

NEW ISSUE

In the opinion of Bond Counsel, interest on the interest-bearing Bonds (the "Tax-Exempt Bonds") will be exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City, and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Tax-Exempt Bonds will not be includable in the gross income of the owners thereof for Federal income tax purposes. See "SECTION IX: OTHER INFORMATION—Tax Exemption" herein for further information. For information as to the tax consequences of owning the zero-coupon Bonds due in 2015 (the "QZAB Bonds"), see Appendix D.

\$550,000,000

The City of New York

General Obligation Bonds, Fiscal 2002 Series B

Dated: Date of Delivery

Due: As shown on the inside cover

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

Interest on the Bonds will be payable semi-annually, beginning June 1, 2002 and on each June 1 and December 1 thereafter, except for the QZAB Bonds which are issued as qualified zone academy bonds pursuant to Section 1397E of the Code and do not bear interest. The Bonds (except for the QZAB Bonds) can be purchased in principal amounts of \$5,000 or any integral multiple thereof. The QZAB Bonds can be purchased in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. Other terms of the Bonds including redemption provisions are described herein. *A detailed schedule of the Bonds is set forth on the inside cover page.*

The Bonds, are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters, subject to the approval of the legality of the Bonds by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel to the City, and to certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the City by Morgan, Lewis & Bockius LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by Clifford Chance Rogers & Wells LLP, New York, New York. It is expected that the Bonds will be available for delivery in New York, New York, on or about December 20, 2001.

Goldman, Sachs & Co.	Salomon Smith Barney	JPMorgan
	M. R. Beal & Company	
Bear, Stearns & Co. Inc.	RBC Dain Rauscher Inc.	First Albany Corporation
Lehman Brothers	Merrill Lynch & Co.	Morgan Stanley
UBS PaineWebber Inc.	Ramirez & Co., Inc.	Roosevelt & Cross Incorporated
Advest/Lebenthal	Apex Pryor Securities	CIBC World Markets
Quick & Reilly, Inc.		Siebert Brandford Shank & Co., LLC

\$550,000,000 General Obligation Bonds Fiscal 2002 Series B

<u>December 1(1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2003	\$16,590,000	2.60%	100%
2004	16,920,000	3	3.10
2005	19,480,000	3.60	3.65
2006	5,595,000	3 ⁷ / ₈	3.95
2006	14,590,000	4 ¹ / ₂	3.95
2007	21,055,000	4 ¹ / ₈	4.25
2008	3,335,000	4.40	4.52
2008	18,590,000	5	4.52
2009	4,870,000	4 ⁵ / ₈	4.70
2009	18,130,000	5 ¹ / ₄	4.70
2010	1,305,000	4.70	4.80
2010	22,875,000	5 ¹ / ₂	4.80
2011	1,955,000	4.80	4.90
2011	23,540,000	5 ¹ / ₂	4.90
2012	1,105,000	5	5.02
2012(2)	25,785,000	5 ¹ / ₂	5.02
2013	8,960,000	5	5.13
2013(2)	19,405,000	5 ⁵ / ₈	5.13
2014	29,900,000	5	5.18
2015(3)	31,400,000	0	98
2016	7,750,000	5.20	5.25
2016	13,250,000	5	5.25
2017	13,110,000	5 ¹ / ₄	5.37
2018	12,695,000	5.30	5.41
2019	14,535,000	5 ³ / ₈	5.44
2020	15,320,000	5 ³ / ₈	5.48
2021	15,615,000	5 ³ / ₈	5.49
2022(2)	14,280,000	5 ³ / ₄	5.43
2026(4)	68,095,000	5 ³ / ₈	5.54
2031(4)	69,965,000	5 ¹ / ₂	5.57

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- (1) Except with respect to the QZAB Bonds which mature on December 20, 2015.
 - (2) Priced to the first call date on December 1, 2011.
 - (3) The zero-coupon Bonds due in 2015 are qualified zone academy bonds and do not bear interest. Eligible taxpayers (as defined in Appendix D) who own QZAB Bonds will receive a credit against taxable income for federal tax purposes equal to the principal amount of QZAB Bonds owned by the eligible taxpayer on the relevant "credit date" times the applicable credit rate which is 7.01%. See Appendix D for information regarding the tax consequences to holders of QZAB Bonds. The QZAB Bonds will be reoffered by M. R. Beal & Company.
 - (4) Term Bonds.

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

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

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

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

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**OFFICIAL STATEMENT
OF
THE CITY OF NEW YORK**

This Official Statement provides certain information concerning The City of New York (the "City") in connection with the sale of \$550,000,000 aggregate principal amount of the City's General Obligation Bonds, Fiscal 2002 Series B. The Bonds consist of \$518,600,000 tax-exempt interest-bearing bonds (the "Tax-Exempt Bonds") and \$31,400,000 zero coupon taxable bonds issued as qualified zone academy bonds (the "QZAB Bonds" and, together with the Tax-Exempt Bonds, the "Bonds").

INTRODUCTORY STATEMENT

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

The City, with a population of approximately 8 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 apparel and printing.

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center and damage to other buildings in the vicinity. The attack also resulted in disruption of public transportation and business and displacement of residents in the immediate vicinity of the World Trade Center. It is expected that the destruction of the World Trade Center will have a substantial impact on the City and its economy. Reduced economic activity is expected to lower corporate profits, increase job losses and reduce consumer spending, which would result in reduced personal income and sales tax receipts and other business tax revenues for the City and could negatively affect real property values. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

For each of the 1981 through 2001 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—1997-2001 Summary of Operations." 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 law without 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 law, 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 a surplus in the 2002 fiscal year, before discretionary transfers, and budget gaps for each of the 2003, 2004 and 2005 fiscal year. This pattern of current year surplus operating results and projected subsequent year budget gaps has been consistent through the entire period since 1982, during which the City has achieved surplus operating results, before discretionary transfers, for each fiscal year. For information regarding the current financial plan, as well as subsequent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS" and "SECTION VII: FINANCIAL PLAN." The City is required to submit its financial plans to the New York State Financial Control Board (the "Control Board"). For further information regarding the Control Board, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Review and Oversight*."

For its normal operations, the City depends on aid from the State of New York (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 reductions in State aid to the City from amounts currently projected; that State budgets will be adopted by the April 1 statutory deadline, or interim appropriations will be enacted; or that any such reductions or delays will not have adverse effects on the City's cash flow or expenditures. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS—The State." In addition, the Federal budget negotiation process could result in a reduction or a delay in the receipt of Federal grants which could have adverse effects on the City's cash flow or revenues. The City assumes that the costs relating to the September 11 attack on the World Trade Center (the "September 11 attack") will be paid from Federal aid and borrowings by the New York City Transitional Finance Authority (the "Finance Authority").

The Mayor is responsible for preparing the City's financial plan, including the City's current financial plan for the 2002 through 2005 fiscal years (the "2002-2005 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 and the impact on City revenues and expenditures of any future Federal or State policies affecting the City.

Implementation of the Financial Plan is dependent upon the City's ability to market its securities successfully. The City's program for financing capital projects for fiscal years 2002 through 2005 contemplates the issuance of approximately \$11.0 billion of general obligation bonds and approximately \$4.0 billion of bonds (excluding bond anticipation notes and recovery bonds and notes issued to pay costs relating to the September 11 attack) to be issued by the Finance Authority. In addition, the Financial Plan anticipates access to approximately \$2.2 billion (including the \$604 million of bond proceeds received to date) in financing capacity of TSASC, Inc. ("TSASC"), which issues debt secured by revenues derived from the settlement of litigation with tobacco companies selling cigarettes in the United States. The Finance Authority and TSASC were created to assist the City in financing its capital program while keeping City indebtedness within the forecast level of the constitutional restrictions on the amount of debt the City is authorized to incur. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*" In addition, the City issues revenue and tax anticipation notes to finance its seasonal working capital requirements. The success of projected public sales of City, New York City Municipal Water Finance Authority ("Water Authority"), Finance Authority, TSASC and other bonds and notes will be subject to prevailing market conditions. The City's planned capital and operating expenditures are dependent upon the sale of its general obligation debt, as well as debt of the Water Authority, Finance Authority and TSASC. 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.

In addition to the financing program described above, the Finance Authority issued \$1 billion of recovery notes on October 4, 2001 to pay costs related to the September 11 attack. The Finance Authority note proceeds may be utilized to accommodate cash needs resulting from timing differences between payment by the City of costs relating to the events of September 11 and receipt of Federal reimbursement for such costs, or to meet other City cash requirements caused by such events. Such notes may be paid with Finance Authority revenues (with the resulting reduction in City tax revenues to be offset by Federal aid or other sources) or proceeds of renewal notes or bonds of the Finance Authority (which would also reduce tax revenues to the City). The Finance Authority is authorized to have outstanding \$2.5 billion of bonds or notes the proceeds of which are to be used to pay costs related to the September 11 attack.

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 and the Bonds described throughout this Official Statement are complex and are not intended to be summarized in this Introductory Statement. This Official Statement should be read in its entirety.

SECTION I: RECENT FINANCIAL DEVELOPMENTS

World Trade Center Attack

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center and damage to other buildings in the vicinity (the "September 11 attack"). Trading on the major New York stock exchanges was suspended until September 17, 2001, and business in the financial district was interrupted. Recovery efforts are continuing in the City's financial district in lower Manhattan.

Continuing recovery, clean up and repair efforts will result in substantial expenditures. The U.S. Congress passed emergency legislation which authorizes \$40 billion for increased disaster assistance, increased security costs, rebuilding infrastructure systems and other public facilities, and disaster recovery and related activities, at least \$20 billion of which was originally intended for disaster recovery activities and assistance to New York, Pennsylvania and Virginia (most of which is expected to be for New York). To date, the President has released more than \$3 billion, including \$2 billion of aid through the Federal Emergency Management Agency ("FEMA") for emergency response and debris removal and \$700 million for Community Development Block Grants to be used in Lower Manhattan, in addition to money for health providers and unemployment insurance. Congress is currently considering an additional authorization of emergency funds for the City and the State. The President has indicated that he will continue to determine additional funding needs during the next session of Congress. In addition, the State legislature increased the financing capacity of the Finance Authority by \$2.5 billion to fund the City's costs related to or arising from the September 11 attack, and has authorized the Finance Authority to issue debt without limit as to principal amount that is payable solely from State or Federal aid received on account of the disaster.

The City expects to be reimbursed by the Federal government for all of its direct costs for response and remediation of the World Trade Center site. These costs are now expected to be substantially below previous estimates. The City also expects to receive Federal funds for costs of economic revitalization and other needs, not directly payable through the City budget, relating to the September 11 attack.

Prior to September 11, the national and local economies had been weakening, reflecting lower business investment, increased unemployment and, recently, a decline in consumer confidence. It is expected that the destruction of the World Trade Center will have substantial impact on the City and its economy. Reduced economic activity is expected to lower corporate profits, increase job losses and reduce consumer spending, which would result in reduced personal income and sales tax receipts and other business tax revenues for the City and could negatively affect real property values. The events of September 11 increased the risk of a recession and a delay in recovery. It is not possible to quantify at present with any certainty the long-term impact of the September 11 attack on the City and its economy, any economic benefits which may result from recovery and rebuilding activities and the amount of additional resources from Federal, State, City and other sources which will be required.

2002-2005 Financial Plan

For the 2001 fiscal year, the City's General Fund had an operating surplus of \$2.949 billion, before discretionary and other transfers, and achieved operating results, after discretionary and other transfers, in accordance with GAAP. The 2001 fiscal year is the twenty-first consecutive year that the City has achieved an operating surplus, before discretionary and other transfers, and balanced operating results, after discretionary and other transfers.

On December 4, 2001, the City released the Financial Plan for the 2002 through 2005 fiscal years, which relates to the City and certain entities which receive funds from the City. The Financial Plan is a modification to the financial plan submitted to the Control Board on June 13, 2001 (the "June Financial Plan"). The Financial Plan projects revenues and expenditures for the 2002 fiscal year, balanced in accordance with GAAP, and projects gaps of \$3.6 billion, \$4.0 billion and \$3.9 billion for fiscal years 2003 through 2005, respectively, after implementation of a gap-closing program for fiscal year 2002 proposed in the Financial Plan, which would reduce agency expenditures or increase revenues by \$1.2 billion in

fiscal year 2002, \$593 million in fiscal year 2003, \$324 million in fiscal year 2004 and \$297 million in fiscal year 2005. The gap-closing program for fiscal year 2002 includes agency actions to reduce expenditures by \$766 million, which includes personnel reductions through attrition, and agency actions to increase revenues, including federal aid to reimburse costs relating to the September 11 attack.

Other changes since the June Financial Plan include: (i) a decline in projected revenues of \$1.0 billion, \$1.4 billion, \$1.2 billion and \$1.3 billion in fiscal years 2002 through 2005, respectively, reflecting primarily decreases in projected personal income, business and sales tax revenues as a result of the September 11 attack and reduced economic activity, offset by increased revenues of \$100 million in fiscal year 2002 and \$200 million in each of fiscal years 2003 through 2005 as a result of the elimination of a previously proposed tax reduction program; (ii) increased pension costs totaling \$57 million, \$208 million and \$311 million for fiscal years 2003 through 2005, respectively, resulting primarily from investment losses in fiscal year 2001; (iii) a reduction in projected federal and State actions of \$119 million in fiscal year 2002 and \$116 million in each of fiscal years 2003 through 2005; (iv) an increase in labor costs totaling \$152 million, \$170 million, \$176 million and \$181 million in fiscal years 2002 through 2005, respectively, to reflect the cost of wage increases for the uniformed forces coalition above the settlement with District Council 37 of the American Federation of State, Municipal and County Employees ("DC37"); (v) a delay in the receipt of \$250 million from the proposed sale of the New York City Off-Track Betting Corporation ("OTB") from fiscal year 2002 to fiscal year 2003; (vi) the elimination of \$114 million of State payments to a stock transfer incentive fund for fiscal years 2002 through 2005, which was not included in the State Budget; (vii) reduced net spending of \$188 million in fiscal year 2002 and increased agency spending of approximately \$110 million in each of fiscal years 2003 through 2005; (viii) debt service savings of \$156 million, \$158 million, \$160 million and \$108 million in fiscal years 2002 through 2005, respectively; (ix) savings of \$50 million in fiscal year 2002 and \$100 million in each of fiscal years 2003 through 2005 resulting from an early retirement and severance program; and (x) the acceleration of \$73 million of State revenue sharing aid in fiscal year 2002. The assumed tax revenue shortfalls after September 11 will be subject to revision in the future, and reflect steeper declines in national gross domestic product and corporate profits, additional declines in capital gains realizations, local job losses exceeding 100,000 and a disruption in tourism and related spending. The Financial Plan assumes that the costs relating to the September 11 attack will be paid from Federal aid. The timing of actual receipt of revenues and incurrence of expenditures for fiscal year 2002, including the timing of any tax revenue shortfalls and the gap-closing actions in the Financial Plan, could require the City to take actions within the 2002 fiscal year to meet its cash flow requirements, depending on the extent to which decreases and delays in the receipt of revenues occur more rapidly than the implementation of the gap-closing actions.

The Financial Plan includes a proposed discretionary transfer in the 2002 fiscal year of \$375 million to pay debt service due in fiscal year 2003. In addition, the Financial Plan reflects proposed tax reductions which total \$498 million, \$630 million, \$669 million and \$698 million in fiscal years 2002 through 2005, respectively. These tax reductions include a proposed additional 25% reduction in the personal income tax 14% surcharge; an increase in the taxable threshold for the commercial rent tax; an extension of current tax reductions for owners of cooperative and condominium apartments; and an extension of the Lower Manhattan Revitalization Program. All of these items except for the commercial rent tax reduction and the reduction in the personal income tax surcharge require approval by the State Legislature.

The Financial Plan assumes: (i) collection of projected rent payments for the City's airports, totaling \$170 million, \$315 million and \$280 million in the 2003 through 2005 fiscal years, respectively, which depends on the successful completion of negotiations with The Port Authority of New York and New Jersey (the "Port Authority") or the enforcement of the City's rights under the existing leases through pending legal actions; (ii) State and Federal approval of the State and Federal actions proposed by the City in the Financial Plan; (iii) the annual receipt of approximately \$200 million in categorical State education aid reflected in the Financial Plan as revenue to the City, which was not included in the current State Budget; and (iv) the successful completion of the sale of OTB, which will require State legislative approval. The Financial Plan does not make any provision for wage increases, other than the pay increases discussed above, or for increased pension expenditures due to any investment losses in fiscal year 2002.

For information regarding recent labor settlements see "SECTION V: CITY SERVICES AND EXPENDITURES—Employees and Labor Relations." In addition, the economic and financial condition of the City may be affected by various financial, social, economic and other factors which could have a material effect on the City.

The State

The State ended its 2000-01 fiscal year in balance on a cash basis, with a reported closing balance in the General Fund of \$1.1 billion. On September 21, 2001, the State Division of the Budget ("DOB") prepared its Financial Plan for the 2001-02 fiscal year. The Financial Plan reflected the enactment of a "baseline" budget for the 2001-02 fiscal year on August 3, 2001, which did not approve new funding proposals in the Governor's Executive Budget, and legislative action on September 13, 2001 with respect to certain reappropriations. The Financial Plan for the 2001-02 fiscal year projects General Fund disbursements of \$41.99 billion, with a closing balance in the General Fund of \$2.71 billion, including a projected reserve of \$1.48 billion for economic uncertainties. DOB has previously projected budget gaps of \$2.5 billion in 2002-03 and \$2.9 billion in 2003-04, and preliminary analysis by DOB indicates that the potential gaps for such years produced by the legislative actions on the 2001-02 budget are comparable to these estimates.

On November 8, 2001, the State issued an update to the 2001-02 Financial Plan. The updated Financial Plan for 2001-02 assumes a projected revenue loss in fiscal year 2001-02 of \$1.63 billion as a result of disruptions to business activity in the finance, insurance, real estate, tourism and other sectors and delays in tax payments, primarily related to the September 11 attack, and projects a closing balance of \$1.22 billion in the General Fund for fiscal year 2001-02, after the use of \$1.50 billion of reserves for economic uncertainties. The lower estimated revenues reflect declines in projected personal income tax receipts, sales tax collections and business tax collections, based on a revised economic forecast that projects dramatic losses in income earned by financial sector employees, the relocation and loss of over 100,000 high paying jobs out of New York, significant advertising losses from media companies based in the City, a prolonged loss of up to 50% of tourist revenue spent in the City and a national economy in recession. The State's current preliminary assessment is that the loss of tax and other receipts will be in the range of \$1 billion to \$3 billion in the State's 2001-02 fiscal year and a range of \$2 billion to \$6 billion in the 2002-03 fiscal year. The State Division of the Budget ("DOB") noted that, given the recent terrorist attacks, the nation's war time preparations and the volatility of financial markets, uncertainties in the forecast of the national and State economies are significantly more pronounced than usual. In addition, DOB noted that a large change in stock market performance could result in wage and employment levels that are significantly different than those in the State's current forecast and that, in the long term, the most significant risk is the possible loss of financial sector firms and related businesses to other states. DOB also noted that the Financial Plan for fiscal 2001-02 does not reflect (i) any savings anticipated in the current year from the plan outlined by the Governor on October 16, 2001 to reduce projected State spending by a least \$3 billion for fiscal years 2001-02 and 2002-03 through a hiring freeze, early retirement, refinancing of State debt and reductions in non-essential State expenditures or (ii) the cost for disaster assistance and reconstruction or the receipt of substantial federal aid to be available to pay for most of the cost of such disaster assistance and reconstruction.

SECTION II: THE BONDS

General

The Bonds will be general obligations of the City issued pursuant to the Constitution and laws of the State and the New York City Charter (the "City Charter") and in accordance with bond resolutions of the Mayor and a certificate of the Deputy Comptroller for Public Finance (the "Certificate"). The Bonds will mature and, except for the QZAB Bonds, bear interest as described on the inside cover page of this Official Statement and will contain a pledge of the City's faith and credit for the payment of the principal of, redemption premium, if any, and interest on the Bonds. All real property subject to taxation by the City will be subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, to pay the principal of, redemption premium, if any, and interest on the Bonds.

Qualified Zone Academy Bonds

The zero-coupon Bonds due on December 20, 2015 are issued as qualified zone academy bonds pursuant to Section 1397E of the Internal Revenue Code of 1986, as amended. The QZAB Bonds do not bear interest.

Payment Mechanism

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

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

Enforceability of City Obligations

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

The rights of the owners of Bonds to receive interest, principal and redemption premium, if any, from the City could be adversely affected by a restructuring of the City's debt under Chapter 9 of the Federal Bankruptcy Code. No assurance can be given that any priority of holders of City securities (including the

Bonds) to payment from money retained in the Fund or from other sources would be recognized if a petition were filed by or on behalf of the City under the Federal Bankruptcy Code or pursuant to other subsequently enacted laws relating to creditors' rights; such money might then be available for the payment of all City creditors generally. Judicial enforcement of the City's obligation to make payments into the Fund, of the obligation to retain money in the Fund, of the rights of holders of bonds and notes of the City to money in the Fund, of the obligations of the City under the City Covenants and of the State under the State Covenant and the State Pledge and Agreement (in each case, as defined in "—Certain Covenants and Agreements") may be within the discretion of a court. For further information concerning rights of owners of Bonds against the City, see "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

Certain Covenants and Agreements

The City will covenant that: (i) a separate fund or funds for the purpose of paying principal of and interest on bonds and interest on notes of the City (including required payments into, but not from, City sinking funds) shall be maintained by an officer or agency of the State or by a bank or trust company; and (ii) not later than the last day of each month, there shall be on deposit in a separate fund or funds an amount sufficient to pay principal of and interest on bonds and interest on notes of the City due and payable in the next succeeding month. The City currently uses the debt service payment mechanism described above to perform these covenants. The City will further covenant in the Bonds to comply with the financial reporting requirements of the Act, as in effect from time to time, and to limit its issuance of bond anticipation notes as required by the Act, as in effect from time to time.

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

Use of Proceeds

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

Optional Redemption

The Tax-Exempt Bonds will be subject to redemption at the option of the City on and after December 1, 2011, in whole or in part, by lot within each maturity, on any date, upon 30 days' notice to Bondholders, at par, plus accrued interest to the date of redemption.

The QZAB Bonds are not subject to optional redemption.

The City may select amounts and maturities of Bonds for redemption in its sole discretion.

On and after any redemption date, interest will cease to accrue on the Bonds called for redemption.

Mandatory Redemption

The Tax-Exempt Bonds identified below are Term Bonds subject to mandatory redemption, by lot within each stated maturity, on each date at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, in the amount set forth below:

<u>December 1</u>	<u>Principal Amount to be Redeemed</u>	
	<u>2026</u> <u>Maturity</u>	<u>2031</u> <u>Maturity</u>
2023	\$15,665,000	
2024	17,035,000	
2025	17,510,000	
2026	17,885,000(1)	
2027		\$18,880,000
2028		19,910,000
2029		9,840,000
2030		10,380,000
2031		10,955,000(1)

(1) Stated maturity.

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

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

Bond Certificates

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. Reference to the Bonds under the caption “Bond Certificates” shall mean all Bonds that are deposited with DTC from time to time. The Bonds will be issued as fully-registered notes 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 securities that its direct participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and 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 securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

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

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

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

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the City's fiscal agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

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

Discontinuance of the Book-Entry Only System

In the event that the book-entry only system is discontinued, the City will authenticate and make available for delivery replacement Bonds in the form of registered certificates. In addition, the following provisions would apply: principal of the Bonds will be payable in lawful money of the United States of America to the registered owners thereof on the maturity date of the Bonds in immediately available funds at the office of the Fiscal Agent, The Bank of New York: if by hand, The Bank of New York, 20 Broad Street, New York, New York 10005, Corporate Trust Receipt and Delivery Department; if by mail, The Bank of New York, P.O. Box 11265, New York, New York 10286, Attention: Fiscal Agent Department (101B-7E) or any successor fiscal agent designated by the City, and interest on the Bonds will be payable by wire transfer or by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of the City as of the fifteenth day of the calendar month immediately preceding the applicable interest payment date.

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.* Rudolph W. Giuliani, the Mayor of the City, took office on January 1, 1994 and was elected for a second term commencing January 1, 1998. Michael R. Bloomberg has been elected Mayor of the City for a term commencing January 1, 2002. 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.* Alan G. Hevesi, the Comptroller of the City, took office on January 1, 1994 and was elected for a second term commencing January 1, 1998. William C. Thompson, Jr. has been elected Comptroller of the City for a term commencing January 1, 2002. 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 \$85 billion as of June 30, 2001, 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.* Mark Green, the Public Advocate, took office on January 1, 1994 and was elected for a second term commencing January 1, 1998. Elizabeth F. Gotbaum has been elected Public Advocate for a term commencing January 1, 2002. The Public Advocate is elected in a general election for a four-year term. The Public Advocate may preside at meetings of the City Council without voting power, except in the case of a tie vote. 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. 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 Board of Education ("BOE") 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 Office of Management and Budget ("OMB"), with a staff of approximately 300 professionals, 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, the City prepares a Ten-Year Capital Strategy.

State law requires the City to maintain its Expense Budget balanced when reported in accordance with GAAP. In addition to the City's annual Expense and Capital 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 hereinafter defined, 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, with a professional staff of approximately 790, 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 for the 2000 fiscal year, which includes, among other things, the City's financial statements for the 2000 fiscal year, has received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the twenty-first consecutive year the Comprehensive Annual Financial Report of the Comptroller 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-one consecutive fiscal years with a General Fund surplus when reported in accordance with then applicable GAAP.

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

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

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

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

More than 95% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of trustees. As of June 30, 2001 aggregate pension assets were allocated approximately as follows: 52% U.S. equities; 32% U.S. fixed income; 15% international equities; 0% international fixed income; and 1% cash.

Financial Emergency Act

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 BOE, the New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, "New York City Transit" or "NYCT"), New York City 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. Unless otherwise permitted by the Control Board under certain conditions, the City must 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. After the termination of the Control Period but prior to the statutory expiration date of the Act on July 1, 2008, the City is still required to develop a four-year financial plan each year and to modify the plan as changing circumstances require. During this period, the Control Board will also continue to have certain review powers and 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.

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 Municipal Assistance Corporation for The City of New York ("MAC") was organized to provide financing assistance for the City and to exercise certain review functions with respect to the City's finances, and 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 long-term and short-term borrowings and 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 2001, while unrestricted Federal aid has been sharply reduced. The City projects that local revenues will provide approximately 62.4% of total revenues in the 2002 fiscal year while Federal aid, including categorical grants, will provide 16.5%, and State aid, including unrestricted aid and categorical grants, will provide 21.1%. 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 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 SOCIAL FACTORS."

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 39.3% of its total tax revenues and 20.8% of its total revenues for the 2002 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—1997-2001 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 of the debt service levy to 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)	Percent of Debt Service Levy to Total Levy	Operating Limit	Percent of Levy Within Operating Limit to Operating Limit(3)	Rate Per \$100 of Full Valuation(4)	Average Tax Rate Per \$100 of Assessed Valuation
1997	\$7,835.1	\$4,933.3	\$2,827.4	36.1%	\$7,857.3	62.8%	2.14%	\$10.37
1998	7,890.4	5,928.5	1,872.9	23.7	7,599.7	78.0	2.27	10.37
1999	8,099.3	6,307.8	1,776.5	21.9	7,170.3	88.0	2.56	10.37
2000	8,374.3	7,223.2	1,138.9	13.6	7,268.7	99.4	2.62	10.37
2001	8,730.3	7,432.7	1,274.6	14.6	7,573.1	98.1	2.59	10.37
2002	9,271.2	8,085.9	1,148.9	12.4	8,128.1	99.5	2.46	10.37

(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) The increase in the percentage between fiscal year 1997 and fiscal year 2002 was primarily due to the discretionary transfers, for accounting purposes, in the 1997, 1998, 1999, 2000 and 2001 fiscal years to pay debt service and other expenses due in the 1998, 1999, 2000, 2001 and 2002 fiscal years, respectively, which reduced the amount of the debt service levy in the 1998, 1999, 2000, 2001 and 2002 fiscal years and, as a result, increased the amount of the total levy utilized for operating purposes.

(4) 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.

Assessment

The City has traditionally assessed real property at less than market (full) 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 2002 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 2000 market value survey. For information concerning litigation asserting that the special equalization ratios calculated by the State Board in certain years violate State law because they substantially overestimate the full value of City real estate for the purposes of calculating the operating limit, and that the City's real estate tax levy for operating purposes exceeded the State Constitutional limit, see "SECTION IX: OTHER INFORMATION—*Litigation—Taxes.*"

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

<u>Fiscal Year</u>	<u>Billable Assessed Valuation of Taxable Real Estate(2)</u>	<u>÷</u>	<u>Special Equalization Ratio</u>	<u>=</u>	<u>Full Valuation(2)</u>
1998.	\$76,188,390,641		0.2604		\$292,582,145,319
1999.	78,239,325,754		0.2566		304,907,738,714
2000.	80,885,286,485		0.2466		328,001,972,770
2001.	84,319,741,571		0.2468		341,652,113,335
2002.	89,539,563,218		0.2380		376,216,652,176
				Average:	328,672,124,463

- (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 2002 fiscal year, the billable assessed value of real estate categorized by the City as exempt is \$61.7 billion, or 40.8% of the \$151.1 billion billable assessed value of all real estate (taxable and exempt).
- (2) Figures for 1998 to 2002 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 2002 fiscal year. These figures differ from the assessed and full valuation of taxable real estate reported in the Annual Financial Report of the City Comptroller, 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 2002, class one was assessed at approximately 8% 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 Real Property Tax Law. Each class's 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 and, in addition, increases below 5% must be approved by the State legislature. Fiscal year 2002 tax rates were set on October 31, 2001, and reflect a 2% limitation on the market value adjustment for 2002. For fiscal year 2002, the average tax rate is held at the current rate of \$10.37 per \$100 of assessed value, though individual class tax rates have changed from the prior year level.

A change to the Real Property Tax Law, effective January 1, 1998, allows taxpayers to use sales prices to challenge the equality of assessments. This change may result in significant refund exposure and reduce the City's real estate tax revenue accordingly.

City real estate tax revenues may be reduced in future fiscal years as a result of tax refund claims asserting overvaluation, inequality of assessment and illegality. For a discussion of various proceedings challenging assessments of real property for real estate tax purposes, see "SECTION IX: OTHER INFORMATION—Litigation—Taxes." For further information regarding the City's potential exposure in certain of these proceedings, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

The State Board annually certifies various class ratios and class equalization rates relating to the four classes of real property in the City. "Class ratios," which are determined for each class by the State Board by calculating the ratio of assessed value to market value, are used in real property tax certiorari proceedings involving allegations of inequality of assessments. The City believes that the State Board overestimated market values for class two and class four properties in calculating the class ratios for the 1991 and 1992 assessment rolls and has commenced proceedings challenging these class ratios. A lowering of the market value determination by the State Board for classes two and four would raise the class ratios and could result in a reduction in tax refunds issued as a result of tax certiorari proceedings. For further information regarding the City's proceeding, see "SECTION IX: OTHER INFORMATION—Litigation—Taxes."

Trend in Taxable Assessed Value

During the decade prior to fiscal year 1993, real property 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 property tax revenue increased through fiscal year 1993 even as market values declined during the local recession.

Fiscal year 1997 actual assessed valuation on the final assessment roll increased by 0.1% or \$86 million, while billable assessed valuation decreased by 0.5% or \$356 million from fiscal year 1996 to \$75.5 billion. For the 1998 fiscal year, actual assessed valuation increased by 1.6% or \$1.3 billion while billable assessed valuation increased by 0.7% to \$76.0 billion, the first increase since 1993. For the 1999 fiscal year, billable assessed valuation rose by \$1.7 billion to \$77.7 billion. For fiscal year 2000, billable assessed valuation rose by \$2.4 billion to \$80.1 billion. For fiscal year 2001, the billable assessed valuation rose by \$3.2 billion to \$83.3 billion. The Department of Finance has released the final assessment roll for fiscal year 2002, in which billable assessed valuation rose by \$5.0 billion to \$88.3 billion. Billable assessed valuations are forecast to exceed local inflation through the 2005 fiscal year following continued growth in market values.

Collection of the Real Estate Tax

Real estate tax payments are due each July 1 and January 1. Changes to the real property tax law expanded the eligibility for quarterly tax payments by owners of class one and class two properties assessed at \$80,000 or less, up from the previous \$40,000, and cooperatives whose individual units on average are valued at \$80,000 or less, up from the previous \$40,000, which are paid in quarterly installments on July 1, October 1, January 1 and April 1. These provisions apply to installments of real property tax becoming due and payable on or after July 1, 1998. An annual interest rate of 9% compounded daily is imposed upon late payments on properties for which the annual tax bill does not exceed \$2,750 except in the case of (i) any parcel with respect to which the real property 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 is authorized to sell real property 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 City Council voted to extend such authority until October 31, 2003. 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. 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 1997, 1998, 1999, 2000 and 2001, the City sold to separate business trusts real property tax liens for which the City received net proceeds of approximately \$52 million, \$23 million, \$127 million, \$73 million and \$211 million, respectively. The City expects to receive approximately \$67 million from tax lien sales in fiscal year 2002.

REAL ESTATE TAX COLLECTIONS AND DELINQUENCIES (In Millions)

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)
1997	\$7,835.1	\$7,371.3	94.1%	\$146.8	\$(279.0)	\$(179.4)	\$(284.4)	3.63%	\$ 51.5
1998	7,890.4	7,414.2	94.0	148.2	(345.6)	(199.1)	(277.1)	3.51	22.5
1999	8,099.3	7,519.7	92.8	127.7	(175.5)	(303.4)	(276.2)	3.40	127.3
2000	8,374.3	7,768.1	92.8	149.2	(200.2)	(345.7)	(260.5)	3.11	73.0
2001	8,730.3	8,069.1	92.4	132.3	(256.2)	(410.5)	(250.7)	2.87	211.0
2002(6) . .	9,271.2	8,522.5	91.9	128.0	(240.0)	(451.2)	(297.5)	3.21	67.1

(1) As approved by the City Council.

(2) Quarterly collections on current year levy.

(3) Includes repurchases of defective tax liens amounting to \$19.7 million, \$10.8 million, \$12.9 million, \$10.7 million and \$15.1 million in the 1997, 1998, 1999, 2000 and 2001 fiscal years, respectively.

(4) These figures include taxes due on certain publicly owned property and exclude delinquency on shelter rent and exempt property restored in the 1996 fiscal year.

(5) Net of reserve for defective liens.

(6) Forecast.

Other Taxes

The City expects to derive 60.7% of its total tax revenues for the 2002 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 4¼% 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. While the economic effect of the stock transfer tax was eliminated as of October 1, 1981, the City's revenue loss was, to some extent, mitigated by State payments to a stock transfer tax incentive fund through fiscal year 2000.

For local taxes other than the real property 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 property taxes to fund general operations in an amount not to exceed 2½% 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 2½% 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 property taxes, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax." Payments by the State to the City of sales tax and stock transfer tax revenues are subject to appropriation by the State and are made available first to MAC for payment of MAC debt service, reserve fund requirements and operating expenses, with the balance, if any, payable to the City. Sales tax payments payable to the City would be paid to the Finance Authority if personal income tax revenues do not satisfy specified debt service ratios.

Revenues from taxes other than the real property tax in the 2001 fiscal year increased by \$593 million or approximately 4.1% from the 2000 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real property tax, for each of the City's 1997 through 2001 fiscal years.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(In Millions)				
Personal Income(1)	\$ 4,361	\$ 5,117	\$ 5,379	\$ 5,353	\$ 5,746
General Corporation	1,478	1,551	1,423	1,779	1,735
Banking Corporation	360	515	388	347	424
Unincorporated Business Income	561	671	657	805	820
Sales	2,912	3,052	3,192	3,509	3,662
Commercial Rent(2)	374	358	333	344	377
Real Property Transfer	215	288	424	483	473
Mortgage Recording	185	232	408	403	407
Utility	215	223	222	247	300
All Other(3)	695	704	698	723	620
Audits	651	458	536	416	401
Total	<u>\$12,007</u>	<u>\$13,171</u>	<u>\$13,660</u>	<u>\$14,409</u>	<u>\$14,965</u>

(1) Personal Income includes \$90 million of Criminal Justice Fund revenues in fiscal year 1997, and \$185 million in fiscal year 1998 and excludes \$16 million, \$144 million, \$247 million and \$407 million retained by the Finance Authority in 1998, 1999, 2000 and 2001, respectively. In fiscal years 1999, 2000 and 2001, Personal Income also includes \$85 million, \$200 million and \$415 million, respectively, which was provided to the City by the State as a reimbursement for the reduced personal income tax revenues resulting from the State Tax Relief Program ("STAR Program"). Personal Income also reflects, commencing in fiscal year 1999, the expiration of the 12.5% personal income tax surcharge and, commencing in fiscal year 2000, the repeal of the nonresident earnings tax and commencing in fiscal year 2001, the reduction and restructuring of the 14% personal income tax surcharge, which together reduced taxes by \$1.292 billion in fiscal year 2000 and \$1.423 billion in fiscal year 2001. Personal Income taxes flow directly from the State to the Finance Authority, and from the Finance Authority to the City only to the extent not required by the Finance Authority for debt service and operating expenses.

(Footnotes continued on the next page)

(Footnotes continued from previous page)

- (2) Commercial Rent reflects legislation providing for various credit and exemptions which reduced collections.
- (3) All Other includes, among others, the stock transfer tax through fiscal year 2000, New York City Off-Track Betting Corporation ("OTB") net revenues, cigarette, beer and liquor taxes, the hotel tax and the automobile use tax, but excludes the STAR Program aid of \$117 million, \$260 million and \$504 million in fiscal years 1999, 2000 and 2001, respectively, and for fiscal year 2001 only excludes prior year real property penalty and interest of \$37 million which is included in Interest Income under Miscellaneous Revenues below.

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 1997 through 2001 fiscal years.

	<u>1997</u>	<u>1998</u>	<u>1999</u> (In Millions)	<u>2000</u>	<u>2001</u>
Licenses, Permits and Franchises	\$ 245	\$ 273	\$ 291	\$ 329	\$ 338
Interest Income	160	199	182	195	245
Charges for Services	428	435	440	439	439
Water and Sewer Payments	775	823	778	801	843
Rental Income	143	151	114	139	154
Fines and Forfeitures	491	468	479	468	495
Other	807	486	408	718	1,109
Total	<u>\$3,049</u>	<u>\$2,835</u>	<u>\$2,692</u>	<u>\$3,089</u>	<u>\$3,623</u>

Note: Totals may not add due to rounding.

Fees and charges collected from the users of the water and sewer system of the City are revenues of the Water Board, 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 year 1997 include a \$250 million payment from the Metropolitan Transportation Authority ("MTA") and \$207 million from the sale of WNYC. Other miscellaneous revenues for fiscal year 1998 include \$84 million from the sale of the United Nations Plaza Hotel. Other miscellaneous revenues for fiscal year 1999 include \$38 million from a condemnation award and \$29 million from the restructuring of a City lease. Other miscellaneous revenues for fiscal year 2000 include \$42 million from the recovery of prior year FICA overpayments. Other miscellaneous revenues for fiscal years 2000 and 2001 include \$247 million and \$154 million, respectively, of tobacco settlement revenues that are not retained by TSASC for debt service and operating expenses. Other miscellaneous revenues for fiscal year 2001 do not include tobacco settlement revenues retained by TSASC for debt service and operating expenses totaling \$50 million. Other miscellaneous revenues for fiscal year 2001 include the receipt of \$340 million from the sale of the Coliseum, \$25 million from asset sales and \$85 million from the health benefit stabilization fund.

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 1997 through 2001 fiscal years.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(In Millions)				
State Per Capita Aid.....	\$322	\$327	\$328	\$405	\$327
Consolidated Local Highway Assistance Program ("CHIPS")(1)	6	16	13	8	4
Other(2)	<u>326</u>	<u>279</u>	<u>311</u>	<u>218</u>	<u>303</u>
Total.....	<u>\$654</u>	<u>\$622</u>	<u>\$652</u>	<u>\$631</u>	<u>\$634</u>

(1) CHIPS refers to taxes which are levied and collected by the State and which, pursuant to aid formulas determined by the State Legislature, are returned to various communities in the State.

(2) Included in the 1997, 1998, 1999, 2000 and 2001 fiscal years are \$133 million, \$153 million, \$158 million, \$147 million and \$158 million, respectively, of aid associated with the partial State takeover of long-term care Medicaid costs

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. 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 1997 through 2001 fiscal years.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(In Millions)				
Federal					
Community Development(1).....	\$ 264	\$ 255	\$ 239	\$ 264	\$ 250
Welfare	2,284	2,344	2,183	2,335	2,339
Education	929	1,014	1,053	1,127	1,227
Other.....	<u>656</u>	<u>679</u>	<u>787</u>	<u>691</u>	<u>734</u>
Total.....	<u>\$4,133</u>	<u>\$4,292</u>	<u>\$4,262</u>	<u>\$4,417</u>	<u>\$4,550</u>
State					
Welfare	\$1,672	\$1,580	\$1,442	\$1,382	\$1,581
Education	3,908	4,155	4,413	4,829	5,388
Higher Education	121	125	128	124	129
Health and Mental Health.....	254	269	323	348	349
Other.....	<u>309</u>	<u>243</u>	<u>333</u>	<u>379</u>	<u>321</u>
Total.....	<u>\$6,264</u>	<u>\$6,372</u>	<u>\$6,639</u>	<u>\$7,062</u>	<u>\$7,768</u>

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

SECTION V: CITY SERVICES AND EXPENDITURES

Expenditures for City Services

Three types of governmental agencies provide public services within the City's borders and receive financial support from the City. One category is the mayoral agencies established by the City Charter which include, among others, the Police, Fire and Sanitation Departments. Another is the independent agencies which are funded in whole or in part through the City Budgets 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, the Transit Authority and the BOE. 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—1997-2001 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 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, effective December 2001. The five-year TANF limit is not expected to have a fiscal impact on the City, assuming continuation of the Federal block grant in amounts assumed in the Financial Plan after September 2002. 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 Family Assistance but are eligible for public assistance. Cash assistance benefits under the Safety Net Assistance Program are also subject to time and eligibility limits. Recipients who reach such time limits or fail to satisfy such eligibility requirements are transferred to non-cash 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."

The City's elementary and secondary school system is operated under the general supervision of the BOE, with considerable authority over elementary and junior high schools also exercised by the 32 Community School Boards. The BOE is responsible to the State on policy issues and to the City on fiscal matters. The number of pupils in the school system for the 2002 through 2005 fiscal years is estimated to be approximately 1.1 million. Actual enrollment in fiscal years 1997 through 2001 has been 1,064,291, 1,067,976, 1,075,131, 1,071,504 and 1,076,652, respectively. Between fiscal years 1999 and 2001, the percentage of the City's total budget allocated to the BOE in the adopted budget for such fiscal years has remained relatively stable at approximately 29%; in fiscal year 2002 the percentage of the City's total adopted budget allocated to the BOE is projected to be 31.02%. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Service Costs—*Board 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 33.8% of the costs of the Community Colleges in the 2002 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. The State has 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 clients enrolled in managed care plans. The Federal government pays approximately 50% of Medicaid costs for Federally eligible recipients.

The City's Expense Budget has increased during the five-year period ended June 30, 2001, due to, among other factors, the costs of labor settlements, debt service costs 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 employees of the City, including the mayoral agencies, the BOE and CUNY, at the end of each of the City's 1997 through 2001 fiscal years.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Education	87,969	93,365	96,930	100,748	102,583
Police	46,830	46,864	48,092	49,269	48,004
Social Services, Homeless and Children's Services.....	23,061	22,952	22,224	21,972	21,309
City University Community Colleges and Hunter Campus Schools	3,667	3,720	3,781	3,756	3,763
Environmental Protection and Sanitation	14,624	14,820	15,024	15,542	15,580
Fire	15,693	15,709	15,937	15,987	15,642
All Other	45,108	45,019	44,648	43,538	42,943
Total	<u>236,952</u>	<u>242,449</u>	<u>246,636</u>	<u>250,812</u>	<u>249,824</u>

The following table presents the number of full-time employees of certain Covered Organizations, as reported by such Organizations, at the end of each of the City's 1997 through 2001 fiscal years.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Transit Authority	42,687	43,303	44,634	46,082	47,663
Housing Authority	14,170	15,029	14,780	14,867	14,704
HHC	36,336	34,706	33,718	33,295	32,477
Total(1).....	<u>93,193</u>	<u>93,038</u>	<u>93,132</u>	<u>94,244</u>	<u>94,844</u>

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

The foregoing tables include persons whose salaries or wages are paid by certain public employment programs, principally programs funded under the WIA, 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. Under applicable law, the City may not make unilateral changes in wages, hours or working conditions under any of the following circumstances: (i) during the period of negotiations between the City and a union representing municipal employees concerning a collective bargaining agreement; (ii) if an impasse panel is appointed, then during the period commencing on the date on which such panel is appointed and ending sixty days thereafter or thirty days after it submits its report, whichever is sooner, subject to extension under certain

circumstances to permit completion of panel proceedings; or (iii) during the pendency of an appeal to the Board of Collective Bargaining. Although State law prohibits strikes by municipal employees, strikes and work stoppages by employees of the City and the Covered Organizations have occurred.

In April 2001, the City and DC 37, which represents approximately 105,000 City employees, reached a labor agreement. The twenty-seven month agreement covers the period from April 1, 2000 through June 30, 2002 and provides for wage increases with a total overall cost of 9.26%. In addition, the contract contains a no layoff pledge and a redeployment agreement and allows the City to establish a merit pay program to provide additional raises based on employee performance. The City has reached additional settlements with other civilian unions which together cover over 15,000 employees. All of these contracts mirror the economic terms of the DC 37 pact.

The terms of future wage settlements could be determined through the impasse procedure in the New York City Collective Bargaining Law, which can impose a binding settlement. Legislation passed by the Legislature and signed by the Governor on December 18, 1998 places collective bargaining matters relating to police and firefighters, including impasse proceedings, under the jurisdiction of the State Public Employment Relations Board ("PERB"), instead of the New York City Office of Collective Bargaining ("OCB"). OCB considers wage levels of municipal employees in similar cities in the United States in reaching its determinations, while PERB's determinations take into account wage levels in both private and public employment in comparable communities, particularly within the State. In addition, PERB can impose a settlement on the parties for a period not longer than two years, unlike OCB which can impose longer settlements. For these reasons, among others, PERB jurisdiction could result in labor settlements which could impose higher costs on the City than those reached under existing procedures.

Since May 4, 2000, the Police Benevolent Association ("PBA") and the City have held eleven bargaining sessions, and the City has filed a petition to define the scope of bargaining with OCB. On December 15, 2000, PBA filed a lawsuit in Albany County seeking a declaratory judgment that jurisdiction over scope proceedings rests with PERB. PBA also filed a request for a declaration of impasse with PERB and filed a response to the City's scope petition at OCB stating that jurisdiction should be with PERB. On April 16, 2001, the Court held in favor of the PBA on both of these issues. On July 12, 2001, the Appellate Division sustained these decisions. The City appealed both issues to the Court of Appeals. Oral argument was held on November 14, 2001. A mediator was appointed by PERB and a series of mediation sessions were held in October 2001. On November 2, 2001 the PBA requested the appointment of a binding interest arbitration panel. The City has filed a petition opposing the appointment of such a panel.

On July 27, 2001 the City reached a tentative settlement with a coalition of 13 unions representing all of the employees in the uniformed forces with the exception of the PBA. This coalition represents approximately 45,000 employees in the departments of Sanitation, Correction, Fire, and Police. The 30-month agreement provides for two 5% wage increases (the first paid on the 1st day of the agreement and the second paid one year later). In addition, it provides for an additional 1.5% to be spent on enhancements to compensation agreed to by the parties. The agreement also contains a merit pay provision, which allows management to reward exceptional performance by individual employees. The agreement has been ratified by eight of these unions representing approximately 23,000 employees. The contract was rejected by the Sergeants Benevolent Association which represents approximately 4,900 employees. The remaining five unions are continuing the contract ratification process.

Since September 2000, the United Federation of Teachers (the "UFT") and the City have held nine bargaining sessions. In April, based on the UFT's request, PERB appointed a mediator. While the UFT requested on June 7, 2001 that PERB declare an impasse, the City and BOE do not believe that an impasse has been reached and believe that it is premature to request intervention. Despite this, PERB appointed a fact-finding panel. This panel only has the authority to give an advisory report that is not binding on either side. Hearings began on November 28, 2001 and are scheduled to continue into mid to late December 2001.

For information regarding the City's assumptions with respect to 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). The City has made certain changes to its assumptions and methods of calculation, which have affected the City's pension contributions starting in fiscal year 2000. For further information regarding such changes in 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, sewers, 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 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 Program 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 Program 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 25, 2001, the City published the Ten-Year Capital Strategy for fiscal years 2002 through 2011. The Ten-Year Capital Strategy totals \$54.4 billion, of which approximately 95% 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 provides \$4.7 billion for the BOE for fiscal years 2002 through 2005. See "SECTION VII: FINANCIAL PLAN."

The Ten-Year Capital Strategy includes: (i) \$13.3 billion to construct new schools and improve existing educational facilities; (ii) \$9.3 billion for improvements to the water and sewer system; (iii) \$5.1 billion for expanding and upgrading the City's housing stock; (iv) \$3.6 billion for reconstruction or resurfacing of City streets; (v) \$1.4 billion for continued City-funded investment in mass transit; (vi) \$6.0 billion for the continued reconstruction and rehabilitation of all four East River bridges and 337 other bridge structures; (vii) \$1.8 billion to expand current jail capacity; and (viii) \$1.4 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 issued by the City, revenue bonds issued by the Water Authority and the Finance Authority and bonds issued by TSASC which will be paid from revenues received pursuant to a settlement of litigation with the four leading cigarette companies. Debt service on such general obligation bonds is paid out of the City's operating revenues, debt service on Water Authority bonds is paid out of water and sewer system revenues, debt service on Finance Authority bonds is paid out of personal income taxes and debt service on TSASC bonds is paid out of revenues derived from the settlement of litigation with tobacco companies selling cigarettes in the United States. 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—Long-Term Capital and Financing Program."

The City's capital expenditures, including expenditures funded by State and Federal grants, totaled \$22.9 billion during the 1997 through 2001 fiscal years. City-funded expenditures, which totaled \$20.6

billion during the 1997 through 2001 fiscal years, have been financed through the issuance of bonds by the City, the Finance Authority, 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 past five fiscal years.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Total</u>
	(In Millions)					
Education	\$ 614	\$1,228	\$1,559	\$1,296	\$1,708	\$ 6,405
Environmental Protection	978	765	788	797	830	4,158
Transportation	537	589	636	637	577	2,976
Transit Authority(1)	202	246	342	270	279	1,339
Housing	269	235	365	290	414	1,573
Hospitals	83	71	41	43	34	272
Sanitation	213	116	71	118	178	696
All Other(2)	<u>963</u>	<u>850</u>	<u>1,017</u>	<u>1,358</u>	<u>1,290</u>	<u>5,478</u>
Total Expenditures(3)	<u>\$3,859</u>	<u>\$4,100</u>	<u>\$4,819</u>	<u>\$4,809</u>	<u>\$5,310</u>	<u>\$22,897</u>
City-funded Expenditures(4)	<u>\$3,569</u>	<u>\$3,631</u>	<u>\$4,595</u>	<u>\$4,096</u>	<u>\$4,720</u>	<u>\$20,611</u>

- (1) Excludes the Transit Authority's non-City portion of the MTA's Capital Program.
- (2) All Other includes, among other things, parks, correction facilities, public structures and equipment.
- (3) Total expenditures for the 1997 through 2001 fiscal years include City, State and Federal funding and represent amounts which include an accrual for work-in-progress. The figures for the 1997 through 2001 fiscal years are derived from the Comprehensive Annual Financial Report of the Comptroller.
- (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 and Financing Program."

SECTION VI: FINANCIAL OPERATIONS

The City's Basic Financial Statements and the auditors' opinion thereon are presented in "APPENDIX B—FINANCIAL STATEMENTS." Further details are set forth in the Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2001, 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 "SECTION VI: FINANCIAL OPERATIONS—1997-2001 Summary of Operations."

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, the City's independent certified public accountants have not compiled or examined, or applied agreed upon procedures to, the forecast of 2002 results or the Financial Plan.

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. Consequently, the City makes no representation or warranty that these estimates and projections will be realized.

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 has implemented the new standards in its financial statements for the fiscal year ending June 30, 2001. GASB 34 requires, among other things, that new "government-wide" financial statements be presented which are comprised of a statement of net assets and a statement of activities. The "government-wide" financial statements use the accrual method of accounting and are prepared on a different measurement focus than the City's fund financial statements. GASB 34 also requires the preparation of fund financial statements which include the General Fund. The accounting for the General Fund is similar to that previously presented in the City's financial statements and continues to use the modified accrual basis of accounting. A summary reconciliation of the difference between the "government-wide" financial statements and the fund financial statements is presented in the City's financial statements. GASB 34 also requires as supplementary information a section entitled "Management's Discussion and Analysis", which includes an analytical overview of the City's financial activities. 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" financial statements results in an excess of liabilities over assets.

1997-2001 Summary of Operations

The following table sets forth the City's results of operations for its 1997 through 2001 fiscal years in accordance with GAAP.

The information regarding the 1997 through 2001 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 2000 and 2001 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 1997 through 1999 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				
	1997	1998	1999	2000	2001
	(In Millions)				
Revenues and Transfers					
Real Estate Tax(2)	\$ 7,291	\$ 7,239	\$ 7,631	\$ 7,850	\$ 8,246
Other Taxes(3)(4)	12,007	13,171	13,660	14,409	14,965
Miscellaneous Revenues	3,049	2,835	2,692	3,089	3,623
Other Categorical Grants	379	412	367	432	492
Unrestricted Federal and State Aid(3)	654	622	652	631	634
Federal Categorical Grants	4,133	4,292	4,262	4,417	4,550
State Categorical Grants	6,264	6,372	6,639	7,062	7,768
Less: Disallowances Against Categorical Grants	(36)	(14)	(39)	(5)	(46)
Total Revenues and Transfers(5)	\$33,741	\$34,929	\$35,864	\$37,885	\$40,232
Expenditures and Transfers					
Social Services	\$ 7,749	\$ 7,785	\$ 7,892	\$ 8,330	\$ 8,717
Board of Education	8,085	8,812	9,478	10,674	11,545
City University	354	364	389	398	408
Public Safety and Judicial	4,727	4,946	5,318	5,649	5,875
Health Services	1,448	1,553	1,651	1,777	1,959
Pensions(6)	1,319	1,409	1,342	615	1,127
Debt Service(3)(7)	4,184	2,934	3,360	3,339	2,522
MAC Debt Service Funding(3)(7)	264	773	386	451	458
All Other(7)	5,606	6,348	6,042	6,647	7,616
Total Expenditures and Transfers(5)	\$33,736	\$34,924	\$35,859	\$37,880	\$40,227
Surplus(7)	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5

- (1) The City's results of operations refer to the City's General Fund revenues and transfers reduced by expenditures and transfers. The revenues and assets of PBCs included in the City's audited financial statements do not constitute revenues and assets of the City's General Fund, and, accordingly, the revenues of such PBCs, other than net OTB revenues, are not included in the City's results of operations. Expenditures required to be made 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) Real Estate Tax for fiscal years 1997, 1998, 1999, 2000 and 2001 also includes \$52 million, \$23 million, \$127 million, \$73 million and \$211 million from the sale of real property tax liens, respectively. In fiscal years 1999, 2000 and 2001, Real Estate Tax includes \$31.8 million, \$59.9 million and \$89.4 million, respectively, which was provided to the City by the State as a reimbursement for the reduced property tax revenues resulting from the STAR Program.
- (3) Revenues includes amounts paid and expected to be paid to MAC by the State from sales tax receipts, stock transfer tax receipts and State per capita aid otherwise payable by the State to the City. Pursuant to State statute, these revenues flow directly from the State to MAC, and flow to the City only to the extent not required by MAC for debt service, reserve fund requirements and for operating expenses. The City includes such revenues as City revenues and reports the amount retained by MAC from such revenues as "MAC Debt Service Funding," although the City has no control over the statutory application of such revenues to the extent MAC requires them. City "Debt Service" includes, and "MAC Debt Service Funding" is reduced by, payments by the City of debt service on City obligations held by MAC. Personal income taxes for the 1997 and 1998 fiscal years include \$90 million and \$185 million of Criminal Justice Fund revenues, respectively, and exclude \$16 million, \$144 million, \$247 million and \$407 million in fiscal years 1998, 1999, 2000 and 2001, respectively retained by the Finance Authority. "Debt Service" does not include debt service on Finance Authority obligations in fiscal years 1999 through 2001. Miscellaneous Revenues includes tobacco settlement revenues that are not retained by TSASC for debt service and operating expenses. Debt Service does not include debt service on TSASC bonds.
- (4) Other Taxes includes transfers of net OTB revenues. Other Taxes also reflects the effects of the repeal of the 12.5% surcharge commencing in fiscal year 1999 and reflects, commencing in fiscal year 2000, the repeal of the nonresident earnings tax as of July 1, 1999 and reflects, commencing in fiscal year 2001, the reduction and restructuring of the 14% personal income tax surcharge as of January 1, 2001. For fiscal year 2001 only, Other Taxes excludes prior year real property penalty and interest of \$37 million which is included in Interest Income under Miscellaneous Revenues. For further information regarding the City's revenues from Other Taxes, see "SECTION IV: SOURCES OF CITY REVENUES—Additional 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) The General Fund surplus is the surplus after discretionary and other transfers and expenditures. The City had General Fund operating surpluses of \$2.944 billion, \$3.187 billion, \$2.620 billion, \$2.086 billion and \$1.367 billion before discretionary and other transfers and expenditures for the 2001, 2000, 1999, 1998 and 1997 fiscal years, respectively. Discretionary and other transfers are included in Debt Service, MAC Debt Service Funding and for transit subsidies in All Other.

Forecast of 2002 Results

The following table compares the forecast for the 2002 fiscal year contained in the financial plan submitted to the Control Board on June 13, 2001 (the "June 2001 Forecast") with the Financial Plan published on December 4, 2001 (the "December 2001 Forecast"). This forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	June 2001 Forecast	December 2001 Forecast	Increase (Decrease) from June 2001 Forecast
(In Millions)			
REVENUES			
Taxes			
General Property Tax	\$ 8,478	\$ 8,488	\$ 10
Other Taxes	13,731	12,644	(1,087) (1)
Tax Audit Revenue	487	462	(25)
Tax Reduction Program	(100)	0	100
Miscellaneous Revenues	4,663	4,440	(223) (2)
Unrestricted Intergovernmental Aid	706	1,134	428 (3)
Other Categorical Grants	392	447	55
Inter-Fund Revenues	317	322	5
Less: Intra-City Revenues	(1,344)	(1,352)	(8)
Disallowances Against Categorical Grants	(15)	(15)	0
Total City Funds	<u>\$27,315</u>	<u>\$26,570</u>	<u>\$ (745)</u>
Federal Categorical Grants	4,442	6,260	1,818 (4)
State Categorical Grants	7,941	7,907	(34)
Total Revenues	<u>\$39,698</u>	<u>\$40,737</u>	<u>\$ 1,039</u>
EXPENDITURES			
Personal Services	\$21,938	\$22,024	\$ 86 (5)
Other Than Personal Services	17,517	18,579	1,062 (6)
Pay-As-You-Go-Capital	135	135	0
Debt Service	907	776	(131)
Budget Stabilization Account	345	375	30 (7)
General Reserve	200	200	0
Total Expenditures	<u>\$41,042</u>	<u>\$42,089</u>	<u>\$ 1,047</u>
Less: Intra-City Expenses	(1,344)	(1,352)	(8)
Net Total Expenditures	<u>\$39,698</u>	<u>\$40,737</u>	<u>\$ 1,039</u>

- (1) The decrease in Other Taxes resulted from decreases in personal income taxes of \$260 million, sales and use taxes of \$228 million, stock transfer tax of \$114 million, general corporation tax of \$113 million, banking corporation tax of \$95 million, real property transfer taxes of \$74 million, unincorporated business taxes of \$47 million, mortgage recording tax of \$17 million, commercial rent tax of \$3 million and all other taxes of \$119 million and STAR Program aid of \$17 million.
- (2) The decrease in Miscellaneous Revenues resulted primarily from a decrease in miscellaneous receipts of \$115 million, interest income of \$74 million, fines of \$29 million, rents of \$10 million, charges for services of \$7 million and water and sewer charges of \$5 million, offset by an increase in intra-city revenue of \$8 million, licenses of \$3 million and water and sewer charges of \$1 million.
- (3) The increase in Unrestricted Intergovernmental Aid is primarily due to federal aid reflecting reimbursement for costs related to the September 11 attack.
- (4) The \$1.8 billion increase in Federal Categorical Grants resulted primarily from increased FEMA funding of \$1.7 billion related to the September 11 attack costs and budget modifications processed from July 2001 through October 2001 and other Federal categorical adjustments reflected in the Financial Plan.
- (5) The increase in the Personal Services forecast is due in part to increased spending of \$284 million in costs related to the September 11 attack, \$152 million in collective bargaining costs and \$18 million in budget modifications processed from July 2001 to October 2001, offset by savings from an early retirement and severance program of \$50 million, \$81 million in reduced pension costs, \$56 million in reduced BOE spending and other agency reductions of \$181 million.
- (6) The increase in Other than Personal Services is due in part to \$1.377 billion in costs related to the September 11 attack and \$318 million in budget modifications processed from July 2001 to October 2001, offset by a reduction of \$210 million in prior payables, agency reductions of \$292 million, \$75 million in BOE spending and \$56 million in energy costs.
- (7) The increase in Budget Stabilization Account is due to a projected discretionary transfer to the General Debt Service Fund in the 2002 fiscal year for debt service due in the 2003 fiscal year.

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2002 through 2005 fiscal years as contained in the 2002-2005 Financial Plan. This table should be read in conjunction with the accompanying notes, "Actions to Close the Remaining Gaps" and "Assumptions," below. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	2002-2005 Fiscal Years(1)(2)			
	2002	2003	2004	2005
	(In Millions)			
REVENUES				
Taxes				
General Property Tax(3)	\$ 8,488	\$ 8,939	\$ 9,366	\$ 9,787
Other Taxes(3)(4)(5)	12,644	12,697	13,524	14,220
Tax Audit Revenue.....	462	427	427	427
Miscellaneous Revenues(6).....	4,440	4,313	4,118	4,058
Unrestricted Intergovernmental Aid	1,134	630	618	592
Other Categorical Grants	447	350	339	338
Less: Intra-City Revenues	(1,352)	(1,315)	(1,271)	(1,271)
Disallowances Against Categorical Grants.....	(15)	(15)	(15)	(15)
Subtotal: City Funds	\$26,248	\$26,026	\$27,106	\$28,136
Inter-Fund Revenues(7).....	322	312	312	312
Total City Funds and Inter-Fund Revenues	\$26,570	\$26,338	\$27,418	\$28,448
Federal Categorical Grants	6,260	4,157	4,115	4,113
State Categorical Grants	7,907	7,982	8,074	8,150
Total Revenues	\$40,737	\$38,477	\$39,607	\$40,711
EXPENDITURES				
Personal Services(8)	\$22,024	\$22,502	\$22,987	\$23,531
Other Than Personal Services.....	18,579	17,530	17,812	18,075
Pay-as-you-go Capital(9)	135	135	135	135
Debt Service.....	776	2,764	3,219	3,450
Budget Stabilization Account(10)	375	—	—	—
MAC Debt Service(4)(10).....	—	240	489	490
General Reserve	200	200	200	200
Total Expenditures	\$42,089	\$43,371	\$44,842	\$45,881
Less: Intra-City Expenses	(1,352)	(1,315)	(1,271)	(1,271)
Net Total Expenditures	\$40,737	\$42,056	\$43,571	\$44,610
GAP TO BE CLOSED	\$ —	\$(3,579)	\$(3,964)	\$(3,899)

(1) The four-year financial plan for the 2001 through 2004 fiscal years, as submitted to the Control Board on June 15, 2000, contained the following projections for the 2001-2004 fiscal years: (i) for 2001, total revenues of \$37.614 billion and total expenditures of \$37.614 billion; (ii) for 2002, total revenues of \$37.485 billion and total expenditures of \$40.121 billion, with a gap to be closed of \$2.636 billion; (iii) for 2003, total revenues of \$38.170 billion and total expenditures of \$40.874 billion, with a gap to be closed of \$2.704 billion; and (iv) for 2004, total revenues of \$38.789 billion and total expenditures of \$41.462 billion, with a gap to be closed of \$2.673 billion.

The four-year financial plan for the 2000 through 2003 fiscal years, as submitted to the Control Board on June 14, 1999, contained the following projections for the 2000-2003 fiscal years: (i) for 2000, total revenues of \$35.175 billion and total expenditures of \$35.175 billion; (ii) for 2001, total revenues of \$35.850 billion and total expenditures of \$37.694 billion, with a gap to be closed of \$1.844 billion; (iii) for 2002, total revenues of \$36.007 billion and total expenditures of \$37.876 billion, with a gap to be closed of \$1.869 billion; and (iv) for 2003, total revenues of \$36.812 billion and total expenditures of \$38.616 billion, with a gap to be closed of \$1.804 billion.

(Footnotes continued on the next page)

(Footnotes continued from previous page)

The four-year financial plan for the 1999 through 2002 fiscal years, as submitted to the Control Board on June 26, 1998, contained the following projections for the 1999-2002 fiscal years: (i) for 1999, total revenues of \$34.186 billion and total expenditures of \$34.186 billion; (ii) for 2000, total revenues of \$34.072 billion and total expenditures of \$36.345 billion, with a gap to be closed of \$2.273 billion; (iii) for 2001, total revenues of \$34.162 billion and total expenditures of \$37.269 billion, with a gap to be closed of \$3.107 billion; and (iv) for 2002, total revenues of \$34.920 billion and total expenditures of \$37.602 billion with a gap to be closed of \$2.682 billion.

- (2) The Financial Plan combines the operating revenues and expenditures of the City, the BOE 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 STAR Program and other property tax reductions and other assumptions, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS" and "SECTION VII: FINANCIAL PLAN—Assumptions—Revenue Assumptions—2. Real Estate Tax."
- (4) Other Taxes includes amounts paid and expected to be paid to MAC by the State from sales tax receipts, stock transfer tax receipts and State per capita aid otherwise payable by the State to the City. Pursuant to State statute, these revenues flow directly from the State to MAC, and flow to the City only to the extent not required by MAC for debt service, reserve fund requirements and operating expenses. The City includes such revenues as City revenues and reports the amount retained by MAC from such revenues as "MAC Debt Service Funding", although the City has no control over the statutory application of such revenues to the extent MAC requires them. Estimates of City "Debt Service" include, and estimates of "MAC Debt Service Funding" are reduced by, anticipated payments by the City of debt service on City obligations held by MAC. Other Taxes includes transfers of net OTB revenues. Personal income taxes will flow directly from the State to the Finance Authority, and from the Finance Authority to the City only to the extent not required by the Finance Authority for debt service, reserves and operating expenses. Sales taxes will flow directly from the State to the Finance Authority, after 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 Finance Authority for its debt service and operating expenses. Estimates of Debt Service do not include debt service on Finance Authority obligations.
- (5) For a description of the proposed tax reduction program, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS." For other Financial Plan assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—Revenue Assumptions—3. Other Taxes."
- (6) Miscellaneous Revenues reflects the receipt by the City of a portion of the funds from the settlement of litigation with the four leading cigarette companies. The Financial Plan reflects the sale of the City's right to receive such funds to TSASC which has issued debt and is expected to continue to issue debt payable from such funds to finance approximately \$2.4 billion of capital projects. Miscellaneous Revenues does not include tobacco settlement revenues that are expected to be retained by TSASC for debt service and operating expenses totaling approximately \$522 million from fiscal years 2002 through 2005. Estimates of Debt Service do not include debt service on TSASC obligations.
- (7) Inter-Fund Revenues represents General Fund expenditures, properly includable in the Capital Budget, made on behalf of the Capital Projects Fund pursuant to inter-fund agreements.
- (8) For an explanation of projected expenditures for personal service costs, see "SECTION VII: FINANCIAL PLAN—Assumptions—Expenditure Assumptions—1. PERSONAL SERVICE COSTS."
- (9) Represents operating budget payments for capital projects.
- (10) Budget Stabilization Account primarily includes projected discretionary transfers to the General Debt Service Fund in the 2002 fiscal year for debt service due in the subsequent fiscal year.

Various actions proposed in the Financial Plan are uncertain. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS." If these measures cannot be implemented, the City will be required to take other actions to decrease expenditures or increase revenues to maintain a balanced financial plan. See "SECTION VII: FINANCIAL PLAN—Certain Reports" and "—Assumptions."

Actions to Close the Remaining Gaps

In connection with the Financial Plan, the City has outlined a gap-closing program for fiscal years 2003 through 2005 to eliminate the \$3.6 billion, \$4.0 billion and \$3.9 billion projected budget gaps for the 2003 through 2005 fiscal years, respectively. This program, which is not specified in detail, assumes for the 2003 through 2005 fiscal years, respectively, additional agency programs to reduce expenditures or

increase revenues by \$1.0 billion, \$1.2 billion and \$1.2 billion; additional State actions of \$400 million to \$450 million and additional Federal actions of \$1.3 billion in each year; savings from asset sales and privatizations of \$200 million in each year; other actions of \$629 million to \$764 million in each year; and the availability of \$100 million of the General Reserve in each of fiscal years 2003 through 2005.

The City's projected budget gaps for the 2004 and 2005 fiscal years do not reflect the savings expected to result from the prior years' program to close the gaps set forth in the Financial Plan. Thus, for example, recurring savings anticipated from the actions which the City proposes to take to balance the fiscal year 2003 budget are not taken into account in projecting the budget gaps for the 2004 and 2005 fiscal years.

Although the City has maintained balanced budgets in each of its last twenty-one fiscal years and is projected to achieve balanced operating results for the 2002 fiscal year, there can be no assurance that the gap-closing actions proposed in the Financial Plan 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 effects on the City economy of the September 11 attack, the extent, if any, to which wage increases for City employees exceed the annual wage costs assumed for the 2002 through 2005 fiscal years; continuation of projected interest earnings assumptions 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, the BOE and other such agencies 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; the City's ability to market its securities successfully in the public credit markets; and unanticipated expenditures that may be incurred as a result of the need to maintain the City's infrastructure. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS." Certain of these assumptions have been questioned by the City Comptroller and other public officials. See "SECTION VII: FINANCIAL PLAN—Certain Reports."

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

Revenue Assumptions

1. GENERAL ECONOMIC CONDITIONS

The Financial Plan assumes that the City's economy faces a sudden contraction during the second half of 2001, moderate job and income losses through the first half of 2002, and sluggish recovery thereafter.

The following table presents a forecast of the key economic indicators for the calendar years 2001 through 2005. This forecast is based upon information available in November 2001.

FORECAST OF KEY ECONOMIC INDICATORS

<u>U.S. ECONOMY</u>	<u>Calendar Years</u>				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>Economic Activity and Income</i>					
Real GDP (billions of 1996 dollars)	9,315.8	9,435.1	9,840.3	10,130.0	10,411.7
Percent Change	1.0	1.3	4.3	2.9	2.8
Pre-tax Corporate Profits (\$ billions)	692.2	700.0	769.5	775.6	793.2
Percent Change	(18.1)	1.1	9.9	0.8	2.3
Personal Income (\$ billions)	8,744.3	9,021.3	9,540.6	10,031.1	10,534.0
Percent Change	5.1	3.2	5.8	5.1	5.0
Non-Agricultural Employment (millions)....	132.4	132.6	133.7	135.2	136.9
Change From Prior Year	0.6	0.2	1.1	1.5	1.7
Unemployment Rate	4.7	5.9	5.4	5.1	5.0
CPI-All Urban (1982-84=100).....	177.6	181.2	185.5	190.4	195.6
Percent Change	3.1	2.0	2.4	2.6	2.7
Wage Rate (\$ per year)	38,596	39,766	41,570	43,316	44,845
Percent Change	5.1	3.0	4.5	4.2	3.5
10-Year Treasury Bond Rate.....	3.5	3.1	4.5	4.7	4.7
Federal Funds Rate	3.9	3.0	4.6	5.0	5.0
<u>NEW YORK CITY ECONOMY</u>					
Personal Income (\$ billions)	310.5	300.6	316.7	332.4	350.8
Percent Change	4.6	(3.2)	5.4	5.0	5.5
Non-Agricultural Employment (thousands)..	3,736.2	3,622.2	3,629.9	3,673.0	3,727.4
Change From Prior Year	15.7	(114.0)	7.7	43.1	54.4
Real Gross City Product (billions of 1996 dollars)	438.6	399.3	420.3	432.8	443.8
Percent Change	0.0	(8.9)	5.3	3.0	2.5
Wage Rate (\$ per year)	60,983	59,430	62,515	65,097	67,778
Percent Change	5.2	(2.5)	5.2	4.1	4.1
CPI-All Urban NY-NJ Area (1982-84=100)..	187.8	191.8	196.4	201.4	207.0
Percent Change	2.9	2.1	2.4	2.5	2.8

Source: OMB model for the City economy.

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: SOURCE OF CITY REVENUES—Real Estate Tax."

Projections of real estate tax revenues include \$67 million, \$66 million, \$67 million and \$67 million net revenue from the sale of real property tax liens in fiscal years 2002 through 2005, respectively. Projections of real estate tax revenues include the effects of the STAR Program which will reduce the property tax revenues by an estimated \$112 million in fiscal year 2002 and \$115 million in each of fiscal years 2003 through 2005. 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 \$185 million, \$194 million, \$204 million and \$214 million in fiscal years 2002 through 2005, respectively, and the cost of extending tax abatements through the Lower Manhattan Commercial Revitalization Program of \$1 million, \$3 million, \$6 million and \$6 million in fiscal years 2002 through 2005, respectively.

The delinquency rate for the 2001 fiscal year was 2.9%. The Financial Plan projects delinquency rates of 3.3% for fiscal year 2002 and a delinquency rate of 3.2% for each of the 2003 through 2005 fiscal years.

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 include projected tax program revenues and exclude the Criminal Justice Fund and audit revenues.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)			
Personal Income(1)	\$ 4,254	\$ 4,140	\$ 4,384	\$ 4,657
General Corporation	1,362	1,329	1,446	1,519
Banking Corporation	264	343	427	452
Unincorporated Business Income	755	776	826	879
Sales(2).....	3,482	3,507	3,694	3,828
Commercial Rent(3)	353	371	384	402
Real Property Transfer	344	373	413	468
Mortgage Recording	323	322	349	392
Utility	276	265	261	244
All Other(4)	<u>1,231</u>	<u>1,272</u>	<u>1,340</u>	<u>1,379</u>
Total	<u>\$12,644</u>	<u>\$12,697</u>	<u>\$13,524</u>	<u>\$14,220</u>

Note: Totals may not add due to rounding.

- (1) Personal Income does not include \$458 million, \$689 million, \$818 million and \$849 million of personal income tax revenues projected to be paid to the Finance Authority for debt service in the 2002 through 2005 fiscal years, respectively. These projections include the effects of the STAR Program, which will reduce personal income tax revenues by an estimated \$543 million, \$565 million, \$594 million and \$609 million in the 2002 through 2005 fiscal years, respectively. The State will reimburse the City for such reduced revenues. Personal Income also reflects the reduction and restructuring of the 14% personal income tax surcharge, which became effective on January 1, 2001 and which reduced personal income tax revenues by an estimated \$174 million, \$177 million, \$189 million and \$204 million in fiscal years 2002 through 2005, respectively, and an additional reduction in the 14% personal income tax surcharge, which will reduce revenues by an additional \$169 million, \$172 million, \$188 million and \$203 million in fiscal years 2002 through 2005, respectively.
- (2) Sales reflects, among other changes, a reduction in the sales tax on utilities and includes no MAC debt service in the 2002 fiscal year and MAC debt service of \$490 million, \$489 million and \$490 million in the 2003 through 2005 fiscal years, respectively.
- (3) Commercial Rent reflects the estimated cost of increasing the commercial rent tax threshold amounting to \$25 million, \$26 million, \$27 million and \$28 million in fiscal years 2002 through 2005, respectively.
- (4) All Other includes, among others, OTB net revenues, cigarette, beer and liquor taxes, the hotel tax and the automobile use tax. All Other also includes \$655 million, \$680 million, \$709 million and \$724 million in fiscal years 2002 through 2005, respectively, to be provided to the City by the State as reimbursement for the reduced property tax and personal income tax revenues resulting from the STAR Program.

The Financial Plan reflects the following assumptions regarding projected baseline revenues from Other Taxes: (i) with respect to personal income tax revenues, a decline in income in fiscal years 2002 and 2003, reflecting a projected decline in wage and non-wage income, and growth in subsequent fiscal years reflecting moderate growth in the economy; (ii) with respect to the general corporation tax, a slowdown in the outlook for the securities industry and the economy in fiscal year 2002 followed by modest growth for the securities industry and national corporate profits starting in fiscal year 2003; (iii) with respect to the banking corporation tax, a decrease in gross collections in fiscal year 2002 reflecting a slowdown in the economy followed by growth in fiscal year 2003 paralleling a national recovery; (iv) with respect to the unincorporated business tax, falling securities industry profits and a slowing economy in fiscal year 2002, followed by securities industry profit growth and a recovery in the national economy in subsequent years starting in fiscal year 2003; (v) with respect to the sales tax, a moderation in wage income and securities industry profit growth, a weakening economy and declining employment in fiscal year 2002 followed by moderate growth beginning in fiscal year 2003; (vi) with respect to the mortgage recording and real property transfer taxes, a decline in fiscal year 2002 reflecting a pause in transactions resulting from the economic slowdown, followed by a resumption in growth reflecting a rebounding economy in subsequent fiscal years; and (vii) with respect to the commercial rent tax, moderate growth throughout the Financial

Plan period due to assumed continued strength in Manhattan commercial real estate overall. The Financial Plan includes the extension by the State Legislature of the current rate structures for the resident personal income tax, for the general corporation tax, for the two special sales taxes and for the cigarette tax. Legislation extending the general corporation tax, the two special sales taxes and the cigarette tax to December 31, 2003 has been enacted. Legislation extending the current rate structure for the resident personal income tax and extending the 14% personal income tax surcharge to December 31, 2003 was also enacted. On December 31, 2003, a lower rate schedule for the resident personal income tax with a maximum base rate of 1.61% is to become effective, unless the current rate schedule is extended, as has been the case since 1989. The rate schedule for the resident personal income tax is scheduled to further decline to a maximum base rate of 1.48% on January 1, 2005. The Financial Plan assumes the timely extension of the current maximum base rate of 3.2% for the resident personal income tax.

4. MISCELLANEOUS REVENUES

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)			
Licenses, Permits and Franchises.....	\$ 323	\$ 318	\$ 317	\$ 317
Interest Income.....	81	88	122	125
Charges for Services.....	408	406	405	405
Water and Sewer Payments(1).....	865	848	866	890
Rental Income.....	101	265	404	365
Fines and Forfeitures.....	451	482	479	478
Other.....	859	591	254	207
Intra-City Revenues.....	<u>1,352</u>	<u>1,315</u>	<u>1,271</u>	<u>1,271</u>
Total.....	<u>\$4,440</u>	<u>\$4,313</u>	<u>\$4,118</u>	<u>\$4,058</u>

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

Rental Income in the 2002 through 2005 fiscal years includes \$9.6 million, \$185 million, \$330 million and \$295 million from the Port Authority as rent payments for the City's airports, of which \$170 million, \$315 million and \$280 million in the 2003 through 2005 fiscal years, respectively, is currently the subject of a dispute with the Port Authority.

In an arbitration against the Port Authority, the City has asserted that it is owed additional rent under the John F. Kennedy International and LaGuardia airports lease. The City contends, among other things, that, in determining the amount of rent due to the City, the Port Authority has erroneously (i) excluded from the calculation of gross revenue the amounts of passenger facility charges ("PFCs") which the Port Authority has collected since 1992 (the "PFC claim"), (ii) taken certain capital deductions for investments that the Port Authority previously recovered in full with interest, and (iii) included in the calculation of operation and maintenance expense certain general and administrative, indirect and other expenses. In denying a stay application brought by the Port Authority, the Appellate Division of the New York Supreme Court held on June 27, 1996 that the City's claims must be arbitrated and that the PFC claim does not raise any issue of Federal law so long as any additional rent to be paid on the claim would be paid from funds other than PFCs. On November 20, 1996, the Chief Counsel of the Federal Aviation Administration ("FAA") issued a letter, at the Port Authority's request, stating that it was the FAA's position that under Federal law the sums of PFCs collected by the Port Authority could not be included in the determination of rent. On January 21, 1997, the Chief Counsel stated in a letter to the City's Corporation Counsel that his prior letter was an "advisory opinion" that by its terms was not binding. If the City prevails on the PFC claim, the additional rent resulting from that claim would not be paid from PFCs; rather, such payment would be made from the Port Authority's consolidated operating funds.

Miscellaneous Revenues—Other reflects \$225 million, \$153 million, \$92 million and \$53 million of projected resources in fiscal years 2002 through 2005, respectively, from the receipt by the City of funds

from the settlement of litigation with certain tobacco companies. Miscellaneous Revenues—Other does not reflect a total of approximately \$522 million expected to be retained by TSASC during fiscal years 2002 through 2005. Miscellaneous Revenues—Other includes, in fiscal year 2002, \$83 million from the sale of mortgages and other assets, \$150 million from reimbursement of landfill closure costs and \$116 million from the sale of assets of the New York City Economic Development Corporation and, in fiscal year 2003, \$250 million from the proposed sale of OTB.

5. UNRESTRICTED INTERGOVERNMENTAL AID

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)			
State Revenue Sharing	\$ 327	\$327	\$327	\$327
Other Aid	<u>807</u>	<u>303</u>	<u>291</u>	<u>265</u>
Total	<u>\$1,134</u>	<u>\$630</u>	<u>\$618</u>	<u>\$592</u>

The Other Aid category primarily consists of increased Federal aid as reimbursement for costs relating to the September 11 attack of \$399 million in 2002, \$39 million in 2003 and \$27 million in 2004; the acceleration of State revenue sharing aid of \$73 million in 2002; \$75 million from reimbursement of landfill closing costs in 2002; approximately \$158 million annually from aid associated with the State takeover of long-term care Medicaid costs; \$35 million annually from State audits; \$12 million in prior year claims settlements; and \$59 million of other State actions each year.

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 and the possible impact on State aid to the City, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS—The State."

6. FEDERAL AND STATE CATEGORICAL GRANTS

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)			
Federal				
Community Development(1)	\$ 341	\$ 273	\$ 273	\$ 271
Welfare	2,602	2,478	2,447	2,448
Education	1,084	1,046	1,046	1,046
Other	<u>2,233</u>	<u>360</u>	<u>349</u>	<u>348</u>
Total	<u>\$6,260</u>	<u>\$4,157</u>	<u>\$4,115</u>	<u>\$4,113</u>
State				
Welfare	\$1,499	\$1,509	\$1,517	\$1,521
Education	5,531	5,673	5,748	5,815
Higher Education	164	164	164	164
Health and Mental Health	427	367	367	367
Other	<u>286</u>	<u>269</u>	<u>278</u>	<u>283</u>
Total	<u>\$7,907</u>	<u>\$7,982</u>	<u>\$8,074</u>	<u>\$8,150</u>

(1) This amount represents the projected annual level of new funds. Unspent Community Development grants from prior fiscal years could increase the amount actually received.

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: RECENT FINANCIAL DEVELOPMENTS—The State." As of September 30, 2001, approximately 15.84% of the City's full-time employees (consisting of employees of the mayoral agencies and the BOE) were paid by

Community Development funds, water and sewer funds and from other sources not funded by unrestricted revenues of the City. In the 2002 fiscal year, the City expects to receive approximately \$341 million from the Community Development Block grant, which is approximately \$91 million more than the amount received in the 2001 fiscal year.

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 capital 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 declined from \$124 million in the 1977 fiscal year to \$46 million in the 2001 fiscal year. This decrease reflects favorable experience with the level of disallowances in recent years, which may not continue. As of June 30, 2001, the City had an accumulated reserve of \$210 million for future disallowances of categorical aid.

Expenditure Assumptions

1. PERSONAL SERVICES COSTS

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)			
Wages and Salaries	\$15,664	\$15,575	\$15,607	\$15,593
Pensions	1,591	1,969	2,255	2,559
Other Fringe Benefits	4,007	3,940	4,089	4,343
Reserve for Collective Bargaining				
Board of Education	381	472	485	485
Other	381	546	551	551
Reserve Subtotal	<u>762</u>	<u>1,018</u>	<u>1,036</u>	<u>1,036</u>
Total	<u>\$22,024</u>	<u>\$22,502</u>	<u>\$22,987</u>	<u>\$23,531</u>

The Financial Plan projects that the authorized number of City-funded employees whose salaries are paid directly from City funds, as opposed to Federal or State funds or water and sewer funds, will increase from an estimated level of 215,277 on June 30, 2002 to an estimated level of 217,499 by June 30, 2005, before implementation of out-year gap-closing programs included in the Financial Plan.

The Reserve for Collective Bargaining contains funding for the cost of wage increases for unsettled uniformed unions equal to those agreed to with the uniformed coalition. It also contains funds for settlements with most employees covered by Section 220 of the labor law equal to those agreed to in the DC 37 collective bargaining agreement plus smaller amounts for unions that remain unsettled for the 1995 through 2000 round. The DC 37 agreement provides for an increase totaling 9.26% over twenty-seven months. The Reserve for Collective Bargaining does not contain provisions for wage increases beyond this twenty-seven month period. The Reserve for Collective Bargaining includes approximately \$200 million per year funded by incremental State education aid which has not yet been appropriated by the State Legislature.

The terms of wage settlements could be determined through the impasse procedure in the New York City Collective Bargaining Law, which can impose a binding settlement.

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." For a discussion of certain information relating to the City's health insurance costs, see "SECTION VII: FINANCIAL PLAN—Certain Reports."

2. OTHER THAN PERSONAL SERVICES COSTS

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)			
Administrative OTPS.....	\$11,007	\$10,022	\$10,083	\$10,203
Public Assistance	2,209	2,026	2,028	2,028
Medical Assistance	3,630	3,743	3,920	4,012
HHC Support	271	0	0	0
Other.....	<u>1,462</u>	<u>1,739</u>	<u>1,781</u>	<u>1,832</u>
Total(1).....	<u>\$18,579</u>	<u>\$17,530</u>	<u>\$17,812</u>	<u>\$18,075</u>

(1) Does not include pay-as-you-go capital.

Legislation has been passed by the State which prohibits the disposal of solid waste in any landfill located within the City after December 31, 2001. The Financial Plan includes the estimated costs of phasing out the use of landfills located within the City under the category OTPS-Other. The New York City Recycling Law, Local Law No. 19 ("Local Law No. 19") for the year 1989, set requirements for increasing the tonnage of solid waste that is recycled by the Department of Sanitation and its contractors. Pursuant to court order, the City is currently required to recycle 4,250 tons per day of solid waste. The City is currently recycling over 2,600 tons per day of solid waste. If the City is unable to comply with Local Law No. 19, it may incur substantial costs.

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 2002 fiscal year. Thereafter, to account for inflation, selected OTPS expenditures are projected to rise by approximately 2.6%, 2.8% and 2.8% in fiscal years 2003 through 2005, respectively. However, it is assumed that the savings from a procurement initiative will offset the need for funding projected increases in OTPS expenditures that result from the accounting for inflation. Energy costs for each of the 2002 through 2005 fiscal years are assumed to increase at varying rates of inflation, with total energy expenditures projected at \$553 million in the 2002 fiscal year, rising to \$572 million in fiscal year 2005.

Public Assistance

The average number of persons receiving income benefits under public assistance programs is projected to be 462,444 per month in the 2002 fiscal year. The Financial Plan projects that the average number of recipients will decrease by 13.5% in the 2002 fiscal year from the average number of recipients in the 2001 fiscal year. The Financial Plan assumes that public assistance grant levels will remain flat in the 2002 fiscal year. Of total public assistance expenditures in the City for the 2002 fiscal year, the City-funded portion is projected to be \$349.7 million, a decrease of 11.8% from the 2001 fiscal year, and is projected to increase to \$350.5 million in fiscal year 2005.

Medical Assistance

Medical assistance payments projected in the Financial Plan consists of payments to voluntary hospitals, skilled nursing facilities, intermediate care facilities, home care and physicians and other medical practitioners. The City-funded portion of medical assistance payments is estimated at \$2.918 billion for the 2002 fiscal year and is expected to increase to \$3.012 billion in fiscal year 2005. Such payments include, among other things, City-funded Medicaid payments, but exclude City-funded Medicaid payments to HHC, as discussed below. City Medicaid costs (including City-funded Medicaid

payments to HHC) assumed in the Financial Plan do not include 81.2% of the non-Federal share of long-term care costs which have been assumed by the State. The Financial Plan projects savings of \$822 million in the 2002 fiscal year due to the State having assumed such costs, and projects such savings will increase to \$940 million in fiscal year 2005.

Health and Hospitals Corporation

HHC operates under its own section of the Financial Plan as a Covered Organization. HHC's financial plan projects City-funded expenditures of \$829 million for the 2002 fiscal year, increasing to \$869 million in fiscal year 2006. The City-funded expenditures in the 2002 fiscal year include \$53 million for the care of prisoners and uniformed personnel, \$9 million of general City support, and \$710 million for the City's share of HHC Medicaid payments.

HHC is projected to achieve balanced budgets in fiscal years 2002 through 2006 on a cash basis. Total receipts are projected to be \$3.780 billion in fiscal year 2002, decreasing to \$3.643 billion in fiscal year 2006. Total disbursements are projected to be \$3.959 billion in fiscal year 2002, increasing to \$4.234 billion in fiscal year 2006. These projections assume: (i) continued headcount reduction through attrition; (ii) small increases in other than personal service costs in fiscal years 2002 through 2006; and (iii) no growth in Medicaid fee-for-service and Medicaid managed care revenue between fiscal years 2002 and 2006. 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

In November 2001, the City prepared a financial plan for NYCT covering its 2001 through 2005 fiscal years (the "NYCT Financial Plan"). NYCT's fiscal year coincides with the calendar year. For 2001, the NYCT Financial Plan projects \$4.5 billion in revenues and \$4.8 billion in expenses, leaving a budget gap of \$210 million. This gap will be offset by \$222 million in anticipated cash flow adjustments including reserve funds and additional receipts, and funds made available from a \$23 million cash basis surplus in 2000. NYCT's cash basis budget projects a \$34 million surplus for fiscal year 2001. City assistance in 2001 to NYCT's operating budget is \$236 million, in addition to \$147 million in real estate tax revenue dedicated for NYCT's use.

The NYCT Financial Plan forecasts budget gaps of \$490 million, \$748 million, \$883 million, and \$1.0 billion in 2002 through 2005, respectively, before the implementation of cash flow adjustments and additional gap-closing actions. The City's Financial Plan does not require that NYCT's out-year gaps be funded. The City's Financial Plan assumes that the gaps in 2002 through 2005 will be closed in part by increased user charges, productivity measures, reduced service levels, additional management actions, or some combination of these actions.

On April 19, 2000, the Metropolitan Transportation Authority ("MTA") board approved a five-year, \$18.1 billion capital plan for the MTA for 2000 through 2004 (the "2000-2004 Capital Program"), including approximately \$11.9 billion for NYCT, to be funded with Federal, State and City capital funds, MTA bonds, and other MTA resources. The 2000-2004 Capital Program includes \$530 million in City capital funds, as well as \$345 million in City capital funds exchanged for proceeds from the sale of the Coliseum. The 2000-2004 Capital Program was approved by the Capital Program Review Board ("CPRB"), the State Legislature and the Governor.

The 2000-2004 Capital Program follows the \$13.2 billion capital program for 1995 through 1999, which included \$9.3 billion for NYCT. The Capital Program for 1995 through 1999 superseded the previous capital program for the period 1992 through 1996, which totaled \$9.56 billion, with \$7.4 billion in projects for NYCT.

There can be no assurance that all the necessary governmental actions for the 2000-2004 Capital Program will be taken, that funding sources currently identified will not be reduced or eliminated, or that parts of the capital program will not be delayed or reduced. If the MTA's capital program is delayed or reduced, ridership and fare revenues may decline which could, among other things, impair the MTA's ability to meet its operating expenses without additional assistance.

On September 19, 2001, the MTA issued a statement that certain portions of its operations were affected by the World Trade Center disaster. The MTA reported that damage occurred to tunnels, stations and infrastructure at transit system locations at or around the World Trade Center. The MTA expects that insurance and federal disaster assistance funds will cover substantially all of the property losses related to this event. The MTA continues to assess the long-term impact of, among other things, State subsidies generated by regional economic transactions, such as the regional sales and use tax and certain business taxes.

Board of Education

The Stavisky-Goodman Act requires the City to allocate to the BOE an amount of funds from the total budget either equal to the average proportion of the total budget appropriated for the BOE in the three preceding fiscal years or an amount agreed upon by the City and the BOE. 31.02% of the City's adopted budget for fiscal year 2002 is allocated to the BOE, exceeding the amount required by the Stavisky-Goodman Act. The Financial Plan assumes student enrollment to be approximately 1.1 million in the 2002 through 2005 fiscal years.

Judgments and Claims

In the fiscal year ended on June 30, 2001, the City expended \$594.8 million for judgments and claims. Expenditures for fiscal year 2002 are projected to reach \$309.5 million. The Financial Plan includes provisions for judgments and claims of \$325.7 million, \$345.7 million, and \$369.2 million for the 2003 through 2005 fiscal years, respectively. These projections incorporate the impact of a recent agreement between the City and HHC, whereby, commencing in 2002, claims costs attributed to HHC will be entirely paid for by HHC. These amounts, which have been deducted from the City's projected annual liability, are estimated at \$154.0 million, \$157.0 million, \$162.0 million and \$167.0 million for the 2002 through 2005 fiscal years, respectively. 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, 2001 amounted to approximately \$4.2 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 year ending June 30, 2001 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2001, could amount to approximately \$582 million. Provision has been made in the Financial Plan for estimated refunds of \$246 million, \$255 million, \$260 million and \$264 million for the 2002 through 2005 fiscal years, respectively, which includes provision for repurchase of previously sold defective tax liens. 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

Debt service estimates for the 2002 through 2005 fiscal years include estimates of debt service costs on outstanding City bonds and notes and future debt issuances based on current and projected future market conditions.

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. It is expected that the Control Board, OSDC and the City Comptroller will issue reports in the near future. It is expected that these reports will identify risks relating to the Financial Plan, which will include many of the risks identified in their reports on the June Financial Plan, and will project budget gaps for fiscal years 2003 through 2005 which are greater than projected in the Financial Plan.

On October 4, 2001, the City Comptroller released a report proposing a framework for assessing the impact of the events of September 11 on the City's economy and tax revenues. In the report, the City Comptroller estimated that job losses for fiscal year 2002 could total 115,300, some of which may be replaced by activity relating to clean-up, repair and reconstruction. In addition, the report estimated that the risk to the City budget from lost revenues resulting from the events of September 11 is \$738 million for fiscal year 2002 and \$567 million for fiscal year 2003, for a total of \$1.3 billion for the two fiscal years. The aggregate \$1.3 billion of projected lost revenues includes \$473 million from sales and hotel taxes, \$284 million from business taxes, \$195 million from property taxes and \$162 million from personal income taxes, as well as projected lost revenues relating to the commercial rent tax, parking violations and airport fees. The report noted that its estimates are preliminary and will be revised as additional information becomes available. It can be expected that other reports and statements, which will provide varying assessments of the impact of the events of September 11 on the City's economy and tax revenues, will continue to be issued.

In November 2001, the IBO released a report on projected tax revenues. In its report, the IBO projected that tax revenues would be \$925 million, \$1.8 billion, \$1.6 billion and \$1.9 billion less than anticipated in the June Financial Plan for fiscal years 2002 through 2005, respectively, assuming that a national recession began last summer and continues through the first half of calendar year 2002. Alternatively, the IBO projected that tax revenues would be \$569 million, \$1.0 billion, \$1.2 billion and \$1.5 billion less than anticipated in the June Financial Plan for fiscal years 2002 through 2005, respectively, if the national recession is shorter. The report noted that revenue forecasts have been affected by the virtual shutdown of the City's economy in the days immediately following September 11, a sustained reduction in tourism, retail activity, Wall Street profits and personal income and job losses. The IBO report noted that, assuming the longer recession, the projected tax revenue gaps would be comparable to those of the early 1990s for fiscal years 2002 and 2003. The IBO report noted that the length of the recession will depend on the military outcome of the war and how quickly Americans regain confidence in their domestic security.

On July 6, 2001, the City Comptroller issued a report on the June Financial Plan. The report projected a possible budget surplus of between \$63 million and \$571 million, including the \$345 million in the Budget Stabilization Account, for fiscal year 2002, and budget gaps, including the gaps projected in the June Financial Plan, of between \$3.4 billion and \$3.6 billion, \$4.1 billion and \$4.6 billion, and \$4.3 billion and \$4.9 billion in fiscal years 2003 through 2005, respectively, depending upon whether: (i) the City received \$114 million annually from the State-funded stock transfer tax incentive fund, which the Governor has proposed eliminating; (ii) labor contracts for fiscal years 2003 through 2005 are settled at the rate of local inflation at a cost of \$326 million, \$863 million and \$1.4 billion, respectively, or are settled at a rate consistent with new labor contracts negotiated between the State and civil service employees at a cost of \$423 million, \$1.2 billion and \$1.9 billion, respectively; and (iii) the City is able to complete proposed asset sales totaling \$394 million in fiscal year 2002, including the sale of OTB, which requires

State approval. Additional risks identified in the report for fiscal years 2002 through 2005 include: (i) assumed payments from the Port Authority relating to the City's claim for back rentals, which are the subject of arbitration; (ii) the receipt of \$125 million in assumed State and federal aid in fiscal year 2002 and \$150 million in assumed State and federal aid in each of fiscal years 2003 through 2005, which has been proposed in prior years without success; (iii) possible increased overtime expenditures of between \$190 million and \$320 million in each of fiscal years 2002 through 2005; (iv) the writedown of outstanding education aid receivables of \$96 million, \$72 million, \$104 million and \$14 million in fiscal years 2002 through 2005, respectively; and (v) the possibility that pension expenditures will be greater than forecast in the June Financial Plan by \$141 million, \$346 million and \$541 million in fiscal years 2003 through 2005, respectively, due to investment losses in fiscal year 2001 of 8.3% compared to the 0% investment earnings assumption for fiscal year 2001 in the June Financial Plan. The report noted that these risks may be partially offset by additional resources for fiscal years 2002 through 2005, including: (i) the availability of \$250 million annually in each of fiscal years 2002 through 2005 from the write-off of liabilities accrued in prior years that do not materialize; (ii) possible debt service savings of \$50 million in fiscal year 2002 and \$100 million annually in each of fiscal years 2003 through 2005 from the refunding of outstanding bonds, lower interest rates on variable rate obligations and lower interest costs on short-term debt; (iii) the possibility that tax revenues will be greater than forecast in the June Financial Plan by \$89 million, \$16 million, \$30 million and \$140 million in fiscal years 2002 through 2005, respectively; and (iv) the possibility that tax revenues will be greater than assumed in the June Financial Plan by \$100 million in fiscal year 2002 and \$200 million in each of fiscal years 2003 through 2005 if the tax reduction program is not approved by the State.

In addition, the report noted that the unions representing police and teachers are not satisfied with the wage settlement agreed upon by District Council 37 and the City for the period ending June 30, 2002, and that each percentage point increase above the District Council 37 settlement in teachers' salaries would result in an additional cost of \$56 million, and each percentage point increase in police salaries would raise costs by \$19 million. With respect to HHC, the report noted that the City projects a closing cash balance of \$353 million for fiscal year 2001, which the City expects HHC will use to close a projected operating deficit of \$336 million for fiscal year 2002. In addition, the report noted that the City projects operating deficits for HHC of between \$332 million and \$366 million in fiscal years 2003 through 2005, and that the City's plans for HHC to achieve budget balance depend heavily on federal and State actions, work force attrition savings and unspecified savings. Finally, the report noted that the City's economy is weakening, as evidenced by the deceleration in job growth and income-sensitive taxes, and that confidence in the stock market remains, at best, shaky.

On August 25, 1998, the City Comptroller issued a report reviewing the current condition of the City's major physical assets and the capital expenditures required to bring them to a state of good repair. The report estimated that the expenditure of approximately \$91.83 billion would be required over the next decade to bring the City's infrastructure to a systematic state of good repair and address new capital needs already identified, and that the City's current Ten-Year Capital Strategy, together with funding received from other sources, is projected to provide approximately \$52.08 billion. This represents the first time the Comptroller has issued such a report since May 1979. The capital need identified in the 1979 report was approximately two times greater than the actual capital expenditures for the period covered by that report. OMB notes that in the 1979 report, the Comptroller identified a capital need over seven times greater than the capital budget then proposed by the Mayor. The Comptroller's 1998 report estimates a capital need of approximately twice the amount of the capital spending proposed by the Mayor.

The 1998 report noted that the City's ability to meet all capital obligations is limited by law, as well as funding capacity, and that the issue for the City is how best to set priorities and manage limited resources. The report stated that its analysis is not limited to assets valued over \$10 million. It is noted that the annual City capital asset condition survey as required by section 1110-a of the City Charter reviews items valued at \$10 million or more. The report also includes major systems like traffic signal systems, street lighting, the East River bridges and assets leased to the Transit Authority and the Water Board. The

report's findings relate only to current infrastructure and do not address future capacity or technology needs. While the report indicates that the demands of the City's infrastructure outstrip the City's ability to pay for them, the report identifies several potential alternative methods for capital financing.

On July 11, 2001, the staff of the OSDC issued a report on the June Financial Plan. The report noted that fiscal year 2001 has a surplus of approximately \$2.9 billion reflected in the Budget Stabilization Account. In addition, the report identified net risks of \$480 million, \$977 million, \$1.8 billion and \$2.4 billion for fiscal years 2002 through 2005, respectively, which, when added to the gaps projected in the June Financial Plan, would result in gaps of \$480 million, \$3.8 billion, \$4.4 billion and \$4.6 billion in fiscal years 2002 through 2005, respectively. The risks identified in the report included: (i) the potential for additional wage costs of \$233 million, \$735 million and \$1.2 billion in fiscal years 2003 through 2005, respectively, beyond the amounts assumed in the June Financial Plan labor reserve, to reflect wage increases at the projected rate of inflation; (ii) the assumed receipt of \$150 million in federal and State aid in each of fiscal years 2002 through 2005; (iii) delays in receipt of Port Authority lease payments assumed in the June Financial Plan; (iv) the possible loss of \$114 million in each of fiscal years 2001 through 2005 if the Governor's proposal to eliminate the State appropriation to the stock transfer tax incentive fund is enacted by the State Legislature; (v) the possible write-down of outstanding State education aid receivables of \$63 million, \$72 million and \$104 million in fiscal years 2002 through 2004, respectively; (vi) additional pension contributions of \$75 million, \$210 million and \$335 million in fiscal years 2003 through 2005, respectively, to reflect the 7.8% loss in value of the City's five pension funds through June 25, 2001 and to take into account teachers' summer school salaries; (vii) possible additional expenditures for health insurance totaling between \$145 million and \$180 million in each of fiscal years 2002 through 2005; (viii) the possibility of increased overtime spending of \$50 million in fiscal year 2002 and \$150 million in each of fiscal years 2003 through 2005; (ix) the receipt of the proceeds of \$250 million in fiscal year 2002 from the sale of OTB, which requires State approval; (x) possible increased Medicaid costs of \$15 million, \$40 million, \$70 million and \$200 million in fiscal years 2002 through 2005, respectively, as a result of providing benefits to indigent legal immigrants and other increased costs; and (xi) the assumption in the June Financial Plan that the State will allow the City to use between \$183 million and \$247 million annually of State education aid to fund BOE wage increases. The report noted that the risks could be partially offset by the possibility that tax and miscellaneous revenues could exceed forecasts in the June Financial Plan by \$150 million in fiscal year 2001 and between \$250 million and \$330 million in each of fiscal years 2002 through 2005 and by the possibility of additional revenues if the tax reduction program is not approved by the State.

The report also noted that the projected gaps are among the largest ever projected by the City, at this point in the financial planning process, since the budget was first balanced in accordance with GAAP in fiscal year 1981. The report further noted that the economy is showing signs of slowing down, and expressed concerns about the City's less conservative Wall Street profit forecasts for fiscal years 2003 through 2005, which equal the profits of the 1995-98 period of the bull market. In addition, the report noted that: (i) collective bargaining costs could be higher by \$44 million in fiscal year 2002 and \$70 million annually thereafter for each additional one percent increase in wages for teachers and police officers above the DC 37 labor agreement; (ii) City spending for education could be greater than assumed in the June Financial Plan, if the State enacts legislation tightening minimum funding requirements for BOE and other large urban school districts in the State; (iii) HHC faces budget gaps starting in fiscal year 2003 in excess of \$400 million annually, after taking into account the shift to managed care and potential collective bargaining costs, which may require additional City assistance; and (iv) the size of the Federal block grant for public assistance may be reduced in fiscal year 2003 because of large reductions in the public assistance caseloads nationally, and caseloads may rise if there is a sustained downturn in the economy.

On July 11, 2001, the staff of the Control Board issued a report reviewing the June Financial Plan. While the report identified net risks of \$465 million for fiscal year 2002, the report noted that, absent unforeseen changes to the City's economy, the City's budget, if managed properly, should be balanced at the end of fiscal year 2002. With respect to fiscal years 2003 through 2005, the report identified net risks of \$801 million, \$1.2 billion and \$1.3 billion, respectively, which, when combined with the gaps projected in the June Financial Plan, result in estimated gaps of \$3.6 billion, \$3.8 billion and \$3.5 billion for fiscal

years 2003 through 2005, respectively. The risks identified in the report included: (i) the assumed receipt of between \$209 million and \$255 million in federal and State aid in each of fiscal years 2002 through 2005, including the assumed receipt by the City of funds from the State to offset collective bargaining costs at BOE; (ii) pension costs which could exceed those assumed in the June Financial Plan by \$41 million, \$102 million, \$182 million and \$384 million in fiscal years 2002 through 2005, respectively, due to pension investment losses in fiscal year 2001; (iii) delays in the receipt of Port Authority lease payments assumed in the June Financial Plan; (iv) the possible loss of \$114 million for each of fiscal years 2002 through 2005 if the Governor's proposal to eliminate funding for a payment to the City from the stock transfer tax incentive fund is implemented; (v) the possible write-down of funds owed to BOE by the State which have been outstanding for ten or more years, and the possible failure of the State to resume teacher support aid for the City, at a cost of \$112 million, \$121 million, \$153 million and \$63 million in fiscal years 2002 through 2005, respectively; (vi) possible increased overtime costs of between \$101 million and \$187 million annually; (vii) increased waste disposal costs of between \$20 million and \$26 million in each of fiscal years 2002 through 2005; (viii) the receipt of proceeds of \$350 million in fiscal year 2002 from the proposed sale of OTB and other assets; and (ix) increased expenditures of \$35 million, \$50 million, \$60 million and \$70 million in fiscal years 2002 through 2005, respectively, to reimburse eligible City retirees for Medicare Part B premiums. However, the report also noted that (i) non-property taxes and tax lien sales could be \$420 million and \$150 million greater than forecast in the June Financial Plan for fiscal years 2002 and 2003, respectively; and (ii) other miscellaneous revenues could be \$100 million greater than forecast in the June Financial Plan for each of fiscal years 2002 through 2005.

In its report, the staff noted that the June Financial Plan does not include funds for settlements being sought by teachers and uniformed employees greater than the DC 37 settlement, and does not provide for wage increases beyond the current round of collective bargaining for any employees. The report noted that if the City were to agree to contracts with its uniformed employees and teachers that exceeded the DC 37 settlement by 1% on the first day of the contract, the additional cost to the City would be \$113 million in fiscal year 2002 and \$115 million in subsequent years, and that if the City were to agree to an additional 1% increase commencing in the second year, the cost to the City of both increases would cost the City \$194.4 million in fiscal year 2002 and \$230.6 million in 2003 above amounts assumed in the June Financial Plan. In addition, the report expressed concern about potential shortfalls in funding for BOE, uncertainties concerning litigation involving minimum school funding requirements and uncertainties concerning the amount of State education aid to be provided when the State budget for its 2001-2002 fiscal year is adopted. Finally, the report noted that the economic boom of the past several years appears to be slowing, if not stopping; that, for the first time since the 1995 fiscal year, tax receipts appear likely to decline, due to tax cuts and the slipping economy; and that the City must develop the recurring initiatives necessary to offset large projected out-year gaps.

Long-Term Capital and Financing Program

The City makes substantial capital expenditures to reconstruct and rehabilitate the City's infrastructure and physical assets, including City mass transit facilities, sewers, 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 Program 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 1979, are projected to reach \$7.7 billion in 2002. City-funded expenditures, which more than tripled between fiscal years 1980 and 1985, are forecast at \$5.4 billion in the 2002 fiscal year; total expenditures are forecast at \$6.0 billion in 2002. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2002 through 2011, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures."

The following table sets forth the major areas of capital commitment projected for the 2002 through 2005 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.*"

2002-2005 CAPITAL COMMITMENT PLAN

	2002		2003		2004		2005	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
	(In Millions)							
Mass Transit(1)	\$ 535	\$ 535	\$ 106	\$ 106	\$ 106	\$ 106	\$ 106	\$ 106
Roadway, Bridges	862	908	1,127	1,248	1,176	1,318	1,148	1,188
Environmental Protection(2)	2,410	2,558	2,855	2,886	1,728	1,798	574	599
Education	1,267	1,277	1,128	1,138	1,140	1,150	1,272	1,272
Housing	553	733	377	500	325	449	418	532
Sanitation	362	369	137	143	316	316	329	329
City Operations/Facilities	5,050	5,324	1,679	1,857	1,125	1,178	920	975
Economic and Port Development	734	1,076	244	273	68	68	89	89
Reserve for Unattained Commitments	(4,117)	(4,117)	(2)	(2)	584	584	599	599
Total Commitments(3)	<u>\$ 7,656</u>	<u>\$ 8,662</u>	<u>\$ 7,651</u>	<u>\$ 8,148</u>	<u>\$ 6,568</u>	<u>\$ 6,967</u>	<u>\$ 5,455</u>	<u>\$ 5,689</u>
Total Expenditures(4)	<u>\$ 5,407</u>	<u>\$ 5,961</u>	<u>\$ 6,106</u>	<u>\$ 6,728</u>	<u>\$ 6,531</u>	<u>\$ 7,114</u>	<u>\$ 6,426</u>	<u>\$ 6,891</u>

Note: Numbers may not tally due to rounding.

- (1) Excludes NYCT's non-City portion of the MTA's five-year Capital Program.
- (2) Includes water supply, water mains, water pollution control, sewer projects and related equipment.
- (3) Commitments represent contracts registered with the City Comptroller, except for certain projects which are undertaken jointly by the City and State.
- (4) Expenditures represent cash payments and appropriations planned to be expended for capital costs, excluding amounts for original issue discount.

The following table sets forth the City's planned financing program for the 2002 through 2005 fiscal years. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

2002-2005 FINANCING PROGRAM

	2002	2003	2004	2005	Total
	(In Millions)				
City General Obligation Bonds	\$1,700	\$2,115	\$2,850	\$4,350	\$11,015
Finance Authority Bonds(1)	1,950	1,200	847	0	3,997
TSASC Bonds(2)	720	700	635	0	2,055
Water Authority Bonds(3)	2,300	1,595	1,954	1,859	7,708
DASNY and Other Conduit Debt(4)	636	700	685	316	2,337
Total	<u>\$7,306</u>	<u>\$6,310</u>	<u>\$6,971</u>	<u>\$6,525</u>	<u>\$27,112</u>

Note: Totals may not add due to rounding.

- (1) Finance Authority Bonds excludes bonds issued to pay bond anticipation notes. Finance Authority Bonds also excludes \$1.0 billion of Recovery Notes issued on October 4, 2001 to pay costs related to the September 11 attack and bonds that have been authorized by the Authority to pay such notes. Finance Authority Bonds includes other bond anticipation notes and capitalized interest thereon.
- (2) TSASC Bonds includes a \$150 million loan pursuant to the Transportation Infrastructure Finance and Innovation Act ("TIFIA"), estimated to be drawn down by \$85 million in fiscal year 2002 and \$65 million in fiscal year 2003. The size of future TSASC bond issues will be approximately \$630 million each in fiscal years 2002, 2003 and 2004. The City expects to derive total net proceeds of approximately \$1.8 billion from TSASC for capital purposes, including the \$150 million TIFIA loan, in addition to the \$604 million of proceeds from the November 1999 TSASC financing.

- (3) Water Authority Bonds includes commercial paper and certain revenue bonds issued to date and expected to be issued for the water and sewer system's capital program, and includes reserve amounts. Figures do not include bonds that defease commercial paper.
- (4) DASNY and Other Conduit Debt includes DASNY financing of the City court capital program, three HHC projects, Jay Street Development Corp. financing of the 330 Jay Street project, New York City Industrial Development Agency financing of the New York Stock Exchange project, and other conduit financings. The amounts reflected in fiscal years 2002 through 2005 include a total allocation for reserve funds and other costs of issuance during the period of \$357 million.

A Federal law, the Americans with Disabilities Act of 1990, generally requires that various facilities be made accessible to disabled persons. The City continues to analyze actions that are required to comply with the law. The City may incur substantial additional capital expenditures, as well as additional operating expenses to comply with the law. Compliance measures which require additional capital measures are expected to be achieved through the reallocation of existing funds within the City's capital program. In addition, the City could incur substantial additional capital expenditures for school construction if alternative proposals to relieve overcrowding in the public schools are not developed and implemented.

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.

The City's four-year financing program and capital program includes the issuance of revenue bonds by the Finance Authority and tobacco settlement bonds by TSASC to provide for capital financing needs of the City. The bonds issued by the Finance Authority are secured by the City's personal income tax revenue, and other revenues if personal income tax revenues do not satisfy specified debt service ratios, and are not subject to the constitutional debt limitation. The Finance Authority is authorized to issue \$11.5 billion of bonds and notes for City capital purposes and to have outstanding \$2.5 billion of bonds and notes to pay costs related to the September 11 attack. Bonds issued by TSASC will be payable from funds derived from the settlement of litigation with tobacco companies selling cigarettes in the United States and will not be subject to the constitutional debt limitation. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*"

The City's current four-year financing program and capital program includes the issuance of water and sewer revenue bonds. The Water Authority 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 and the Water Board 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 covering fiscal years 2002 through 2011 projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately \$9.99 billion of the \$51.9 billion City-funded portion of the plan.

The City is subject to statutory and regulatory standards relating to the quality of its drinking water. The City's water supply now meets all technical standards and the City's current efforts are directed toward protection of the watershed area. A full scale water treatment facility to filter Croton system water is required under a Federal consent decree. State and Federal regulations require the City water supply to meet certain standards to avoid filtration of the Catskill/Delaware water supply system. The City has taken the position that increased regulatory, enforcement and other efforts to protect its water supply, relating to such matters as land use and wastewater treatment, will preserve the high quality of water in the Catskill/Delaware water supply system and prevent the need for filtration. On May 6, 1997, in accordance with the New York City Watershed Memorandum of Agreement which was signed on January 21, 1997, among the City, the State, the U.S. Environmental Protection Agency ("USEPA"), the communities in the Catskill/Delaware and Croton watersheds and several environmental groups, USEPA

granted the City a filtration avoidance waiver through April 15, 2002. The City has estimated that if filtration of the Catskill/Delaware water supply system is ultimately required, the construction expenditures required could be between \$3 billion and \$4 billion.

Implementation of the capital plan is dependent upon the City's ability to market its securities successfully in the public credit markets. The terms and the success of projected public sales of City general obligation bonds, Water Authority, Finance Authority and HHC revenue bonds and TSASC bonds 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. As a significant portion of bond financing is used to reimburse the City's General Fund for capital expenditures already incurred, if the City is 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 2002 through 2011 totals \$54.4 billion, of which approximately 95% is to 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*". Congressional developments affecting Federal taxation generally could reduce the market value of tax-favored investments and increase the City's debt-service costs in carrying out the currently tax-exempt major portion of its capital plan. For information concerning litigation which, if determined against the City, could have an adverse impact on the amount of debt the City can have outstanding under the general debt limit (defined as 10% of the average full value of taxable real estate in the City for the most recent five years), see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*."

In December 2000, the City issued 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 (the "AIMS Report"). 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 \$4.67 billion in capital investment was needed for fiscal years 2002 through 2005 to bring the assets to a state of good repair. The report also estimated that \$173 million, \$129 million, \$185 million and \$154 million should be spent on maintenance in fiscal years 2002 through 2005, 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, in April 2001, concluded that the capital investment in the Four-Year Capital Plan for the specifically identified inventoried assets funds 67% of the total investment recommended in the preceding AIMS Report issued in December 2000. Capital investment allocated in the Ten-Year Capital Strategy published in April 2001 will fund an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 53% of the expense maintenance levels recommended were included in the financial plan, compared to 57% of the expense maintenance levels included in the previous year.

New York City Recovery Financing

The Finance Authority issued \$1 billion of recovery notes on October 4, 2001 to pay costs related to the September 11, 2001 attack on the World Trade Center. The Finance Authority note proceeds may be utilized to accommodate cash needs resulting from time differences between payment by the City of costs related to the September 11 attack and receipt of Federal reimbursement for such costs, or to meet other City cash requirements caused by such events. Such notes may be paid with Finance Authority revenues

(with the resulting reduction in City tax revenues to be offset by Federal aid or other sources) or proceeds of renewal notes or bonds of the Finance Authority (which would also reduce tax revenues to the City). The Finance Authority is authorized to have outstanding \$2.5 billion of bonds or notes the proceeds of which are to be used to pay costs related to the September 11 attack.

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. The City anticipates that its seasonal financing need for its 2002 fiscal year will be satisfied by the issuance of \$1.5 billion of short-term obligations in October 2001. To finance its projected cash flow needs, the City issued \$750 million of short-term obligations in fiscal year 2001, and issued \$750 million of short-term obligations in fiscal year 2000, \$500 million of short-term obligations in fiscal year 1999, \$1.075 billion of short-term obligations in fiscal year 1998 and \$2.4 billion of short-term obligations in fiscal year 1997. The delay in the adoption of the State's budget in certain past fiscal years has required the City to issue short-term notes in amounts exceeding those expected early in such fiscal years.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City, MAC and PBC Indebtedness

The following table sets forth outstanding indebtedness having an initial maturity greater than one year from the date of issuance of the City, MAC and the PBCs as of September 30, 2001.

(In Thousands)		
Gross City Long-Term Indebtedness(1)	.....	\$25,809,880
Less: Assets Held for Debt Service(1)	.....	<u>193,308</u>
Net City Long-Term Indebtedness	.....	\$25,616,572
Gross MAC Long-Term Indebtedness(2)	.....	2,879,745
Less: Assets Held for Debt Service(2)	.....	<u>739,506</u>
Net MAC Long-Term Indebtedness	.....	2,140,239
PBC Indebtedness(3)		
Bonds Payable	.....	537,944
Capital Lease Obligations	.....	<u>1,301,676</u>
Gross PBC Indebtedness	.....	1,839,620
Less: Assets Held for Debt Service	.....	294,905
Net PBC Indebtedness	.....	<u>1,544,715</u>
Combined Net City, MAC and PBC Indebtedness	.....	<u><u>\$29,301,526</u></u>

- (1) With respect to City long-term indebtedness, "Assets Held for Debt Service" consists of General Debt Service Fund assets, and \$76.3 million principal amount of City serial bonds held by MAC. Amounts do not include the indebtedness of the Finance Authority and TSASC, which were \$7,508 million and \$694 million, respectively, as of September 30, 2001.
- (2) With respect to MAC indebtedness, "Assets Held for Debt Service" consists of assets held in MAC's debt service funds less accrued liabilities for interest payable on MAC long-term indebtedness plus amounts held in reserve funds for payment of principal of and interest on MAC bonds. Other MAC funds, while not specifically pledged for the payment of principal of and interest on MAC bonds, are also available for these purposes. For further information regarding MAC indebtedness and assets held for debt service, see "Municipal Assistance Corporation Indebtedness" below.
- (3) "PBC Indebtedness" refers to City obligations to PBCs. For further information regarding the indebtedness of certain PBCs, see "Public Benefit Corporation Indebtedness" below.

Trend in Outstanding Net City, MAC and PBC Indebtedness

The following table shows the trend in the outstanding net long-term and net short-term debt of the City and MAC and in net PBC indebtedness as of June 30 of each of the fiscal years 1989 through 2001 and as of September 30, 2001.

	<u>City(1)</u>		<u>MAC(2)</u>		<u>Component Unit and City Guaranteed Debt(3)</u>	<u>Total</u>
	<u>Long-Term Net Debt(3)</u>	<u>Short-Term Debt</u>	<u>Long-Term Net Debt(4)</u>	<u>Short-Term Debt</u>		
	(In Millions)					
1989	\$ 9,332	\$—	\$6,082	\$ —	\$ 780	\$16,194
1990	11,779	—	5,713	—	782	18,274
1991	15,293	—	5,265	—	803	21,361
1992	17,916	—	4,657	—	782	23,355
1993	19,624	—	4,470	—	768	24,862
1994	21,731	—	4,215	—	1,114	27,060
1995	23,258	—	4,033	—	1,098	28,389
1996	25,052	—	3,936	—	1,155	30,143
1997	26,180	—	3,717	—	1,182	31,079
1998	25,917	—	3,108	—	1,129	30,154
1999	26,287	—	2,809	—	1,403	30,499
2000	25,543	—	2,477	—	1,575	29,595
2001	25,609	—	2,019	—	1,533	29,162
September 30, 2001	25,617	—	2,140	—	1,544	29,301

- (1) Amounts do not include debt of the City held by MAC. See "Outstanding City, MAC and PBC Indebtedness—note 2." Amounts do not include indebtedness of the Finance Authority and TSASC, which were \$7,508 million and \$694 million, respectively, as of June 30, 2001 and September 30, 2001.
- (2) MAC reported outstanding long-term indebtedness without reduction for reserves, as follows: \$7,307 million, \$6,901 million, \$6,471 million, \$5,559 million, \$5,304 million, \$4,891 million, \$4,694 million, \$4,563 million, \$4,267 million, \$3,895 million, \$3,532 million, \$3,217 million and \$3,217 million as of June 30 of each of the years 1989 through 2001.
- (3) Net of reserves. See "Outstanding Indebtedness—note 2." Component Units are PBCs included in the City's financial statements. For more information concerning Component Unit PBCs, see "Public Benefit Corporation Indebtedness" below.
- (4) Calculations of net MAC indebtedness include the total bonds outstanding under MAC's 1991 General Bond Resolutions and accrued interest on those bonds less the amounts held by MAC in its debt service and reserve funds.

Rapidity of Principal Retirement

The following table details, as of September 30, 2001, the cumulative percentage of total City general obligation debt outstanding that is scheduled to be retired in accordance with its terms in each prospective five-year period.

<u>Period</u>	<u>Cumulative Percentage of Debt Scheduled for Retirement</u>
5 years	25.95%
10 years	50.53
15 years	71.40
20 years	87.70
25 years	97.72
30 years	99.87

City, MAC and City-guaranteed PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of September 30, 2001, on City and MAC term and serial bonds outstanding and City-guaranteed debt of and capital lease obligations to certain PBCs.

<u>Fiscal Years</u>	<u>City Long-Term Debt</u>		<u>Component Unit and City Guaranteed Debt(2)</u>	<u>MAC Funding Requirements</u>	<u>Total</u>
	<u>Principal of Bonds(1)</u>	<u>Interest(1)</u>			
			(In Thousands)		
2002	\$ 193,202	\$ 440,878	\$ 130,116	\$ 506,214	\$ 1,270,410
2003	1,414,964	1,349,291	179,262	506,385	3,449,902
2004	1,430,528	1,274,643	179,438	506,296	3,390,905
2005	1,411,061	1,217,832	178,289	495,880	3,303,062
2006 through 2147	21,166,817	10,721,376	2,569,982	1,485,149	35,943,324
Total	<u>\$25,616,572</u>	<u>\$15,004,020</u>	<u>\$3,237,087</u>	<u>\$3,499,924</u>	<u>\$47,357,603</u>

(1) Includes debt service on general obligation bonds only.

(2) Component Units are PBCs included in the City's financial statements. For additional information concerning these PBCs, see "Public Benefit Corporation Indebtedness" below.

(3) Amount shown is for fiscal years 2005 through 2008.

Certain Debt Ratios

The following table sets forth information for each of the fiscal years 1989 through 2001, with respect to the approximate ratio of debt to certain economic factors. As used in this table, debt includes net City, MAC, Finance Authority, TSASC and PBC debt.

<u>Fiscal Year</u>	<u>Debt Per Capita</u>	<u>Debt as % of Total Taxable Real Property By</u>	
		<u>Assessed Valuation</u>	<u>Estimated Full Valuation(1)</u>
1989	\$2,202	25.4%	4.6%
1990	2,490	26.0	4.5
1991	2,920	28.0	4.5
1992	3,193	27.9	3.9
1993	3,388	30.4	3.8
1994	3,687	34.1	3.7
1995	3,892	37.2	4.1
1996	4,122	39.2	7.1
1997	4,218	40.2	8.3
1998	4,363	41.0	9.0
1999	4,662	42.2	10.4
2000	4,854	42.0	10.6
2001	4,628	40.9	10.2

Source: Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2001.

(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.

Ratio of Debt to Personal Income

The following table sets forth, for each of fiscal years 1984 through 1999, debt per capita as a percentage of personal income per capita in current dollars. As used in this table, debt includes net City, MAC, Finance Authority, TSASC and PBC debt.

<u>Fiscal Year</u>	<u>Debt Per Capita</u>	<u>Personal Income per Capita(1)</u>	<u>Debt per Capita as % of Personal Income per Capita</u>
1984.....	\$1,695	\$15,881	10.67%
1985.....	1,723	16,919	10.18
1986.....	1,833	18,318	10.01
1987.....	1,893	19,488	9.71
1988.....	2,041	21,479	9.50
1989.....	2,202	23,004	9.57
1990.....	2,490	24,893	10.00
1991.....	2,920	25,597	11.42
1992.....	3,193	27,331	11.68
1993.....	3,338	27,677	12.06
1994.....	3,687	26,435	13.95
1995.....	3,892	30,192	12.89
1996.....	4,122	32,147	12.82
1997.....	4,218	33,228	12.69
1998.....	4,363	35,266	12.37
1999.....	4,662	37,434	12.45

Source: Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2001.

(1) Personal income is measured before the deduction of personal income taxes and other personal taxes.

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, a TAN Account has been established by the State Comptroller within the Fund to pay the principal of outstanding City TANs. After notification by the City of the date when principal due or to become due on an outstanding issue of TANs will equal 90% of the "available tax levy," as defined in the Act, with respect to such issue, the State Comptroller must pay into the TAN Account from the collection of real estate tax payments (after paying amounts required to be deposited in the General Debt Service Fund for Monthly Debt Service) amounts sufficient to pay the principal of such TANs. Similarly, a RAN Account has been established by the State Comptroller within the Fund to pay the principal of outstanding City RANs. Revenues in anticipation of which RANs are issued must be deposited in the RAN Account. If revenue consists of State or other revenue to be paid

to the City by the State Comptroller, the State Comptroller must deposit such revenue directly into the RAN Account on the date such revenue is payable to the City. Under the Act, after notification by the City of the date when principal due or to become due on an outstanding issue of RANs will equal 90% of the total amount of revenue against which such RANs were issued on or before the fifth day prior to the maturity date of the RANs, the State Comptroller must commence on such date to retain in the RAN Account an amount sufficient to pay the principal of such RANs when due. Revenues required to be deposited in the RAN Account vest immediately in the State Comptroller in trust for the benefit of the holders of notes issued in anticipation of such revenues. No person other than a holder of such RANs, has any right to or claim against revenues so held in trust. Whenever the amount contained in the RAN Account or the TAN Account exceeds the amount required to be retained in such Account, the excess, including earnings on investments, is to be withdrawn from such Account and paid into the General Fund of the City.

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 legislation which created MAC (the "MAC Act") contains two limitations on the amount of short-term debt which the City may issue. As of November 30, 2001, the maximum amount of additional short-term debt which the City could issue was \$7.26 billion under the first limitation. The second limitation does not prohibit any issuance by the City of BANs or short-term debt issued and payable within the same fiscal year, such as TANs and RANs. However, subject to the other restrictions and requirements described above, as of November 30, 2001, the maximum amount of TANs, RANs, or Budget Notes issued in the current fiscal year and maturing next fiscal year, that the City could issue was approximately \$841.4 million under the second limitation. These limitations, and other restrictions on maturities of City notes and other requirements described above, could be amended by State legislative action.

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." For information concerning litigation which, if determined against the City, could have an adverse impact on the amount of debt the City can have outstanding under the general debt limit, see "SECTION IX: OTHER INFORMATION—Litigation—Taxes." 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 statutory authority for variable rate debt is limited to 20% 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. Neither MAC indebtedness nor the City's commitments with other PBCs (other than certain guaranteed debt of the Housing Authority) are chargeable against the City's constitutional debt limits.

To provide for the City's capital program, the Finance Authority and TSASC were created, the debt of which is not subject to the general debt limit of the City. Without the Finance Authority 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. The debt-incurring power of the Finance Authority and TSASC has permitted the City to continue to enter into new contractual commitments and is expected to provide sufficient capacity to continue the City's capital program into fiscal year 2004. The City's current projections indicate that it will require an additional \$5.3 billion in financing capacity to complete its Ten-Year Capital Strategy. The City will either seek an amendment to the State Constitution to increase its debt-incurring capacity or seek to establish some other financing mechanism to enable it to complete its Ten-Year Capital Strategy.

The following table sets forth the calculation of the debt-incurring power of the City, the Finance Authority and TSASC as of November 30, 2001.

(In Thousands)		
Total City Debt-Incurring Power under General Debt Limit		\$32,867,212
Gross Debt-Funded	\$26,732,176	
Less: Excluded Debt	<u>636,843</u>	
	26,095,333	
Less: Fiscal Year 2002 Appropriations for Principal of Debt . . .	<u>277,276</u>	
	25,818,056	
Contracts and Other Liabilities, Net of Prior TSASC and Finance Authority Financings and Restricted Cash	<u>5,535,484</u>	
Total Indebtedness	31,353,541	
Less: Anticipated Finance Authority Financing of Liabilities(1) .	2,628,045	
Less: Anticipated TSASC Debt-Incurring Power	<u>1,596,348</u>	<u>27,129,147</u>
City, Finance Authority and TSASC Debt-Incurring Power(2) . .		<u>\$ 5,738,064</u>

Note: Numbers may not tally due to rounding.

- (1) Reflects Finance Authority debt-incurring capacity of \$11.5 billion, which was increased from \$7.5 billion by State legislation in June 2000. These figures do not include an additional \$2.5 billion of debt-incurring capacity granted by State legislation in September 2001 to pay costs related to the September 11 attack.
- (2) Without the creation of the Finance Authority and TSASC, the debt-incurring power of the City under the general debt limit, as of November 30, 2001, would have been exceeded by \$8.0 billion.

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, has the legal capacity to file a petition under the Federal Bankruptcy Code.

Municipal Assistance Corporation Indebtedness

MAC was organized in 1975 to provide financing assistance for the City and also to exercise certain review functions with respect to the City's finances. Since its creation, MAC has provided, among other things, financing assistance to the City by refunding maturing City short-term debt and transferring to the

City funds received from sales of MAC bonds and notes. MAC is authorized to issue bonds and notes payable from certain stock transfer tax revenues and the City's portion of the State sales tax derived in the City and, subject to certain prior claims, State per capita aid otherwise payable by the State to the City. These revenues are paid, subject to appropriation, directly by the State to MAC to the extent they are needed for MAC debt service, MAC reserve fund requirements or MAC operating expenses; revenues which are not needed by MAC are paid by the State to the City, except for the stock transfer tax revenues, which are rebated to the payers of the tax. MAC bonds and notes constitute general obligations of MAC and do not constitute an enforceable obligation or debt of either the State or the City. Failure by the State to continue the imposition of such taxes, the reduction of the rate of such taxes to rates less than those in effect on July 2, 1975, failure by the State to pay such aid revenues and the reduction of such aid revenues below a specified level are included among the events of default in the resolutions authorizing MAC's long-term debt. The occurrence of an event of default may result in the acceleration of the maturity of all or a portion of MAC's debt.

As of September 30, 2001, MAC had outstanding an aggregate of approximately \$2.880 billion of its bonds. MAC is authorized to issue bonds and notes to refund its outstanding bonds and notes and to fund certain reserves.

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 unless expressly guaranteed or assumed by 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. *Guarantees*—PBC indebtedness may be directly guaranteed by the City.
2. *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.
3. *Executed Leases*—These are leases pursuant to which the City is legally obligated to make the required rental payments.
4. *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.

The City's financial statements include MAC and certain PBCs, such as The New York City Educational Construction Fund ("ECF") and the CUCF.

New York City Educational Construction Fund

As of September 30, 2001, approximately \$134.0 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF's

leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

New York City Housing Authority

As of September 30, 2001, the City had guaranteed \$13.6 million principal amount of HA bonds. The City has also guaranteed the repayment of \$124.7 million principal amount of HA indebtedness to the State, of which the Federal government has agreed to pay debt service on \$46.7 million. The City also pays subsidies to the HA to cover operating expenses. Exclusive of the payment of certain labor costs, such subsidies amounted to \$37.0 million in the 2000 fiscal year and to \$27.4 million in the 2001 fiscal year.

New York State Housing Finance Agency

As of September 30, 2001, \$220.0 million principal amount of HFA refunding bonds relating to hospital and family care facilities leased to the City was outstanding. HFA does not receive third party revenues to offset the City's capital lease obligations with respect to these bonds. Lease payments, which are made by the City seven months in advance of payment dates of the bonds, are intended to cover development and construction costs, including debt service, of each facility plus a share of HFA's overhead and administrative expenses.

Dormitory Authority of the State of New York

As of September 30, 2001, \$680.7 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities in the City was outstanding. The court facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on Authority bonds and certain fees and expenses of DASNY.

City University Construction Fund

As of September 30, 2001, approximately \$626.8 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 DASNY's bonds issued to finance the leased projects plus related overhead and administrative expenses of DASNY.

New York State Urban Development Corporation

As of September 30, 2001, \$50.6 million principal amount of New York State Urban Development Corporation ("UDC") bonds subject to executed or proposed lease arrangements was outstanding. This amount differs from the amount calculated by UDC (\$63.1 million) because UDC has included certain interest costs relating to Public School 50 and Intermediate School 229 in Manhattan in its calculation. 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, 2000 consisted of approximately 339,000 current employees, of whom approximately 79,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there were approximately 246,000 retirees and beneficiaries currently receiving benefits and other vested members terminated but not receiving benefits. The City also contributes to three other actuarial systems, maintains a non-actuarial retirement system for retired individuals not covered by the five major actuarial systems, provides other supplemental benefits to retirees and makes contributions to certain union annuity funds.

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

The City's pension expenditures in fiscal year 2001 were \$1.217 billion. Expense projections for fiscal years 2002 through 2005 are estimated at \$1.591 billion, \$1.969 billion, \$2.255 billion, and \$2.559 billion, respectively. These projections are based on draft valuation projections by the Chief Actuary. The projections reflect the Actuary's funding assumptions, a market value restart in fiscal year 2000, and an eight percent investment return assumption which is governed by State law. These projections also incorporate the estimated costs of benefit improvements that were enacted into law last year, including automatic cost of living adjustments for retirees. In addition, these projections reflect the impact of negative investment earnings of approximately 8.3% that occurred in fiscal year 2001. The additional employer contributions associated with these losses are phased-in over a five-year period in accordance with the actuarial asset valuation method.

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 2001 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 15% 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.

For fiscal year 2001, 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, 2000, plus the other pension expenditures were approximately \$1.217 billion. The annual pension costs were computed in accordance with Governmental Accounting Standards Board Statement Number 27 and are consistent with generally accepted actuarial principles.

The actual pension contributions were less than the annual pension costs, primarily because (1) the City is only one of the participating employers in the New York City Employees' Retirement System ("NYCERS"), the New York City Teachers' Retirement System (the "Teachers System") and the New York City Board of Education Retirement System (the "BOE System") and (2) Chapter 125 of the Laws of 2000 ("Chapter 125"), which provides eligible retirees and eligible beneficiaries with automatic cost-of-living adjustments beginning in September 2000, and also provides for a phase-in schedule for funding the additional liabilities created by the benefits provided by Chapter 125.

For the New York City Police Pension Fund, Subchapter Two (the "Police Fund") and the New York City Fire Department Pension Fund, Subchapter Two (the "Fire Fund"), Net Pension Obligations of approximately \$130.6 million and approximately \$57.6 million, respectively, were recorded as of June 30, 2000.

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, 2000. 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, and the BOE System and the Police Fund for June 30, 1999 and 2000) the amounts shown include zero for these retirement systems.

<u>June 30</u>	Unfunded Pension Liability Amount(1) (In Billions)
1995	4.03
1996	4.29
1997	4.28
1998	4.64
1999 .....	.15
2000 .....	.17

(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, 2001 amounted to approximately \$4.2 billion. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Service Costs—*Judgments and Claims*."

Taxes

1. Numerous real estate tax *certiorari* proceedings alleging overvaluation, inequality and illegality are pending against the City. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential future liability for outstanding *certiorari* proceedings to be \$582 million at June 30, 2001. 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."

2. The City has brought proceedings challenging the final class ratios for class two and class four property certified by the State Board for the 1991 and 1992 assessment rolls. Class ratios are used in real property tax *certiorari* proceedings involving allegations of inequality of assessment and ratios that are too low can result in more successful claims for refunds for overpayments than appropriate. In a proceeding consolidating the City's challenges to the class ratios for the 1991 and 1992 assessment rolls, on December 15, 1994, the Supreme Court, New York County annulled the class two and class four ratios for those years and remanded the matter to the State Board for recalculation of the ratios consistent with the decision. Pursuant to a stipulation extending its time to appeal, the State Board has not yet appealed the judgment, but if the original class ratios were reinstated on appeal, it could lead to an increase in refunds, for overpayment of real property taxes paid in the 1992 and 1993 fiscal years. The State Board and the

City have also agreed to toll the City's time to challenge final class ratios for classes two and four for the 1993 and 1994 assessment rolls, pending the outcome of efforts to resolve the matter without further litigation. For additional information, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—Assessment."

3. A group of real property taxpayers has brought a series of declaratory judgment actions charging that Tax Resolutions adopted by the City Council violate the State Constitution. Plaintiffs allege that the special equalization ratios calculated by the State Board resulted in the overstatement of the average full valuation of real property in the City with the result that the City's real estate tax levy is in excess of the State Constitution's real estate tax limit. Actions relating to the real estate tax levies for fiscal years 1993, 1994, 1995 and 1996 have been commenced by groups of taxpayers and are pending in State Supreme Court, Albany County. The first such action was dismissed on standing grounds. Although plaintiffs do not specify the extent of the alleged real property overvaluation, an adverse determination significantly reducing such limit could subject the City to substantial liability for real property tax refunds and could have an adverse impact on the amount of debt the City can have outstanding under the general debt limit (defined as 10% of the average full value of taxable real estate in the City for the most recent five years).

Miscellaneous

1. On April 3, 1990, the New York State Court of Appeals ruled, in a case brought by a group of New York City recipients of Aid to Families with Dependent Children ("AFDC"), that the New York Social Services Law requires that AFDC recipients receive for housing an adequate allowance that bears a reasonable relationship to the cost of housing and remanded the case to the trial court. On April 16, 1997, the trial court held that the current shelter allowance is not reasonably related to the cost of housing. On May 6, 1999, the Appellate Division, First Department, affirmed the trial court decision. The State's motion for leave to appeal the Appellate Court decision to the Court of Appeals was dismissed as premature because the trial court's order was not a final order. Plaintiffs have since filed a motion seeking to compel the State to comply with the trial court order within 60 days of the disposition of such motion. The State is opposing the plaintiffs' motion and has cross moved seeking a decision which would make the trial court's order final. The shelter allowance, while determined by the State Department of Social Services ("DSS"), is funded by contributions from the Federal, State and City governments. The City's contribution is 25% of the total allowance. If plaintiffs are ultimately successful in seeking substantial increases in the shelter allowance, it could result in substantial costs to the City.

2. In three pending actions plaintiffs seek broad injunctive relief directed toward the City's lead paint poisoning prevention activities. In the Federal action, a class has been certified consisting of children under the age of seven and pregnant women residing in housing owned by the City or where the City administers federal community development block grant funds.

In one of the State actions, a class has been certified consisting of children under the age of seven living in multiple dwellings in New York City where a complaint of lead paint has been made which the City allegedly has not timely and adequately inspected and abated. Orders have been issued in such action directing the City's Department of Housing Preservation and Development and Department of Health to issue regulations in conformance with the court's interpretation of local law governing the removal of lead paint in residential buildings. While both agencies were in the process of promulgating these regulations, the parties to the litigation agreed to a stay of the relevant orders in contemplation of legislative change. In the summer of 1999, the City Council passed and the Mayor signed a new local law governing lead paint in residential buildings. The City is currently defending two lawsuits that challenge the new local law as having been passed in violation of State and City environmental laws, and in violation of the State's Municipal Home Rule Law. In October 2000, a trial court judge ruled that the City did not comply with the pertinent environmental laws when it adopted this local law. The City has appealed from the judgment entered, and the trial court's judgment has been stayed pending resolution of the appeal. Also in October 2000, a trial court judge ruled that the lawsuit alleging non-compliance with the State's Municipal Home Rule Law was moot in light of the ruling on the environmental lawsuit. The petitioner in that lawsuit has filed a notice of appeal.

The State class action also challenges the City's activities relating to the screening of children for lead poisoning, the timeliness and adequacy of enforcement efforts, and inspection of day care facilities. The Federal action seeks warnings to tenants of lead paint hazards, abatement of lead paint hazards, and medical monitoring of class members. In another State action, plaintiffs challenge the City's enforcement activities with regard to lead paint in day care centers, nursery schools and kindergartens. Adverse determinations on these issues could result in substantial additional costs to the City.

In addition, nearly 1,100 claims have been filed against the City on behalf of children exposed to lead in City apartments. The suits seek to hold the City liable for failing to fix lead paint hazards in City-owned buildings and for failing to enforce lead safety standards in privately owned buildings. Such claims could cost the City in excess of \$300 million in the future.

3. On January 26, 1994, the Eastern Paralyzed Veterans Association ("EPVA") commenced an action in the United States District Court for the Southern District of New York alleging that the City had failed to take steps prescribed by the Americans with Disabilities Act and regulations promulgated thereunder to make the streets and sidewalks of the City accessible to handicapped persons. The EPVA seeks to compel the City, among other things, to implement a plan to provide curb ramps or other sloped areas at all intersections in the City by a certain future date, to be determined in accordance with U.S. Department of Justice regulations. If the EPVA were to prevail in this action, performing such work in an expedited time frame would impose substantial costs on the City.

4. 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' Retirement System of The City of New York (the "System") with regard to a component of the System consisting of member contributions and earnings thereon known as the Variable B Fund (the "Fund"). Plaintiff alleges that the trustees of the System illegally maintained the Fund as a fixed-income fund and ignored a requirement that a substantial amount of the Fund's assets be invested in equity securities. The defendants are the System and its individual trustees. Plaintiff seeks damages on behalf of all Fund participants in excess of \$250,000,000. In May 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendants' motion for summary judgment. If the plaintiff were to prevail in this action, it could result in substantial costs to the City.

Tax Exemption

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

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

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

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

The excess, if any, of the amount payable at maturity of any maturity of the Tax-Exempt Bonds over the initial public offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such maturity is sold constitutes original issue discount, which will be excludable from gross income to the same extent as interest on the Tax-Exempt Bonds for Federal, New York State and New York City income tax purposes. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of the Tax-Exempt Bonds with original issue discount (the "OID Bonds") will be increased by such amount. A portion of the original issue discount that accrues in each year to an owner of an OID Bond which is a corporation will be included in the calculation of the corporation's Federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of an OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral Federal income tax consequences discussed above. Consequently, owners of any OID Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral Federal income tax consequences although the owner of such OID Bond has not received cash attributable to such original issue discount in such year.

Owners of OID Bonds should consult their personal tax advisors with respect to the determination for Federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such OID Bonds, other tax consequences of owning OID Bonds and other state and local tax consequences of holding such OID Bonds.

The excess, if any, of the tax basis of the Tax-Exempt Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Bonds for Federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of such Bonds are required to decrease their adjusted basis in such Bonds by the amount of amortizable bond premium attributable to each taxable year such Bonds are held. The amortizable bond premium on such Bonds attributable to a taxable year is not deductible for Federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest received on such Bonds. Owners of such Bonds should consult their tax advisors with respect to the determination for Federal income tax purposes of the treatment of bond premiums upon sale or other disposition of such Bonds and with respect to the state and local tax consequences of owning and disposing of such Bonds.

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

Qualified Zone Academy Bonds

The QZAB Bonds are issued pursuant to Section 1397E of the Code. See Appendix D for information regarding certain Federal income tax consequences to holders of QZAB Bonds.

Ratings

The Bonds have been rated A2 by Moody's, A by Standard & Poor's and A+ by Fitch. These ratings do not reflect any bond insurance relating to any portion of the Bonds. Such ratings reflect only the views of Moody's, Standard & Poor's and Fitch from which an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of such bonds. On July 16, 1998, Standard & Poor's revised its rating of City bonds to A- from BBB+. On September 13, 2000, Standard & Poor's revised its rating of City bonds upward to A. Moody's rating of City bonds was revised in August 2000 to A2 from A3. On March 8, 1999, Fitch revised its rating of City bonds upward to A from A- and on September 15, 2000, Fitch revised its rating to A+. On November 16, 2001, Moody's revised its outlook on City bonds to negative from uncertain. The revised outlook reflects the disruptive effects of the World Trade Center tragedy on the City's economy, the effects of the national economic recession that evidenced strain on the critical financial services sector even prior to September 11, and projections of resultant current year and outyear revenue loss and spending increases attributable to these events.

Legal Opinions

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

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

Morgan, Lewis & Bockius LLP, New York, New York, Special Counsel to the City, will pass upon certain legal matters in connection with the preparation of this Official Statement. A description of those matters and the nature of the review conducted by that firm is set forth in its opinion and accompanying memorandum which are on file at the office of the Corporation Counsel. Such firm is also acting as counsel against the City in certain unrelated matters.

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

Underwriting

The Tax-Exempt Bonds are being purchased for reoffering by the Underwriters, for whom Salomon Smith Barney Inc., Goldman, Sachs & Co. and J.P. Morgan Securities Inc. are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Tax-Exempt Bonds shall be \$3,272,778.40.

The QZAB Bonds are being purchased for reoffering by Salomon Smith Barney Inc. and M. R. Beal & Company. The compensation for services rendered in connection with the underwriting of the QZAB Bonds shall be \$220,150.90.

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

Certain of the Underwriters hold substantial amounts of City bonds and notes and MAC bonds and may, from time to time during and after the offering of the Bonds to the public, purchase and sell City bonds and notes (including the Bonds) and MAC bonds for their own accounts or for their accounts or for the accounts of others, or receive payments or prepayments thereon.

Continuing Disclosure Undertaking

As authorized by the Act, and to the extent that (i) Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "1934 Act")

requires the underwriters (as defined in the Rule) of securities offered hereby (under this caption, if subject to the Rule, the "securities") to determine, as a condition to purchasing the securities, that the City will covenant to the effect of the Undertaking, and (ii) the Rule as so applied is authorized by a Federal law that as so construed is within the powers of Congress, the City agrees with the record and beneficial owners from time to time of the outstanding securities (under this caption, if subject to the Rule, "Bondholders") to provide:

(a) within 185 days after the end of each fiscal year, to each nationally recognized municipal securities information repository and to any New York State information depository, core financial information and operating data for the prior fiscal year, including (i) the City's audited general purpose financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the City's revenues, expenditures, financial operations and indebtedness generally of the type found herein in Sections IV, V and VIII and under the captions "1997-2001 Summary of Operations" in Section VI and "Pension Systems" in Section IX; and

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

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) modifications to rights of security holders;
- (8) bond calls;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the securities;
- (11) rating changes; and
- (12) failure of the City to comply with clause (a) above.

Event (3) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (3) may not be applicable, since the terms of the securities do not provide for "debt service reserves."

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

Event (6) is relevant only to the extent interest on the securities is tax-exempt.

Event (8). The City does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the final official statement (as defined in the Rule), (ii) the only open issue is which securities will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the securities and (iv) public notice of redemption is given pursuant to Exchange Act Release No. 23856 of the SEC, even if the originally scheduled amounts are reduced prior to optional redemptions or security purchases.

At the date hereof, there is no New York State information depository and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repository, 100 Business Park

Drive, Skillman, New Jersey 08558; Standard & Poor's J.J. Kenny Repository, Inc., 55 Water Street, 45th Floor, New York, New York 10041; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; and Interactive Data, 100 William Street, New York, New York 10038, Attn: Repository.

No Bondholder may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the Undertaking or for any remedy for breach thereof, unless such Bondholder shall have filed with the Corporation Counsel of the City evidence of ownership and a written notice of and request to cure such breach, and the City shall have refused to comply within a reasonable time. All Proceedings shall be instituted only as specified herein, in the Federal or State courts located in the Borough of Manhattan, State and City of New York, and for the equal benefit of all holders of the outstanding securities benefitted by the same or a substantially similar covenant, and no remedy shall be sought or granted other than specific performance of the covenant at issue.

Any amendment to the Undertaking may only take effect if:

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

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

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

Financial Advisor

The City retains Public Resources Advisory Group ("PRAG") to act as financial advisor with respect to the City's financing program. PRAG is acting as financial advisor for the issuance of the Bonds.

Further Information

The references herein to, and summaries of, Federal, State and local laws, including but not limited to the State Constitution, the Financial Emergency Act, the MAC 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, General Counsel, 59 Maiden Lane, New York, New York 10038, 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, NY 10007.

Financial plans are prepared quarterly, and the Comprehensive Annual Financial Report of the Comptroller is typically prepared at the end of October of each year.

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

THE CITY OF NEW YORK

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ECONOMIC AND SOCIAL FACTORS

This section presents information regarding certain of the major economic and demographic factors in the City which may affect 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 presented herein 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, manufacturing sales offices, 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 186 missions to the United Nations and the 96 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. Changes in the economic activity in the City, particularly employment, per capita personal income and retail sales, may have an impact on the City. From 1969 to 1977, the City experienced substantial declines in employment, but from 1978 to 1987 the City experienced strong growth in jobs, especially in the City's finance, insurance and real estate ("FIRE") sector due in large part to lower inflation, lower interest rates and a strong securities market. Beginning in 1988, employment growth in the City slowed, and in 1990 the City experienced job losses, although the U.S. economy expanded during that period. During 1991 and 1992, employment levels in the City continued to decline. In recent years, the City has experienced increases in employment. Real per capita personal income (i.e., per capita personal income adjusted for the effects of inflation and the differential in living costs) has generally experienced fewer fluctuations than employment in the City. Although the City periodically experienced declines in real per capita personal income between 1969 and 1981, real per capita personal income in the City has generally increased from the mid-1980s until the present. In nearly all of the years between 1969 and 1990 the City experienced strong increases in retail sales. However, from 1991 to 1993, the City experienced a weak period of retail sales. After 1994, the City returned to a period of growth in retail sales. Overall, the City's economic improvement accelerated significantly between 1997 and 2000. Much of the increase was traced to the performance of the securities industry, but the City's economy also produced gains in the retail trade sector, the hotel and tourism industry, and business services, with private sector employment growing rapidly. The City's Financial Plan assumes negative economic growth during the latter half of calendar year 2001 through the first half of calendar year 2002 as a result of the September 11 attack and the current national economic recession. The Financial Plan assumes the City's economy will begin a slow recovery with the national economic recovery around the middle of calendar year 2002.

Personal Income

Per capita personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, has steadily increased from 1989 to 1999 (the most recent year for which City personal income data are available) and is higher than the average for the United States. From 1989 to 1999, per capita personal income in the City averaged 5.3% growth compared to 4.6% for the nation. The following table sets forth recent information regarding personal income in the City.

PERSONAL INCOME IN NEW YORK CITY(1)

<u>Year</u>	<u>Total NYC Personal Income (\$ billions)</u>	<u>Per Capita Personal Income NYC</u>	<u>Per Capita Personal Income U.S.</u>	<u>NYC as a Percent of U.S.</u>
1989.....	\$168.2	\$22,909	\$18,571	123.4%
1990.....	182.3	24,895	19,588	127.1
1991.....	186.8	25,577	20,099	127.3
1992.....	199.7	27,331	21,077	129.7
1993.....	202.9	27,677	21,709	127.5
1994.....	208.6	28,416	22,565	125.9
1995.....	221.9	30,192	23,543	128.2
1996.....	236.6	32,147	24,630	130.5
1997.....	245.3	33,228	25,851	128.5
1998.....	261.1	35,266	27,292	129.2
1999.....	278.1	37,435	28,508	131.3

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, other labor income, proprietors' income, personal dividend income, personal interest income, rental income of persons, and transfer payments.

Sectoral Distribution of Employment and Income

In 2000, the City's services employment sector hit an all-time peak, providing approximately 1.4 million jobs and accounting for approximately 39% of total employment. Figures on the sectoral distribution of employment in the City reflect a significant shift to non-manufacturing employment, particularly to the areas of services and FIRE, and a shrinking manufacturing base in the City relative to the nation.

The structural shift from manufacturing to the services and FIRE sectors affects the level of earnings per employee because employee compensation in finance and related business and professional services is considerably higher than in manufacturing. Moreover, per employee earnings in the FIRE sector are significantly higher in the City than in the nation. From 1979 to 1999, the employment share for FIRE remained approximately 13% while the FIRE sector earnings share for the same period rose from 17% to 32% in the City. This shift in employment and earnings distribution toward the FIRE sector was more pronounced in the City than in the nation overall as indicated in the table below. Due to this shift in earnings distribution, 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 industry are set forth in the following table.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

Sector	Employment				Earnings(2)			
	1979		1999		1979		1999	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector:								
Non-Manufacturing:								
Services	26.2%	19.1%	38.2%	30.3%	25.2%	17.9%	32.8%	29.1%
Wholesale and Retail Trade	18.9	22.5	16.8	23.1	15.3	16.8	9.6	15.3
Finance, Insurance and Real Estate	13.1	5.5	13.4	5.9	16.6	5.8	31.6	9.2
Transportation and Public Utilities	7.9	5.7	5.7	5.3	10.3	7.5	5.4	6.8
Contract Construction	2.2	5.0	3.2	5.0	2.5	6.7	2.6	5.9
Mining	<u>0.0</u>	<u>1.1</u>	<u>0.0</u>	<u>0.4</u>	<u>0.7</u>	<u>1.8</u>	<u>0.4</u>	<u>0.8</u>
Total Non-Manufacturing	68.3	58.8	77.4	69.9	70.7	56.5	82.3	67.1
Manufacturing:								
Durable	4.7	14.2	1.7	8.6	3.9	16.2	1.3	10.2
Non-Durable	<u>11.1</u>	<u>9.3</u>	<u>5.2</u>	<u>5.8</u>	<u>9.9</u>	<u>9.0</u>	<u>5.3</u>	<u>6.1</u>
Total Manufacturing	<u>15.8</u>	<u>23.4</u>	<u>6.9</u>	<u>14.4</u>	<u>13.8</u>	<u>25.2</u>	<u>6.6</u>	<u>16.2</u>
Total Private Sector	84.1	82.2	84.3	84.3	84.4	82.1	88.9	84.0
Government(3)	15.9	17.8	15.7	15.7	15.6	17.9	11.1	16.0

Note: Totals may not tally due to rounding.

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 1999 data.
- (3) Excludes military establishments

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1993 through 2000, employment in the City grew by an average of 1.8% per year. The Financial Plan assumes 114,000 job losses in the City in 2002. In October 2001, the City lost 77,000 jobs. As of October 2001, total employment in the City was approximately 3,701,000 compared to approximately 3,761,300 in October 2000, leaving employment down 1.6%.

The table below shows the distribution of employment from 1991 to 2000.

NEW YORK CITY EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Private Sector										
Non-Manufacturing										
Services	1,097	1,093	1,116	1,148	1,184	1,227	1,275	1,325	1,384	1,456
Wholesale and Retail Trade ..	565	546	538	544	555	565	578	590	610	631
Finance, Insurance and Real Estate	494	473	472	480	473	469	473	483	486	490
Transportation and Public Utilities	218	205	203	201	203	205	206	206	208	211
Construction	100	87	86	89	90	91	94	102	114	122
Total Non-Manufacturing ...	2,474	2,404	2,415	2,463	2,505	2,557	2,625	2,707	2,802	2,910
Manufacturing:										
Durable	77	72	71	69	68	66	64	64	63	61
Non-Durable	231	220	218	211	206	201	201	195	188	182
Total Manufacturing	308	293	289	280	274	266	265	259	251	242
Total Private Sector	2,782	2,697	2,704	2,744	2,779	2,823	2,890	2,967	3,053	3,153
Government	593	585	588	578	560	546	552	561	567	568
Total	3,375	3,282	3,291	3,322	3,339	3,369	3,442	3,528	3,621	3,721

Note: Totals may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Unemployment

The unemployment rate of the City's resident labor force is shown in the following table. As of October 2001, the total unemployment rate in the City was 6.3% compared to 5.5% in October 2000.

ANNUAL UNEMPLOYMENT RATE(1)(2)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
New York City	8.7%	11.0%	10.4%	8.7%	8.2%	8.8%	9.4%	8.0%	6.7%	5.7%
United States	6.9%	7.5%	6.9%	6.1%	5.6%	5.4%	5.0%	4.5%	4.2%	4.0%

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).
- (2) Beginning in late 1992 the Current Population Survey (which provides household employment and unemployment statistics) methodology was revised for September 1992 and thereafter. As a result, the methodology used for such period differs from the methodology used for the period prior to September 1992 and, consequently, the pre-September 1992 data is inconsistent with the data for September 1992 and thereafter.

Public Assistance

The following table sets forth the number of persons receiving public assistance in the City. As of November 2001, the number of persons receiving public assistance in the City was 469,142 compared to 549,039 in November 2000.

PUBLIC ASSISTANCE(1)

(Annual Averages in Thousands)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
896.5	976.5	1,047.3	1,116.0	1,146.8	1,055.4	940.0	812.6	713.7	618.2

- (1) Figures do not include aged, disabled or blind persons who were transferred from public assistance to the SSI program, which is primarily federally funded.

Taxable Sales

The 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 over the past 13 years, except for the period from 1991-1992, with a growth rate averaging over 4%.

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. Retail sales account for almost 50% of the total taxable sales volume.

The following table illustrates the volume of sales and purchases subject to the sales tax from 1989 to 1999.

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

<u>Year(1)</u>	<u>Retail(2)</u>	<u>Utility & Communication Sales(3)</u>	<u>Services(4)</u>	<u>Manufacturing</u>	<u>Other(5)</u>	<u>All Total</u>
1989	\$24.5	\$7.6	\$ 9.0	\$3.8	\$7.8	\$52.8
1990	25.4	8.1	9.2	3.7	7.9	54.4
1991	24.0	8.5	9.1	3.3	7.8	52.6
1992	23.8	7.3	9.0	3.2	7.9	51.1
1993	24.1	9.4	9.1	3.2	8.6	54.5
1994	26.2	9.3	10.3	3.3	8.1	57.2
1995	27.6	9.0	10.7	3.3	8.9	59.4
1996	29.1	9.7	11.4	3.6	9.4	63.1
1997	31.5	9.8	13.5	3.9	8.8	67.5
1998	33.9	9.8	15.0	4.2	9.3	72.2
1999	35.0	9.6	16.1	4.2	9.5	74.4

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

- (1) 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.
- (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) All other sales include construction, wholesale trade and others.

Population

The City has been the most populous city in the United States since 1810. 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 OF NEW YORK CITY

<u>Year</u>	<u>Total Population</u>
1970	7,895,563
1980	7,071,639
1990	7,322,155
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
(In Thousands)**

<u>Age</u>	<u>1990</u>		<u>2000</u>	
		<u>% of Total</u>		<u>% of Total</u>
Under 5.....	502	6.9	541	6.8
5 to 14.....	915	12.5	1,092	13.6
15 to 19.....	462	6.3	521	6.5
20 to 24.....	560	7.6	590	7.4
25 to 34.....	1,372	18.7	1,368	17.1
35 to 44.....	1,111	15.2	1,263	15.8
45 to 54.....	699	9.5	1,012	12.6
55 to 64.....	650	8.9	683	8.5
65 and Over.....	953	13.0	938	11.7

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

Housing

In 1999, the housing stock in the City consisted of approximately 3,039,000 housing units, excluding certain special types of units primarily in institutions such as hospitals and universities. The 1999 housing inventory represented an increase of approximately 44,000 units, or 1.5%, since 1996 and an increase of approximately 62,000 units, or 2.1% since 1993. The 1999 Housing and Vacancy Survey indicates that rental housing units predominate in the City. Of all occupied housing units in 1999, approximately 34% were conventional home-ownership units, cooperatives or condominiums and approximately 66% were rental units. The following table presents trends in the housing inventory in the City.

**HOUSING INVENTORY IN NEW YORK CITY
(Housing Units in Thousands)**

<u>Ownership/Occupancy Status</u>	<u>1981</u>	<u>1984</u>	<u>1987</u>	<u>1991</u>	<u>1993</u>	<u>1996</u>	<u>1999(2)</u>
Total Housing Units	2,792	2,803	2,840	2,981	2,977	2,995	3,039
Owner Units	755	807	837	858	825	858	932
Owner-Occupied	746	795	817	829	805	834	915
Vacant for Sale	9	12	19	20	20	24	17
Rental Units	1,976	1,940	1,932	2,028	2,040	2,027	2,018
Renter-Occupied	1,934	1,901	1,884	1,952	1,970	1,946	1,954
Vacant for Rent	42	40	47	77	70	81	64
Vacant Not Available for Sale or Rent(1)	62	56	72	94	111	110	89

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

- (1) Vacant units that are dilapidated, intended for seasonal use, held for occasional use, held for maintenance purposes or other reasons. Note: Details may not add up to totals due to rounding.
 (2) Projected.

LARGEST REAL ESTATE TAXPAYERS

No single taxpayer accounts for 10% or more of the City's real property tax. For the 2002 fiscal year, the billable assessed valuation of real estate of utility corporations is \$7.9 billion. The following table presents the 40 non-utility properties having the greatest assessed valuation in the 2002 fiscal year as indicated in the tax rolls.

<u>Property</u>	<u>2002 Fiscal Year Assessed Valuation</u>	<u>Property</u>	<u>2002 Fiscal Year Assessed Valuation</u>
Met Life Building	\$251,180,000	Solow Building	\$129,690,000
General Motors Building	216,550,000	Chase World Headquarters	124,380,000
Sperry Rand Building	186,120,000	The Chase Manhattan Building	123,750,000
Stuyvesant Town	185,990,000	Bear Stearns Building (Madison Ave.)	121,040,000
Empire State Building	175,800,000	Park Avenue Atrium	120,761,520
McGraw-Hill Building	175,680,000	One Liberty Plaza	118,983,919
Bear Stearns Building (Park Ave.) .	172,800,000	Paramount Plaza	118,720,000
Alliance Capital Building	171,280,000	666 Fifth Avenue	112,220,000
Bristol Myers Building	166,680,000	595 Lexington Avenue	112,050,000
International Building	163,280,000	Carpet Center	110,160,000
Time & Life Building	160,440,000	Kalikow Building	109,170,000
Credit Lyonnais Building	156,659,998	Simon & Schuster Building	106,680,000
Paine Webber Building	154,339,993	Sheraton New York	105,710,000
Waldorf-Astoria	150,400,000	Citicorp Center	105,570,000
Equitable Tower	150,050,000	Reuters Building	103,950,000
Morgan Guaranty Building	142,290,000	Park Avenue Plaza	103,140,000
Celanese Building	140,490,000	W.R. Grace Building	97,380,000
One Penn Plaza	139,770,000	One Astor Plaza	96,426,000
N.Y. Hilton & Towers	139,248,000	Continental Illinois Building	91,080,000
Worldwide Plaza	138,000,000	IBM Tower	90,756,000

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

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**BASIC
FINANCIAL STATEMENTS
OF
THE CITY OF NEW YORK**

June 30, 2001 and 2000

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Report of Independent Auditors

The People of The City of New York:

We have audited the basic financial statements of The City of New York ("City") as of and for the years ended June 30, 2001 and 2000. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the entities disclosed in Note E.1. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of The City of New York at June 30, 2001 and 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A.2 to the basic financial statements, in fiscal year 2001, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

As discussed in Note E.5 to the basic financial statements, certain actuarial assumptions and methods used in the calculation of employer contributions to the actuarial pension systems for the fiscal year ended June 30, 2000, were changed. In addition, as discussed in Note D.5, during 2000, State legislation resulted in the elimination of the City's liability to the pension systems for certain pension costs incurred prior to 1981. Furthermore, see Note E.2 for discussion of the impact of the World Trade Center attack.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Watson Rice LLP

October 30, 2001
New York, New York

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, 2001 and 2000. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, and (4) notes to the 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 each 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 Fund.

Notes to the financial statements The notes to the 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 benefits to its employees.

Financial Reporting Entity The financial reporting entity consists of the primary government, including the Board 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 financial statements to be misleading or incomplete.

The definition of the reporting entity is based 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. These 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, are the following:

- Municipal Assistance Corporation for the City of New York (MAC)
- New York City Transitional Finance Authority (TFA)
- New York City Samurai Funding Corporation (SFC)
- TSASC Inc. (TSASC)
- New York City Educational Construction Fund (ECF)
- City University Construction Fund (CUCF)
- New York City School Construction Authority (SCA).

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

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

- New York City Industrial Development Agency (IDA)
- Business Relocation Assistance Corporation (BRAC)
- Brooklyn Navy Yard Development Corporation (BNYDC)
- Jay Street Development Corporation (JSDC).

**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 \$1.148 billion during fiscal year 2001 and increased the City's net assets by \$1.455 billion during fiscal year 2000. Key elements of these changes are as follows:

	Governmental Activities For the fiscal year ended June 30,	
	<u>2001</u>	<u>2000</u>
	(in thousands)	
Revenues:		
Program revenues:		
Charges for services	\$ 2,868,605	\$ 2,620,702
Operating grants and contributions	12,773,015	11,907,550
Capital grants and contributions	572,514	378,807
General revenues:		
Taxes	23,712,065	22,157,704
Investment income	391,902	346,857
Other Federal and State aid	928,184	920,547
Other	633,579	347,937
Total revenues	<u>41,879,864</u>	<u>38,680,104</u>
Expenses:		
General government	1,881,812	1,578,356
Public safety and judicial	8,661,411	7,772,048
Education	12,248,775	11,533,688
City University	668,954	652,576
Social services	9,166,149	8,783,221
Environmental protection	2,350,867	2,058,606
Transportation services	1,654,344	1,401,725
Parks, recreation and cultural activities	488,865	574,024
Housing	1,000,300	847,358
Health (including payments to HHC)	2,329,191	1,976,975
Libraries	362,034	268,931
Debt service interest	2,214,717	2,114,285
Total expenses	<u>43,027,419</u>	<u>39,561,793</u>
	(1,147,555)	(881,689)
Decrease in accrued pension liability	<u>—</u>	<u>2,336,230</u>
Change in net assets	(1,147,555)	1,454,541
Net Assets—Beginning	<u>(18,699,604)</u>	<u>(20,154,145)</u>
Net Assets—Ending	<u><u>\$(19,847,159)</u></u>	<u><u>\$(18,699,604)</u></u>

In fiscal year 2001, the government-wide revenues increased from fiscal year 2000 levels by approximately \$3.2 billion, while the Government-wide expenses grew by approximately \$3.5 billion. In addition, a one-time gain from the elimination of a pension liability occurred in fiscal year 2000.

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

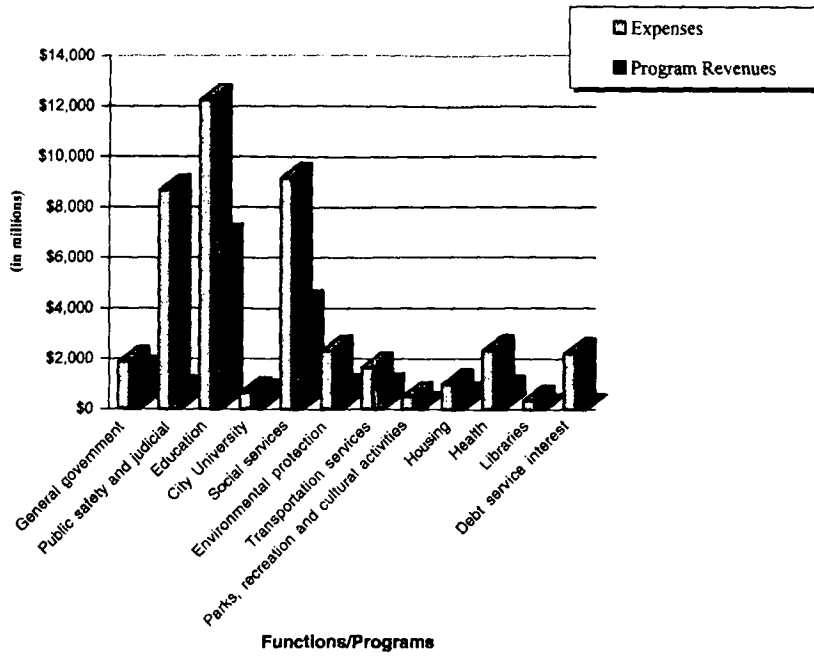
- A one-time payment from the Metropolitan Transportation Authority resulting from the sale of the New York Coliseum;
- An increase in State aid for the City's Board of Education; and
- An increase in personal income and property tax revenues, resulting from the strength of the economy and increased property values which are phased into the property tax levy.

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

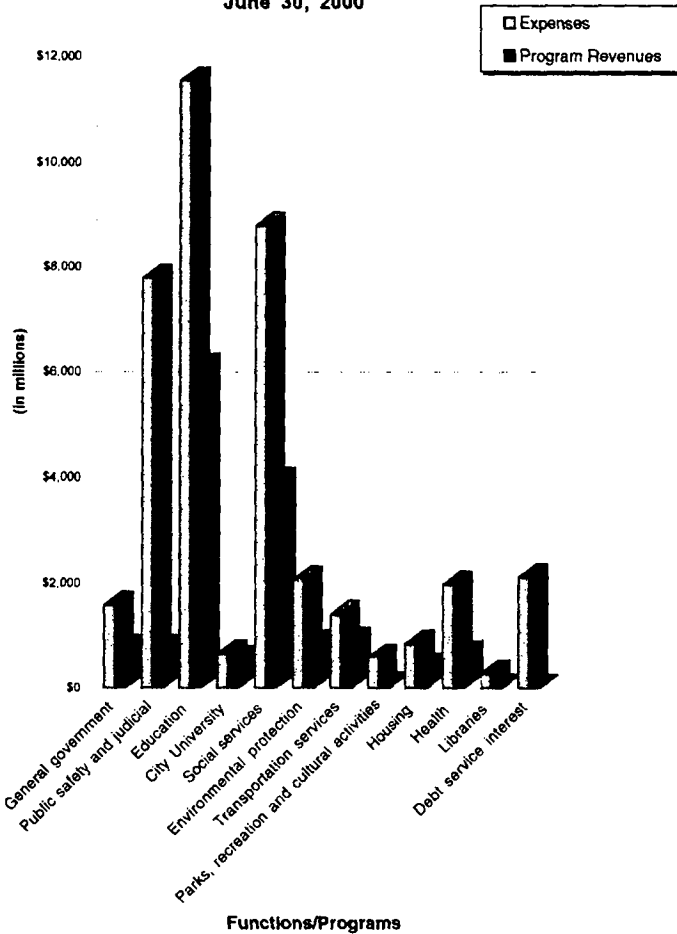
- A substantial increase in spending by the City's Board of Education, including a reserve for collective bargaining and the increased State funding as previously mentioned;
- An increase in pension expense, resulting from pension benefit enhancements and the phase-in of cost of living adjustments, as required by changes in State law;
- An increase in social services spending, primarily related to increased spending on Medicaid and day care.
- Wage and salary increases for City employees related to collective bargaining; and
- Increased expenses for environmental protection, primarily additional costs for waste exportation and Fresh Kills landfill closure and post-closure care.

The following two charts compare the expenses for each of the City's programs with the revenues that are derived from each program for fiscal years 2001 and 2000. The excess of program expenses over revenues represents the net cost of each program that must be financed from the City's general revenues.

**Expenses and Program Revenues - Governmental Activities
June 30, 2001**

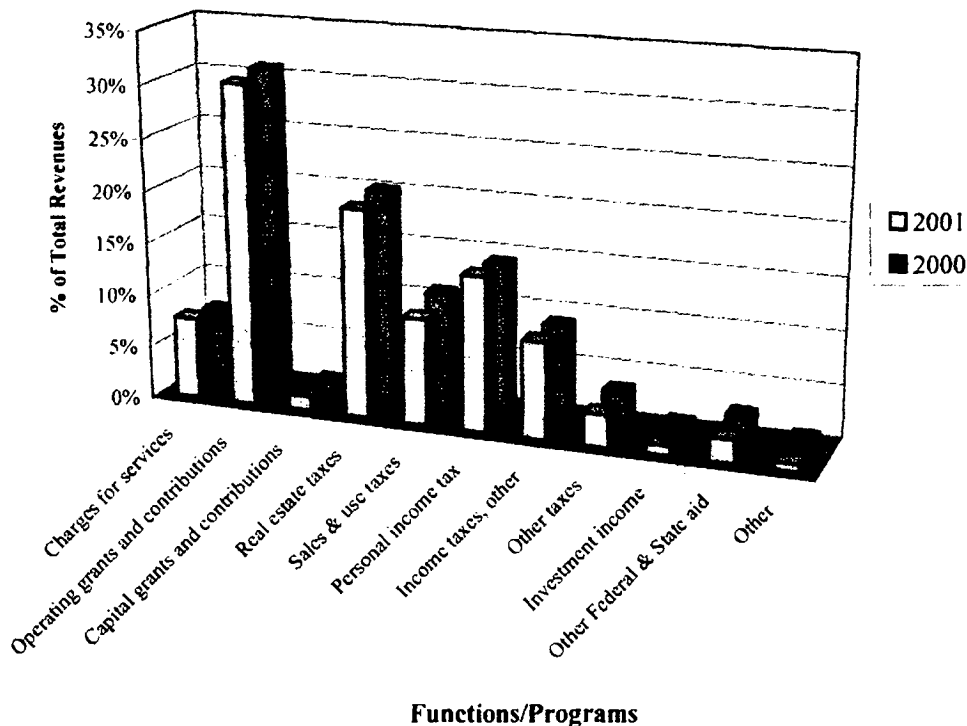


**Expenses and Program Revenues - Governmental Activities
June 30, 2000**



The following chart compares the amounts of program and general revenues for fiscal years 2001 and 2000:

**Revenues by Source - Governmental Activities
For the Years Ended June 30, 2001 and 2000**



As noted earlier, increases and decreases of net assets may serve over time as a useful indicator of changes in government's financial position. In the case of the City, liabilities exceeded assets by \$19.847 billion at the close of the most recent fiscal year.

	Governmental Activities	
	2001	2000
	(in thousands)	
Current and other assets	\$ 17,876,159	\$ 19,299,094
Capital assets	24,497,361	22,538,547
Total assets	<u>42,373,520</u>	<u>41,837,641</u>
Long-term liabilities outstanding	50,065,513	48,839,966
Other liabilities	12,155,166	11,697,279
Total liabilities	<u>62,220,679</u>	<u>60,537,245</u>
Net assets:		
Invested in capital assets, net of related debt	(8,135,503)	(8,379,336)
Restricted	3,814,045	4,189,167
Unrestricted	(15,525,701)	(14,509,435)
Total net assets	<u>\$(19,847,159)</u>	<u>\$(18,699,604)</u>

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest component of the net deficit is the result of the City having long-term debt with no corresponding capital assets. The following summarizes the main components of the negative net asset value as of June 30, 2001:

	<u>Billions</u>
MAC issued debt during the 1970's which funded some City operating expenses. The remaining MAC net debt outstanding is approximately.	\$ (3.0)
The City has issued debt for the acquisition and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority, NYW, HHC and certain public libraries and cultural institutions. The debt outstanding for such non-City owned assets is approximately.	(9.1)
For some City-owned assets, the depreciable life used for financial reporting is longer or shorter than the period over which the related debt principal is being repaid. Schools and related education assets are the largest component of this difference. The net amount by which the outstanding debt principal exceeds the depreciated value of the related City-owned assets is approximately.	(3.8)
Certain long-term obligations, such as employee vacation and sick leave, judgments and claims, and landfill closure and post-closure costs do not require current funding.	(7.9)
All non-capital assets exceed the total of the City's other liabilities by approximately.	<u>4.0</u>
Governmental Activities Net Deficit	<u>\$ (19.8)</u>

Financial Analysis of the Governmental Funds

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

Governmental Funds

	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustment/ Eliminations	Total Governmental Funds
	(in thousands)					
Fund Balances (deficit), July 1, 1999.	\$ 388,301	\$ (935,523)	\$ 2,006,162	\$ 1,396,846	\$ 96,333	\$ 2,952,119
Revenues	37,854,893	1,114,827	12,978	1,979,766	(1,248,250)	39,714,214
Expenditures.	(33,920,869)	(4,809,483)	(2,654,432)	(2,586,766)	1,350,670	(42,620,880)
Other financing sources (uses).	(3,929,340)	3,520,854	3,148,774	781,900	(23,699)	3,498,489
Fund Balances (deficit), June 30, 2000.	392,985	(1,109,325)	2,513,482	1,571,746	175,054	3,543,942
Revenues	40,231,872	1,412,906	35,613	2,357,531	(1,443,379)	42,594,543
Expenditures.	(37,264,424)	(5,309,954)	(2,819,070)	(2,700,519)	1,202,753	(46,891,214)
Other financing sources (uses).	(2,962,553)	2,888,706	2,390,822	602,091	(19,150)	2,899,916
Fund Balances (deficit), June 30, 2001.	<u>\$ 397,880</u>	<u>\$(2,117,667)</u>	<u>\$ 2,120,847</u>	<u>\$ 1,830,849</u>	<u>\$ (84,722)</u>	<u>\$ 2,147,187</u>

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of \$2.949 billion and \$3.192 billion before certain expenditures and discretionary and other transfers for fiscal years 2001 and 2000, respectively. After these certain expenditures and discretionary and other transfers, the General Fund reported an operating surplus of \$5 million in both fiscal year 2001 and 2000, which resulted in an increase in fund balance by this amount.

The General Debt Service Fund receives transfers from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2001 can be attributed principally to a discretionary transfer and other transfer (as described above) from the General Fund totaling \$2.097 billion in fiscal year 2001. Similar transfers in fiscal year 2000 of \$2.509 billion also primarily account for the General Debt Service Fund fund balance at June 30, 2000.

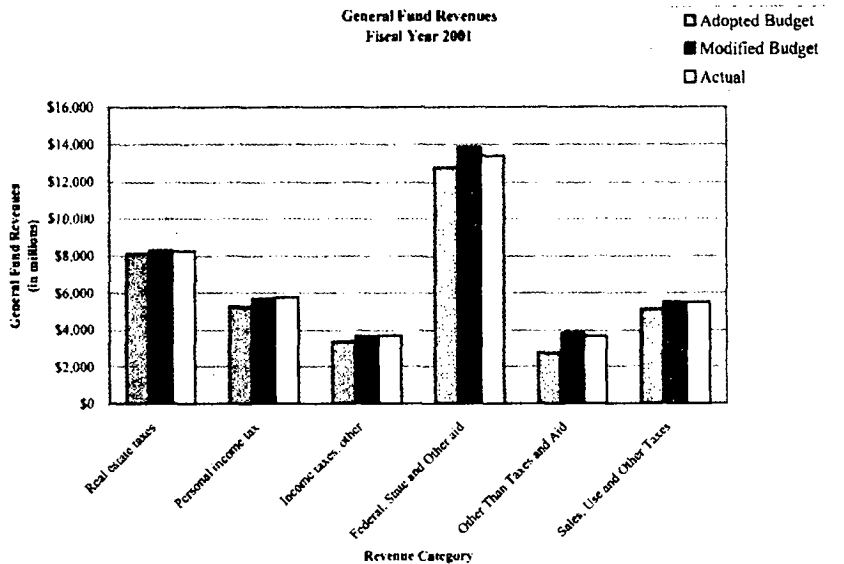
The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resources are obtained from the issuance of City debt as well as transfers from TFA and TSASC. Capital-related expenditures are first paid from the General Fund, which is then reimbursed for these expenditures by the New York City Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, transfers from TFA and TSASC and other revenues and financing sources, this fund will have a deficit. The deficit fund balances at June 30, 2001 and 2000 are primarily attributed to amounts that are owed to the General Fund to repay that fund's advance of resources for the capital program.

**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 how actual results compared with these budgeted amounts. The Modified Budget can be modified subsequent to the end of the fiscal year.

General Fund Revenues

The following chart and table summarize actual revenues by category for fiscal year 2001 and compare revenues to the current fiscal year's Adopted Budget and Modified Budget.



General Fund Revenues

Fiscal Year 2001

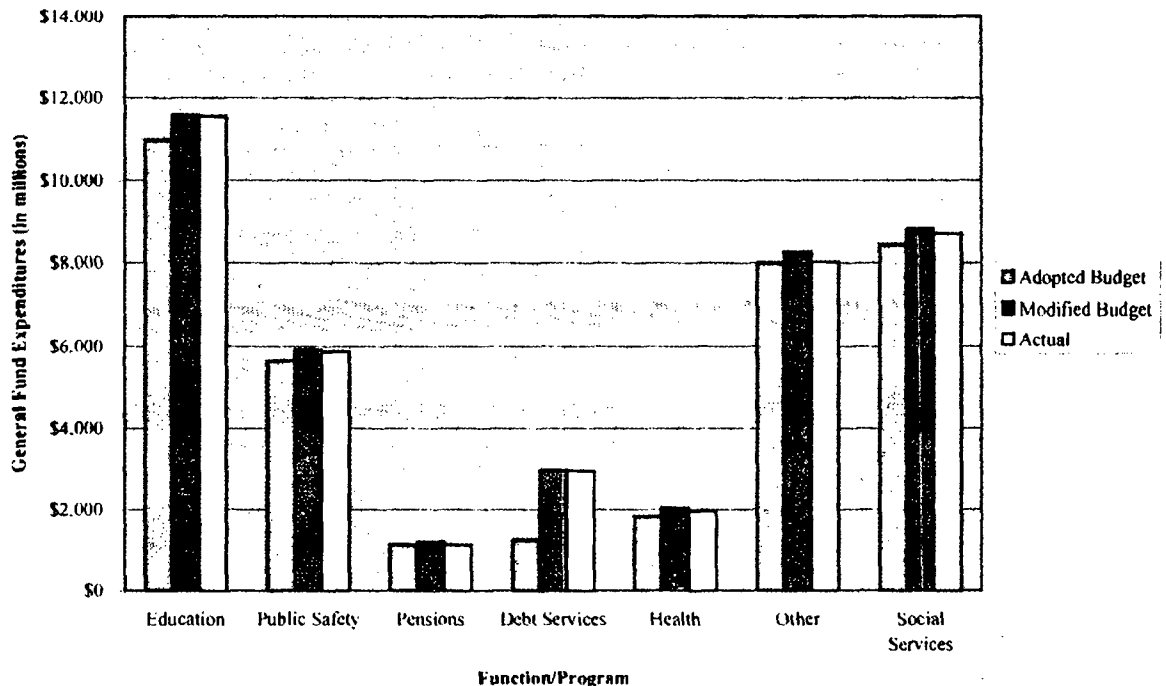
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	\$ 8,111	\$ 8,277	\$ 8,246
Sales and use taxes	3,946	4,265	4,196
Personal income tax	5,240	5,670	5,757
Income taxes, other	3,342	3,672	3,685
Other taxes	1,176	1,238	1,294
Taxes (net of refunds)	21,815	23,122	23,178
Federal, State and Other aid:			
Categorical	12,193	13,264	12,764
Unrestricted	564	593	634
Federal, State and Other aid	12,757	13,857	13,398
Other Than Taxes and Aid:			
Charges for services	1,375	1,434	1,461
Other revenues	1,343	2,390	2,162
OTB Transfers	34	34	33
Other Than Taxes and Aid	2,752	3,858	3,656
Total Revenues	\$37,324	\$40,837	\$40,232

General Fund Expenditures

The following chart and table summarize actual expenditures by function/program for fiscal year 2001 and compare expenditures to the current fiscal year's Adopted Budget and Modified Budget

General Fund Expenditures Fiscal Year 2001



General Fund Expenditures

Fiscal Year 2001

(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
General Government	\$ 1,054	\$ 1,109	\$ 1,078
Public Safety and Judicial	5,659	5,915	5,875
Education	10,973	11,594	11,545
City University	426	428	393
Social Services	8,459	8,829	8,717
Environmental Protection	1,599	1,552	1,528
Transportation Services	617	791	750
Parks, Recreation, and Cultural Activities	287	318	317
Housing	461	517	478
Health (including HHC)	1,843	2,039	1,959
Libraries	242	383	383
Pensions	1,132	1,209	1,127
Judgments and Claims	442	498	595
Fringe Benefits and Other Benefit Payments	2,161	2,172	2,200
Other	715	510	315
Transfers and Other Payments for Debt Service	1,254	2,973	2,967
	<u>\$37,324</u>	<u>\$40,837</u>	<u>\$40,227</u>
Total Expenditures			

General Fund Surplus

The City had a General Fund operating surplus of \$2.949 billion and \$3.192 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2001 and 2000, respectively. The General Fund surplus was \$5 million after expenditures and discretionary transfers.

The expenditures and transfers (discretionary and other) made by the City after the adoption of its fiscal year 2001 and fiscal year 2000 budgets follow:

	<u>2001</u>	<u>2000</u>
	(in millions)	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	\$ 917	\$ 414
Discretionary transfers to the General Debt Service Fund	1,180	2,095
Net equity contribution in bond refunding that accrued to future years debt service savings	46	17
Debt-service prepayments for lease purchase debt service due in the fiscal year	56	73
Prepayment of debt service for the Municipal Assistance Corporation	458	451
Advance cash subsidies to the Public Library system	131	—
Advance cash subsidies to the Transit Authority	151	137
Advance cash subsidies to the Housing Authority	5	—
Total expenditures and transfers (discretionary and other)	<u>2,944</u>	<u>3,187</u>
Reported Operating Surplus	5	5
Total Operating Surplus	<u>\$2,949</u>	<u>\$3,192</u>

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and fiscal years 2001 Adopted Budget:

	<u>2001</u>
	(in millions)
Additional Resources:	
Federal categorical aid	\$ 228
State categorical aid	236
Net State and other revenue sharing	71
Net tax-revenue collections excluding tax lien sales and stock transfer tax	1,785
Sale of tax liens	106
Interest income	78
Tobacco settlement revenue from lower TSASC debt service	15
Surplus from the City's Health Insurance Stabilization Fund	120
FICA refunds	51
Sale of City-owned assets	68
Other miscellaneous revenues	61
Non-grant revenue	138
Collections for general government services	23
Collections from charges for housing	25
Licenses, permits and privileges	43
Rental income for JFK and LaGuardia Airports	10
Rental income - other	28
Net savings from administrative costs for supplies, equipment and other than personal services	656
Savings from fixed and miscellaneous charges	99
Public assistance	47
Debt Service and interest on Short-term Notes	45
Social Services, excluding public assistance and medicaid	9
Fines and Forfeitures	4
General Reserve	<u>200</u>
Total	<u>\$ 4,146</u>
Enabled the City to:	
Provide for future General Obligation debt-service costs net of appropriations in the FY 2002 Adopted Budget	\$ 1,192
Provide for equity contributions in conjunction with bond refundings	46
Provide for lease purchase debt service due in FY 2002	56
Provide future debt-service costs for the Municipal Assistance Corporation	458
Provide for funding of the library system for future years	131
Provide for higher than anticipated overtime costs	260
Provide for higher than anticipated judgment and claims costs	153
Provide for increased pension costs	1
Provide for increased personal-services costs, excluding pensions and overtime	681
Provide for increased contractual-services costs	293
Provide for prepayment of certain fiscal year 2002 subsidy payments to the Transit Authority	153
Provide for prepayment of certain fiscal year 2002 subsidy payments to the Housing Authority	5
Provide for increased Disallowance Reserve of Federal and State Aid	31
Provide for increased costs for heat, light, power and fuel	48
Provide for increased funding to the Health and Hospitals Corporation	111
Provide for the loss of State appropriations for the stock transfer tax	114
Withstand increased Medical-Assistance costs	259
Withstand all other net overspending and revenues below budget	<u>149</u>
Total	<u>4,141</u>
Report a Surplus	<u>\$ 5</u>

Capital Assets

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

	Governmental Activities (in millions)	
	June 30,	
	2001	2000
Land	\$ 734	\$ 707
Buildings	9,710	7,890
Equipment	1,599	1,646
Infrastructure	5,594	5,311
Construction work-in-progress	6,860	6,985
Total	<u>\$24,497</u>	<u>\$22,539</u>

The net increase in the City's capital assets during fiscal year 2001 was \$1.958 billion, an 8.7% increase. Capital assets additions in fiscal year 2001 were \$5.965 billion, an increase of \$2.029 billion from fiscal year 2000. Capital assets additions in the Education program totaling \$1.764 billion and total new construction work-in-progress (the majority of which are also Education programs) totaling \$2.474 billion accounted for 71.0% of the capital assets additions in fiscal year 2001.

Additional information on the City's capital assets can be found in the notes to the financial statements.

Debt Administration

The following table summarizes the City's debt outstanding for the City, as primary government, as reported on the statement of net assets:

	Governmental Activities (in millions)	
	June 30,	
	2001	2000
General obligation bonds	\$26,836	\$26,892
1991 general resolution bonds	3,217	3,531
Future tax secured bonds	7,386	5,923
Bond anticipation notes	—	515
Tobacco Flexible amortization bonds	703	709
Japanese Yen bonds	80	120
Revenue bonds	543	571
Total bonds payable	<u>38,765</u>	<u>38,261</u>
Less treasury obligations	168	230
Net outstanding debt	<u>\$38,597</u>	<u>\$38,031</u>

On July 1, 2001, New York City's outstanding general obligation debt totaled \$26.8 billion. The State Constitution provides that 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, 2001, the City's net general obligation debt limit was \$32.8 billion (compared with \$30.6 billion as of July 1, 2000). Because the City was approaching its debt limit, which threatened to halt the City's capital program by early fiscal year 1998, the State legislature created the New York City Transitional Finance Authority (TFA), a separate legal entity, in fiscal year 1997. Initially authorized to issue up to \$7.5 billion of debt, the TFA makes its bond proceeds available to the City, enabling the City to continue its planned capital investment. Recently enacted legislation increased the debt incurring capacity of TFA by an additional \$4 billion for a total of \$11.5 billion. As of July 1, 2001, the remaining City and TFA debt incurring power totaled \$10.1 billion, after providing for capital contract liabilities.

In September, 2001, the New York State Legislature increased the financing capacity of TFA by \$2.5 billion to fund New York City's costs related to or arising from the events of September 11, 2001 at the World Trade Center and authorized the TFA to issue debt without limit as to principal amount that is payable solely from

State or Federal aid received on account of the disaster. In October 2001, the TFA issued \$1 billion of TFA New York City recovery notes.

To provide for the City's capital program, in addition to TFA, TSASC and JSDC were created, the debt of which is not subject to the general debt limit of the City. The debt-incurring power of TFA, TSASC and JSDC has permitted the City to continue to enter new contractual commitments.

Moody's Investors Service Inc. (Moody's) had revised its rating of the City's long-term general obligation debt upward to A2 from A3 in August 2000. Standard & Poor's (S&P) revised its rating upward to A from A- in September, 2000 Fitch IBCA revised its rating upward to A+ from A in September 2000.

During fiscal year 2001, the City issued approximately \$2.379 billion of general obligation bonds of which approximately \$1.139 billion were issued to refund certain outstanding bonds and \$1.240 billion were issued for 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. Adhering to a policy set by the Comptroller's Office that refundings may not increase debt service payments in future years, these refundings provided the City approximately \$60 million in debt service savings in fiscal year 2001.

The City satisfied all of its seasonal needs in the public credit market with a competitive sale in fiscal year 2001 of \$750 million of short-term Revenue Anticipation Notes (RANs) that were secured by State aid. The RANs carried the highest ratings from Moody's (MIG-1), Fitch (F-1+), and S&P (SP-1+). These ratings together with favorable market conditions enabled the City to achieve a true interest cost of borrowing of 4.22% on the RANs.

Subsequent to June 30, 2001, the City completed the following long-term financing:

On July 10, 2001, the TFA sold \$150 million of bonds for various municipal capital purposes.

On August 9, 2001, the TFA sold \$600 million of bond anticipation notes for municipal capital purposes.

On October 4, 2001, the TFA sold one billion of New York City Recovery Notes.

On October 23, 2001, the City sold \$1.5 billion of Revenue Anticipation Notes for seasonal cash flow needs.

Commitments

At June 30, 2001, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately \$9.5 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 expenditures of \$54.4 billion over the remaining fiscal years 2002 through 2011. To help meet its capital spending program, the City, TFA, and TSASC borrowed \$2.8 billion in the public credit market in fiscal year 2001.

Economic Factors and Next Year's Budgets and Rates World Trade Center Attack

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center and damage to other buildings in the vicinity. Continuing recovery, clean up and repair efforts will result in substantial expenditures. The U.S. Congress passed emergency legislation which appropriates \$40 billion for increased disaster assistance, increased security costs, rebuilding infrastructure systems and other public facilities, and disaster recovery and related activities, at least \$20 billion of which is for disaster recovery activities and assistance in New York, Pennsylvania and Virginia. In addition, the State legislature increased the financing capacity of the TFA by \$2.5 billion to fund the City's costs related to or arising from the September 11 attack, and has authorized TFA to issue debt without limit as to principal amount that is payable solely from State or Federal aid received on account of the disaster. The amount of City costs resulting from the

September 11 attack is expected to substantially exceed the amount of Federal aid and State resources which, to date, have been identified by the Federal and State governments as available for these purposes.

Prior to September 11, the national and local economies had been weakening, reflecting lower business investment, increased unemployment and, recently, a decline in consumer confidence. It is expected that the destruction of the World Trade Center will have substantial impact on the City and its economy. Reduced economic activity is expected to lower corporate profits, increase job losses and reduce consumer spending, which would result in reduced personal income and sales tax receipts and other business tax revenues for the City and could negatively affect real property values. The events of September 11 increased the risk of a recession and a delay in recovery. It is not possible to quantify at present with any certainty the short-term or long-term adverse impact of the September 11 events on the City and its economy, any offsetting economic benefits which may result from recovery and rebuilding activities and the amount of additional resources from Federal, State, City and other sources which will be required

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 800, New York, New York 10007-2341.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2001
(in thousands)

	Primary Government	Component
	Governmental	Units
	Activities	Units
ASSETS:		
Cash and cash equivalents	\$ 1,012,881	\$ 529,192
Investments, including accrued interest	6,573,340	1,464,607
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$362,704)	616,473	—
Federal, State and other aid	5,293,312	—
Taxes other than real estate	2,550,670	—
Other	507,052	1,491,907
Mortgage loans and interest receivable, net	33,437	2,739,923
Inventories	197,593	45,017
Due from Primary Government	—	23,458
Due from Component Units	420,138	—
Restricted cash and investments	251,222	2,402,046
Capital assets:		
Land and construction work-in-progress	7,594,474	3,948,269
Other Capital assets (net of depreciation):		
Property, plant and equipment	11,309,118	15,406,089
Infrastructure	5,593,769	—
Other	420,041	323,175
Total assets	42,373,520	28,373,683
LIABILITIES:		
Accounts payable and accrued liabilities	8,826,929	1,652,488
Accrued interest payable	612,507	71,942
Deferred revenues:		
Prepaid real estate taxes	1,451,774	—
Other	850,368	191,083
Due to Primary Government	—	420,138
Due to Component Units	23,458	—
Estimated disallowance of Federal, State and other aid	210,268	—
Payable for investment securities purchased	179,862	—
Other	—	121,134
Noncurrent Liabilities:		
Due within one year	3,257,834	750,159
Due in more than one year	46,807,679	13,307,560
Total liabilities	62,220,679	16,514,504
NET ASSETS:		
Invested in capital assets, net of related debt	(8,135,503)	8,758,968
Restricted for:		
Capital projects	—	343,697
Debt service	3,814,045	—
Debt retirement	—	1,158,387
Loans	—	91,294
Donor restrictions	—	13,293
Unrestricted (deficit)	(15,525,701)	1,493,540
Total net assets (deficit)	\$ (19,847,159)	\$ 11,859,179

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2000
(in thousands)

	<u>Primary Government</u>	<u>Component</u>
	<u>Governmental</u>	<u>Units</u>
	<u>Activities</u>	<u>Units</u>
ASSETS:		
Cash and cash equivalents	\$ 1,376,440	\$ 659,802
Investments, including accrued interest	5,048,429	1,437,789
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$387,568)	613,158	—
Federal, State and other aid	6,017,496	—
Taxes other than real estate	2,695,446	—
Other	637,949	1,254,359
Mortgage loans and interest receivable, net	35,204	2,588,169
Inventories	210,110	32,022
Due from Primary Government	—	47,141
Due from Component Units	486,004	—
Restricted cash and investments	1,345,643	2,177,000
Capital assets:		
Land and construction work-in-progress	7,692,050	3,422,070
Other Capital assets (net of depreciation):		
Property, plant and equipment	9,535,316	14,869,633
Infrastructure	5,311,181	—
Other	833,215	274,364
Total assets	<u>41,837,641</u>	<u>26,762,349</u>
LIABILITIES:		
Accounts payable and accrued liabilities	7,440,719	1,547,858
Accrued interest payable	628,107	47,626
Deferred revenues:		
Prepaid real estate taxes	1,620,651	—
Other	1,499,557	174,792
Due to Primary Government	—	486,004
Due to Component Units	47,141	—
Estimated disallowance of Federal, State and other aid	205,228	—
Payable for investment securities purchased	255,876	—
Other	—	155,965
Noncurrent Liabilities:		
Due within one year	4,357,335	431,483
Due in more than one year	44,482,631	12,431,396
Total liabilities	<u>60,537,245</u>	<u>15,275,124</u>
NET ASSETS:		
Invested in capital assets, net of related debt	(8,379,336)	8,931,774
Restricted for:		
Capital projects	—	180,394
Debt service	4,189,167	—
Debt retirement	—	1,077,813
Loans	—	143,879
Donor restrictions	—	12,606
Unrestricted (deficit)	<u>(14,509,435)</u>	<u>1,140,759</u>
Total net assets (deficit)	<u>\$ (18,699,604)</u>	<u>\$ 11,487,225</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2001
(in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Component Units
Primary government:						
General government	\$ 1,881,812	\$ 881,322	\$ 82,914	\$ 179,487	\$ (738,089)	\$ —
Public safety and judicial . . .	8,661,411	158,925	537,248	16,034	(7,949,204)	—
Education	12,248,775	69,594	6,666,089	2,742	(5,510,350)	—
City University	668,954	135,307	433,781	—	(99,866)	—
Social services	9,166,149	41,909	4,064,614	6,771	(5,052,855)	—
Environmental protection	2,350,867	765,781	607	9,669	(1,574,810)	—
Transportation services	1,654,344	569,341	151,269	113,621	(820,113)	—
Parks, recreation and cultural activities	488,865	55,385	7,075	5,652	(420,753)	—
Housing	1,000,300	150,153	148,396	203,646	(498,105)	—
Health (including payments to HHC)	2,329,191	40,888	681,022	34,892	(1,572,389)	—
Libraries	362,034	—	—	—	(362,034)	—
Debt service interest	2,214,717	—	—	—	(2,214,717)	—
Total Primary government	<u>\$ 43,027,419</u>	<u>\$ 2,868,605</u>	<u>\$ 12,773,015</u>	<u>\$ 572,514</u>	(26,813,285)	—
Component Units	<u>\$ 9,343,729</u>	<u>\$ 6,422,033</u>	<u>\$ 1,849,333</u>	<u>\$ 992,464</u>	—	(79,899)
General revenues:						
Taxes (Net of Refunds):						
					8,273,172	—
					4,199,594	—
					6,128,516	—
					3,826,312	—
					1,284,471	—
					391,902	221,339
					928,184	1,800
					633,579	228,714
Total General revenues					<u>25,665,730</u>	<u>451,853</u>
Change in net assets					(1,147,555)	371,954
Net Assets — Beginning					(18,699,604)	11,487,225
Net Assets — Ending					<u>\$ (19,847,159)</u>	<u>\$ 11,859,179</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2000
(in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Units
Primary government:						
General government	\$ 1,578,356	\$ 579,142	\$ 157,170	\$ 19,866	\$ (822,178)	\$ —
Public safety and judicial	7,772,048	179,587	522,156	42,708	(7,027,597)	—
Education	11,533,688	61,096	6,024,204	3,054	(5,445,334)	—
City University	652,576	136,962	420,716	1,998	(92,900)	—
Social services	8,783,221	39,644	3,867,412	5,236	(4,870,929)	—
Environmental protection	2,058,606	836,355	790	3,260	(1,218,201)	—
Transportation services . .	1,401,725	547,905	168,658	173,885	(511,277)	—
Parks, recreation and cultural activities	574,024	47,925	6,350	12,363	(507,386)	—
Housing	847,358	150,673	137,625	101,042	(458,018)	—
Health (including payments to HHC)	1,976,975	41,413	602,469	15,395	(1,317,698)	—
Libraries	268,931	—	—	—	(268,931)	—
Debt service interest	2,114,285	—	—	—	(2,114,285)	—
Total Primary government	\$ 39,561,793	\$ 2,620,702	\$ 11,907,550	\$ 378,807	(24,654,734)	—
Component Units	\$ 8,665,077	\$ 6,168,850	\$ 1,565,221	\$ 2,556,883	—	1,625,877
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					7,770,069	—
Sales and use taxes					4,165,944	—
Personal income tax					5,486,710	—
Income taxes, other					3,457,112	—
Other taxes					1,277,869	—
Investment income					346,857	209,155
Other Federal and State aid					920,547	2,485
Other					347,937	276,571
Total General revenues					23,773,045	488,211
					(881,689)	2,114,088
Decrease in accrued pension liability					2,336,230	99,636
Change in net assets					1,454,541	2,213,724
Net Assets — Beginning					(20,154,145)	9,273,501
Net Assets — Ending					\$ (18,699,604)	\$ 11,487,225

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2001
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 765,428	\$ 27,031	\$ 26,970	\$ 193,452	\$ —	\$ 1,012,881
Investments, including accrued interest . . .	2,739,399	—	2,118,373	1,887,158	(171,590)	6,573,340
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$362,704) . . .	616,473	—	—	—	—	616,473
Federal, State and other aid	4,726,781	566,531	—	—	—	5,293,312
Taxes other than real estate	2,550,670	—	—	—	—	2,550,670
Other	505,284	—	—	—	—	505,284
Mortgage loans and interest receivable (less allowance for uncollectible amounts of \$750,148)	—	—	—	33,437	—	33,437
Due from other funds	2,840,419	1,154,105	—	252,073	(266,048)	3,980,549
Due from Component Units	203,619	205,456	—	11,063	—	420,138
Restricted cash and investments	—	209,080	—	42,142	—	251,222
Other	—	44,596	—	29,824	—	74,420
Total assets	<u>\$14,948,073</u>	<u>\$ 2,206,799</u>	<u>\$ 2,145,343</u>	<u>\$ 2,449,149</u>	<u>\$(437,638)</u>	<u>\$21,311,726</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities . .	\$ 7,391,448	\$ 1,100,636	\$ 17,088	\$ 404,625	\$ (86,868)	\$ 8,826,929
Accrued tax refunds:						
Real estate taxes	48,979	—	—	—	—	48,979
Personal income taxes	43,884	—	—	—	—	43,884
Other	77,575	—	—	—	—	77,575
Accrued judgments and claims	309,007	105,474	—	—	—	414,481
Deferred revenues:						
Prepaid real estate taxes	1,451,774	—	—	—	—	1,451,774
Uncollected real estate taxes	586,737	—	—	—	—	586,737
Taxes other than real estate	2,246,675	—	—	—	—	2,246,675
Other	1,020,258	53,110	—	—	—	1,073,368
Due to other funds	1,140,130	3,065,246	7,408	33,813	(266,048)	3,980,549
Due to Component Units	23,458	—	—	—	—	23,458
Estimated disallowance of Federal, State and other aid	210,268	—	—	—	—	210,268
Payable for investment securities purchased	—	—	—	179,862	—	179,862
Total liabilities	<u>14,550,193</u>	<u>4,324,466</u>	<u>24,496</u>	<u>618,300</u>	<u>(352,916)</u>	<u>19,164,539</u>
Fund balances:						
Reserved for:						
Debt service	—	—	2,120,847	1,777,920	(84,722)	3,814,045
Noncurrent mortgage loans	—	—	—	30,996	—	30,996
Unreserved (deficit), reported in:						
General fund	397,880	—	—	—	—	397,880
New York City Capital projects fund . .	—	(2,117,667)	—	—	—	(2,117,667)
Nonmajor funds	—	—	—	21,933	—	21,933
Total fund balances	<u>397,880</u>	<u>(2,117,667)</u>	<u>2,120,847</u>	<u>1,830,849</u>	<u>(84,722)</u>	<u>2,147,187</u>
Total liabilities and fund balances	<u>\$14,948,073</u>	<u>\$ 2,206,799</u>	<u>\$ 2,145,343</u>	<u>\$ 2,449,149</u>	<u>\$(437,638)</u>	<u>\$21,311,726</u>

The reconciliation of the fund balances of governmental funds to the 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 BALANCE SHEET

June 30, 2000
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 878,116	\$ 81,332	\$ 38,705	\$ 378,287	\$ —	\$ 1,376,440
Investments, including accrued interest . . .	966,223	—	2,511,041	1,397,148	174,017	5,048,429
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$387,568) . . .	613,158	—	—	—	—	613,158
Federal, State and other aid	5,547,998	469,498	—	—	—	6,017,496
Taxes other than real estate	2,695,446	—	—	—	—	2,695,446
Other	633,056	—	—	—	—	633,056
Mortgage loans and interest receivable (less allowance for uncollectible amounts of \$742,353)	—	—	—	35,204	—	35,204
Due from other funds	2,502,667	1,359,442	—	246,210	(311,810)	3,796,509
Due from Component Units	222,641	252,911	—	10,452	—	486,004
Restricted cash and investments	—	718,240	—	627,403	—	1,345,643
Other	435,372	52,621	—	33,573	—	521,566
Total assets	<u>\$14,494,677</u>	<u>\$ 2,934,044</u>	<u>\$ 2,549,746</u>	<u>\$ 2,728,277</u>	<u>\$(137,793)</u>	<u>\$22,568,951</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities . .	\$ 6,088,881	\$ 1,018,359	\$ 28,856	\$ 305,660	\$ (1,037)	\$ 7,440,719
Notes payable	—	—	—	515,000	—	515,000
Accrued tax refunds:						
Real estate taxes	50,886	—	—	—	—	50,886
Personal income taxes	157,224	—	—	—	—	157,224
Other	28,965	—	—	—	—	28,965
Accrued judgments and claims	292,080	105,431	—	—	—	397,511
Deferred revenues:						
Prepaid real estate taxes	1,620,651	—	—	—	—	1,620,651
Uncollected real estate taxes	565,629	—	—	—	—	565,629
Taxes other than real estate	2,222,113	—	—	—	—	2,222,113
Other	1,529,052	192,505	—	—	—	1,721,557
Due to other funds	1,293,842	2,727,074	7,408	79,995	(311,810)	3,796,509
Due to Component Units	47,141	—	—	—	—	47,141
Estimated disallowance of Federal, State and other aid	205,228	—	—	—	—	205,228
Payable for investment securities purchased	—	—	—	255,876	—	255,876
Total liabilities	<u>14,101,692</u>	<u>4,043,369</u>	<u>36,264</u>	<u>1,156,531</u>	<u>(312,847)</u>	<u>19,025,009</u>
Fund balances:						
Reserved for:						
Debt service	—	—	2,513,482	1,500,631	175,054	4,189,167
Noncurrent mortgage loans	—	—	—	32,121	—	32,121
Unreserved (deficit), reported in:						
General fund	392,985	—	—	—	—	392,985
New York City Capital projects fund . .	—	(1,109,325)	—	—	—	(1,109,325)
Nonmajor funds	—	—	—	38,994	—	38,994
Total fund balances	<u>392,985</u>	<u>(1,109,325)</u>	<u>2,513,482</u>	<u>1,571,746</u>	<u>175,054</u>	<u>3,543,942</u>
Total liabilities and fund balances	<u>\$14,494,677</u>	<u>\$ 2,934,044</u>	<u>\$ 2,549,746</u>	<u>\$ 2,728,277</u>	<u>\$(137,793)</u>	<u>\$22,568,951</u>

The reconciliation of the fund balances of governmental funds to the 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 BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2001
(in thousands)

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

Total fund balances — governmental funds	\$		2,147,187
Materials and supplies recorded in the Statement of Net assets are recorded as expenditures in the governmental funds.....			197,593
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.....			24,497,361
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....			3,403,801
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:			
Bonds and notes payable		(38,429,756)	
Accrued interest payable.....		(612,507)	
Other Long-term liabilities		<u>(11,050,838)</u>	
Net assets (deficit) of governmental activities	\$		<u><u>(19,847,159)</u></u>

See accompanying notes to financial statements.

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

June 30, 2000
(in thousands)

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

Total fund balances—governmental funds.	\$ 3,543,942
Materials and supplies recorded in the Statement of Net assets are recorded as expenditures in the governmental funds.	210,110
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,538,547
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	3,326,284
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds.	
Bonds notes payable.	(37,281,340)
Accrued interest payable.	(628,107)
Other Long-term liabilities	<u>(10,409,040)</u>
Net assets (deficit) of governmental activities	<u>\$ (18,699,604)</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	\$ 8,245,585	\$ —	\$ —	\$ —	\$ —	\$ 8,245,585
Sales and use taxes	4,195,594	—	—	—	—	4,195,594
Personal income tax	5,757,074	—	—	407,442	—	6,164,516
Income taxes, other	3,685,224	—	—	—	—	3,685,224
Other taxes	1,293,657	—	—	—	—	1,293,657
Federal, State and other categorical aid	12,763,683	355,359	—	303,136	—	13,422,178
Unrestricted Federal and State aid	634,380	—	—	—	—	634,380
Charges for services	1,494,292	—	—	—	—	1,494,292
Tobacco settlement	154,340	—	—	49,988	—	204,328
Investment income	245,353	—	35,611	104,609	—	385,573
Interest on mortgages, net	—	—	—	6,329	—	6,329
Other revenues	1,762,690	1,057,547	2	1,486,027	(1,443,379)	2,862,887
Total revenues	<u>40,231,872</u>	<u>1,412,906</u>	<u>35,613</u>	<u>2,357,531</u>	<u>(1,443,379)</u>	<u>42,594,543</u>
EXPENDITURES:						
Current Operations:						
General government	1,078,423	583,998	—	12,604	—	1,675,025
Public safety and judicial	5,874,881	236,331	—	—	—	6,111,212
Education	11,545,119	1,707,614	—	1,439,057	(1,443,379)	13,248,411
City University	392,936	9,038	—	—	—	401,974
Social services	8,716,971	161,991	—	—	—	8,878,962
Environmental protection	1,528,271	1,008,236	—	—	—	2,536,507
Transportation services	749,682	855,677	—	—	—	1,605,359
Parks, recreation and cultural activities	317,150	255,908	—	—	—	573,058
Housing	481,757	413,896	—	—	—	895,653
Health (including payments to HHC)	1,959,084	60,426	—	—	—	2,019,510
Libraries	382,776	16,839	—	—	—	399,615
Pensions	1,127,129	—	—	—	—	1,127,129
Judgments and claims	594,846	—	—	—	—	594,846
Fringe benefits and other benefit payments	2,200,117	—	—	—	—	2,200,117
Administrative and other	315,282	—	13,447	62,930	—	391,659
Debt Service:						
Interest	—	—	1,449,178	703,377	(11,809)	2,140,746
Redemptions	—	—	1,310,263	214,339	252,435	1,777,037
Lease payments	—	—	—	268,212	—	268,212
Refunding escrow	—	—	46,182	—	—	46,182
Total expenditures	<u>37,264,424</u>	<u>5,309,954</u>	<u>2,819,070</u>	<u>2,700,519</u>	<u>(1,202,753)</u>	<u>46,891,214</u>
Excess (deficiency) of revenues over expenditures	<u>2,967,448</u>	<u>(3,897,048)</u>	<u>(2,783,457)</u>	<u>(342,988)</u>	<u>(240,626)</u>	<u>(4,296,671)</u>
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	—	2,390,882	571,400	(19,150)	2,943,072
Transfers from Nonmajor Capital Projects Funds	—	1,576,954	—	56,847	(1,576,954)	56,847
Proceeds from sale of bonds	—	1,256,501	—	1,588,164	—	2,844,665
Capitalized leases	—	55,251	—	—	—	55,251
Refunding bond proceeds	—	—	1,147,335	—	—	1,147,335
Transfer to New York City Capital Projects Fund	—	—	—	(1,576,954)	1,576,954	—
Transfers to General Debt Service Fund	(2,962,553)	—	—	—	—	(2,962,553)
Transfer to Nonmajor Debt Service Funds	—	—	—	(37,366)	—	(37,366)
Payments to refunded bond escrow holder	—	—	(1,147,335)	—	—	(1,147,335)
Total other financing sources (uses)	<u>(2,962,553)</u>	<u>2,888,706</u>	<u>2,390,822</u>	<u>602,091</u>	<u>(19,150)</u>	<u>2,899,916</u>
Net change in fund balances	4,895	(1,008,342)	(392,635)	259,103	(259,776)	(1,396,755)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	392,985	(1,109,325)	2,513,482	1,571,746	175,054	3,543,942
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 397,880</u>	<u>\$ (2,117,667)</u>	<u>\$ 2,120,847</u>	<u>\$ 1,830,849</u>	<u>\$ (84,722)</u>	<u>\$ 2,147,187</u>

The reconciliation of the 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, 2000
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	\$ 7,849,962	\$ —	\$ —	\$ —	\$ —	\$ 7,849,962
Sales and use taxes	4,159,943	—	—	—	—	4,159,943
Personal income tax	5,364,597	—	—	247,113	—	5,611,710
Income taxes, other	3,589,023	—	—	—	—	3,589,023
Other taxes	1,265,780	—	—	—	—	1,265,780
Federal, State and other categorical aid	11,905,370	312,537	—	291,500	—	12,509,407
Unrestricted Federal and State aid	631,224	—	—	—	—	631,224
Charges for services	1,430,184	—	—	—	—	1,430,184
Tobacco settlement	247,364	—	—	27,559	—	274,923
Investment Income	194,753	—	7,516	131,353	—	333,622
Interest on mortgages, net	—	—	—	7,516	—	7,516
Other interest income	—	—	5,462	257	—	5,719
Other	1,246,370	802,290	—	1,274,468	(1,248,250)	2,074,878
Total revenues	37,884,570	1,114,827	12,978	1,979,766	(1,248,250)	39,743,891
EXPENDITURES:						
Current Operations:						
General government	1,043,124	368,199	—	31,718	—	1,443,041
Public safety and judicial	5,648,618	522,927	—	—	—	6,171,545
Education	10,492,457	1,295,717	—	1,249,663	(1,248,250)	11,789,587
City University	383,851	14,326	—	—	—	398,177
Social services	8,329,814	138,351	—	—	—	8,468,165
Environmental protection	1,398,196	914,984	—	—	—	2,313,180
Transportation services	763,337	906,559	—	—	—	1,669,896
Parks, recreation and cultural activities	288,517	262,070	—	—	—	550,587
Housing	432,925	289,845	—	—	—	722,770
Health (including payments to HHC)	1,777,299	75,558	—	—	—	1,852,857
Libraries	232,521	20,947	—	—	—	253,468
Pensions	615,085	—	—	—	—	615,085
Judgments and claims	490,669	—	—	—	—	490,669
Fringe benefits and other benefit payments	2,065,166	—	—	—	—	2,065,166
Administrative and other	(36,429)	—	13,992	25,427	—	2,990
Debt Service:						
Interest	—	—	1,466,203	541,420	(20,468)	1,987,155
Redemptions	—	—	1,157,419	485,551	(81,952)	1,561,018
Lease payments	—	—	—	252,987	—	252,987
Refunding escrow	—	—	16,818	—	—	16,818
Total expenditures	33,925,150	4,809,483	2,654,432	2,586,766	(1,350,670)	42,625,161
Excess (deficiency) of revenues over expenditures	3,959,420	(3,694,656)	(2,641,454)	(607,000)	102,420	(2,881,270)
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	182,000	3,148,774	647,661	(23,699)	3,954,736
Transfers from Nonmajor Capital Projects Fund	—	2,410,168	—	115,730	(2,410,168)	115,730
Proceeds from sale of bonds	—	600,000	—	2,544,407	—	3,144,407
Capitalized leases	—	328,686	—	—	—	328,686
Refunding bond proceeds	—	—	65,828	—	—	65,828
Transfer to New York City Capital Projects Fund	(182,000)	—	—	(2,410,168)	2,410,168	(182,000)
Transfers to General Debt Service Fund	(3,772,736)	—	—	—	—	(3,772,736)
Transfer to Nonmajor Debt Service Fund	—	—	—	(115,730)	—	(115,730)
Payment to refunded bond escrow holder	—	—	(65,828)	—	—	(65,828)
Total other financing sources (uses)	(3,954,736)	3,520,854	3,148,774	781,900	(23,699)	3,473,093
Net change in fund balances	4,684	(173,802)	507,320	174,900	78,721	591,823
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	388,301	(935,523)	2,006,162	1,396,846	96,333	2,952,119
FUND BALANCES (DEFICIT) AT END OF YEAR	\$ 392,985	\$ (1,109,325)	\$ 2,513,482	\$ 1,571,746	\$ 175,054	\$ 3,543,942

The reconciliation of the 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, 2001
(in thousands)

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

Net change in fund balances—total governmental funds		\$ (1,396,755)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Purchases of fixed assets	\$ 3,366,818	
Depreciation expense	<u>(1,243,000)</u>	2,123,818
<p>The net effect of various miscellaneous transactions involving capital assets and other (i.e. sales, trade-ins, and donations) is to decrease net assets.</p>		
		(179,048)
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Proceeds from sales of bonds	(2,844,665)	
Principal payments of bonds	1,777,037	
Other	<u>(31,217)</u>	(1,098,845)
<p>Some expenses reported in the statement of activities do not require the use of current financial resource and therefore, are not reported as expenditures in governmental funds.</p>		
		(718,735)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		<u>122,010</u>
Change in net assets—governmental activities		<u>\$ (1,147,555)</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2000
(in thousands)

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

Net change in fund balances—total governmental funds		\$ 591,823
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 fixed assets	\$ 1,737,402	
Depreciation expense	(889,341)	
Other	<u>188,357</u>	1,036,418
The net effect of various miscellaneous transactions involving capital assets and other (i.e. sales, trade-ins, and donations) is to decrease net assets.		(347,405)
The issuance of long-term debt (e.g., bonds, 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	(3,144,407)	
Principal payments of bonds	1,561,018	
Other	<u>(31,431)</u>	(1,614,820)
Some expenses reported in the statement of activities do not require the use of current financial resource and therefore, are not reported as expenditures in governmental funds.		(311,914)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(235,791)
Decrease in the accrued pension liability did not provide financial resources and is not reported as a revenue in the general fund.		<u>2,336,230</u>
Change in net assets—governmental activities		<u>\$ 1,454,541</u>

See accompanying notes to financial statements.

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THE CITY OF NEW YORK
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL

FOR THE YEARS ENDED JUNE 30, 2001 and 2000
(in thousands)

	2001			2000		
	Budget		Actual	Budget		Actual
	Adopted	Modified		Adopted	Modified	
REVENUES:						
Real estate taxes	\$ 8,111,268	\$ 8,277,436	\$ 8,245,585	\$ 7,765,297	\$ 7,813,297	\$ 7,849,962
Sales and use taxes	3,945,900	4,265,021	4,195,594	3,782,900	4,097,900	4,159,943
Personal Income Tax	5,239,728	5,669,565	5,757,074	4,837,461	5,399,311	5,364,597
Income taxes other	3,341,535	3,671,535	3,685,224	3,138,436	3,608,700	3,589,023
Other taxes	1,176,400	1,237,848	1,293,657	1,115,200	1,241,296	1,265,780
Federal, State and other categorical aid	12,193,170	13,263,962	12,763,683	11,064,668	12,622,396	11,905,370
Unrestricted Federal and State aid	564,323	592,643	634,380	614,730	616,730	631,224
Charges for services	1,374,949	1,434,424	1,460,891	1,380,296	1,391,225	1,400,507
Tobacco settlement	139,142	153,142	154,340	283,534	247,426	247,364
Interest income	170,910	250,305	245,353	104,030	168,010	194,753
Other revenues	1,032,462	1,987,123	1,762,690	777,267	1,555,275	1,246,369
Total revenues	37,289,787	40,803,004	40,198,471	34,863,819	38,761,566	37,854,892
OTHER FINANCING SOURCES:						
Transfers from Component Units	34,400	34,200	33,401	30,600	31,100	29,678
Total revenues and other financing sources	37,324,187	40,837,204	40,231,872	34,894,419	38,792,666	37,884,570
EXPENDITURES:						
General government	1,054,043	1,109,173	1,078,423	1,039,534	1,080,538	1,043,124
Public safety and judicial	5,659,045	5,914,604	5,874,881	5,486,097	5,723,158	5,648,618
Board of Education	10,972,518	11,594,255	11,545,119	10,067,438	10,530,607	10,492,457
City University	426,182	427,967	392,936	420,750	420,484	383,851
Social services	8,458,562	8,829,394	8,716,971	7,910,928	8,607,028	8,329,814
Environmental protection	1,599,362	1,552,029	1,528,271	1,424,519	1,439,716	1,398,196
Transportation services	616,997	790,519	749,682	593,292	792,568	763,337
Parks, recreation and cultural activities .	287,070	317,508	317,150	269,924	287,339	288,517
Housing	460,983	517,382	477,636	445,796	475,600	428,644
Health (including payments to HHC) . . .	1,842,472	2,039,011	1,959,084	1,644,688	1,794,541	1,777,299
Libraries	242,392	382,999	382,776	229,035	232,524	232,521
Pensions	1,132,414	1,209,043	1,127,129	1,215,950	623,159	615,085
Judgments and claims	442,273	498,273	594,846	392,889	490,549	490,669
Fringe benefits and other benefit payments	2,160,700	2,172,215	2,200,117	2,068,615	2,065,813	2,065,166
Other	714,950	509,622	315,282	548,389	204,116	(36,429)
Total expenditures	36,069,963	37,863,994	37,260,303	33,757,844	34,767,740	33,920,869
OTHER FINANCING USES:						
Transfers and other payments for debt service	1,254,224	2,973,210	2,966,674	1,136,575	3,842,926	3,777,017
Transfer to capital projects fund	—	—	—	—	182,000	182,000
Total expenditures and other financing uses	37,324,187	40,837,204	40,226,977	34,894,419	38,792,666	37,879,886
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES						
	\$ —	\$ —	4,895	\$ —	\$ —	4,684
FUND BALANCES AT BEGINNING OF YEAR						
			392,985			388,301
FUND BALANCES AT END OF YEAR						
			\$ 397,880			\$ 392,985

See accompanying notes to financial statements.

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

JUNE 30, 2001
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and cash equivalents	\$ 485,396	\$ 77,339
Receivables:		
Receivable for investment securities sold	1,717,906	—
Accrued interest and dividend receivable	466,266	—
Investments:		
Other short-term investments	3,694,342	—
Debt securities	29,369,366	1,168,699
Equity securities	53,082,431	—
International investment fund—equity	12,972,165	—
Mortgages	9,359	—
Guaranteed investment contracts	1,043,069	—
Management investment contracts	97,518	—
Mutual funds	3,238,919	—
Collateral from securities lending transactions	10,882,901	—
Due from other funds	750	—
Other	55,760	—
Total assets	<u>117,116,148</u>	<u>1,246,038</u>
LIABILITIES:		
Accounts payable and accrued liabilities	510,336	311,005
Payable for investment securities purchased	5,957,262	—
Accrued benefits payable	306,123	—
Due to other funds	750	—
Securities lending transactions	10,882,901	—
Other	21,752	935,033
Total liabilities	<u>17,679,124</u>	<u>1,246,038</u>
Plan Net Assets Held In Trust For Benefit Payments	<u>\$ 99,437,024</u>	<u>\$ —</u>

See accompanying notes to financial statements.

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

JUNE 30, 2000
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and cash equivalents	\$ 408,877	\$ 192,898
Receivables:		
Receivable for investment securities sold	5,089,837	—
Accrued interest and dividend receivable	491,060	—
Investments:		
Other short-term investments	5,761,597	185,759
Debt securities	27,131,650	937,671
Equity securities	63,841,356	—
International investment fund—equity	16,623,264	—
Mortgages	11,677	—
Guaranteed investment contracts	995,978	—
Management investment contracts	181,726	—
Mutual funds	3,186,814	—
Collateral from securities lending transactions	12,268,340	—
Due from other funds	100,000	—
Other	55,378	—
Total assets	<u>136,147,554</u>	<u>1,316,328</u>
LIABILITIES:		
Accounts payable and accrued liabilities	314,428	81,113
Payable for investment securities purchased	9,197,548	—
Accrued benefits payable	268,454	—
Deferred employer contribution	435,373	—
Due to other funds	100,000	—
Securities lending transactions	12,268,340	—
Other	6,370	1,235,215
Total liabilities	<u>22,590,513</u>	<u>1,316,328</u>
Plan Net Assets Held in Trust for Benefit Payments	<u>\$113,557,041</u>	<u>\$ —</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2001
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>
ADDITIONS:	
Contributions:	
Member contributions (net of loans to members)	\$ 959,715
Employer contributions	1,256,832
Other employer contributions	21,324
Total contributions	<u>2,237,871</u>
Investment income:	
Interest income	2,978,974
Dividend income	739,949
Net depreciation in fair value of investments	(12,970,698)
Less investment expenses	<u>723,134</u>
Investment loss, net.	<u>(9,974,909)</u>
Payments from other funds	750
Other	<u>20,697</u>
Total decrease	<u>(7,715,591)</u>
DEDUCTIONS:	
Benefit payments and withdrawals	6,312,103
Payments to other fund	750
Other	24,319
Administrative expenses	<u>67,254</u>
Total deductions	<u>6,404,426</u>
Decrease in plan net assets	(14,120,017)
PLAN NET ASSETS HELD IN TRUST FOR BENEFIT PAYMENTS:	
Beginning of Year	<u>113,557,041</u>
End of Year	<u>\$ 99,437,024</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2000
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>
ADDITIONS:	
Contributions:	
Member contributions (net of loans to members)	\$ 911,605
Employer contributions	703,079
Other employer contributions	<u>20,988</u>
Total contributions	<u>1,635,672</u>
Investment income:	
Interest income	2,714,028
Dividend income	837,933
Net appreciation in fair value of investments	7,738,625
Less investment expenses	<u>704,523</u>
Investment income, net	<u>10,586,063</u>
Payments from other funds	100,031
Other	<u>28,008</u>
Total additions	<u>12,349,774</u>
DEDUCTIONS:	
Benefit payments and withdrawals	5,762,371
Payments to other funds	100,031
Administrative expenses	<u>57,562</u>
Total deductions	<u>5,919,964</u>
Increase in plan net assets	6,429,810
PLAN NET ASSETS HELD IN TRUST FOR BENEFIT PAYMENTS:	
Beginning of Year	<u>107,127,231</u>
End of Year	<u>\$ 113,557,041</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

June 30, 2001
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2000	Housing Authority December 31, 2000	Economic Development Corporation	Water and Sewer System	Total Nonmajor Component Units	Total Component Units
ASSETS:								
Cash and cash equivalents	\$ 314,043	\$ 25,123	\$ 966	\$ 120,927	\$ 22,516	\$ 7,423	\$ 38,194	\$ 529,192
Investments, including accrued interest	—	—	255,364	1,206,678	138	—	2,427	1,464,607
Other receivables	775,146	1,439	—	42,729	219,841	448,017	4,735	1,491,907
Mortgage loans and interest receivable, net	—	—	2,696,121	1,556	42,246	—	—	2,739,923
Inventories	33,007	—	—	12,010	—	—	—	45,017
Due from Primary Government	—	—	—	—	—	23,458	—	23,458
Restricted cash and investments	316,139	1,595	720,027	9,095	117,510	1,017,852	219,828	2,402,046
Capital assets:								
Construction work-in-progress	312,196	—	—	—	—	3,580,396	55,677	3,948,269
Property, plant and equipment	3,883,889	51,620	6,683	8,250,654	4,463	14,369,095	78,178	26,644,582
Accumulated depreciation	(2,738,498)	(32,985)	(805)	(3,875,323)	(510)	(4,573,701)	(16,671)	(11,238,493)
Other	10,640	—	41,093	67,343	58,377	142,284	3,438	323,175
Total assets	<u>2,906,562</u>	<u>46,792</u>	<u>3,719,449</u>	<u>5,835,669</u>	<u>464,581</u>	<u>15,014,824</u>	<u>385,806</u>	<u>28,373,683</u>
LIABILITIES:								
Accounts payable and accrued liabilities	643,308	27,512	159,593	739,923	54,405	18,033	9,714	1,652,488
Accrued interest payable	10,416	—	37,061	1,869	—	22,596	—	71,942
Deferred revenues	—	—	45,656	58,506	674	76,562	9,685	191,083
Due to Primary Government	—	311	214,371	—	—	205,456	—	420,138
Noncurrent Liabilities:								
Due within one year	24,989	—	38,800	11,864	—	674,489	17	750,159
Due in more than one year	789,850	3,743	2,615,103	138,128	144,773	9,345,805	270,158	13,307,560
Other	23,632	—	—	48,688	47,337	—	1,477	121,134
Total liabilities	<u>1,492,195</u>	<u>31,566</u>	<u>3,110,584</u>	<u>998,978</u>	<u>247,189</u>	<u>10,342,941</u>	<u>291,051</u>	<u>16,514,504</u>
NET ASSETS:								
Invested in capital assets, net of related debt	826,668	16,321	5,787	4,391,023	3,953	3,453,709	61,507	8,758,968
Restricted for:								
Capital projects	—	—	—	—	67,539	89,017	187,141	343,697
Loans	—	—	—	—	88,938	—	2,356	91,294
Donor restrictions	13,293	—	—	—	—	—	—	13,293
Debt service	—	—	248,086	—	—	886,624	23,677	1,158,387
Unrestricted (deficit)	574,406	(1,095)	354,992	445,668	56,962	242,533	(179,926)	1,493,540
Total net assets	<u>\$ 1,414,367</u>	<u>\$ 15,226</u>	<u>\$ 608,865</u>	<u>\$ 4,836,691</u>	<u>\$ 217,392</u>	<u>\$ 4,671,883</u>	<u>\$ 94,755</u>	<u>\$ 11,859,179</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS
 JUNE 30, 2000
 (in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 1999	Housing Authority December 31, 1999	Economic Development Corporation	Water and Sewer System	Total Nonmajor Component Units	Total Component Units
ASSETS:								
Cash and cash equivalents	\$ 435,921	\$ 27,216	\$ —	\$ 113,863	\$ 37,575	\$ 8,734	\$ 36,493	\$ 659,802
Investments, including accrued interest	—	—	264,712	1,170,128	41	—	2,908	1,437,789
Other receivables	656,280	1,219	—	48,455	120,322	421,800	6,283	1,254,359
Mortgage loans and interest receivable, net	—	—	2,540,295	1,814	46,060	—	—	2,588,169
Inventories	32,022	—	—	—	—	—	—	32,022
Due from Primary Government	—	—	—	—	—	47,141	—	47,141
Restricted cash and investments	293,890	502	730,686	14,748	161,602	974,660	912	2,177,000
Capital assets:								
Construction work-in-progress	225,768	—	—	—	—	3,196,302	—	3,422,070
Property, plant and equipment	3,683,224	45,316	6,641	7,653,866	14,495	13,930,051	66,659	25,400,252
Accumulated depreciation	(2,575,818)	(27,076)	(290)	(3,611,154)	(288)	(4,302,707)	(13,286)	(10,530,619)
Other	11,645	—	42,861	85,204	25,128	108,668	858	274,364
Total assets	<u>2,762,932</u>	<u>47,177</u>	<u>3,584,905</u>	<u>5,476,924</u>	<u>404,935</u>	<u>14,384,649</u>	<u>100,827</u>	<u>26,762,349</u>
LIABILITIES:								
Accounts payable and accrued liabilities	587,817	21,933	145,889	701,544	45,828	43,093	1,754	1,547,858
Accrued interest payable	10,127	—	35,343	2,156	—	—	—	47,626
Deferred revenues	—	—	43,928	57,019	550	67,799	5,496	174,792
Due to Primary Government	—	170	232,923	—	—	252,911	—	486,004
Noncurrent Liabilities:								
Due within one year	21,414	—	33,530	17,957	—	358,575	7	431,483
Due in more than one year	800,581	3,346	2,523,496	149,992	78,366	8,875,569	46	12,431,396
Other	21,087	—	—	49,898	71,234	—	13,746	155,965
Total liabilities	<u>1,441,026</u>	<u>25,449</u>	<u>3,015,109</u>	<u>978,566</u>	<u>195,978</u>	<u>9,597,947</u>	<u>21,049</u>	<u>15,275,124</u>
NET ASSETS:								
Invested in capital assets, net of related debt	771,376	17,617	6,351	4,120,773	14,207	3,948,077	53,373	8,931,774
Restricted for:								
Capital projects	—	—	—	—	35,929	144,465	—	180,394
Loans	—	—	—	—	141,166	—	2,713	143,879
Donor restrictions	12,606	—	—	—	—	—	—	12,606
Debt retirement	—	—	247,618	—	—	830,195	—	1,077,813
Unrestricted (deficit)	537,924	4,111	315,827	377,585	17,655	(136,035)	23,692	1,140,759
Total net assets	<u>\$ 1,321,906</u>	<u>\$ 21,728</u>	<u>\$ 569,796</u>	<u>\$ 4,498,358</u>	<u>\$ 208,957</u>	<u>\$ 4,786,702</u>	<u>\$ 79,778</u>	<u>\$ 11,487,225</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2001
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2000	Housing Authority December 31, 2000	Economic Development Corporation	Water and Sewer System	Total Nonmajor Component Units	Total Component Units
Expenses	\$ 4,392,789	\$ 227,467	\$ 161,484	\$ 2,235,941	\$ 478,113	\$ 1,823,024	\$ 24,911	\$ 9,343,729
Program Revenues:								
Charges for Services	3,622,050	249,507	165,085	607,654	178,597	1,576,884	22,256	6,422,033
Operating Grants and Contributions	454,370	—	—	1,339,060	40,857	—	15,046	1,849,333
Capital Grants, Contributions and other	163,630	—	—	534,419	292,397	1,748	270	992,464
Total Program Revenues	4,240,050	249,507	165,085	2,481,133	511,851	1,578,632	37,572	9,263,830
Net (Expenses) Program Revenue	(152,739)	22,040	3,601	245,192	33,738	(244,392)	12,661	(79,899)
General Revenues (Expenses):								
Investment income (loss)	32,953	1,844	35,479	93,141	(28,928)	84,534	2,316	221,339
Other Federal and State aid	—	—	—	—	1,800	—	—	1,800
Other	212,247	(30,386)	(11)	—	1,825	45,039	—	228,714
Net General Revenues (Expenses)	245,200	(28,542)	35,468	93,141	(25,303)	129,573	2,316	451,853
Change in Net Assets	92,461	(6,502)	39,069	338,333	8,435	(114,819)	14,977	371,954
Net Assets — Beginning	1,321,906	21,728	569,796	4,498,358	208,957	4,786,702	79,778	11,487,225
Net Assets — Ending	<u>\$ 1,414,367</u>	<u>\$ 15,226</u>	<u>\$ 608,865</u>	<u>\$ 4,836,691</u>	<u>\$ 217,392</u>	<u>\$ 4,671,883</u>	<u>\$ 94,755</u>	<u>\$ 11,859,179</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2000
(in thousands)

	<u>Health and Hospitals Corporation</u>	<u>Off-Track Betting Corporation</u>	<u>Housing Development Corporation October 31, 1999</u>	<u>Housing Authority December 31, 1999</u>	<u>Economic Development Corporation</u>	<u>Water and Sewer System</u>	<u>Total Nonmajor Component Units</u>	<u>Total Component Units</u>
Expenses	\$ 4,167,933	\$ 215,283	\$ 143,879	\$ 2,076,952	\$ 300,214	\$ 1,740,211	\$ 20,605	\$ 8,665,077
Program Revenues:								
Charges for Services	3,480,859	243,873	150,196	586,125	150,632	1,534,862	22,303	6,168,850
Operating Grants and Contributions	280,532	—	—	1,265,194	19,495	—	—	1,565,221
Capital Grants, Contributions and other	112,435	—	—	2,289,280	136,379	5,637	13,152	2,556,883
Total Program Revenues	3,873,826	243,873	150,196	4,140,599	306,506	1,540,499	35,455	10,290,954
Net (Expenses) Program Revenues	(294,107)	28,590	6,317	2,063,647	6,292	(199,712)	14,850	1,625,877
General Revenues (Expenses):								
Investment income	25,984	1,596	27,732	44,391	36,991	70,478	1,983	209,155
Other Federal and State aid	—	—	—	—	2,485	—	—	2,485
Decrease in accrued pension liability	93,339	6,297	—	—	—	—	—	99,636
Other	258,533	(29,112)	(101)	—	1,508	45,736	7	276,571
Net General Revenues (Expenses)	377,856	(21,219)	27,631	44,391	40,984	116,214	1,990	587,847
Change in Net Assets	83,749	7,371	33,948	2,108,038	47,276	(83,498)	16,840	2,213,724
Net Assets—Beginning	1,238,157	14,357	535,848	2,390,320	161,681	4,870,200	62,938	9,273,501
Net Assets—Ending	<u>\$ 1,321,906</u>	<u>\$ 21,728</u>	<u>\$ 569,796</u>	<u>\$ 4,498,358</u>	<u>\$ 208,957</u>	<u>\$ 4,786,702</u>	<u>\$ 79,778</u>	<u>\$ 11,487,225</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001 and 2000

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 which comprise the City are included in these financial statements.

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

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

Most component units are included in the financial reporting entity by discrete presentation. Some component units, despite being legally separate from the primary government, are so integrated with the primary government, that they are in substance part of the primary government. These component units are blended with the primary government.

The New York City Transit Authority is an affiliated agency of the Metropolitan Transportation Authority of the State of New York which is a component unit of New York State and is excluded from the City's financial reporting entity.

Blended Component Units

These component units, although legally separate, all provide services exclusively to the City and thus are reported as if they were part of the primary government. They include the following:

Municipal Assistance Corporation for The City Of New York (MAC). MAC is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation. MAC was created in 1975 by the Municipal Assistance Corporation For The City of New York Act (Act) to assist the City in providing essential services to its inhabitants without interruption and in reestablishing investor confidence in the soundness of City obligations. Pursuant to the Act, MAC is empowered to issue and sell bonds and notes, pay or loan to the City funds received from such sales, and exchange its obligations for those of the City. Also pursuant to the Act, MAC provides certain oversight of the City's financial activities.

MAC has no taxing power. All outstanding bonds issued by MAC are general obligations of MAC and do not constitute an enforceable obligation or a debt of either the City or the State and neither the City nor the State is liable thereon. Neither the City nor a creditor of the City has any claim to MAC's revenues and assets. Debt service requirements and operating expenses are funded by allocations from the State's collection of certain sales and compensating use taxes (imposed by the State within the City at rates formerly imposed by the City), the stock transfer tax, and certain per capita aid subject in each case to appropriation by the State Legislature. Net collections of taxes and per capita aid are returned to the City by the State after MAC debt service requirements are met. The MAC bond resolutions provide for liens by bondholders on certain monies received by MAC from the State.

New York City Transitional Finance Authority (TFA). TFA is a corporate governmental agency constituting a public benefit corporation and instrumentality of the State. TFA was created in 1997 by the New York City Financial Authority Act to assist the City in funding its capital program, the purpose of which is to maintain, rebuild, and expand the infrastructure of the City.

TFA has no taxing power. All outstanding bonds issued by TFA are general obligations of TFA and do not constitute an enforceable obligation or a debt of either the City or the State and neither the City nor the State is liable thereon. Neither the City nor a creditor of the City has any claim to TFA's revenues and assets. Debt service requirements and operating expenses are funded by allocations from the State's collection of personal income taxes (imposed by the City and collected by the State) and, under certain circumstances, sales taxes. Sales taxes are only available to TFA after such amounts required by MAC are deducted and if the amounts of personal income tax revenues fall below statutorily specified coverage levels. Net collections of taxes not required by TFA are paid to the City by TFA.

New York City Samurai Funding Corporation (SFC). The City created SFC in 1992. This is a special-purpose governmental not-for-profit entity, created to issue Yen-denominated bonds. The members, directors, and officers of SFC are all elected officials or employees of the City.

SFC issued Yen-denominated bonds to investors on May 27, 1993 and simultaneously bought general obligation bonds from the City. Such bonds require the City to make floating rate interest and principal payments in U.S. dollars to SFC. SFC entered into currency and interest rate exchange agreements to swap the City's payments into fixed rate Yen which are used to pay SFC's bondholders. These agreements limit the City's currency and exchange rate change exposure. The proceeds from the City's bonds sold to SFC were used for housing and economic development projects.

TSASC, Inc. (TSASC). TSASC is a special purpose, local development corporation organized in 1999 under the laws of the State of New York. TSASC is an instrumentality of the City, but is a separate legal entity from the City.

Pursuant to a purchase and sale agreement with the City, the City sold to TSASC all of its future right, title, and interest in the tobacco settlement revenues under the Master Settlement Agreement and the Decree and Final Judgement. 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 tobacco settlement revenues received by New York State.

The purchase price of the City's future right, title, and interest in the tobacco settlement revenues has been financed by the issuance of a series of bonds. In addition, the City is entitled to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs as set forth in the indenture. These payments are subordinate to payments on the bonds and payment of certain other costs specified in the indenture.

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 receive and administer money for the construction of the school related portion of combined occupancy structures. 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.

The Board of Education maintains responsibility for the selection of school sites, and design and construction of schools, but the titles to such sites and schools are vested with ECF.

City University Construction Fund (CUCF). CUCF is a corporate governmental agency constituting a public benefit corporation. CUCF was created in 1966 by the New York State Education Law. The purpose of CUCF is to provide facilities for both senior colleges and community colleges of The City University of New York (CUNY) and to support the educational purposes of CUNY.

CUCF is administered by seven State and City appointed trustees.

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, each of whom is appointed by the Mayor who serves as the Chairman, the Governor, and the Schools Chancellor of the City, ex officio, respectively.

SCA's operations are almost entirely funded by appropriations made by the City and are guided by five-year capital plans, developed by the Board of Education of the City.

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 financial statements include the accounts of HHC and its wholly-owned subsidiaries, Metroplus Health Plan, Inc. and HHC Capital Corporation.

The City provides funds to HHC for care given to uninsured indigent patients, members of the uniformed services and prisoners, and for other costs not covered by other payors. The City's Annual Expense Budget determines the support to HHC on a cash-flow basis. In addition, the City has paid HHC's costs for settlements of claims for medical malpractice, negligence, and other miscellaneous torts and contracts, as well as other HHC costs including utilities expense, City debt which funded HHC capital acquisitions, and New York State Housing Finance Agency (HFA) debt on HHC assets acquired through lease purchase agreements. HHC reimburses the City for these debt payments. HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City.

New York City Off-Track Betting Corporation (OTB). OTB was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City. OTB earns: (i) revenues on its betting operations ranging between 15% and 31% of wagers handled, depending on the type of wager; (ii) a 5% surcharge and surcharge breakage on pari-mutuel winnings; (iii) a 1% surcharge on multiple, exotic, and super exotic wagering pools; and (iv) breakage, the revenue resulting from the rounding down of winning payoffs. Pursuant to State law, OTB: (i) distributes various portions of the surcharge and surcharge breakage to other localities in the State; (ii) allocates various percentages of wagers handled to the racing industry; (iii) allocates various percentages of wagers handled and breakage together with all uncashed pari-mutuel tickets to the State; and (iv) allocates the 1% surcharge on exotic wagering pools for the financing of capital acquisitions. All remaining net revenue is distributable to the City. In addition, OTB acts as a collection agent for the City with respect to surcharge and surcharge breakage due from other community off-track betting corporations.

Jay Street Development Corporation. (JSDC). JSDC is a 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 has no taxing power. Bonds issued by JSDC do not constitute debt of the State or the City and neither the State nor the City is liable on them. Bond issuances are being used to fund the costs of the design, construction, and furnishing of a courthouse (Courts Facility) in Brooklyn. The City has leased the Courts Facility from JSDC and the rental payments will fund debt service requirements, redemption premiums (if any), financing costs, administrative expenses, and certain additional amounts determined by JSDC as necessary for this project.

Housing and Economic Development Entities:

New York City Housing Development Corporation (HDC). HDC was established in 1971 to encourage private housing development by providing low interest mortgage loans. The combined financial statements include the accounts of HDC and its wholly-owned subsidiaries, Housing Assistance Corporation, Housing New York Corporation, and the New York City Residential Mortgage Insurance Corporation. HDC finances multiple dwelling mortgages substantially through issuance of HDC bonds and notes, and also acts as an intermediary for the sale and refinancing of certain City multiple dwelling mortgages. HDC has a fiscal year ending October 31.

HDC is supported by service fees, investment income, and interest charged to mortgagors and has been self-sustaining. Mortgage loans are carried at cost. Mortgage loan interest income, fees, charges, and interest expense are recognized on the accrual basis. HDC maintains separate funds in its financial records to assure compliance with specific restrictions of its various bond and note resolutions.

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 of New York. HA also maintains a leased housing program which provides housing assistance payments to families.

Substantial operating losses (the difference between operating revenues and expenses) result from the essential services that HA provides, and such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, HA receives subsidies from: (a) the Federal government primarily the U.S. Department of Housing and Urban Development in the form of annual grants for operating assistance, debt service payments, contributions for capital and reimbursement of expenditures incurred for certain Federal housing programs; (b) New York State in the form of operating assistance, reimbursement of certain expenses, and debt service payments; and (c) New York City in the form of operating assistance, reimbursement of certain housing police costs prior to May 1, 1995, and debt service payments. Subsidies are established through budgetary procedures which establish amounts to be funded by the grantor agencies. Projected operating income or loss amounts are budgeted on an annual basis and approved by the grantor agency. Expected variances from budgeted amounts are communicated to the agency during periodic budget revisions, as any revisions to previously approved budgets must be agreed to by the grantor. 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 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 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 provide loan guarantees or grants to qualifying business enterprises as a means of helping to create and retain employment therein.

Business Relocation Assistance Corporation (BRAC). BRAC is a not-for-profit corporation incorporated in 1981 according to the not-for-profit corporation law of the State of New York for the purpose of implementing and administering the Relocation Incentive Program (RIP) and other related programs. BRAC provides relocation assistance to qualifying commercial and manufacturing firms moving within The City of New York.

The funds for RIP are provided by owners/developers of certain residential projects which cause the relocation of commercial and manufacturing businesses previously located at those sites. These funds consists of conversion contributions or escrow payments mandated by the City's zoning resolution for this type of development.

All conversion contributions received by BRAC are restricted for the use of administering industrial retention/relocation programs consistent with the Zoning Resolution. The program provides grants up to \$30,000 to eligible New York City commercial and 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 of The City of New York appoints the majority of the members of the Board of Directors.

Water And Sewer System:

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, was established 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. The Water Board was established to lease the water distribution and sewage collection system from the City and to establish and collect fees, rates, rents, and other service charges for services furnished by the system to produce cash sufficient to pay debt service on the Water Authority's bonds and to place the Water and Sewer System on a self-sustaining basis.

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 800, 1 Centre Street, New York, New York 10007.

2. Basis of Presentation

Government-wide Statements: The government-wide financial statements, *i.e.* the statement of net assets and the statement of activities, display information about the primary government and its component units. These statements include the financial activities of the overall government except for fiduciary activities. For the most part, eliminations of internal activity have been made in these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. All of the activities of the City as primary government are governmental activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (i) charges for services such as rental revenue from operating leases on markets, ports, and terminals and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other revenues not properly included among program revenues are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for the governmental and fiduciary fund categories are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, fiduciary, and proprietary. Except for proprietary (the only organizations that would be categorized as proprietary funds are reported as component units), each category, in turn, is divided into separate "fund types."

The City reports the following major governmental funds:

General Fund. This is the general operating fund of the City. Substantially all tax revenues, Federal and State aid (except aid for capital projects), and other operating revenues are accounted for in the General Fund. This fund also accounts for expenditures and transfers as appropriated in the Expense Budget, which provides for the City's day-to-day operations, including transfers to Debt Service Funds for payment of long-term liabilities.

New York City Capital Projects Fund. This fund is used to record all revenues, expenditures, assets, and liabilities associated with City capital projects. It accounts for resources used to construct or acquire fixed assets and make capital improvements. Resources of the New York City Capital Projects Fund are derived principally from proceeds of City, TFA, and TSASC 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 Department Pension Fund—Subchapter 2 (POLICE)
- New York City Fire Department Pension Fund—Subchapter 2 (FIRE)
- New York Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- Transit Police Officers' Variable Supplements Fund (TPOVSF)
- Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)
- Housing Police Officers' Variable Supplements Fund (HPOVSF)
- Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- Correction Variable Supplements Fund (CVSF)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 800, 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** and the nonmajor component units comprising the Housing and Economic Development Entities, and the **Water and Sewer System**. These activities are accounted for in a manner similar to private business enterprises, in which the focus is on the periodic determination of revenues, expenses, and net income.

New Accounting Standards Adopted

In fiscal year 2001, the City adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*
- Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- Statement No. 37 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*
- Statement No. 38 *Certain Financial Statement Disclosures*

Statement No. 33 prescribes standards for recording nonexchange transactions on the modified accrual and accrual bases of accounting. A significant amount of the City's revenues are derived from nonexchange transactions, such as real

estate, income and sales taxes, as well as Federal, State and other categorical aid. The effect of adoption of Statement No. 33 on the nonexchange transactions recorded as revenue in the City's governmental funds was insignificant. However, the City recorded in the balance sheet of its governmental fund financial statements at June 30, 2001 and 2000, \$2.470 billion and \$2.444 billion, respectively, as a receivable with a corresponding amount reported as deferred revenue. These amounts represent revenues from nonexchange transactions during the fiscal year which are not available to finance expenditures of the current period. For reporting nonexchange transactions in the government-wide financial statements on the accrual basis of accounting, the receivables are recorded as described in the preceding sentence, however, corresponding amounts are reported as revenue instead of deferred revenue. Accordingly, the amounts recognized as revenue in the fund financial statements differs from the amounts recognized as revenue in the government-wide financial statements by the change in deferred revenue in the fund financial statements from the beginning to the end of the fiscal year.

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Obligations Account Group. In addition to the fixed assets previously recorded in the General Fixed Assets Account Group, the City retroactively capitalized infrastructure assets that were acquired beginning with fiscal year ended June 30, 1981. In addition, the government-wide statement of activities reflects depreciation expenses on the City's fixed assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City's General Fund, Capital Projects Funds and Debt Service Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34.

Statement No. 34 also requires as required supplementary information Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this Statement did not affect amounts reported in the financial statements of the City, certain note disclosures have been added and or amended including descriptions of activities of major funds, violations of legal or contractual provisions, future debt service and lease obligations in five year increments, short-term obligations, interest rates, and interfund balances and transactions.

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, for example sales and income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from sales and income taxes are recognized when the underlying 'exchange' transaction takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is 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 modified 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 2001 and 2000 were approximately \$226 million and \$264 million, respectively.

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

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

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

A description of the City's securities lending activities for the Pension and Other Employee Benefit Trust Funds in fiscal years 2001 and 2000 is provided in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2001 and 2000 (estimated at \$198 million and \$210 million, respectively, based on average cost) have been reported on the governmental-wide financial statement of net assets. Inventories are recorded as expenditures in governmental funds at the time of purchase and accordingly, have not been reported on the governmental funds balance sheet.

7. Restricted Cash and Investments

Certain proceeds of component unit bonds, as well as certain resources set aside for bond repayment, are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants.

8. Capital Assets

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection systems, 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 subway tracks and tunnels. The fixed 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 fixed 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 fixed 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 \$750.1 million and \$742.4 million for fiscal years 2001 and 2000, respectively. The allowance is composed of the balance of first mortgages one or more years in arrears and the balance of refinanced mortgages where payments to the City are not expected to be completed for approximately 25 to 30 years.

10. Vacation and Sick Leave

Earned vacation and sick leave is recorded as an expenditure in the period when it is payable from current financial resources in the fund financial statements. The estimated value of vacation leave earned by employees which may be used in subsequent years or earned vacation and sick leave paid upon termination or retirement, and therefore payable from future resources, is recorded as a liability in the government-wide financial statements.

11. Treasury Obligations

Bonds payable included in the government-wide financial statements and investments in the Debt Service Funds are reported net of "treasury obligations." Treasury obligations represent City bonds held as investments of the Debt Service Funds which are offset and reported as if these bonds had been redeemed.

12. Judgments and Claims

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers' compensation. In the fund financial statements, expenditures for judgments and claims (other than workers' compensation and condemnation proceedings) are recorded on the basis of settlements reached or judgments entered within the current fiscal year. Expenditures for workers' compensation are recorded when paid. Settlements relating to condemnation proceedings are reported when the liability is estimable. In the government-wide financial statements the estimated liability for all judgments and claims is recorded as a liability.

13. Long-term Liabilities

For long-term liabilities, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide financial statement of net assets. Long-term liabilities expected to be financed from discretely presented component unit operations are accounted for in those component unit financial statements.

14. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2001 were due July 1, 2000 and January 1, 2001 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 2001 taxes was June 6, 2000. 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 the usual discount of 2% for the prepayment of real estate taxes for fiscal years 2002 and 2001. Collections of these real estate taxes received on or before June 30, 2001 and 2000 were \$1,452 million and \$1,576 million, respectively. These amounts were recorded as deferred revenue.

The City sold approximately \$213.9 million of real property tax liens, fully attributable to fiscal year 2001, at various dates in fiscal year 2001. 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 five percent surcharge. It has been estimated that \$8.6 million worth of liens sold in fiscal year 2001 will require replacement. The estimated refund accrual amount of \$9 million, including the surcharge, results in fiscal year 2001 sale proceeds of \$204.9 million.

In fiscal year 2001, \$15.1 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2000 sale. This resulted in a decrease to fiscal year 2001 revenue of \$9.1 million for the refund amount in excess of the fiscal year 2000 accrual of \$6 million and decreased the proceeds of the fiscal year 2000 sale to \$49.9 million down from the original fiscal year 2000 proceeds reported last year of \$59 million.

In fiscal years 2001 and 2000, \$363 million and \$388 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 revenue on the government-wide statement of net assets.

The City sold approximately \$65 million of real property tax liens, fully attributable to fiscal year 2000, at various dates in fiscal year 2000. It was estimated that \$5.7 million worth of liens sold in fiscal year 2000 will require replacement. The estimated refund accrual amount of \$6 million, including the surcharge, results in fiscal year 2000 sale proceeds of \$59 million.

In fiscal year 2000, \$10.8 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 1999 sale. This resulted in an increase to fiscal year 2000 revenue of \$3.2 million for the unused balance of the fiscal year 1999 accrual of \$14 million and increased the proceeds of the fiscal year 1999 sale to \$130.2 million up from the original fiscal year 1999 proceeds reported last year of \$127 million.

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, 2001 and 2000, excess amounts of \$917 million and \$414 million, respectively, were transferred to the Debt Service Funds.

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 and issuance costs in the government-wide financial statements units are deferred and amortized over the term of the bonds using the bonds-outstanding 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.

18. Intra-entity Activity

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as operating 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. Reclassifications

Reclassifications and adjustments of certain prior year amounts have been made to conform with the current year presentation and separately issued financial statements of reported entities.

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.

B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net assets (deficit) for 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 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.

A summary reconciliation of the difference between net changes in fund balances as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and change in net assets for 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 \$3,513 million and \$3,898 million subsequent to its original adoption in fiscal years 2001 and 2000, respectively.

Financial Plans

The New York State Financial Emergency Act for The City of New York, as amended in 1978, requires the City to operate under a "rolling" Four-Year Financial Plan (Plan). Revenues and expenditures, including operating transfers, of each year of the Plan are required to be balanced on a basis consistent with GAAP. The Plan is broader in scope than the Expense Budget; it comprises General Fund revenues and expenditures, Capital Projects Fund revenues and expenditures, and all short and long-term financing.

The Expense Budget is generally consistent with the first year of the Plan and operations under the Expense Budget must reflect the aggregate limitations contained in the approved Plan. The City reviews its Plan periodically during the year and, if necessary, makes modifications to incorporate actual results and revisions to assumptions.

2. Deficit Fund Balance

The New York City Capital Projects Fund has cumulative deficits of \$2.1 billion and \$1.1 billion at June 30, 2001 and 2000, 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, 2001 and 2000, the carrying amount of the

City's cash and cash equivalents was \$1,576 million and \$1,978 million, respectively, and the bank balances were \$1,340 million and \$1,620 million, respectively. Of the bank balances, \$570 million and \$737 million, respectively, were covered by Federal depository insurance and \$770 million and \$883 million, respectively, were uninsured and collateralized with securities held by the City's agent in the City's name. At June 30, 2001 and 2000, the carrying amount of the discretely presented component units' cash and cash equivalents was \$529 million and \$660 million, respectively, and the bank balances were \$103 million and \$64 million, respectively. Of the bank balances, \$4 million and \$4 million, respectively, were covered by Federal depository insurance and \$90 million and \$58 million, respectively, were uninsured and collateralized with securities held by the City's agent in the City's name. Of the bank balances, \$9 million and \$2 million, respectively, were uninsured and uncollateralized.

The uninsured, collateralized cash balances carried during the year present primarily the compensating balances to be maintained at banks for services provided. It is the policy of the City to invest all funds in excess of compensating balance requirements.

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 investment policies of the discretely presented component units included in the City's reporting entity generally conform to those of the City's. The criteria for the Pension and Other Employee Benefit Trust Funds investments are as follows:

1. Fixed income investments may be made in U.S. Government 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 15% 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.

Investments of the City and its discretely presented component units are categorized by level of credit risk (the risk that a counterparty to an investment transaction will not fulfil its obligations). Category 1, the lowest risk, includes investments that are insured or registered or for which securities are held by the entity or its agent in the entity's name. Category 2, includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name. Category 3, the highest risk, includes investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

The City's investments, including those of the discretely presented component units (CU), as of June 30, 2001 and 2000 are classified as follows:

	2001									
	Category						Total Carrying Amount		Fair Value	
	1		2		3		City	CU	City	CU
	City	CU	City	CU	City	CU				
	(in millions)									
Repurchase agreements	\$ 1,947	\$ 62	\$ —	\$ —	\$ —	\$ —	\$ 1,947	\$ 62	\$ 1,947	\$ 62
U.S. Government securities	17,958	1,091	—	—	—	—	17,958	1,091	17,959	1,091
Commercial paper	4,258	—	—	—	—	—	4,258	—	4,259	—
Corporate bonds	13,744	—	—	—	—	—	13,744	—	13,744	—
Corporate stocks	53,119	—	—	—	—	—	53,119	—	53,119	—
Agency discount notes	535	279	—	—	—	—	535	279	534	279
Certificates of deposit	—	33	—	—	—	—	—	33	—	33
Securities lending investment collateral (categorized):										
Repurchase agreements	348	—	—	—	—	—	348	—	348	—
U.S. Government securities	26	—	—	—	—	—	26	—	26	—
Commercial paper	3,159	—	—	—	—	—	3,159	—	3,159	—
Corporate bonds	2,601	—	—	—	—	—	2,601	—	2,601	—
Certificates of deposit	2,182	—	—	—	—	—	2,182	—	2,182	—
Money markets	232	—	—	—	—	—	232	—	232	—
Uninvested cash	5	—	—	—	—	—	5	—	5	—
Promissory Notes	430	—	—	—	—	—	430	—	430	—
Loan Participation	4	—	—	—	—	—	4	—	4	—
Open time deposits	381	—	—	—	—	—	381	—	381	—
Corporate stocks	203	—	—	—	—	—	203	—	203	—
	<u>\$ 101,132</u>	<u>\$ 1,465</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>101,132</u>	<u>1,465</u>	<u>101,133</u>	<u>1,465</u>
Mutual funds (1)							4,552	—	4,552	—
International investment fund—equity (1)							12,973	—	12,973	—
Guaranteed investment contracts (1)							1,043	—	1,043	—
Management investment contracts (1)							98	—	98	—
Short-term investment fund (1)							2,791	—	2,791	—
Securities lending investment collateral (uncategorized):										
Small mortgages (1)							9	—	9	—
Total investments							<u>\$ 122,598</u>	<u>\$ 1,465</u>	<u>\$ 122,599</u>	<u>\$ 1,465</u>

(1) These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

In fiscal year 2001, the restricted cash and cash equivalents applicable to the governmental funds was \$251 million of which the repayment of \$251 million was insured or collateralized and none was uninsured and uncollateralized. There were no restricted governmental funds investments for fiscal year 2001.

In fiscal year 2001, the restricted cash, cash equivalents, and investments applicable to discretely presented component units include \$404 million of cash and cash equivalents, of which the repayment of \$401 million was insured or collateralized and \$3 million was uninsured and uncollateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate fair value of \$1,998 million are fully registered with securities held by the City's agent in the entity's name of which \$241 million have maturities of three months or less.

2000

	Category						Total Carrying Amount		Fair Value	
	1		2		3		City	CU	City	CU
	City	CU	City	CU	City	CU				
	(in millions)									
Repurchase agreements	\$ 2,448	\$ 74	\$ —	\$ —	\$ —	\$ —	\$ 2,448	\$ 74	\$ 2,448	\$ 74
U.S. Government securities	16,895	1,204	—	—	—	—	16,895	1,204	16,895	1,204
Commercial paper	3,880	10	—	—	—	—	3,880	10	3,880	10
Corporate bonds	12,404	—	—	—	—	—	12,404	—	12,404	—
Corporate stocks	63,888	—	—	—	—	—	63,888	—	63,888	—
Agency discount notes	522	123	—	—	—	—	522	123	522	123
Certificates of deposit	—	27	—	—	—	—	—	27	—	27
Securities lending investment collateral (categorized):										
Repurchase agreements	461	—	—	—	—	—	461	—	461	—
U.S. Government securities	105	—	—	—	—	—	105	—	105	—
Commercial paper	5,883	—	—	—	—	—	5,883	—	5,883	—
Corporate bonds	2,448	—	—	—	—	—	2,448	—	2,448	—
Certificates of deposit	2,473	—	—	—	—	—	2,473	—	2,473	—
Open time deposits	802	—	—	—	—	—	802	—	802	—
Corporate stocks	67	—	—	—	—	—	67	—	67	—
	<u>\$ 112,276</u>	<u>\$ 1,438</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>112,276</u>	<u>1,438</u>	<u>112,276</u>	<u>1,438</u>
Mutual funds (1)							3,187	—	3,187	—
International investment fund— equity (1)							16,625	—	16,625	—
Guaranteed investment contracts (1)							1,022	—	1,022	—
Management investment contracts (1)							182	—	182	—
Short-term investment fund (1)							3,331	—	3,331	—
Securities lending investment collateral (uncategorized):										
Mutual funds (1)							30	—	30	—
Small mortgages (1)							12	—	12	—
Total investments							<u>\$ 136,665</u>	<u>\$ 1,438</u>	<u>\$ 136,665</u>	<u>\$ 1,438</u>

(1) These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

In fiscal year 2000, the restricted cash and cash equivalents applicable to the governmental funds was \$1,346 million of which the repayment of \$1,346 million was insured or collateralized and none was uninsured and uncollateralized. There were no restricted governmental funds investments for fiscal year 2000.

In fiscal year 2000, the restricted cash, cash equivalents, and investments applicable to discretely presented component units include \$1.213 million of cash and cash equivalents, of which the repayment of \$1,213 million was insured or collateralized and none was uninsured and uncollateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate fair value of \$964 million are fully registered with securities held by the City's agent in the entity's name of which \$253 million have maturities of three months or less.

Securities Lending

State statutes and boards of trustees policies permit the Pension and Retirement Systems and certain Variable Supplements 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. Securities on loan at year-end are classified as a Category 1 risk in the preceding schedule of custodial credit risk. International securities are uncategorized. In return, they receive collateral in the form of cash at 100%—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.

All securities loans can be terminated on demand within a period specified in each agreement by either the Systems and Funds or the borrowers. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. The underlying securities (fixed income) have an average maturity of 10 years except for the TRS securities lending program discussed below which has an average maturity of 5 years.

In addition, TRS administers a securities lending program for TRS and BERS Variable A investment program which is comparable to the securities lending program discussed above.

The City reports securities loaned as assets on the balance sheet. 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 balance sheet. 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, 2000 and 2001:

Primary Government	Balance June 30, 1999	Additions	Deletions	Balance June 30, 2000 <small>(in thousands)</small>	Additions	Deletions	Balance June 30, 2001
Governmental activities:							
Capital assets, not being depreciated:							
Land	\$ 648,496	\$ 58,572	\$ —	\$ 707,068	\$ 30,006	\$ 3,220	\$ 733,854
Construction work-in-progress	6,926,330	1,387,002	1,328,350	6,984,982	2,474,041	2,598,403	6,860,620
Total capital assets, not being depreciated	<u>7,574,826</u>	<u>1,445,574</u>	<u>1,328,350</u>	<u>7,692,050</u>	<u>2,504,047</u>	<u>2,601,623</u>	<u>7,594,474</u>
Capital assets, being depreciated:							
Buildings	13,703,503	1,465,412	29,657	15,139,258	2,598,403	52,722	17,684,939
Equipment	4,772,945	415,421	52,601	5,135,765	404,143	109,062	5,430,846
Infrastructure	7,755,045	609,961	—	8,365,006	458,628	—	8,823,634
Total capital assets, being depreciated	<u>26,231,493</u>	<u>2,490,794</u>	<u>82,258</u>	<u>28,640,029</u>	<u>3,461,174</u>	<u>161,784</u>	<u>31,939,419</u>
Less accumulated depreciation:							
Buildings	6,224,972	1,024,812	—	7,249,784	725,207	—	7,974,991
Equipment	3,209,169	283,911	3,157	3,489,923	341,753	—	3,831,676
Infrastructure	2,863,246	190,579	—	3,053,825	176,040	—	3,229,865
Total accumulated depreciation	<u>12,297,387</u>	<u>1,499,302(1)</u>	<u>3,157</u>	<u>13,793,532</u>	<u>1,243,000(1)</u>	<u>—</u>	<u>15,036,532</u>
Total capital assets, being depreciated, net	<u>13,934,106</u>	<u>991,492</u>	<u>79,101</u>	<u>14,846,497</u>	<u>2,218,174</u>	<u>161,784</u>	<u>16,902,887</u>
Governmental activities capital assets, net	<u>\$21,508,932</u>	<u>\$2,437,066</u>	<u>\$1,407,451</u>	<u>\$22,538,547</u>	<u>\$4,722,221</u>	<u>\$2,763,407</u>	<u>\$24,497,361</u>

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2001 and 2000 as follows:

	2001	2000
	(in thousands)	
Governmental activities:		
General government	\$ 168,503	\$ 204,304
Public safety and judicial	119,753	199,715
Board of Education	377,447	340,543
City University	7,878	1,990
Environmental protection	193,570	283,927
Transportation services	223,479	263,736
Parks, recreation and cultural activities	86,943	142,292
Social services	39,213	37,628
Health	11,815	10,662
Libraries	14,399	14,505
Total depreciation expense—governmental activities	<u>\$1,243,000</u>	<u>\$1,499,302</u>

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2001 and 2000. Sources of funding for capital assets are not available prior to fiscal year 1987.

	<u>2001</u>	<u>2000</u>
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	\$ 6,467,109	\$ 6,632,113
City bonds	30,466,604	27,176,867
Federal grants	363,774	350,833
State grants	130,735	123,965
Private grants	51,574	49,454
Capitalized leases	<u>2,054,097</u>	<u>1,998,847</u>
Total funding sources	<u>\$39,533,893</u>	<u>\$36,332,079</u>

At June 30, 2001 and 2000, governmental activities capital assets include approximately \$1.2 billion of City-owned assets leased for \$1 per year to the New York City Transit Authority which operates and maintains the assets. In addition, assets leased to HHC and to the Water and Sewer System are excluded from governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in land and buildings at June 30, 2001 and 2000 are leased properties capitalized at \$2,054 million and \$1,999 million, respectively, with related accumulated amortization of \$250 million and \$196 million, respectively.

Capital Commitments

At June 30, 2001, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately \$9.5 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 expenditures of \$54.4 billion over fiscal years 2002 through 2011. To help meet its capital spending program, the City and TFA borrowed \$2.8 billion in the public credit market in fiscal year 2001. The City, TFA, and/or TSASC plan to borrow \$4.1 billion in the public credit market in fiscal year 2002.

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, 2001 and 2000 were approximately \$453 million and \$425 million, respectively.

As of June 30, 2001, the City (excluding discretely presented component units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	Capital Leases	Operating Leases	Total
	(in thousands)		
Governmental activities:			
Fiscal year ending June 30:			
2002	\$ 168,598	\$ 258,671	\$ 427,269
2003	174,420	238,892	413,312
2004	174,734	234,192	408,926
2005	176,156	224,295	400,451
2006	175,786	219,182	394,968
2007-2011	750,873	815,859	1,566,732
2012-2016	580,019	446,417	1,026,436
2017-2021	445,139	171,852	616,991
2022-2026	275,813	1,800	277,613
2027-2031	155,446	1,800	157,246
2032-2036	95,844	1,800	97,644
2037-2041	57,508	60	57,568
Future minimum payments	<u>3,230,336</u>	<u>\$2,614,820</u>	<u>\$5,845,156</u>
Less interest	<u>1,425,759</u>		
Present value of future minimum payments	<u>\$1,804,577</u>		

The present value of future minimum lease payments includes approximately \$1.303 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, 2001 and 2000 was approximately \$154 million and \$139 million, respectively. As of June 30, 2001, the following future minimum rentals are provided for by the leases:

	Capital Leases	Operating Leases	Total
	(in thousands)		
Governmental activities:			
Fiscal year ending June 30:			
2002	\$ 6,942,220	\$ 60,871,986	\$ 67,814,206
2003	6,985,137	57,042,438	64,027,575
2004	7,095,541	50,289,082	57,384,623
2005	7,205,946	44,290,702	51,496,648
2006	7,248,862	39,662,544	46,911,406
2007-2011	36,888,058	177,118,506	214,006,564
2012-2016	38,340,590	122,400,641	160,741,231
2017-2021	39,743,052	67,602,552	107,345,604
2022-2026	39,729,713	38,046,305	77,776,018
2027-2031	39,469,603	28,827,645	68,297,248
2032-2036	39,469,603	28,490,451	67,960,054
2037-2041	39,469,603	25,324,253	64,793,856
2042-2046	39,469,603	23,972,942	63,442,545
2047-2051	39,469,603	23,238,110	62,707,713
2052-2056	39,469,603	21,379,187	60,848,790
2057-2061	29,591,415	14,765,880	44,357,295
2062-2066	29,591,415	14,765,878	44,357,293
2067-2071	29,591,415	14,128,375	43,719,790
2072-2076	29,591,415	12,640,875	42,232,290
2077-2081	21,871,575	4,848,631	26,720,206
2082-2086	19,285,518	—	19,285,518
Future minimum lease rentals	<u>586,519,494</u>	<u>\$ 869,706,980</u>	<u>\$1,456,226,473</u>
Less interest	<u>487,467,322</u>		
Present value of future minimum lease rentals	<u>\$ 99,052,172</u>		

4. Short-Term Liabilities

Changes in Short-term liabilities

In fiscal years 2000 and 2001, the changes in short-term liabilities were as follows:

Primary Government	Balance June 30, 1999	Additions	Deletions	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001
(in thousands)							
Governmental activities:							
Notes payable:							
Revenue anticipation notes (1) . . .	\$ —	\$ 750,000	\$ 750,000	\$ —	\$ 750,000	\$ 750,000	\$ —
Bond anticipation notes (2)	—	1,115,000	600,000	515,000	515,000	1,030,000	—
Total notes payable	\$ —	\$ 1,865,000	\$ 1,350,000	\$ 515,000	\$ 1,265,000	\$ 1,780,000	\$ —

- (1) Revenue anticipation notes are used by the City to satisfy its seasonal financing needs.
- (2) 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 2000 and 2001, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 1999	Additions	Deletions	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001	Due Within One Year
(in thousands)								
Governmental activities:								
Bonds payable:								
General obligation								
bonds	\$ 27,441,063	\$ 666,385	\$ 1,215,342	\$ 26,892,106	\$ 2,378,565	\$ 2,434,880	\$ 26,835,791	\$ 1,336,391
1991 general resolution								
bonds	3,832,415	—	300,850	3,531,565	—	314,530	3,217,035	337,290
Future tax secured								
bonds	4,150,000	1,814,940	41,785	5,923,155	1,536,825	73,970	7,386,010	117,535
Bond anticipation notes	—	515,000	—	515,000	—	515,000	—	—
Tobacco flexible								
amortization bonds	—	709,280	—	709,280	—	5,620	703,660	9,430
Japanese Yen bonds	160,000	—	40,000	120,000	—	40,000	80,000	40,000
Revenue bonds(1)(2)	586,188	—	15,537(3)	570,651	—	27,711(3)	542,940	28,785
Total before treasury								
obligations and discounts	36,169,666	3,705,605	1,613,514	38,261,757	3,915,390	3,411,711	38,765,436	1,869,431
Less treasury obligations	298,740	—	68,272	230,468	—	62,095	168,373	52,102
Total before discounts	35,870,926	3,705,605	1,545,242	38,031,289	3,915,390	3,349,616	38,597,063	1,817,329
Less discounts (net)	219,200	31,024	15,275	234,949	16,230	83,872	167,307	—
Total bonds payable	35,651,726	3,674,581	1,529,967	37,796,340	3,899,160	3,265,744	38,429,756	1,817,329
Capital lease obligations	1,525,448	328,686	51,084	1,803,050	55,251	53,724	1,804,577	57,031
Real estate tax refunds	456,972	172,776	38,967	590,781	139,689	148,075	582,395	108,081
Other tax refunds	1,593,974	—	125,445(4)	1,468,529	121,459	261,529	1,328,459	121,459
Judgments and claims	3,517,566	986,791	490,669	4,013,688	1,206,470	993,650	4,226,508	923,773
Vacation and sick leave	2,059,298	23,002(4)	—	2,082,300	148,571	122,169	2,108,702	118,569
Pension liability	2,336,230	—	2,336,230	—	188,200	—	188,200	21,548
Landfill closure and post-								
closure care costs	979,007	106,271	—	1,085,278	363,176	51,538	1,396,916	90,044
Total changes in governmental								
activities long-term								
liabilities	\$48,120,221	\$5,292,107	\$4,572,362	\$48,839,966	\$ 6,121,976	\$ 4,896,429	\$ 50,065,513	\$ 3,257,834

- (1) The debt of CUCF and ECF are reported as bonds outstanding pursuant to their treatment as component units (see Note A.1.).
 - (2) Excludes \$259,901 in 2000 and \$250,121 in 2001 for CUCF to be provided by the State.
 - (3) Net adjustment for CUCF portion based on allocation of debt between New York State and New York City.
 - (4) The amount of additions and deletions is not available, thus the net amounts are presented.
- Note: City bonds payable are generally liquidated with resources of the General Debt Service Fund. Other long-term liabilities are generally liquidated with resources of the General Fund.

The bonds payable, net of treasury obligations, at June 30, 2001 and 2000 summarized by type of issue are as follows:

Primary Government	2001			2000		
	General Obligations	Revenue	Total	General Obligations	Revenue	Total
(in thousands)						
Governmental activities:						
Bonds payable:						
General obligation bonds	\$26,667,418	\$ —	\$26,667,418	\$26,661,638	\$ —	\$26,661,638
1991 general resolution bonds	3,217,035	—	3,217,035	3,531,565	—	3,531,565
Future tax secured bonds	7,386,010	—	7,386,010	5,923,155	—	5,923,155
Tobacco flexible amortization bonds	703,660	—	703,660	709,280	—	709,280
Japanese yen bonds	80,000	—	80,000	120,000	—	120,000
Revenue bonds	—	542,940	542,940	—	570,651	570,651
Total bonds payable	<u>\$38,054,123</u>	<u>\$542,940</u>	<u>\$38,597,063</u>	<u>\$36,945,638</u>	<u>\$570,651</u>	<u>\$37,516,289</u>

The following table summarizes future debt service requirements as of June 30, 2001:

Primary Government	Governmental Activities			
	General Obligation Bonds		Revenue Bonds	
	Principal	Interest(1)	Principal	Interest
(in thousands)				
Fiscal year ending June 30:				
2002	\$ 1,788,302	\$ 1,997,845	\$ 28,785	\$ 33,135
2003	1,940,319	1,913,429	31,465	30,669
2004	1,992,188	1,812,030	32,099	30,185
2005	2,002,841	1,725,355	32,642	28,512
2006	1,983,759	1,598,639	34,859	23,603
2007-2011	9,113,740	6,496,384	150,222	87,467
2012-2016	7,118,164	4,331,609	125,953	47,378
2017-2021	6,093,591	2,457,456	61,140	18,608
2022-2026	4,268,454	1,007,601	36,648	7,733
2027-2031	1,708,958	191,012	9,127	600
2032-2036	32,563	6,878	—	—
2037-2041	11,203	635	—	—
Thereafter until 2147	41	173	—	—
	<u>38,054,123</u>	<u>23,539,046</u>	<u>542,940</u>	<u>307,890</u>
Less interest component	—	23,539,046	—	307,890
Total future debt service requirements	<u>\$38,054,123</u>	<u>\$ —</u>	<u>\$ 542,940</u>	<u>\$ —</u>

(1) Includes interest for general obligation bonds estimated at 4% rate on tax-exempt adjustable rate bonds and at 6% rate on taxable adjustable rate bonds which are the rates at the end of the fiscal year; also, includes interest estimated at 7% rate for Japanese yen bonds. Semiannual interest on Japanese yen bonds is based on offering rates for deposits in U.S. dollars on London interbank offerings.

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 2001 and 2000 were 5.6% and 5.7%, respectively, and ranged from 3.0% to 13.55%, and the interest rates on outstanding MAC bonds as of both June 30, 2001 and 2000 ranged from 3.75% to 6.25%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2001 and 2000, the City issued \$1.139 billion and \$66.4 million, respectively, of general obligation bonds to advance refund general obligation bonds of \$1.147 billion and \$79.7 million, respectively, aggregate principal amount. The net proceeds from the sales of the refunding bonds, together with other funds of \$46.2 million and \$16.8 million, respectively, were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the government-wide financial

statements. In fiscal year 2001, the refunding transactions will decrease the City's aggregate debt service payments by \$61.4 million and provide an economic gain of \$56.3 million. In fiscal year 2000, the refunding transactions will increase the City's aggregate debt service payments by \$4.3 million but provide an economic gain of \$3.1 million. At June 30, 2001 and 2000, \$8.298 billion and \$8.257 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, 2001, the 10% general limitation was approximately \$32.867 billion (compared with \$30.593 billion as of July 1, 2000). To provide for the City's capital program, TFA and TSASC were created, the debt of which is not subject to the general debt limit of the City. The debt-incurring power of TFA and TSASC has permitted the City to continue to enter into new contractual commitments. As of July 1, 2001, the combined City, TFA and TSASC remaining debt incurring power totaled \$6.696 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 2001, discretionary and other transfers of \$2.097 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2002 debt service. In addition, in fiscal year 2001, discretionary transfers totaling \$514 million were made to certain component units of the Debt Service Funds. In fiscal year 2000, discretionary and other transfers of \$2.509 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2001 debt service. In addition, in fiscal year 2000, discretionary transfers totaling \$524 million were made to certain component units of the Debt Service Funds.

Judgments and Claims

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. As of June 30, 2001 and 2000, claims in excess of \$500 billion and \$455 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be \$4.2 billion and \$4.0 billion, respectively.

As explained in Note A.12., the estimate of the liability for unsettled claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by categorizing the various claims and applying a historical average percentage, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and supplemented by information provided by the New York City Law Department with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information and application of the foregoing procedures.

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 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 \$250 million. In May, 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendants' motion for summary judgement. If the plaintiff were to prevail in this action, it could result in substantial costs to the City.

In May, 1997, an action was commenced against the City in the United States District Court for the Southern District of New York by ten individuals on behalf of themselves and persons similarly situated, alleging that City correctional officers since July, 1996 had violated the constitutional rights of persons arrested for misdemeanors or non-criminal

offenses by stripsearching such persons upon entry into prearrestment holding pens at the Manhattan and Queens criminal courthouses. In April, 1998, the district court granted plaintiffs' motion for class certification. The City estimates that there are approximately 68,000 persons in the class. The City and the lawyers representing the plaintiff class have reached a settlement which has been approved by the Court under which the City is required to pay between \$20 million and \$50 million.

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality, and illegality of assessment. In response to these actions, in December, 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, the City estimates its potential liability for outstanding certiorari proceedings to be \$582 million and \$591 million at June 30, 2001 and 2000, respectively, as reported in the government-wide financial statements.

Pension Liability

The City's pension liability as of June 30, 1999 resulted from a statutory change in the timing of the City's contribution to its pension plans. Prior to fiscal year 1981, the City's pension contribution reflected pension costs incurred two years earlier and a phase-in of certain actuarial assumptions. The City's liability was originally amortized over 40 years. Later legislation reduced the amortization period to 20 years. As of June 30, 1999, the remaining amortization period was 11 years. In accordance with Chapter 85 of the New York State Laws of 2000, enacted on June 24, 2000, as part of a number of changes to actuarial assumptions and methods, this liability is no longer being funded separately as part of actuarially-determined pension contributions and a liability on the part of the City separate from its actuarially-determined pension contributions no longer exists. Accordingly, the amount of the recorded liability was decreased to zero as of June 30, 2000. For actuarial purposes, the liability was eliminated for the purpose of calculating fiscal year 2000 pension contributions.

As of June 30, 2001, the City's pension liability resulted from State legislation (Chapter 125 of the Laws of 2000) enacted during their Spring 2000 session, which provides automatic cost-of-living adjustments for eligible retirees and eligible beneficiaries beginning September, 2000 and a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by this law (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 ceased landfill operations in March, 2001. 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, 2001 which equates to the total estimated current cost is \$1,166.7 million 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 2001, expenditures for landfill closure and postclosure care costs totaling \$51.5 million were recorded in the General and Capital Projects Funds.

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 April 6, 2001, by the City's Chief Financial Officer placing in the Fresh Kills Landfill operating record representations in satisfaction of the Local Government Financial Test.

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

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

	<u>Amount</u> <u>(in thousands)</u>
Landfill	\$1,166,738*
Hazardous waste sites	<u>230,178</u>
Total landfill and hazardous waste sites liability	<u>\$1,396,916</u>

* Since September 11, 2001, the diversion of debris from the World Trade Center's destruction to Fresh Kills is not expected to have a significant impact on the closure cost estimates.

6. Interfund Receivables and Payables

At June 30, 2001 and 2000, primary government and discretely presented component unit receivable and payable balances were as follows:

Governmental Funds:

Due from/to other funds:

Receivable Fund	Payable Fund	2001	2000
			(in thousands)
General Fund:	New York City Capital Projects Fund.	\$2,813,173 ⁽¹⁾	\$2,480,864 ⁽¹⁾
	General Debt Service Fund	7,408	7,408
	CUCF	19,838	14,395
		<u>2,840,419</u>	<u>2,502,667</u>
NYC Capital Projects Fund	General Fund.	1,140,130 ⁽¹⁾	1,293,842 ⁽¹⁾
Total due from/to other funds		<u>3,980,549</u>	<u>3,796,509</u>

Component Units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity	2001	2000
			(in thousands)
Primary government—General Fund:	Component units: HDC	\$ 203,308	\$ 222,471
	OTB	311	170
		<u>203,619</u>	<u>222,641</u>
Primary government—NYC Capital Projects Fund	Component unit—Water Authority	205,456	252,911
Primary Government—Private Housing Loan Programs	Component unit—HDC	11,063	10,452
Total due from component units		<u>420,138</u>	<u>486,004</u>
Component unit—Water Board	Primary government—General Fund.	23,458	47,141
Total due to component units		<u>23,458</u>	<u>47,141</u>
Total due from/to primary government and component units		<u>443,596</u>	<u>533,145</u>
Total primary government and component units receivable and payable balances		<u>\$4,424,145</u>	<u>\$4,329,654</u>

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

Note: During both fiscal years 2001 and 2000, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

E. OTHER INFORMATION

1. Audit Responsibility

In fiscal years 2001 and 2000, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than KPMG LLP, are the Municipal Assistance Corporation For The City of New York, New York City Housing Authority, New York City Economic Development Corporation, New York City Educational Construction Fund, New York City Industrial Development Agency, New York City Off-Track Betting Corporation, New York City School Construction Authority, Brooklyn Navy Yard Development Corporation, Business Relocation Assistance Corporation, City University Construction Fund, Deferred Compensation Plan, New York City Transitional Finance Authority, TSASC, Inc., and Jay Street Development Corporation.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2001 and 2000:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2001	2000	2001	2000	2001	2000	2001	2000
Total assets	5	6	37	36	95	94	4	3
Revenues/additions (deductions) and other financing sources	2	2	36	46	99	99	2	8

2. Subsequent Events

World Trade Center Attack

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center, and damage to other buildings in the vicinity. Continuing recovery, clean up, and repair efforts will result in substantial expenditures. The U.S. Congress passed emergency legislation which appropriates \$40 billion for increased disaster assistance, increased security costs, rebuilding infrastructure systems and other public facilities, and disaster recovery and related activities, at least \$20 billion of which is for disaster recovery activities and assistance in New York, Pennsylvania, and Virginia. In addition, the State legislature increased the financing capacity of TFA by \$2.5 billion to fund the City's costs related to or arising from the September 11 attack, and has authorized the TFA to issue debt without limit as to principal amount that is payable solely from State or Federal aid received on account of the disaster. The amount of City costs resulting from the September 11 attack is expected to substantially exceed the amount of Federal aid and State resources which, to date, have been identified by the Federal and State governments as available for these purposes.

It is not possible to quantify at present with any certainty the short-term or long-term adverse impact of the September 11 events on the City and its economy, any offsetting economic benefits which may result from recovery and rebuilding activities, and the amount of additional resources from Federal, State, City and other sources which will be required.

Long-term and Short-term Financing

Subsequent to June 30, 2001, the City completed the following long-term and short-term financing:

TFA Debt: On July 10, 2001, TFA issued its fiscal 2002 Series A future tax secured bonds of \$150 million. On August 9, 2001, TFA issued its fiscal 2002 Series 1 and 2 of \$600 million bond anticipation notes of which \$400 million is for tax exempt bonds and \$200 million is for taxable bonds to finance various municipal capital purposes. On October 4, 2001, TFA sold \$1.0 billion of New York City recovery notes resulting from the World Trade Center attack of September 11, 2001.

City Debt: To satisfy its seasonal financing needs for fiscal year 2002, on October 23, 2001, the City offered for sale in the public credit market, its fiscal 2002 Series A general obligation revenue anticipation notes of \$1.5 billion.

3. Other Employee Benefit Trust Fund

Deferred Compensation Plan For Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (Section 457). DCP is available to certain employees of The City of New York and related agencies and instrumentalities. It permits them to defer a portion of their salary until future years. The compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency (as defined by the Internal Revenue Service).

Section 457 requires amounts maintained under a deferred compensation plan by a state or local government to be held in trust (or custodial account or annuity contract) for the exclusive benefit of plan participants and their beneficiaries. Consequently, DCP is presented as an Other Employee Benefit Trust Fund in the City's financial statements.

Investments are managed by DCP's trustee under one of eight investment options or a combination thereof. The choices of the investment options are made by the participants.

The following is a summary of the increases and decreases of the fund for the calendar years ended December 31, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Fund assets, December 31	\$4,270,632	\$3,367,261
Deferrals of compensation	423,004	385,691
Earnings and net increase (decrease) in investments'		
fair value	(244,905)	606,148
Payments to eligible participants and beneficiaries	(100,746)	(84,255)
Administrative expenses	<u>(4,303)</u>	<u>(4,213)</u>
Fund assets, December 31	<u>\$4,343,682</u>	<u>\$4,270,632</u>

4. Other Postemployment Benefits

In accordance with collective bargaining agreements, the City provides Other Postemployment Benefits (OPEB) which include basic medical and hospitalization (health care) benefits to eligible retirees and dependents at no cost to 94.5% of the participants. Basic health care premium costs which are partially paid by the remaining participants vary according to the terms of their elected plans. To qualify, retirees must: (i) have worked for the City with at least five years of credited service as a member of an approved pension system (requirement does not apply if retirement is as a result of accidental disability); (ii) have been employed by the City or a City related agency prior to retirement; (iii) have worked regularly for at least twenty hours a week prior to retirement; and (iv) be receiving a pension check from a retirement system maintained by the City or another system approved by the City. The City's OPEB expense is recorded on a pay-as-you-go basis. The City also provides reimbursement to eligible City retirees and their dependents for the Part B Medicare premium. Retirees and their dependents must be enrolled in the Medicare Part B program in order to receive reimbursement. Each eligible retiree and dependent receives a reimbursement of \$32 per month.

The amounts expended for health care benefits for fiscal years 2001 and 2000 are as follows:

	2001		2000	
	Active	Retired	Active	Retired
Number of employees	<u>348,813</u>	<u>185,139</u>	<u>344,456</u>	<u>180,610</u>
Cost of health care (in thousands)*.	<u>\$1,469,818</u>	<u>\$504,589</u>	<u>\$1,395,056</u>	<u>\$457,501</u>

* The amounts reflected are based on average headcounts.

In addition, the City sponsors a supplemental (Superimposed Major Medical) benefit plan for City managerial employees to refund medical and hospital bills that are not reimbursed by the regular health insurance carriers.

The amounts expended for supplemental benefits for fiscal years 2001 and 2000 are as follows:

	2001		2000	
	Active	Retired	Active	Retired
Number of claims.	<u>13,352</u>	<u>9,467</u>	<u>13,891</u>	<u>8,607</u>
Cost of Superimposed Major Medical (in thousands)*.	<u>\$ 2,037</u>	<u>\$ 675</u>	<u>\$ 1,828</u>	<u>\$ 589</u>

* Costs are based on reported claims and include a provision for estimated claims incurred but not yet reported.

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 actuarial pension systems:

1. New York City Employees' Retirement System (NYCERS), 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), a cost-sharing, multiple-employer public employee retirement system for teachers in the public schools of the City and certain other specified school and college employees.
3. New York City Board of Education Retirement System—Qualified Pension Plan (BERS), a cost-sharing, multiple-employer public employee retirement system, for nonpedagogical employees of the Board of Education and certain employees of the School Construction Authority.
4. New York City Police Department, Subchapter Two Pension Fund (POLICE), a single-employer public employee retirement system, for full-time uniformed employees of the Police Department.
5. New York City Fire Department, Subchapter Two Pension Fund (FIRE), a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department.

The actuarial pension systems provide pension benefits to retired employees based on salary and length of service. In addition, the actuarial pension systems 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. The actuarial pension systems 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 the actuarial pension systems 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 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 loans outstanding.

Plan Membership

At June 30, 2000 and 1999, the membership of the actuarial pension systems consisted of:

	2000					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Retirees and beneficiaries receiving benefits	122,761	50,969	9,407	34,636	16,163	233,936
Terminated vested members not yet receiving benefits	6,034	4,883	717	161	17	11,812
Active members	171,013	91,494	24,720	40,451	11,492	339,170
Total plan membership	<u>299,808</u>	<u>147,346</u>	<u>34,844</u>	<u>75,248</u>	<u>27,672</u>	<u>584,918</u>

	1999					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Retirees and beneficiaries receiving benefits	121,880	50,525	9,058	34,739	16,146	232,348
Terminated vested members not yet receiving benefits	6,276	3,065	771	85	14	10,211
Active members	169,458	86,682	22,933	39,107	11,477	329,657
Total plan membership	<u>297,614</u>	<u>140,272</u>	<u>32,762</u>	<u>73,931</u>	<u>27,637</u>	<u>572,216</u>

Funding Policy

The City's funding policy for periodic employer contributions to the actuarial pension systems is to provide for actuarially-determined rates that, expressed as percentages of annualized covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Annual contributions determined by the system's Actuary are funded by the employers in the appropriate fiscal year.

Member contributions are established by law and vary by Plan. In general, Tiers I and II member contribution rates are dependent upon the employee's age at membership and retirement plan election. Except for Transit Authority employees, Tier III and Tier IV members make basic contribution of 3.0% of salary regardless of age at membership. Beginning October 1, 2000, these members 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. However, a collective bargaining agreement must take effect before the contribution limitation is implemented for members. Certain Transit Authority Tier III and Tier IV members make basic contribution of 2.0% of salary based upon the enactment of Chapter 10 of the Laws of 2000 and the election of the Transit Authority. Certain members of NYCERS and BERS make additional member contributions.

Annual Pension Costs

The annual required contributions and actual contributions were determined as part of the June 30, 2000 actuarial valuations using current actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

The annual pension costs, for the five major actuarial pension systems, for the fiscal years ended June 30, 2001, 2000 and 1999, were as follows:

	<u>2001</u>	<u>2000</u> (in millions)	<u>1999</u>
NYCERS	\$ 100.0	\$ 68.6	\$ 179.1
TRS	572.0	181.8	460.5
BERS	52.1	9.5	45.0
POLICE	543.8	250.0	502.1
FIRE	298.9	182.9	256.1
Total annual pension costs	<u>\$1,566.8</u>	<u>\$692.8</u>	<u>\$1,442.8</u>

For fiscal year 2001, the City's actual contributions of approximately \$1,216.9 million were less than the annual pension costs for the five major actuarial pension systems plus the other pension expenditures. This relationship occurs, primarily, because (1) the City is only one of the participating employers within NYCERS, TRS and BERS and (2) Chapter 125 of the Laws of 2000, which provides eligible retirees and eligible beneficiaries with automatic cost-of-living adjustments (COLA) beginning September 2000, also provides for a phase-in schedule for funding the additional liabilities created by the benefits provided by this law.

Specifically, the Actuary for the five major actuarial pension systems, in calculating the actual contributions in each of the following fiscal years, will include the following percentage of the increase in value for COLA benefits provided.

<u>Phase-In Percent</u>	<u>Fiscal Year</u>
20%	2001
40%	2002
60%	2003
80%	2004
100%	2005 and later

The City's actual contributions for the fiscal years ended June 30, 2001, 2000, and 1999 were as follows:

	<u>2001</u>	<u>2000</u> (in millions)	<u>1999</u>
NYCERS*	\$ 48.2	\$ 35.6	\$ 126.1
TRS*	437.9	178.6	444.6
BERS*	38.0	9.2	43.7
POLICE	413.2	250.0	502.1
FIRE	241.3	182.9	256.1
OTHER**	38.3	39.1	39.3
Total actual contributions	<u>\$1,216.9</u>	<u>\$695.4</u>	<u>\$1,411.9</u>

* NYCERS, TRS and BERS are cost-sharing multiple-employer public employee retirement systems. The City's actual contributions as a percentage of the total actual contributions (calculated on a statutory basis reflecting the phase-in of liabilities required under Chapter 125/00) for all employers participating in NYCERS, TRS, and BERS were:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
NYCERS	48.18%	51.95%	70.41%
TRS	98.42	98.27	96.54
BERS	96.81	96.93	97.26

In accordance with Statement No. 27 of the Government Accounting Standards Board, the City's obligation for NYCERS, TRS, and BERS is fulfilled by paying its portion of the total actual 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 the five major actuarial pension systems. 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.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for fiscal year 2001 are as follows:

	<u>POLICE</u>	<u>FIRE</u> (in millions)	<u>TOTAL</u>
Annual Required Contribution	\$543.8	\$298.9	\$842.7
Interest on Net Pension Obligation	0	0	0
Adjustment to Annual Required Contribution	0	0	0
Annual Pension Cost	\$543.8	\$298.9	\$842.7
Actual Contribution	413.2	241.3	654.5
Increase in Net Pension Obligation	\$130.6	\$ 57.6	\$188.2
Net Pension Obligation Beginning of Year	0	0	0
Net Pension Obligation End of Year	<u>\$130.6</u>	<u>\$ 57.6</u>	<u>\$188.2</u>

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

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
		(in millions)		
POLICE	6/30/01	\$543.8	76%	\$130.6
	6/30/00	250.0	100	0
	6/30/99	502.1	100	0
FIRE	6/30/01	298.9	81	57.6
	6/30/00	182.9	100	0
	6/30/99	256.1	100	0

Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the actuarial pension systems for the fiscal years ending June 30, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
<i>Valuation Date</i>	June 30, 2000.	June 30, 1999.
<i>Actuarial Cost Method⁽¹⁾</i>	Frozen Initial Liability.	Frozen Initial Liability.
<i>Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)</i>	Increasing dollar for FIRE ⁽²⁾ . Level dollar for UAAL attributable to NYCERS and TRS Early Retirement Incentive (ERI) 1999 ⁽³⁾ . All outstanding components of UAAL are being amortized over closed periods.	Increasing dollar for FIRE ⁽²⁾ . All outstanding components of UAAL are being amortized over closed periods.
<i>Remaining Amortization Period</i>	10 years for FIRE ⁽²⁾ and 5 years for ERI.	11 years for FIRE ⁽²⁾ .
<i>Actuarial Asset Valuation Method</i>	Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.	Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.
<i>Investment Rate of Return</i>	8.0% per annum ⁽⁴⁾ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum ⁽⁴⁾ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).

	2001	2000
<i>Post-Retirement Mortality</i>	<i>Tables based on recent experience.</i>	<i>Tables based on recent experience.</i>
<i>Active Service Withdrawal, Death, Disability, Service Retirement</i>	<i>Tables based on recent experience.</i>	<i>Tables based on recent experience.</i>
<i>Salary Increases</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year⁽⁴⁾.</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year⁽⁴⁾.</i>
<i>Cost-of-Living Adjustments</i>	<i>1.3% per annum⁽⁴⁾.</i>	<i>Provided by the legislature on an ad-hoc basis.</i>

- (1) Under the Frozen Initial Liability Actuarial Cost Method, the excess of the actuarial present value of projected benefits of the membership as of the valuation date, over the sum of the actuarial value of assets plus present value of UAAL, if any, and present value 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 has been established by the Entry Age Actuarial Cost Method but with the UAAL not less than \$0. Actuarial gains and losses are reflected in the employer normal contribution rate.
- (2) In conjunction with Chapter 85 of the Laws of 2000, there is an amortization method. However, the initial UAAL of NYCERS, TRS, BERS, and POLICE equal \$0 and no amortization periods are required.
- (3) Laws established UAAL for Early Retirement Incentive Programs to be amortized on a level dollar amount over a period of 5 years.
- (4) Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.

Pursuant to Section 96 of the New York City Charter, a study of the actuarial assumptions used to value liabilities of the five actuarially-funded New York City Retirement Systems (NYCRS) is conducted by an independent actuarial firm every two years. The most recent such study was completed in October, 1999 and, based upon the results and recommendations of that study, the Actuary for NYCRS proposed changes in actuarial assumptions and methods to be used for fiscal years beginning on and after July 1, 1999 *i.e.*, fiscal year 2000. Where required, the Boards of Trustees of NYCRS adopted those changes to the actuarial assumptions and methods that required Board approval and the New York State Legislature and Governor enacted Chapter 85 of the Laws of 2000 to provide for those changes to the actuarial assumptions and methods that required legislation, including the investment rate of return assumption of 8.0% per annum.

The Actuarial Asset Valuation Method (AAVM) was changed as of June 30, 1995 and 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, 1995 and 1999, respectively.

Under this AAVM, the Actuarial Asset Value (AAV) was reset to Market Value *i.e.*, Market Value Restart as of June 30, 1995. Prior to June 30, 1995, this AAVM recognized expected investment returns immediately and phased in investment returns greater or less than expected, *i.e.* Unexpected Investment Returns (UIR) over five years at a rate of 20% per year (or at a cumulative rate of 20%, 40%, 60%, 80%, and 100% over five years).

The AAVM used as of June 30, 1996 is a modified version of that used prior to June 30, 1995.

Under this modified AAVM, any UIR for fiscal years 1997 or later are being phased into the 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). The UIR for fiscal year 1996 was phased into AAV beginning June 30, 1996 at a cumulative rate of 20%, 35%, 45%, 70%, and 100% over five years.

Under the AAVM, any UIR for fiscal year 2000 or later will be phased into the 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).

For the June 30, 1999 actuarial valuations used to determine fiscal year 2000 employer contributions, the Frozen Initial Liability Actuarial Cost Method (where the Initial Liability has been established by the Entry Age Actuarial Cost Method but with the UAAL not less than \$0) is utilized by the Actuary to calculate the contributions required of the employers.

Chapter 85 of the Laws of 2000 reestablished a UAAL and eliminated the Balance Sheet Liability (BSL) for actuarial purposes as of June 30, 1999. The BSL is the Employer Contributions Receivable-Long-Term (see Note D.5.). The schedules of payment 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 annual payment would equal 103% of its preceding annual payment.

Other Employee Benefit Trust Funds

Fund Descriptions

Per enabling State legislation, certain retirees of POLICE, FIRE, and NYCERS are eligible to receive scheduled supplemental benefits from certain Variable Supplements Funds (VSFs).

Under current law, VSFs are not to be construed as constituting pension or retirement system funds. Instead, they provide scheduled supplemental payments, other than pension or retirement system allowances, in accordance with applicable statutory provisions. While a portion of these payments are guaranteed by the City, the Legislature has reserved to itself and the State of New York, the right and power to amend, modify, or repeal the VSFs and the payments they provide.

The New York City Police Department maintains the Police Officers' Variable Supplements Fund (POVSF) and the Police Superior Officers' Variable Supplements Fund (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of the Administrative Code of The City of New York.

1. POVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as police officers of the New York City Police Department, Subchapter One or Subchapter Two Pension Fund and who retired on or after October 1, 1968.
2. PSOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) holding the rank of sergeant or higher, or detective, of the New York City Police Department, Subchapter One or Subchapter Two, Pension Fund and who retired on or after October 1, 1968.

The New York City Fire Department maintains the Firefighters' Variable Supplements Fund (FFVSF) and the Fire Officers' Variable Supplements Fund (FOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 3 of the Administrative Code of The City of New York.

3. FFVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as firefighters (or wipers) of the New York City Fire Department, Subchapter One or Subchapter Two Pension Fund and who retired on or after October 1, 1968.
4. FOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) of the New York City Fire Department, Subchapter One or Subchapter Two Pension Fund and who retired on or after October 1, 1968.

The New York City Employees' Retirement System maintains the Transit Police Officers' Variable Supplements Fund (TPOVSF), the Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF), the Housing Police Officers' Variable Supplements Fund (HPOVSF), the Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF) and the Correction Officers' Variable Supplements Fund (COVSF). These funds operate pursuant to the provisions of Title 13, Chapter 1 of the Administrative Code of The City of New York.

5. TPOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as Transit Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of calculations performed by the Actuary during November 1993. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the TPOVSF whenever the assets of TPOVSF are not sufficient to pay benefits.

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BEIJING
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 TOKYO
 December 20, 2001

HONORABLE ALAN G. HEVESI
 COMPTROLLER
 The City of New York
 Municipal Building
 New York, New York 10007

Dear Comptroller Hevesi:

We have acted as counsel to The City of New York (the "City"), a municipal corporation of the State of New York (the "State"), in the City's issuance of its General Obligation Bonds, Fiscal 2002 Series B (the "Bonds").

The Bonds are issued pursuant to the provisions of the Constitution of the State, the Local Finance Law of the State, and the Charter of the City, and in accordance with a certificate of the Deputy Comptroller for Public Finance and related proceedings.

Based on our examination of existing law, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued in accordance with the Constitution and statutes of the State and the Charter of the City and constitute valid and legally binding obligations of the City for the payment of which the City has validly pledged its faith and credit, and all real property within the City subject to taxation by the City is subject to the levy by the City of *ad valorem* taxes, without limit as to rate or amount, for payment of the principal of and interest on the Bonds.

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

3. Except as provided in the following sentence, interest on the interest-bearing Bonds (the "Tax-Exempt Bonds") is not includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of Federal income taxation under existing law. Interest on the Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds in the event of a failure by the City to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and we render no opinion as to the exclusion from gross income of interest on the Tax-Exempt Bonds for Federal income tax purposes on or after the date on which any action is taken under the Bond proceedings upon the approval of counsel other than ourselves.

4. Interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the Federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which we render no opinion, as a result of ownership of such Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

5. The excess, if any, of the amount payable at maturity of any maturity of the Tax-Exempt Bonds over the initial offering price of such Bonds to the public at which price a substantial amount of such maturity is sold represents original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Tax-Exempt Bonds. The Code further provides that such original issue discount excluded as interest accrues in accordance with a constant interest method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of the Tax-Exempt Bonds with original issue discount will be increased by the amount of such accrued interest.

6. Subject to the restrictions hereinafter described, under present law, the zero-coupon Bonds due in 2015 (the "QZAB Bonds") are "qualified zone academy bonds" within the meaning of Section 1397E of the Code, eligible for the tax credit set forth in Section 1397E of the Code. The amount of such income tax credit so allowed under the Code is included in gross income of the eligible taxpayer. We express no opinion whether the initial or any subsequent holder of a QZAB Bond is an eligible taxpayer under the Code who may be entitled to claim the Federal income tax credit described above and we express no opinion as to the outstanding principal amount of a QZAB Bond held by any holder as of any credit allowance date. In rendering our opinion that the QZAB Bonds are "qualified zone academy bonds", we have relied upon certifications and representations of the City and The New York City Board of Education (the "Board of Education"), with respect to certain material facts solely within the knowledge of each without undertaking to verify the same by independent investigation and that each has taken certain actions necessary for the QZAB Bonds to be "qualified zone academy bonds". The opinion set forth in the first sentence of this paragraph is subject to the condition that the City and the Board of Education comply with all requirements of the Code that must be satisfied subsequent to issuance of the QZAB Bonds in order that the QZAB Bonds qualify, or continue to qualify, as "qualified zone academy bonds". The City and the Board of Education have covenanted in their respective tax certificates to comply with such requirements. Failure by the City or the Board of Education to comply with certain of such requirements may cause the QZAB Bonds to be disqualified as "qualified zone academy bonds". The Code and the existing regulations, rulings and court decisions thereunder, if any, upon which the foregoing opinion of counsel is based, are subject to change, which could prospectively or retroactively result in the disallowance of the income tax credit described above. The Code contains other provisions that could result in tax consequences, as to which we express no opinion, as a result of ownership of the QZAB Bonds. We render no opinion as to the QZAB Bonds being "qualified zone academy bonds" for Federal income tax purposes on or after the date on which any action under the Bond proceedings is taken upon approval of counsel other than ourselves.

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the extent constitutionally applicable, and the enforcement of related contractual and statutory covenants of the City and the State may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

Very truly yours,

QUALIFIED ZONE ACADEMY BONDS

The zero-coupon Bonds maturing on December 20, 2015 are qualified zone academy bonds (“QZABs”). This appendix summarizes certain material Federal income tax consequences relating to an investment in QZABs. The summary only addresses such consequences to an initial purchaser of a QZAB (a “QZAB Bondholder”), and is based upon the current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, treasury regulations, administrative pronouncements and judicial decisions, all of which are subject to change, possibly with retroactive effect. **This summary does not purport to be a complete discussion of all Federal income tax consequences relating to making an investment in QZABs. The discussion herein concerning certain Federal income tax consequences with respect to an investment in QZABs is included for general information only. All persons are urged to consult their own tax advisors to determine the specific tax consequences of making an investment in QZABs, including, any state, local or Federal income tax consequences.**

A QZAB is a taxable bond issued by a state or local government the proceeds of which are used to improve certain eligible public schools. Under existing law and provided that the requirements of the Code are met, and subject to the discussion below, a QZAB Bondholder that is an “eligible taxpayer” (as defined below) is generally allowed a nonrefundable annual Federal income tax credit in an amount equal to a credit rate (as published daily by the Treasury Department and determined for a QZAB on the first day on which there is a binding contract in writing for the sale or exchange of such bond, the “Credit Rate”) multiplied by the outstanding principal amount owned of such bond on each Credit Allowance Date (defined below). These annual credits are deemed paid on the last day of the one-year period beginning on the date of issuance of the QZAB and the last day of each successive one-year period thereafter, until maturity of such QZAB (each annual date being a “Credit Allowance Date”). Compliance with the requirements of the Code with respect to a QZAB generally will be established at the time of issuance of such QZAB, except in the case of the 95% Requirement (as defined below).

GENERAL

A “qualified zone academy bond” generally includes a bond issued as part of an issue 95% or more of the proceeds of which are used for a “qualified purpose” with respect to a “qualified zone academy” established by a local education agency (the “95% Requirement”), which qualified zone academy is located within the jurisdiction of the state or local government issuing such qualified zone academy bond. If the issuer of the qualified zone academy bond is unable to actually spend 95% of the proceeds of such qualified zone academy bond for a “qualified purpose”, the issuer may apply certain “remedial actions” to cure an unexpected failure to meet the 95% Requirement and, thereby, preserve the qualification of such bond as a qualified zone academy bond.

In addition, the issuer must certify on the date of issue that it has written assurances that a “private business contribution requirement” will be met and that it has the written approval of the “eligible local education agency” (within the meaning of Section 14101 of the Elementary and Secondary Education Act of 1965) for the bond issuance. The Treasury Department and the Internal Revenue Service intend that these certifications will be respected and may be relied upon by owners of a qualified zone academy bond if the certifications are reasonably made. For this purpose, the private business contribution requirement is met if the local education agency that established the qualified zone academy has written commitments from private entities to make “qualified contributions”.

ELIGIBLE TAXPAYER

An “eligible taxpayer” includes only (i) a bank (within the meaning of Section 581 of the Code), (ii) an insurance company to which subchapter L of the Code applies, and (iii) a corporation actively engaged in the business of lending money.

LIMITATION ON CREDIT

The allowable tax credit may not exceed the sum of the QZAB Bondholder's regular tax liability and alternative minimum tax liability under Section 55 of the Code less, in general, the QZAB Bondholder's other tax credits (except refundable tax credits set forth in subpart C of part IV of subchapter A of the Code).

DEDUCTIONS OF UNUSED CREDIT AMOUNT

If a QZAB Bondholder cannot use all of the credit otherwise allocable for the taxable year, under the Treasury Regulations, such QZAB Bondholder is allowed a deduction for the taxable year that includes the Credit Allowance Date (or, at the option of the QZAB Bondholder, the next succeeding taxable year) from taxable income equal to the unused portion of the credit deemed paid on such Credit Allowance Date.

CREDIT AMOUNT INCLUDED IN INCOME AS DEEMED INTEREST

Section 1397E(g) of the Code requires a QZAB Bondholder to include the amount of the credit (determined without reference to the limitation described above under "Limitation on Credit") in gross income. The Treasury Regulations thereunder provide that such amount constitutes interest income, which an accrual method taxpayer must accrue as income over the one-year period that ends on the Credit Allowance Date. If such an accrual method QZAB Bondholder sells or exchanges a QZAB before any given Credit Allowance Date, the QZAB Bondholder must accrue such interest income up to the date of sale or exchange but does not qualify for any of the tax credit for such Credit Allowance Date.

CREDIT RATE

The applicable Credit Rate for the QZABs is 7.01%.