the Police Officers' Variable Supplements Fund (POVSF) and the Police Superior Officers' Variable Supplements Fund (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of ACNY.

1. POVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) as police officers and who retired on or after October 1, 1968.

2. PSOVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) holding the rank of sergeant or higher, or detective and who retired on or after October 1, 1968.

FIRE administers the Firefighters' Variable Supplements Fund (FFVSF) and the Fire Officers' Variable Supplements Fund (FOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 3 of ACNY.

3. FFVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) as firefighters (or wipers) and who retired on or after October 1, 1968.

4. FOVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) and who retired on or after October 1, 1968.

The New York City Employees' Retirement System administers the Transit Police Officers' Variable Supplements Fund (TPOVSF), the Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF), the Housing Police Officers' Variable Supplements Fund (HPOVSF), the Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF), and the Correction Officers' Variable Supplements Fund (COVSF). These funds operate pursuant to the provisions of Title 13, Chapter 1 of ACNY.

5. TPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of calculations performed by the Actuary during November, 1993. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPOVSF whenever the assets of TPOVSF are not sufficient to pay benefits.

6. TPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000 became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPSOVSF whenever the assets of TPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2004, NYCERS is required to transfer assets so that TPSOVSF can meet its benefit obligations when due.

7. HPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of Chapter 719 of the Laws of 1994. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPOVSF whenever the assets of HPOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2006, NYCERS is required to transfer assets so that HPOVSF can meet its benefit obligations when due.

8. HPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000 became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPSOVSF whenever the assets of HPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2001, NYCERS is required to transfer assets so that HPSOVSF can meet its benefit obligations when due.

9. COVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or 25 years of service, depending upon the plan) as members of the Uniformed Correction Force on or after July 1, 1999. Prior to calendar year 2019, total supplemental benefits paid are limited to the assets of COVSF. For calendar years 2019 and later, the plan provides for a schedule of defined supplemental benefits that are guaranteed by the City. Scheduled benefits to COVSF participants were paid for calendar years 2000 to 2005. Due to insufficient assets, no benefits were paid to COVSF participants for calendar year 2006.

Funding Policy and Contributions

ACNY provides that POLICE and FIRE transfer to their respective VSFs amounts equal to certain excess earnings on equity investments, generally limited to the unfunded accumulated benefit obligation for each VSF. The excess earnings are defined as the amount by which earnings on equity investments exceed what the earnings would have been had such funds been invested at a yield comparable to that available from fixed income securities, less any cumulative deficiencies.

ACNY provides that NYCERS transfer to COVSF amounts equal to certain excess earnings on equity investments, less any cumulative deficiencies. ACNY also provides, as a consequence of Chapter 255 of the Laws of 2000, that NYCERS make the required transfers to TPOVSF, TPSOVSF, HPOVSF, and HPSOVSF, inclusive of prior year's cumulative deficiencies, sufficient to meet their annual benefit payments.

For fiscal years 2007 and 2006, excess earnings on equity investments, inclusive of prior year's cumulative deficiencies, are estimated to be equal to zero and, therefore, no transfers will be due to VSFs as of June 30, 2007 and June 30, 2006, respectively.

For fiscal years 2007 and 2006, required transfers from NYCERS of approximately $1.8 million and $.1 million, respectively, were made to HPOVSF.

For fiscal years 2007 and 2006, required transfers from NYCERS of approximately $2.3 million and $2.3 million, respectively, were made to HPSOVSF.

For fiscal years 2007 and 2006, required transfers from NYCERS of approximately $2.4 million and $2.4 million, respectively, were made to TPSOVSF.

As of June 30, 2007, NYCERS has accrued approximately $1.2 million, $1.5 million, and $1.6 million toward the amounts expected to be transferred to HPOVSF, HPSOVSF, and TPSOVSF, respectively, to meet the December, 2007 benefit obligations of those funds.

Required Supplementary Information (Unaudited)

The schedule of funding progress presents the following information for each of the past eight consecutive fiscal years for each of the NYCRS: the actuarial valuation date, the actuarial asset value, the actuarial accrued liability, the unfunded actuarial accrued liability, the actuarial asset value as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial accrued liability to annual covered payroll. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of June 30, 2005 (Lag), June 30, 2004 (Lag), June 30, 2004, 2003, 2002, 2001, 2000, and 1999.

		(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial Valuation Date	Actuarial Asset Value (AAV)	Actuarial Accrued Liability (AAL)*	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(a) & (b)	(2) - (1) (in millions)	(1) ÷ (2)		(3) ÷ (5)
NYCERS	6/30/05(Lag)	$39,692.4	$39,797.1	$104.7	99.7%	$9,670.8	1.1%
	6/30/04(Lag)	40,638.6	40,786.6	148.0	99.6	9,361.2**	1.6
	6/30/04	40,088.2	40,236.2	148.0	99.6	9,157.4	1.6
	6/30/03	42,056.0	42,244.2	188.2	99.6	8,807.6	2.1
	6/30/02	43,561.1	43,619.9	58.8	99.9	8,901.1	0.7
	6/30/01	43,015.4	43,087.6	72.2	99.8	8,515.3	0.8
	6/30/00	42,393.6	42,418.7	25.1	99.9	7,871.0	0.3
	6/30/99	40,936.0	40,936.0	0.0	100.0	7,593.2	0.0
TRS	6/30/05(Lag)	32,865.1	32,872.3	7.2	100.0	6,273.9	0.1
	6/30/04(Lag)	33,149.3	33,159.7	10.4	100.0	6,175.9**	0.2
	6/30/04	32,817.1	32,827.5	10.4	100.0	6,219.8	0.2
	6/30/03	33,169.2	33,182.6	13.4	100.0	5,828.8	0.2
	6/30/02	34,177.8	34,181.1	3.3	100.0	5,469.2	0.1
	6/30/01	35,410.2	35,414.5	4.3	100.0	5,015.4	0.1
	6/30/00	36,142.4	36,147.5	5.1	100.0	4,721.5	0.1
	6/30/99	34,626.1	34,626.1	0.0	100.0	4,217.7	0.0
BERS	6/30/05(Lag)	1,841.0	1.846.3	5.3	99.7	715.1	0.7
	6/30/04(Lag)	1,843.8	1,850.6	6.8	99.6	624.9**	1.1
	6/30/04	1,822.7	1,829.5	6.8	99.6	624.9	1.1
	6/30/03	1,833.8	1,842.0	8.2	99.6	651.0	1.3
	6/30/02	1,835.8	1,835.8	0.0	100.0	736.7	0.0
	6/30/01	1,781.7	1,781.7	0.0	100.0	694.2	0.0
	6/30/00	1,749.4	1,749.4	0.0	100.0	666.0	0.0
	6/30/99	1,705.4	1,705.4	0.0	100.0	592.2	0.0
POLICE	6/30/05(Lag)	18,767.3	18,767.3	0.0	100.0	2,812.9	0.0
	6/30/04(Lag)	18,735.1	18,735.1	0.0	100.0	2,757.7**	0.0
	6/30/04	18,510.6	18,510.6	0.0	100.0	2,460.8	0.0
	6/30/03	18,781.4	18,781.4	0.0	100.0	2,433.9	0.0
	6/30/02	18,913.6	18,913.6	0.0	100.0	2,496.2	0.0
	6/30/01	18,141.7	18,141.7	0.0	100.0	2,500.1	0.0
	6/30/00	17,601.9	17,601.9	0.0	100.0	2,465.7	0.0
	6/30/99	16,877.8	16,877.8	0.0	100.0	2,332.0	0.0
FIRE	6/30/05(Lag)	6,169.2	6,261.5	92.3	98.5	908.3	10.2
	6/30/04(Lag)	6,277.3	6,382.5	105.2	98.4	864.8**	12.2
	6/30/04	6,185.8	6,291.0	105.2	98.3	805.0	13.1
	6/30/03	6,441.5	6,558.0	116.5	98.2	748.8	15.6
	6/30/02	6,612.3	6,738.7	126.4	98.1	789.7	16.0
	6/30/01	6,525.7	6,660.7	135.0	98.0	799.2	16.9
	6/30/00	6,388.1	6,530.6	142.5	97.8	741.5	19.2
	6/30/99	6,179.8	6,328.7	148.9	97.6	729.7	20.4

* Based on the Frozen Initial Liability Actuarial Cost Method.

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

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

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

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

This AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the fiscal year 2006 employer contribution in conjunction with the One-Year Lag methodology and the revised economic and noneconomic assumptions in accordance with the August, 2005 Reports. As of June 30, 1999, the economic and noneconomic assumptions were revised due to experience review. The AAVM was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

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

(b) To effectively assess the funding progress of a Plan, it is usually appropriate to compare AAV and AAL calculated in a manner consistent with the Plan's funding method over a period of time. AAL is the portion of the actuarial present value of pension plan benefits and expenses which is not provided for by future employer normal costs and future member contributions.

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

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Appendix C

SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT

The following is a brief summary of certain provisions of the Agreement. This summary is intended to supplement the information provided in the body of this Official Statement and does not purport to be complete. Reference is made to the Agreement for full and complete statements of such and all provisions. Except as noted, defined terms used herein have the meanings ascribed to them in Appendix A.

Lease of Facilities

The Authority leases the Leased Property to the City on the terms and conditions set forth in the Agreement.

(Section 2.01)

Term of Lease

The term of the Agreement commenced on November 19, 1998, and will terminate on the earlier of January 16, 2032 and the date on which no Bonds are Outstanding and the City has satisfied its obligations under the Agreement.

(Section 2.02)

Construction of Health Facilities

The Authority agrees that, in accordance with the Construction Management Agreement or a Project Management Agreement, and subject to the limitations contained in the Agreement, it will prepare or cause to be prepared the Plans and Specifications for each Health Facility and it will acquire, construct, reconstruct, rehabilitate and improve or cause to be acquired, constructed, reconstructed, rehabilitated and improved each Health Facility substantially in accordance with the Plans and Specifications therefor.

The Plans and Specifications and the cost estimates appertaining thereto prepared by the Authority pursuant to a Construction Management Agreement must be approved in writing by HHC and the City, and the Plans and Specifications and the cost estimates appertaining thereto prepared by the Authority pursuant to a Project Management Agreement shall be approved in writing by the City, prior to the Authority letting any contract for the construction, reconstruction, rehabilitation or improvement of a Health Facility or part thereof. Any material modification of the Plans or Specifications or any proposed action which would result in an increase in total Project costs shall be subject to the prior written approval of the City. Approval by HHC of other changes or proposed changes is made in accordance with the applicable provisions of the Construction Management Agreement, or in the case of a Project Management Agreement, the City, or as otherwise agreed by the Authority, HHC and the City.

The Authority agrees that it will use its best efforts to cause such construction, reconstruction, rehabilitation and improvement to be completed as soon as may be practicable, delays incident to strikes, riots or acts of God or any delay beyond its reasonable control only excepted; but if for any reason such construction, reconstruction, rehabilitation and improvement is delayed there shall be no resulting liability under the Agreement on the part of the Authority and no diminution in or postponement of the amounts payable under the Agreement by the City.

The Authority is responsible for the letting of contracts for the design, construction, reconstruction, rehabilitation and improvement of the Health Facilities, supervision of construction, acceptance of the completed Health Facilities or parts thereof, and all other matters incidental to performance of the duties and powers expressly granted to the Authority in connection with the construction, reconstruction, rehabilitation and improvement of the Health Facilities, all as further provided in the Construction Management Agreement or applicable Project Management Agreement.

(Section 3.01)

Issuance of Bonds

In order to provide moneys for payment of the Cost of the Project, upon the written request of the City signed by the Director, the Authority will use its best reasonable efforts to issue, sell and deliver Bonds; provided, however, that the Authority shall not be obligated to issue Bonds and the failure of the Authority to issue Bonds shall not release the City from any of the provisions of the Agreement. The proceeds of the Bonds shall be applied as provided in the Resolution.

(Section 3.10)

Payment of Rentals

The City shall pay to the Authority the following Basic Rent in the amounts and on the dates as follows:

(i) On each May 15 and November 15, the City will pay to the Authority an amount equal to the interest on Outstanding Bonds payable with respect to Fixed Rate Bonds, on the next succeeding July 15 and January 15, respectively and the principal and Sinking Fund Installments of Outstanding Bonds payable in the succeeding calendar year. For purposes of estimating the interest to accrue on a Variable Interest Rate Bond after the end of the then current rate period, the Authority shall assume that interest will accrue on such Variable Interest Rate Bond from and after the last day of such rate period at a constant rate per annum equal to the rate at which it then bears interest, plus one percent (1%) per annum;

(ii) On the first day of each month, commencing February 1, 2004, the City and the Authority will calculate the actual interest paid and the actual interest accrued on the Variable Interest Rate Bonds since January 1 of the current calendar year. If the amount of the actual interest paid or the actual interest accrued (whichever is higher) exceeds the amount of interest that would have accrued on the Variable Interest Rate Bonds had the Variable Interest Rate Bonds borne interest at the rate assumed on the applicable rental payment date pursuant to the preceding paragraph, the City will pay to the Authority the difference between such actual interest and such assumed interest (less any prior payments made pursuant to this paragraph)), as additional Basic Rent no later than the last day of such month;

(iii) On the fifth Business Day prior to each interest payment date, the City will pay to the Authority the amount, if any, necessary to cause the amount on deposit in the Debt Service Fund to equal the amount of principal of and interest payable on the Bonds on such interest payment date;

(iv) On each May 15 and November 15, the City will pay to the Authority the amount, if any, as is set forth in the certificate of the Trustee made pursuant to the Resolution as necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement; and

The date on which payments must be made under subparagraphs (i) and (iv) above and the amount of such payments may be changed following an amendment to the Act (consistent with such amendment) so long as following such change, payment of Basic Rent is due at least 60 days prior to the interest payment date on which such Basic Rent will be applied to pay debt service on the Bonds and is in an amount equal to such amount of debt service to be paid, and under the terms of the Act if such Basic Rent is not paid, the Authority will be required to deliver to the State Comptroller at least 45 days prior to such interest payment date a Certificate stating the amount of Basic Rent due and unpaid. Subparagraph (ii) above may be amended or deleted without the consent of the Holders of the Bonds following an amendment to the Act (consistent with such amendment to the Act and the Resolution) providing for the funding of interest with respect to Variable Interest Rate Bonds.

The City will, subject to the provisions of the Agreement, have the option to make from time to time prepayments in part of payments of Basic Rent, together with interest accrued and to accrue and premium, if any, to be paid on the Bonds, if such prepayment is to be used for the purchase or redemption of such Bonds.

To the extent that the City prepays all of the rental payments with respect to a Health Facility (as determined by the Authority and the City), such Health Facility may be released from the Agreement. The Trustee will apply such prepayments in a manner consistent with the provisions of the Resolution as may be specified in writing by the Director at the time of making such prepayment.

Subject to the Agreement and the Resolution, the City will receive a credit against the amount required to be paid by the City pursuant to the Agreement on account of any Sinking Fund Installments, if not less than forty-five (45) days prior to a January 15 on which a Sinking Fund Installment is scheduled to be due, there shall be delivered to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such January 15. The amount of the credit will be equal to the principal amount of Bonds so delivered and cancelled.

The City will pay to the Authority, as additional rent for the Health Facilities, the amounts, and on the dates as follows:

(i) On the date of delivery of Bonds of a Series, to the extent not paid from the proceeds of the Bonds, the Administrative Expenses, as estimated by an Authorized Officer of the Authority, incurred in connection with the issuance of Bonds of such Series;

(ii) On each March 31 or such other date as may be agreed to by the Authority, the Annual Administrative Fee;

(iii) The Administrative Expenses of the Authority, the Trustee and each Paying Agent for the Bonds, within sixty (60) days after notice of the amount thereof is given to the City; provided, however, that the estimated Administrative Expenses paid pursuant to subparagraph (i) of this paragraph will be applied in reduction of the amount payable pursuant to this subparagraph; and

(iv) The amount determined by an Authorized Officer of the Authority as required to be rebated to the Department of the Treasury of the United States of America in excess of the amount available therefor in the Arbitrage Rebate Fund.

(Section 4.01)

Application of Interest Earnings

The Authority agrees that it will cause to be deposited in the Debt Service Fund the interest earned and paid on the investment of moneys in the Debt Service Fund and the Debt Service Reserve Fund, and will cause interest earnings on amounts on deposit in the Construction Fund to be deposited in the Construction Fund. The Authority agrees that amounts in the Debt Service Fund in excess of the amount required by the Resolution will be paid to the City, unless the City shall request that such amounts be applied to the purchase or redemption of Bonds.

(Section 4.05)

Nature of Obligations of the City

Except as provided below, the obligation of the City to pay Rentals and to pay all other amounts provided for in the Agreement and to perform its obligations under the Agreement shall be absolute and unconditional, and such Rentals and other amounts shall be payable without any rights of set-off, recoupment or counterclaim it might have against the Authority, HHC, the Trustee or any other person and whether or not any or all of the Health Facilities are used or occupied or available for use or occupancy and whether or not the City Lease is in effect. If the City shall have paid all amounts required by the Agreement and continues to pay the same when due, it shall not be precluded from bringing any action it may otherwise have against the Authority; provided, however, that the City shall not as a result of the City's failure to pay any Administrative Expenses or

Annual Administrative Fee be precluded from bringing any such action if the amount thereof is disputed or is being contested by the City in good faith.

Notwithstanding anything in the Agreement to the contrary, the cost and expense of the performance by the City of its obligations under the Agreement and the incurrence of any liabilities of the City under the Agreement, including, without limitation, the payment of all Rentals and the payment of all other amounts required to be paid by the City under the Agreement, shall be subject to and dependent upon appropriations being made from time to time by the City for such purpose.

The City covenants that it will not terminate the Agreement (other than such termination as is provided for under the Agreement) or be excused from performing its obligations under the Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute an eviction or constructive eviction, failure of consideration, failure of title, or frustration of purpose, or any damage to or destruction of any Leased Property, or the taking by eminent domain of title to or the right of temporary use of all or any part of any Leased Property, or the failure of the Authority to perform and observe any agreement or covenant, whether expressed or implied, or any duty, liability or obligation arising out of or in connection with the Agreement.

(Section 4.06)

Encumbrances

The City covenants that it shall not create or suffer to be created any lien or charge upon a Health Facility or any part thereof, or upon the payments in respect thereof pursuant hereto in each case which might be or become a lien upon or result in an injunction of any payments under the Agreement or might result in the termination of the Agreement.

(Section 5.01)

Condition of Premises

The Authority makes no representations whatsoever in the Agreement in connection with the condition of the Leased Property or the Health Facilities, and the Authority shall not be liable under the Agreement for any defects therein.

(Section 5.03)

Assignment and Sale by the City

The City covenants that it will not sell, sublease or otherwise dispose of or encumber its interest in a Health Facility except as provided in the Agreement. The Agreement may be assigned in whole or in part by the City upon written consent of the Authority (which consent shall not be unreasonably withheld) but no assignment shall relieve the City from liability for any of its obligations under the Agreement, and in the event of any such assignment the City shall continue to remain primarily liable for the payments specified in the Agreement and for performance and observance of the other agreements on its part provided in the Agreement.

(Section 7.04)

Use of the Health Facilities and the Leased Property

The City covenants that, except as otherwise approved by the Authority in writing, the Leased Properties shall be used in the trade or business of either: (i) an entity determined by the Internal Revenue Service to be exempt from federal income tax by reason of being described in Section 501(c)(3) of the Code or (ii) an agency, department or division of the State, or a political subdivision thereof; provided, however, that any such use shall comply with the provisions of the Agreement.

(Section 7.05)

Subletting

The City sublets all Health Facilities and all Leased Property to HHC pursuant to the Sublease.

The Authority consents to the Sublease. No Leased Property may be further sublet by the City, HHC or any other person or entity succeeding to any of their respective interests without the prior written consent of the Authority, accompanied by an opinion of Bond Counsel to the effect that such sublease would not adversely affect the exclusion of the interest on any of the Bonds from gross income for federal income tax purposes, and the Sublease may not be amended, restated or otherwise modified and no provision thereof may be waived without the prior written consent of the Authority, accompanied by an opinion of Bond Counsel to the effect that such amendment, restatement or modification would not adversely affect the exclusion of the interest on any of the Bonds from gross income for federal income tax purposes. The Sublease will by its terms be expressly subject and subordinate to the City Lease and to the Agreement and HHC will expressly agree to be bound by and observe the terms and provisions of the Agreement applicable to such Leased Property.

(Section 7.06)

Events of Default

An "event of default" or a "default" means, whenever they are used in the Agreement, any one or more of the following events:

(a) Failure by the City to pay or cause to be paid when due the Rentals to be paid under the Agreement which failure continues for a period of seven (7) days after payment thereof was due;

(b) Failure by the City to pay or to cause to be paid when due any other payment required to be made under the Agreement which failure continues for a period of thirty (30) days after payment thereof was due, provided that written notice thereof will have been given to the City not less than thirty (30) days prior to the due date thereof;

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in paragraphs (a) and (b) above, which failure continues for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the City by the Authority, unless by reason of the nature of such failure the same can not be remedied within such thirty (30) day period and the City has within such period commenced to take appropriate actions to remedy such failure and is diligently pursuing such actions;

(d) Any representation or warranty of the City contained in the Agreement will have been at the time it was made untrue in any material respect; or

(e) The City will generally not pay its debts as such debts become due, or will admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the City seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it for any substantial part of its property; or the City shall authorize any of the actions set forth above in this paragraph (e).

Notwithstanding anything contained above to the contrary, a failure by the City to pay when due any payment required to be made under the Agreement or a failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Agreement, resulting from a failure by the City to appropriate moneys for such purposes, shall not constitute an event of default under the Agreement; provided, however, that such failure to pay shall not impair or limit the Authority's right, and the Authority shall be entitled to exercise its right, under Section 7418-(2)(b) of the Act, to certify as provided therein the amount of the Rentals which the City has failed to pay.

(Section 8.01)

Remedies

Whenever any event of default referred to above shall have happened and be continuing, the Authority may exercise its rights under Section 7418-(2)(b) of the Act.

In addition, whenever any event of default referred to above shall have happened and be continuing, the Authority may take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the City under the Agreement.

Furthermore, whenever any event of default referred to in the Agreement shall have happened and be continuing, the parties agree that notwithstanding the filing by the City of a petition seeking relief under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"), and notwithstanding the claim of the Authority against the City as a consequence of such filing for the full principal amount of the Bonds and all accrued interest to the date of filing: (i) Section 7418(2)(b) of the Act requires the Authority to certify to the City not later than the date specified in the Act in any year the amount due and not paid for the preceding fiscal year under the Agreement; (ii) in the event of the failure or inability of the City to pay over the stated amount to the Authority on or before date specified in the Act of the same year, Section 7418(2)(b) of the Act requires the Authority to deliver a certificate to the appropriate State officials restating the amount due and not paid for the preceding fiscal year and (iii) in the event the amounts so certified are paid, the Authority agrees that its claim against the City shall be decreased to the extent of such payment.

The parties further agree that the certification by the Authority to the City and subsequently if necessary, to the appropriate State officials, is required by the Act to effectuate Section 7418(2)(b) to provide sufficient monies for the payment of all amounts owing on the Bonds regardless of whether the City fails or is unable for any reason to make such payments.

Any amounts collected pursuant to action taken as described above shall be applied in proportion to the total principal amount of Bonds then Outstanding in accordance with the provisions of the Resolution, or if the Bonds and all other amounts due under the Agreement have been fully paid (or provision for payment thereof has been made), such amounts shall be paid to the City.

(Section 8.02)

Amendments, Changes and Modifications

The Agreement may be amended, changed or modified in any respect provided that each amendment, change or modification is in writing signed by an Authorized Officer of the Authority and of the City and, if such amendment would adversely affect the rights or increase the obligations of HHC under the leases and agreements between HHC and the City with respect to the Health Facilities, consented to in writing by HHC; provided, however, that no amendment, change or modification shall take effect unless and until (i) if the consent of Holders of Outstanding Bonds is required by the Resolution, there shall have been filed with the Trustee the written consents of, the Holders of the percentages of Outstanding Bonds specified in the Resolution, (ii) if the consent of the Trustee is required by the Resolution, the Trustee shall have consented thereto, and (iii) an executed copy of such amendment, change or modification, certified by an Authorized Officer of the Authority, shall have been filed with the Trustee.

(Section 9.04)

Amounts Remaining under Bond Resolution

It is agreed by the parties that any amounts remaining in any fund or account created under the Resolution, upon expiration or sooner termination of the Lease Term, as provided in the Agreement, after payment in full of the Bonds (or provision for payment thereof having been made in accordance with the provisions of the Resolution) and the fees, charges and expenses of the Trustee and paying agents and the Authority in accordance with the Agreement and with the Resolution, shall belong to and be paid to the City.

(Section 9.05)

No Release

Nothing contained in the Agreement shall be construed to release the Authority from any obligation or liability it may have under the Construction Management Agreement or any other agreement with the City or HHC with respect to the construction of the Health Facilities.

(Section 9.07)

Investment of Moneys

The City acknowledges that the Authority may in its sole discretion invest or direct the investment of certain moneys field under the Resolution as provided therein and that no representation or warranty has been made by the Authority with respect to interest rates on, or the amount to be earned as a result of, any such investment. Neither the Authority nor the Trustee shall have any liability arising out of or in connection with the making of any investment authorized by the Resolution in the manner provided therein, for any depreciation in value of any investment or for any loss, direct or indirect, resulting from any such investment.

(Section 9.08)

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Appendix D

SUMMARY OF CERTAIN PROVISIONS
OF THE RESOLUTION

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution pertaining to the 2001 Bonds. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A or in the body of this Official Statement.

Resolution and Bonds Constitute a Contract

With respect to the Bonds, in consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued under the Resolution by those who shall hold or own the same from time to time, the Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of such Bonds, and the pledge made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of such Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any such Bonds over any other Bonds except as expressly provided in the Resolution or permitted by the Resolution.

(Section 1.03)

Authorization and Issuance of the 2001 Bonds

The 2001 Bonds were issued pursuant to the Resolution, the 2001 Series 1 Resolution, the 2001 Series 2 Resolution and the Act. In addition to the 2001 Bonds, the Resolution authorized the issuance of other Series of Bonds for such other purposes as are authorized by the Resolution. All Bonds issued under the Resolution rank on a parity with each other and are secured equally and ratably with each other. The aggregate principal amount of Bonds which may be issued under the Resolution is not limited except as provided thereby.

(Section 2.01)

Additional Bonds and Other Obligations

The issuance of Bonds shall be authorized by a Series Resolution or Series Resolutions. The Bonds of a Series authorized to be issued shall be executed by the Authority and delivered to the Trustee. Such Bonds shall from time to time and in such amounts as directed by the Authority be authenticated by the Trustee and by it delivered to or upon the order of the Authority upon receipt of the consideration therefor and upon delivery to the Trustee of:

(a) A copy of the Resolution and the Series Resolution authorizing such Bonds, certified by an Authorized Officer of the Authority;

(b) A copy of the Agreement, certified by an Authorized Officer of the Authority;

(c) A copy of the Bond Series Certificate executed in connection with such Bonds;

(d) If a Reserve Fund Facility is to be provided in connection with the issuance of the Bonds of such Series, such Reserve Fund Facility and the opinion of counsel to the Facility Provider required by the Resolution;

(e) A written order as to the delivery of such Bonds, signed by an Authorized Officer of the Authority, describing the Bonds to be delivered, designating the purchaser or purchasers to whom such Bonds are to be delivered and stating the consideration for such Bonds;

(f) A certificate of an Authorized Officer of the Authority stating the value of the assets of the Debt Service Reserve Fund as of a date not more than five (5) days prior to the sale of such Bonds, the amount required to be in the Debt Service Reserve Fund after issuance of the Bonds then to be issued, and that after deposit in the Debt Service Reserve Fund of the amount, if any, to be deposited therein in connection with the issuance of such Bonds, the amount on deposit in such fund will not be less than the amount then required to be therein;

(g) Except in, the case of Refunding Bonds, a certificate of an Authorized Officer of the Authority stating that the Authority is not, and, as a result of the issuance of such Bonds, shall not be, in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Resolution;

(h) A certificate of an Authorized Officer of the Authority stating that there is estimated to be sufficient moneys from (i) the proceeds of such Bonds deposited in the Construction Fund which, together with the amount then available in the Construction Fund and the projected interest earnings on such proceeds and amount and (ii) other funds, if any, provided or to be provided by the City or HHC or others to pay the then estimated Costs of the Project, including the Health Facilities in connection with which such Bonds are to be issued, but exclusive of interest on Bonds;

(i) Except in the case of Refunding Bonds, a certificate of an Authorized Officer of the City stating that no “event of default” under the Agreement has occurred and is continuing nor will an “event of default” under the Agreement occur as a result of the issuance of such Bonds;

(j) If Bonds of such Series are Book Entry Bonds, unless the Trustee is a party thereto, a copy of the agreement, if any, between the Authority and the Depository for such Bonds;

(k) If any Bonds of such Series are Option Bonds, a Credit Facility or Liquidity Facility in such an amount as would provide sufficient moneys for the purchase or redemption of all Option Bonds of such Series if the Holders thereof elected to tender for purchase or redemption the entire aggregate Outstanding principal amount of the Option Bonds of such Series; and

(l) An opinion of Bond Counsel stating, in the opinion of Bond Counsel, that the Resolution and the applicable Series Resolution authorizing the Series of Bonds have been duly and lawfully adopted by the Authority; that the Resolution and the applicable Series Resolution are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms; that the Resolution creates the valid pledge and the valid lien upon the Revenues which it purports to create, subject only to the provisions of the Resolution permitting the withdrawal, payment, setting apart or, appropriation thereof for the purposes and on the terms and conditions set forth in the Resolution and each applicable Series Resolution; and that the Authority is duly authorized and entitled to issue such Series of Bonds and, upon the execution and. delivery thereof and upon authentication by the Trustee, such Series of Bonds will be duly and validly issued and will constitute valid and binding special obligations of the Authority entitled to the benefits of the Resolution; provided, however, that such opinion may be qualified to the extent that enforceability of rights and remedies may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally or as to the availability of any particular remedy.

(Section 2.02)

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, except as provided in the Resolution, entitled to a charge, lien or right prior or equal to the charge or lien created by the Resolution, or prior or equal to the rights of the Authority and Holders of Bonds.

(Section 2.05)

Pledge of Revenues, Funds and Accounts

Pledge of Revenues

The proceeds from the sale of the Bonds, the Revenues and, except as otherwise provided in the Resolution, all funds and accounts established by the Resolution, other than, the Arbitrage Rebate Fund, are pledged by the Resolution to the Trustee as security for the payment of the principal Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under any Series Resolution, all in accordance with the provisions of the Resolution and each such Series Resolution. The pledge of the

Revenues shall also be for the benefit of each Facility Provider as security for the payment of any amounts payable to such Facility Provider under the Resolution; **provided, however,** that such pledge shall, in all respects be subject and subordinate to the rights and interest therein of the Bondholders. Such pledge is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of the Bonds, the Revenues and the funds and accounts established by the Resolution and by any Series Resolution which are pledged by the Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds shall be special obligations of the Authority, payable solely from and secured by a pledge of the proceeds from the sale of the Bonds, the Revenues and the funds and accounts established by the Resolution, and which are pledged by the Resolution as provided in the Resolution, which pledge shall constitute a first lien thereon.

(Section 5.01)

Establishment of Funds and Accounts

The following funds and separate accounts within funds are established by the Resolution and, except for the Construction Fund which shall be held and maintained by the Authority, shall be held and maintained by the Trustee:

Construction Fund;
Debt Service Fund;
Debt Service Reserve Fund; and
Arbitrage Rebate Fund.

(Section 5.02)

Application of Moneys in the Construction Fund

As soon as practicable after the delivery of each Series of Bonds, the Trustee shall deposit in the Construction Fund the amount required to be deposited therein pursuant to the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series. In addition, the Authority shall deposit in the Construction Fund any moneys paid to the Authority pursuant to the Resolution. Except as otherwise provided in the Resolution and in any applicable Series Resolution or Bond Series Certificate, moneys deposited in the Construction Fund shall be used only to pay the Costs of Issuance of the Bonds and the Costs of the Project.

Consistent with the provisions of the Agreement, payments from the Construction Fund shall be made by the Authority upon the filing in the records of the Authority of, and in accordance with, a requisition signed by an Authorized Officer of the Authority stating with respect to each payment to be made (i) in the case of a payment for the Costs of the Project, the Health Facility in connection with which payment is to be made, (ii) the names of the payees, (iii) the purpose for which payment is to be made in terms sufficient for identification, (iv) the respective amount of each such payment and (v) that such purpose constitutes a proper purpose for which moneys in the Construction Fund may be applied and has not been the basis of any previous withdrawal from the Construction Fund. Notwithstanding the provisions of this paragraph, moneys in the Construction Fund to be applied to pay interest on Bonds shall be transferred from the Construction Fund to the Debt Service Fund at such times and in such amounts as shall be determined by an Authorized Officer of the Authority.

A Health Facility shall be deemed to be complete upon the filing in the records of the Authority of the notice of final completion required by the Agreement. Upon the filing of notices of final completion relating to all of the Health Facilities the Project shall be deemed to be complete. The moneys, if any, then remaining in the Construction Fund, after making provision in accordance with the direction of an Authorized Officer of the Authority for the payment of any Costs of Issuance and Costs of the Project then unpaid, shall be paid by the Authority to the Trustee and applied by it as follows and in the following order of priority:

First: To the Arbitrage Rebate Fund, the amount determined by the Authority to be required to be deposited therein;

Second: To the Debt Service Reserve Fund, such amount as shall be necessary to make the amount on deposit in such fund equal to the Debt Service Reserve Fund Requirement; and

Third: To the Debt Service Fund, to be applied in accordance with the Resolution, any balance remaining.

Following the occurrence and during the continuation of an Event of Default under the Agreement, the Authority may, in its sole discretion, transfer moneys in the Construction Fund to the Trustee for application pursuant to the provisions of the Resolution.

(Section 5.04)

Allocation of Revenues

The Revenues and any other moneys, which, by any of the provisions of the Agreement, are required to be paid to the Trustee, shall upon receipt thereof be deposited or paid by the Trustee in the following order of priority:

First: To the Debt Service Fund (i) in the case of Revenues received during the period from January 15 of a Bond Year until July 14 thereof, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on Outstanding Bonds payable on or prior to the second succeeding July 15, including the interest estimated by the Authority to be payable on a Variable Interest Rate Bond on and prior to the second succeeding July 15, assuming that such Variable Interest Rate Bond will bear interest, from and after the next date on which the rate at which such Variable

Interest Rate Bond bears interest is to be adjusted, at a rate per annum equal to the rate per annum at which such Bonds then bear interest, plus one percent (1%) per annum, (b) the principal and Sinking Fund Installments of Outstanding Bonds payable on the next succeeding January 15, and (c) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to the Resolution, plus accrued interest thereon to the date of purchase or redemption; and (ii) in the case of Revenues received during the period from July 15 of such Bond Year until January 14 thereof, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on Outstanding Bonds payable on and prior to the next succeeding July 15, including the interest estimated by the Authority to be payable on a Variable Interest Rate Bond on and prior to the next succeeding July 15, assuming that such Variable Interest Rate Bond will bear interest, from and after the next date on which the rate at which such Variable Interest Rate Bond bears interest is to be adjusted, at a rate per annum equal to the rate per annum at which such Bonds then bear interest, plus one percent (1%) per annum, (b) the principal and Sinking Fund Installments of Outstanding Bonds payable on the next succeeding January 15 and (c) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption;

Second: To reimburse, pro rata, each Facility Provider for Provider Payments which are then unpaid, in proportion to the respective Provider Payments then unpaid to each Facility Provider;

Third: Upon the direction of an Authorized Officer of the Authority, to the Arbitrage Rebate Fund the amount set forth in such direction;

Fourth: To the Debt Service Reserve Fund, such amount, if any, necessary to make the amount on deposit in such fund equal to the Debt Service Reserve Fund Requirement; and

Fifth: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required by the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Project, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph.

After making the payments required by the preceding paragraph, the balance, if any, of the Revenues remaining shall be deposited by the Trustee in the Debt Service Fund and applied pursuant to the provisions of the Resolution. The Trustee shall notify the Authority promptly after making the payments required above, of any balance of Revenues then remaining.

(Section 5.05)

Debt Service Fund

The Trustee shall on or before the Business Day preceding each interest payment date pay to itself and any other Paying Agent out of the Debt Service Fund:

(a) the interest due and payable on all Outstanding Bonds on such interest payment date;

(b) the principal amount due and payable on all Outstanding Bonds on such interest payment date; and

(c) the Sinking Fund Installments or other amounts related to a mandatory redemption, if any, due and payable on all Outstanding Bonds on such interest payment date.

The amounts paid out pursuant to (a), (b) and (c) above shall be irrevocably pledged to and applied to such payments.

In the event that on the fourth Business Day preceding any interest payment date there are insufficient amounts in the Debt Service Fund, the Trustee shall withdraw from the Debt Service Reserve Fund and deposit to the Debt Service Fund such amount as will increase the amount therein to an amount sufficient to make such payments.

Notwithstanding the above, the Authority may, at any time subsequent to the first day of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds to be redeemed from such Sinking Fund Installment.

Moneys in the Debt Service Fund: (a) on January 16 of each year in excess of the amount required as described under the heading “Allocation of Revenues”, paragraph “First”, clause (i); and (b) on July 16 of each year in excess of the amount required as described under the heading “Allocation of Revenues”, paragraph “First”, clause (ii); (in each case taking into account amounts, if any, on deposit in the Construction Fund and available for the payment of interest on the Bonds) shall be paid or applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority (i) to the purchase of Outstanding Bonds of any Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority shall direct or (ii) to the redemption of Bonds as provided in the Resolution, at the Redemption Prices specified in the Series Resolution authorizing the issuance of the Bonds to be redeemed or Bond Series Certificate relating to such Bonds or (iii) to or for the account of the City.

(Section 5.06)

Debt Service Reserve Fund

The Trustee shall deposit to the credit of the Debt Service Reserve Fund such proceeds of the sale of Bonds, if any, as shall be prescribed in the Series Resolution authorizing the issuance of such Series of Bonds or the Bond Series Certificate relating to such Series.

In lieu of or in substitution for moneys, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Bonds for all or any part of the Debt Service Reserve Requirement; provided, however, (i) that any such surety bond or insurance policy shall be issued by an insurance company or association duly authorized to do business in the State and either (A) the claims paying ability of such insurance company or association is rated in the highest rating category accorded by a nationally recognized insurance rating agency or (B) obligations insured by a surety bond or an insurance policy issued by such company or association are rated at the time such surety bond or insurance policy is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in the highest rating category by Moody's and S&P or, if Outstanding Bonds are not rated by both Moody's and S&P, by whichever of said rating services that then rates Outstanding Bonds and (ii) that any such letter of credit shall be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law, or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a letter of credit issued by such person, are rated at the time such letter of credit is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in at least the second highest rating category by Moody's and S&P or, if Outstanding Bonds are not rated by Moody's and S&P, by whichever of said rating services that then rates Outstanding Bonds.

In addition to the conditions and requirements set forth above, no Reserve Fund Facility shall be deposited in full or partial satisfaction of the Debt Service Reserve Fund Requirement unless the Trustee and each Facility Provider of a Reserve Fund Facility shall have received prior to such deposit (i) an opinion of counsel acceptable to the Trustee and to each Facility Provider of a Reserve Fund Facility to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Trustee and to each Facility Provider and (iii) in the event such Reserve Fund Facility is a letter of credit, an opinion of counsel acceptable to the Trustee and to each Facility Provider of a Reserve Fund Facility substantially to the effect that payments under such letter of credit will not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority or the City thereunder or under any applicable provisions of the Debtor and Creditor Law of the State.

Notwithstanding the foregoing, if at any time after a Reserve Fund Facility has been deposited with the Trustee the ratings on any Outstanding Bonds are less than Aa by Moody's or AA by S&P and the unsecured or uncollateralized long term debt of the Facility Provider or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of a Facility Provider is reduced below A by Moody's or S&P, the Authority shall either (i) replace or cause to be replaced said Reserve Fund Facility with another Reserve Fund Facility which satisfies the requirements of the two preceding paragraphs or (ii) deposit or cause to be deposited in the Debt Service Reserve Fund an amount of moneys equal to the value of the Reserve Fund Facility of such Facility Provider, such deposits to be, as nearly as practicable, in ten equal semi-annual installments commencing on the earlier of the January 15 or July 15 next succeeding the reduction in said ratings.

Each such surety bond, insurance policy or letter of credit shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without obtaining payment under such Reserve Fund Facility.

For the purposes of the Resolution, in computing the amount on deposit in the Debt Service Reserve Fund, a Reserve Fund Facility shall be valued at the amount available to be paid thereunder on the date of computation; **provided, however,** that, if the unsecured or uncollateralized long term debt of the Facility Provider thereof, or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of said Facility Provider has been reduced below the ratings required by the Resolution, said Reserve Fund Facility shall be valued at the lesser of (i) the amount available to be paid thereunder on the date of calculation and (ii) the difference between the amount available to be paid thereunder on the date of issue thereof and an amount equal to a fraction of such available amount the numerator of which is the aggregate number of January 15th's and July 15th's which has elapsed since such ratings were reduced and the denominator of which is ten.

Moneys held for the credit of the Debt Service Reserve Fund shall be withdrawn by the Trustee and deposited to the credit of the Debt Service Fund at the times and in the amounts required to comply with the provisions of the Resolution; **provided, however,** that no payment under a Reserve Fund Facility shall be sought unless and until moneys are not available in the Debt Service Reserve Fund and the amount required to be withdrawn from the Debt Service Reserve Fund pursuant to the Resolution cannot be withdrawn therefrom without obtaining payment under such Reserve Fund Facility; **provided, further,** that, if more than one Reserve Fund Facility is held for the credit of the Debt Service Reserve Fund at the time moneys are to be drawn therefrom, unless the Authority and the issuers of all such Reserve Fund Facilities otherwise agree, the Trustee shall obtain payment under each such Reserve Fund Facility, pro rata, based upon the respective amounts then available to be paid thereunder.

With respect to any demand for payment under any Reserve Fund Facility, the Trustee shall make such demand for payment in accordance with the terms of such Reserve Fund Facility at the earliest time provided therein to assure the availability of moneys on the interest payment date for which such moneys are required, but in no event less than two (2) Business Days prior to such interest payment date.

The income or interest earned on investments held for the credit of the Debt Service Reserve Fund, upon the direction of an Authorized Officer of the Authority, shall be withdrawn by the Trustee, as received, and deposited in the Arbitrage Rebate Fund, the Debt Service Fund or the Construction Fund in accordance with such direction. If on January 14 of a Bond Year the value of the moneys and investments held for the credit of the Debt Service Reserve Fund exceeds the Debt Service Reserve Fund Requirement, upon direction of an Authorized Officer of the Authority, such excess shall be withdrawn by the Trustee and deposited in the Arbitrage Rebate Fund, the Debt Service Fund or the Construction Fund in accordance with such direction; **provided, however,** that if such amount results from the substitution of a Reserve Fund Facility for moneys or investments in the Debt Service Reserve Fund, such amount shall not be deposited in the Debt Service Fund or the Construction Fund unless in the opinion of Bond Counsel such application will not adversely effect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes.

Notwithstanding the provisions described above, if, upon a Bond having been deemed to have been paid in accordance with the Resolution, the moneys and investments held for the credit of the Debt Service Reserve Fund will exceed the Debt Service Reserve Fund Requirement, then the Trustee shall, simultaneously with such redemption or a deposit made in accordance with the Resolution, withdraw all or any portion of such excess from the Debt Service Reserve Fund and either (i) apply such amount to the payment of the principal or Redemption Price of and interest on such Bond in accordance with the irrevocable instructions of the Authority or to fund any reserve for the payment of the principal and Sinking Fund Installments of or interest on the bonds, notes or other obligations, if any, issued to provide for the payment of such Bond or (ii) pay such amount to the Authority for deposit to the Construction Fund if, in the opinion of Bond Counsel, application of such moneys to the payment of Costs of the Project will not adversely affect the exclusion of interest on any Bonds from gross income for federal income tax purposes; **provided, however,** that after such withdrawal the amount remaining in the Debt Service Reserve Fund shall not be less than the Debt Service Reserve Fund Requirement.

If on January 14 of a Bond Year the value of the moneys and investments held for the credit of the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Authority, the City and each Facility Provider of such deficiency. The amount of such deficiency shall be included in the Basic Rent payable during the next succeeding Bond Year.

(Section 5.07)

Arbitrage Rebate Fund

The Trustee shall deposit to the Arbitrage Rebate Fund any moneys delivered to it by the City for deposit therein and, notwithstanding any other provisions of the Resolution, shall transfer to the Arbitrage Rebate Fund, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in any other funds held by the Trustee under the Resolution at such times and in such amounts as shall be set forth in such directions.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated shall first, be applied to reimburse, pro rata, each Facility Provider for moneys advanced under a Reserve Fund Facility, including interest thereon, which is then unpaid, in proportion to the respective amounts advanced by each such Facility Provider; and then be deposited to any fund or account established under the Resolution in accordance with the written direction of such Authorized Officer.

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, determine the amount required by the Code to be rebated to the Department of the Treasury of the United States of America with respect to each Series of Bonds and (i) transfer or direct the Trustee to transfer from any other of the funds and accounts held under the Resolution and deposit to the Arbitrage Rebate Fund, such amount as the Authority shall have determined to be necessary in order to enable it to comply with its obligation to rebate moneys to the Department of the Treasury of the United States of America with respect to each Series of Bonds and (ii) pay out of the Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

(Section 5.08)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if at any time the amounts held in the Debt Service Fund and the Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds and the interest accrued and unpaid and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, or to make provision pursuant to the Resolution for the payment of the Outstanding Bonds at the maturity or redemption dates thereof, the Authority may (i) direct the Trustee to redeem all such Outstanding Bonds, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Resolution and by each Series Resolution, or (ii) give the Trustee irrevocable instructions and make provision for the payment of the Outstanding Bonds at the maturity or redemption dates thereof in accordance with the Resolution.

(Section 5.09)

Transfer of Investments

Whenever moneys in any fund or account established under the Resolution are to be paid in accordance with the Resolution to another such fund or account, such payment may be made, in whole or in part, by transferring to such other fund or account investments held as part of the fund or account from which such payment is to be made, whose value, together with the moneys, if any, to be transferred, is at least equal to the amount of the payment then to be made; **provided, however,** that no such transfer of investments would result in a violation of any investment standard or guideline applicable to such fund.

(Section 5.10)

Security for Deposits and Investment of Funds

Security for Deposits

All moneys held under the Resolution by the Trustee shall be continuously and fully secured, for the benefit of the Authority and the Holders of the Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; **provided, however,** (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with them pursuant to the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any or Redemption Price of or interest on any Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions of the Resolution as an investment of such moneys.

(Section 6.01)

Investment of Funds and Accounts Held by the Trustee

Moneys held under the Resolution, if permitted by law, shall, as nearly as may be practicable, be invested in Government Obligations or Exempt Obligations; **provided, however,** that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of the Resolution.

In lieu of the investments of moneys in obligations described above, the Trustee shall, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, invest moneys in the Debt Service Reserve Fund, and the Authority may, to the extent permitted by law, invest moneys in the Construction Fund, in (i) interest-bearing time deposits, certificates of deposit or other similar investment arrangements including, but not limited to, written repurchase agreements relating to Government Obligations, with Qualified Financial Institutions, (ii) Exempt Obligations or (iii) Investment Agreements; **provided, however,** that (w) each such investment shall permit the moneys so deposited or invested to be available for use at the times at, and in the amounts in, which the Authority reasonably believes such moneys will be required for the purposes of the Resolution, (x) all moneys in each such interest-bearing time deposit, certificate of deposit or other similar investment arrangement shall be continuously and fully secured by ownership of or a security interest in Government Obligations of a market value, determined by the Trustee or its agent not less frequently than monthly, equal to the amount deposited or invested including interest accrued thereon, (y) the obligations securing such interest-bearing time deposit or certificate of deposit or which are the subject of such other similar investment arrangement shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Government Obligations securing such time deposit or certificate of deposit or which are the subject of such other similar investment arrangement shall be free and clear of claims of any other person.

Obligations purchased or other investments made as an investment of moneys in any fund or account held under the Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be credited or charged, as the case may be, to such fund or account.

In computing the amount in any fund or account held by the Trustee under the Resolution, obligations purchased as an investment of moneys therein or held therein shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Debt Service Reserve Fund shall be valued at par or the cost thereof, including accrued interest, whichever is lower.

Notwithstanding anything to the contrary in the Resolution, the Authority, in its discretion, may, and the Trustee at the direction of an Authorized Officer of the Authority, shall sell, present for redemption or exchange any investment held pursuant to the Resolution and the proceeds thereof may be reinvested as provided in the Resolution. Except as otherwise provided in the Resolution, such investments shall be sold at the best price obtainable, or presented for redemption or exchange, whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account pursuant to the Resolution and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of the Resolution. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

From and after the date on which the consent of the Holders of the required percentage of principal amount of Outstanding Bonds given and received in accordance with the Resolution, the provisions of the Resolution relating to investments (including definitions of defined terms) shall be amended to reflect any amendments to the Authority's Investment Policy and Guidelines adopted by the Board. The terms of such amendments shall be determined by an Authorized Officer following adoption of the amendments to the Authority's Investment Policy and Guidelines.

(Section 6.02)

Particular Covenants by the Authority

Payment of Principal and Interest

The Authority covenants to pay or cause to be paid the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on every Bond of each Series on the date and at the places and in the manner provided in the Bonds according to the true intent and meaning thereof.

(Section 7.01)

Accounts and Audits

The Authority covenants to keep proper books of record and accounts (separate from all other records and accounts), which may be kept on behalf of the Authority by the Trustee, in which complete and correct entries shall be made of its transactions relating to each Series of Bonds, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority, shall be subject to the inspection of the City, the Trustee, any Credit Facility Issuer or of any Holder of a Bond or such Holder's representative duly authorized in writing. The Trustee shall annually prepare a report which shall be furnished to the Authority, each Facility Provider and the City. Such report shall include at least: a statement of all funds (including investments thereof) held by the Trustee and the Authority pursuant to the provisions hereof and of each Series Resolution; a statement of the Revenues collected in connection herewith and with each Series Resolution; a statement that the balance in the Debt Service Reserve Fund meets the requirements hereof and of the applicable Series Resolution; and complete and correct entries of all transactions relating to each Series of Bonds. A copy of such report, shall upon a written request therefor and payment of any reasonable fee or charge made in connection therewith, be furnished to the registered owner of a Bond or any beneficial owner of a Book-Entry Bond requesting the same.

(Section 7.05)

Creation of Liens

Except as permitted by the Resolution, the Authority covenants not to create or cause to be created any lien or charge prior or equal to that of the Bonds on the proceeds from the sale of the Bonds, the Revenues or the funds and accounts established by the Resolution or by any Series Resolution which are pledged under the Resolution; provided, however, that nothing contained in the Resolution shall prevent the Authority from issuing bonds, notes or other obligations under another and separate resolution so long as the charge or the lien created by such resolution is not prior or equal to the charge or lien created by the Resolution.

(Section 7.06)

Enforcement of Obligations of the City

The Authority shall take all legally available action to cause the City to perform fully its obligation to pay the Basic Rent and other amounts which under the Agreement are to be paid to the Trustee, in the manner and at the times provided in the Agreement.

(Section 7.07)

Deposit of Certain Moneys in the Construction Fund

In addition to the proceeds of Bonds to be deposited in the Construction Fund, any moneys paid to the Authority for the acquisition, construction, reconstruction, rehabilitation or improvement of any Health Facility, including without limitation, other funds, if any, provided by the City or HHC or others, shall be deposited in the Construction Fund.

(Section 7.08)

Offices for Payment and Registration of Bonds

The Authority shall at all times maintain an office or agency in the State where Bonds may be presented for payment. The Authority may, pursuant to a Supplemental Resolution or a Series Resolution or, pursuant to a resolution adopted in accordance with the Resolution, designate an additional Paying Agent or Paying Agents where Bonds of the Series authorized thereby or referred to therein may be presented for payment. The Authority shall at all times maintain an office or agency in the State where Bonds may be presented for registration, transfer or exchange and the Trustee is appointed as its agent to maintain such office or agency for the registration, transfer or exchange of Bonds.

(Section 7.09)

Amendment, Change, Modification or Waiver of Agreement

Except as otherwise provided in the Resolution, the Agreement may not be amended, changed, modified or terminated, nor may any provision thereof be waived, without the consent of the Holders of Outstanding Bonds if such amendment, change, modification, termination or waiver (i) reduces the amount of Basic Rent payable on any date or delays the date on which Basic Rent is payable or (ii) modifies the events which constitute events of default under the Agreement or diminishes, limits or conditions the rights of or remedies which may be exercised by the Authority upon the occurrence of an event of default under the Agreement.

No such amendment, change, modification, termination or waiver shall take effect unless the prior written consent of (a) the Holders of at least a majority in principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the amendment, change, modification, termination or waiver, the Holders of not less than a majority in principal amount of the Bonds of the Series so affected and then Outstanding; **provided, however,** that if such amendment, change, modification, termination or waiver will, by its terms, not take effect so long as any Bonds of any specified Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution.

The Agreement may be amended, changed or modified or any provision thereof waived in any other respect without the consent of the Holders of Outstanding Bonds, including without limitation, to modify the Exhibits attached thereto, to add Leased Property or Health Facilities or to substitute one or more Health Facilities or parcels on which a Health Facility is to be constructed or renovated for the Leased Property on which such Health Facility was to be constructed or renovated, except that no amendment, change, modification or alteration of the Agreement to cure any ambiguity or defect or inconsistent provision in the Agreement or to insert such provisions clarifying matters or questions arising under the Agreement as are necessary or desirable, shall be made unless such amendment, change, modification or waiver is not, contrary to or inconsistent with the Agreement as theretofore in effect and unless consented to by the Trustee.

No amendment, change, modification or termination of the Agreement or waiver or a provision thereof shall be made other than pursuant to a written instrument signed by the Authority and the City. A copy of each such amendment, change, modification, termination or waiver shall be filed with the Trustee.

For the purposes of the Resolution, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to an amendment, change, modification, termination or waiver permitted by the Resolution with the same effect as a consent given by the Holder of such Bonds.

The 2001 Series 2 Bond Series Certificate further provides that it may be amended without the consent of the Owners of the 2001 Series 2 Bonds, but with the consent of MBIA, for the purpose of making changes related to the characteristics and operational provisions of the Rate Modes. The terms of the 2001 Series 2 Bond Series

Certificate may also be amended with the consent of MBIA on any Reset Date or Interest Payment Date upon notice and mandatory tender for purchase in accordance with the provisions of the Resolution.

(Section 7.10)

Notice as to Agreement Default

The Authority shall notify the Trustee in writing that an "Event of Default" under the Agreement, as such term is defined in the Agreement, has occurred and is continuing, which notice shall be given within five (5) days after the Authority has obtained actual knowledge thereof.

(Section 7.11)

Certificate to the State Comptroller, State Budget Director, State Commissioner of Health and State Commissioner of Social Services

In order to assure the payment of the Basic Rent payable pursuant to the Agreement, including amounts necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement, an Authorized Officer of the Authority shall, pursuant to and in accordance with Section 7418-(2)(b) of the Act, annually, not later than the date specified in the Act, make and deliver a certificate to the chief fiscal officer of the City setting forth the amount of Basic Rent, if any, due and not paid for the preceding fiscal year of the Authority. In the event of the failure or inability of the City to pay over the stated amount to the Authority on or before the date specified in the Act, the Authority shall, pursuant to and in accordance with Section 7418-(2)(b) of the Act, forthwith make and deliver to the Comptroller of the State, the Director of the Budget of the State, the Commissioner of Health of the State and the Commissioner of Social Services of the State a further certificate stating the total amount of Basic Rent required to have been paid by the City during the immediately preceding fiscal year, the date such payment(s) was due and the amount of such payment(s) remaining unpaid and required to satisfy the obligation of the City therefor.

Nothing contained in the Resolution is intended to waive, impair or limit, or shall be construed as a waiver, impairment or limitation of, the Authority's right pursuant to Section 7418-(2)(b) of the Act to certify to the Comptroller of the State, the Director of the Budget of the State, the Commissioner of Health of the State and the Commissioner of Social Services of the State at the time and in the manner provided (therein, the amount, if any, of the rentals, other than the Basic Rent, required to have been paid by the City which remains unpaid.

(Section 7.15)

Series Resolutions and Supplemental Resolutions

Modification and Amendment without Consent of Holders

The Authority may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolutions or Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

(a) To provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(b) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(c) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(d) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(e) To confirm, as further assurance, any pledge under the Resolution, and the subjection to any lien, claim or pledge created or to be created by the Resolution, of the Revenues, or any pledge of any other moneys, investments thereof or funds;

(f) To modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution or Series Resolution shall cease to be Outstanding, and all Bonds issued under such Resolutions shall contain a specific reference to the modifications contained in such subsequent Resolutions;

(g) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Bondholders in any material respect; or

(h) To modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in order to conform the provisions of such resolution to amendments made to the Agreement following an amendment to the Act, as permitted under the Agreement.

(Section 9.01)

Supplemental Resolutions Effective with Consent of Bondholders

The provisions of the Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of the Bondholders in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority. The Trustee shall transmit a copy of such Supplemental Resolution to the City upon its becoming effective.

(Section 9.02)

General Provisions Relating to Series Resolutions and Supplemental Resolutions

The Resolution shall not be modified or amended in any respect except in accordance with and subject to the provisions of the Resolution. Nothing contained in the Resolution shall affect or limit the rights or obligations of the Authority to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provisions of the Resolution or the right or obligation of the Authority to execute and deliver to the Trustee or any Paying Agent any instrument elsewhere in the Resolution provided or permitted to be delivered to the Trustee or any Paying Agent.

A copy of every Series Resolution and Supplemental Resolution adopted by the Authority, when filed with the Trustee, shall be accompanied by an opinion of Bond Counsel stating that such Series Resolution or Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution and is valid and binding upon the Authority and enforceable in accordance with its terms. The Trustee shall transmit a copy of such Supplemental Resolution to the City and to each Facility Provider upon its becoming effective.

The Trustee is authorized to accept delivery of a certified copy of any Series Resolution or Supplemental Resolution permitted or authorized pursuant to the provisions of the Resolution and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on the opinion of Bond Counsel that such Series Resolution or Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

No Series Resolution or Supplemental Resolution changing, amending or modifying any of the rights or obligations of the Trustee or of any Paying Agent shall become effective without the written consent of the Trustee or Paying Agent affected thereby.

(Section 9.03)

Amendments of Resolution

Powers of Amendment

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided below, (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment, Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series, maturity and tenor remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment.

(Section 10.01)

Consent of Bondholders

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Resolution to take effect when and as provided in the Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to the Bondholders for their consent thereto in form satisfactory to the Trustee, shall promptly after adoption be mailed by the Authority to the Bondholders (but failure to mail such copy and request to any particular Bondholder shall not affect the validity of the Supplemental Resolution when consented to as provided in the Resolution). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consent of the Holders of the percentages of Outstanding Bonds specified in the Resolution and (b) an opinion of Bond

Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as provided in the Resolution. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Resolution shall be conclusive proof that the consents have been given by the Holders of the Bonds described in the certificate, or certificates of the Trustee. Any consent given by a Bondholder shall be binding upon the Bondholder giving such consent and upon any subsequent Holder of such Bond and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this paragraph provided for is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Authority and the Trustee a written statement that such Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this paragraph, shall be given to the Bondholders by the Authority by mailing such notice to the Bondholders and, at the discretion of the Authority, by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee is filed (but failure to publish such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in the Resolution). The Authority shall file with the Trustee proof of the mailing of such notices and, if the same shall have been published, of the publication thereof.

For the purposes of the Resolution, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to a modification or amendment permitted by the Resolution in the manner provided in the Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; **provided, however,** that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series by the Authority.

(Section 10.02)

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of a Supplemental Resolution certified by an Authorized Officer of the Authority and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in the Resolution, except that no notice to the Bondholders either by mailing or publication shall be required.

(Section 10.03)

Consent of Facility Provider

Whenever by the terms of the Resolution the consent of any of the Holders of the Bonds to a modification or amendment of the Resolution is made by a Series Resolution or Supplemental Resolution is required, such modification or amendment shall not become effective until the written consent of each Facility Provider has been obtained; **provided, however,** that the consent of a Facility Provider which has provided a Credit Facility or a Liquidity Facility shall not be required unless the modification or amendment requires the consent of the Holders of any percentage in principal amount of Outstanding Bonds or of the Holders of any percentage in principal amount of the Bonds of the Series in connection with which such Credit Facility or Liquidity Facility was provided. No modification or amendment of the Resolution which adversely affects a Facility Provider shall be made without the written consent thereto of the Facility Provider affected thereby. Notice of the adoption of any such Series Resolution or Supplemental Resolution and of the effectiveness of the modification or amendment made thereby shall be given to each Facility Provider by mail at the times and in the manner provided in the Resolution with respect to notices thereof required to be given to the Holders of the Bonds. Notice thereof shall also be given to Moody's and S&P as soon as practical after adoption of such Supplemental Resolution and of the effectiveness thereof.

(Section 10.04)

Defaults and Remedies

Events of Default

An event of default shall exist under the Resolution and under each Series Resolution if:

(a) Payment of the principal, Sinking Fund Installments or Redemption Price of any Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) Payment of an installment of interest on any Bond shall not be made by the Authority when the same shall become due and payable; or

(c) With respect to the Bonds of any Series, the Authority shall default in the due and punctual performance of any covenants contained in the Series Resolution authorizing the issuance thereof to the effect that the Authority shall comply with the provisions of the Code applicable to such Bonds necessary to maintain the exclusion of interest therein from gross income under Section 103 of the Code and shall not take any action which would adversely affect the exclusion of interest on such Bonds from gross income under Section 103 of the Code and, as a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(d) The Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Resolution or in the Bonds or in any Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within said thirty (30) days and diligently prosecutes the cure thereof; or

(e) The State Comptroller shall have failed to make payment to or upon the order of the Authority in accordance with Section 7418-(2)(b) of the Act upon receipt of a certificate of an Authorized Officer of the Authority, as provided therein.

(Section 11.02)

No Acceleration of Maturity

The Bonds are not subject to acceleration upon an event of default under the Resolution.

(Section 11.03)

Enforcement of Remedies

Upon the happening and continuance of any event of default specified in the Resolution, then and in every such case, the Trustee may proceed, and upon the written request of the Facility Provider of a Reserve Fund Facility, or of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds or, in the case of a happening and continuance of a taxability default, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall proceed (upon receiving indemnity to its satisfaction), to protect and enforce its rights and the rights of the Bondholders or of such Facility Provider under the Resolution or under any Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under any Series Resolution or in aid or execution of any power granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

(Section 11.04)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds or, in the case of an event of default in the performance of the covenants relating to tax exemption of the Bonds, the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted hereby or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

(Section 11.08)

Defeasance

If the Authority shall pay or cause to be paid to the Holders of Bonds of a Series the principal, Sinking Fund Installments, if any, or Redemption Price of and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the applicable Series Resolution and Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Bonds and all other rights granted by the Resolution to such Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or investments thereof held by it pursuant to the Resolution and to the applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series shall be paid or delivered by the Trustee as follows: first, to the Arbitrage Rebate

Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the City. Such moneys or investments thereof so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution.

Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the paragraph above. All Outstanding Bonds of any Series or any maturity within a Series or a portion of a maturity within a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the paragraph above if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Resolution notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (c) the Trustee shall have received the written consent of each Facility Provider which has given written notice to the Trustee and the Authority that amounts advanced under a Credit Facility, Liquidity Facility or Reserve Fund Facility issued by it or the interest thereon have not been repaid to such Facility Provider, and (d) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of said Bonds at their last known addresses appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds. The Authority shall give written notice to the Trustee of its selection of the Series and maturity payment of which shall be made in accordance with the Resolution. The Trustee shall select the Bonds of like Series and maturity payment of which shall be made in accordance with the Resolution in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance

Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds; **provided, however,** that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the City. The moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created the Resolution.

For purposes of determining whether Variable Interest Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with the Resolution, the interest to come due on such Variable Interest Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; **provided, however,** that if on any date, as a result of such Variable Interest Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Interest Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Interest Rate Bonds in order to satisfy the terms of the Resolution, the Trustee shall pay the amount of such excess as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the City. The moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution.

Option Bonds shall be deemed to have been paid in accordance with the Resolution only if there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; **provided, however,** that if, at the time a deposit is made with the Trustee pursuant to the Resolution, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph. If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose, the Trustee shall, if requested by the Authority, pay the amount of such excess as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the City. The moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution.

(Section 12.01)

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FORM OF OPINION OF BOND COUNSEL DELIVERED IN 2001

December 21, 2001

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Re: Municipal Health Facilities Improvement Program Lease Revenue Bonds (New York City Issue), 2001 Series 1 and 2001 Series 2

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Dormitory Authority of the State of New York (the "Authority") of $127,640,000 aggregate principal amount of its Municipal Health Facilities Improvement Program Lease Revenue Bonds (New York City Issue), 2001 Series 1 (the "2001 Series 1 Bonds") and $420,875,000 aggregate principal amount of its Municipal Health Facilities Improvement Program Lease Revenue Bonds (New York City Issue), 2001 Series 2 (the "2001 Series 2 Bonds") (collectively, the "2001 Bonds"), issued pursuant to the provisions of the Dormitory Authority Act, as amended, constituting Chapter 524 of the Laws of 1944 of New York, as amended (constituting Title 4 of Article 8 of the New York Public Authorities Law), including, without limitation, as amended by the Health Care Financing Consolidation Act, constituting Chapter 83 of the Laws of 1995 of New York (constituting Title 4-B of Article 8 of the New York Public Authorities Law), which authorized the Authority to issue bonds pursuant to the New York State Medical Care Facilities Finance Agency Act, as amended, constituting Chapter 392 of the Laws of 1973 of New York, as amended (constituting Chapter 6 of Title 18 of the New York Unconsolidated Laws), and the Authority's Municipal Health Facilities Improvement Program Lease Revenue Bond Resolution (New York City Issue), adopted August 12, 1998 (the "Resolution"), the Municipal Health Facilities Improvement Program 2001 Series 1 Resolution (New York City Issue) Authorizing Up To $646,755,000 2001 Series 1 Bonds (the "2001 Series 1 Resolution") and the Municipal Health Facilities Improvement Program 2001 Series 2 Resolution (New York City Issue) Authorizing Up To $646,755,000 2001 Series 2 Bonds (the "2001 Series 2 Resolution"), both adopted October 3, 2001. The Resolution, the 2001 Series 1 Resolution and the 2001 Series 2 Resolution are herein collectively referred to as the "Resolutions." Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

The Authority has entered into a Lease and Agreement with The City of New York (the "City"), dated as of November 19, 1998 as amended by the First Amendment to the Agreement of Lease, dated as of October 3, 2001 (the "Agreement"), providing, among other things, for making the proceeds of the 2001 Bonds available to the City for the purposes permitted thereby and by the Resolutions. Pursuant to the Agreement, the City is required to make payments sufficient to pay the principal, sinking fund installments and redemption price of and interest on the 2001 Bonds as the same become due, which payments have been pledged by the Authority to the Trustee for the benefit of the owners of the 2001 Bonds.

Interest on the 2001 Series 1 Bonds is to be payable on July 15, 2002, and semiannually thereafter on January 15 and July 15 of each year. Interest on the 2001 Series 2 Bonds is payable initially at the applicable Auction Rate in accordance with the terms of the Resolution. The 2001 Bonds are to mature on the dates and in the years and amounts set forth in the respective Bond Series Certificate executed and delivered pursuant to the Resolutions concurrently with the issuance of the 2001 Bonds.

The 2001 Series 1 Bonds are to be issued in fully registered form in the denomination of $5,000 at maturity or any integral multiple thereof. The 2001 Series 2 Bonds are to be issued in fully registered form in the denomination of $25,000 at maturity or any integral multiple thereof. The 2001 Bonds are payable, subject to redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolutions and the respective Bond Series Certificate.

In such connection, we have reviewed the Resolutions, the Agreement, the Tax Certificate and Agreement, dated as of the date hereof (the "Tax Certificate and Agreement"), among the Authority, the City and the New York Health and Hospitals Corporation, opinions of counsel to the Authority, the Trustee and the City, certificates of the Authority, the Trustee, the City and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Resolutions, the Agreement, the Tax Certificate and Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of 2001 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion with respect to the exclusion of interest on the 2001 Bonds from gross income for federal income tax purposes is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to above. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Agreement and the Tax Certificate and Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2001 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2001 Bonds, the Resolutions, the Agreement and the Tax Certificate and Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditor's rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2001 Bonds and express no opinion with respect thereto herein.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Authority has been duly created and is validly existing as a body corporate and politic constituting a public benefit corporation of the State of New York.

2. The 2001 Bonds have been duly and validly authorized to be issued and constitute the valid and binding special obligations of the Authority enforceable in accordance with their terms and the terms of the Resolutions, will be payable solely from the sources provided therefor in the Resolutions, and will be entitled to the benefit of the Resolutions and the Act.

3. The Resolutions are in full force and effect, have been duly adopted by, and constitute the valid and binding obligations of, the Authority. The Resolutions create a valid pledge, to secure the payment of the principal of and interest on the 2001 Bonds, of the Revenues and any other amounts (including proceeds of the sale of the 2001 Bonds) held by the Trustee in

any fund or account established pursuant to the Resolutions, except the Arbitrage Rebate Fund, subject to the provisions of the Resolutions permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolutions.

4. The Agreement has been duly executed and delivered by the Authority and, assuming due execution and delivery thereof by the City, constitutes a valid and binding agreement of the Authority in accordance with its terms.

5. The 2001 Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof is pledged to the payment of the principal of or interest on the 2001 Bonds. The 2001 Bonds are not a debt of the State of New York, and said State is not liable for the payment thereof.

6. Interest on the 2001 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2001 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the 2001 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2001 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Appendix F

FORM OF OPINION OF BOND COUNSEL TO BE DELIVERED ON THE CONVERSION DATES FOR THE 2001 BONDS

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_______, 2008

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Re: Municipal Health Facilities Improvement Program Lease Revenue Bonds (New York City Issue), 2001 Series 2, Subseries 2-_

Ladies and Gentlemen:

The Municipal Health Facilities Improvement Program Lease Revenue Bonds (New York City Issue), 2001 Series 2, Subseries 2-_ (the "Bonds") in the aggregate principal amount of $_________ were issued by the Dormitory Authority of the State of New York (the "Authority") on December 21, 2001, pursuant to the provisions of the Dormitory Authority Act, as amended, constituting Chapter 524 of the Laws of 1944 of New York, as amended (constituting Title 4 of Article 8 of the New York Public Authorities Law), including, without limitation, as amended by the Health Care Financing Consolidation Act, constituting Chapter 83 of the Laws of 1995 of New York (constituting Title 4-B of Article 8 of the New York Public Authorities Law), which authorized the Authority to issue bonds pursuant to the New York State Medical Care Facilities Finance Agency Act, as amended, constituting Chapter 392 of the Laws of 1973 of New York, as amended (constituting Chapter 6 of Title 18 of the New York Unconsolidated Laws), and the Authority's Municipal Health Facilities Improvement Program Lease Revenue Bond Resolution (New York City Issue), adopted by the Authority on August 12, 1998, as amended and supplemented, the Authority's Municipal Health Facilities Improvement Program, 2001 Series 2 Resolution (New York City Issue), adopted on October 3, 2001 pursuant to the Resolution (the "2001 Series 2 Resolution"), and the Bond Series Certificate, dated December 21, 2001, as amended and supplemented (the "Bond Series Certificate," and together with the Resolution and the 2001 Series 2 Resolution, the "Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

Pursuant to Section 3.03(b) of the Bond Series Certificate, the Bonds are being converted from the Auction Rate Mode to the Fixed Rate Mode (the "Conversion"). In connection with such Conversion, as bond counsel to the Authority, we have reviewed the Resolution, certificates of the Authority, the Trustee, and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinion set forth herein.

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and covers certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any party other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate and Agreement delivered in connection with the issuance of the Bonds, including (without limitation) covenants and agreements compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Bonds have not caused and will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law, and, except as expressly set forth below, we have not otherwise reviewed any actions, omissions or events occurring after the date of issuance of the Bonds or the exclusion of interest on the Bonds from gross income for federal income tax purposes. Accordingly, no opinion is expressed herein as to whether interest on the Bonds is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Nothing in this letter should imply that we have considered or in any manner reaffirm any of the matters covered in any opinion we rendered on the date of or in connection with issuance of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Reoffering Circular, dated _______, 2008, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Conversion, in accordance with the provisions of the Resolution, in and of itself, will not cause interest on the Bonds to be includable in the gross income of the owners of such Bonds for the purposes of federal income taxation and such action is authorized or permitted by the Resolution.

This opinion is furnished by us as bond counsel to the Authority solely for purposes of Section 3.03(b)(ii)(C) of the Bond Series Certificate. We disclaim any obligation to update this opinion.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • MUNICIPAL HEALTH FACILITIES IMPROVEMENT PROGRAM LEASE REVENUE BONDS (NEW YORK CITY ISSUE), 2001 SERIES 2 BONDS

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