

NEW ISSUE

In the opinion of Bond Counsel, interest on the Bonds will be exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City, and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, with respect to the Bonds, as described herein, interest on the Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION III: MISCELLANEOUS—Tax Exemption" herein for further information.

\$100,000,000
The City of New York

General Obligation Bonds, Fiscal 2007 Series C
Subseries C-3 and C-4

AUCTION RATE BONDS

Dated: Date of Delivery

Due: As shown on the inside cover page.

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

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

The scheduled payment of principal of and interest on the Subseries C-3 Bonds when due will be insured by a bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the Subseries C-3 Bonds. The scheduled payment of principal of and interest on the Subseries C-4 Bonds when due will be insured by a municipal bond insurance policy to be issued by Financial Security Assurance Inc. simultaneously with the delivery of the Subseries C-4 Bonds.

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriter, subject to the approval of the legality of the Bonds by Sidley Austin LLP, New York, New York, Bond Counsel to the City, and to certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the City by Fulbright & Jaworski L.L.P., New York, New York. Certain legal matters will be passed upon for the Underwriter by Clifford Chance US LLP, New York, New York. It is expected that the Bonds will be available for delivery in New York, New York, on or about January 9, 2007.

JPMorgan
Broker-Dealer for
Subseries C-3 and C-4 Bonds

Loop Capital Markets LLC
Broker-Dealer for
Subseries C-3 and C-4 Bonds

Merrill Lynch & Co.
Broker-Dealer for
Subseries C-3 and C-4 Bonds

December 21, 2006

\$100,000,000 General Obligation Bonds, Fiscal 2007 Series C Subseries C-3 and C-4

Auction Rate Bonds

<u>January 1</u>	<u>Subseries C-3⁽¹⁾⁽²⁾</u>		<u>Subseries C-4⁽¹⁾⁽³⁾</u>	
	<u>Principal Amount</u>	<u>Price</u>	<u>Principal Amount</u>	<u>Price</u>
2031	\$40,000,000	100%		
2032			\$60,000,000	100%

(1) Term Bonds.

(2) Scheduled payment of principal and interest insured by Ambac Assurance Corporation. J.P. Morgan Securities Inc. (“JPMorgan”), Loop Capital Markets LLC (“Loop”) and Merrill Lynch, Pierce, Fenner and Smith Incorporated (“Merrill Lynch”) are each the broker-dealers for the Subseries C-3 Auction Rate Bonds, which will bear interest at the Initial Rate from their date of issuance to and including January 18, 2007. Thereafter the Subseries C-3 Auction Rate Bonds will be in the Auction Rate Mode. The first Auction for the Subseries C-3 Auction Rate Bonds will be held on January 18, 2007 and thereafter an Auction will generally occur on Thursday of each week. The first Interest Payment Date for the Subseries C-3 Auction Rate Bonds is on January 19, 2007 and succeeding Interest Payment Dates will generally occur on each Friday thereafter, or if any such Friday is not a Business Day, the next succeeding Business Day. See “APPENDIX B—AUCTION RATE BONDS.”

(3) Scheduled payment of principal and interest insured by Financial Security Assurance Inc. JPMorgan, Loop and Merrill Lynch are the broker-dealers for the Subseries C-4 Auction Rate Bonds, which will bear interest at the Initial Rate from their date of issuance to and including January 18, 2007. Thereafter the Subseries C-4 Auction Rate Bonds will be in the Auction Rate Mode. The first Auction for the Subseries C-4 Auction Rate Bonds will be held on January 18, 2007 and thereafter an Auction will generally occur on Thursday of each week. The first Interest Payment Date for the Subseries C-4 Auction Rate Bonds is on January 19, 2007 and succeeding Interest Payment Dates will generally occur on each Friday thereafter, or if any such Friday is not a Business Day, the next succeeding Business Day. See “APPENDIX B—AUCTION RATE BONDS.”

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

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

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

Deloitte & Touche LLP, the City's independent auditor has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Deloitte & Touche LLP relating to the City's financial statements for the fiscal years ended June 30, 2005 and 2006, which is a matter of public record, is included by specific reference in this Official Statement. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the City, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

Other than with respect to information concerning Ambac Assurance Corporation ("Ambac") contained under the caption "Ambac Assurance" in "Appendix C—Bond Insurers" and "Appendix D—Specimen Bond Insurance Policies" herein, none of the information in this Official Statement has been supplied or verified by Ambac and Ambac makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

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

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

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

This Official Statement provides certain information concerning The City of New York (the “City”) in connection with the sale of the variable rate portion of the City’s General Obligation Bonds, Fiscal 2007 Series C, Subseries C-3 and C-4 consisting of \$100,000,000 multi-modal bonds issued as auction rate bonds (the “Auction Rate Bonds” or the “Bonds”). In addition to the \$100,000,000 Auction Rate Bonds, \$997,830,000 of the City’s General Obligation Bonds, Fiscal 2007 Subseries C-1 and C-2 and Series D will be issued as fixed rate bonds (the “Fixed Rate Bonds”), which are described in a separate official statement and are not offered hereby. This Official Statement only describes the Bonds while they bear interest at an Auction Rate.

SECTION I: INCLUSION BY SPECIFIC REFERENCE

Portions of the City’s Official Statement dated December 21, 2006, delivered herewith and relating to the Fixed Rate Bonds, subject to the information contained elsewhere herein, are included herein by specific reference, namely the information under the captions:

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

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

SECTION II: THE BONDS

General

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

Auction Rate Bonds

For the terms of the Auction Rate Bonds, see the inside cover page, “APPENDIX A—DEFINITIONS,” and “APPENDIX B—AUCTION RATE BONDS.”

Payment Mechanism

Pursuant to the New York State Financial Emergency Act For The City of New York (the “Financial Emergency Act” or the “Act”), a general debt service fund (the “General Debt Service Fund” or the

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

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

Enforceability of City Obligations

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

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

Certain Covenants and Agreements

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

by the Act, as in effect from time to time, to include as terms of the Auction Rate Bonds the provisions applicable thereto, and to comply therewith and with the statutory restrictions.

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

Use of Proceeds

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

Optional Redemption

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

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

Mandatory Redemption

The Bonds are Term Bonds subject to mandatory redemption upon 30 days notice to Bondholders, by lot within each stated maturity, on each Mandatory Redemption Date specified in the Certificate (which is, for Auction Rate Bonds in a seven-day Auction Period, the first Interest Payment Date on or after January 1) at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, in the amounts set forth below:

<u>Year</u>	<u>Subseries C-3 Amount</u>	<u>Subseries C-4 Amount</u>
2030	\$34,775,000	
2031	5,225,000(1)	\$32,775,000
2032		27,225,000(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 Insurance

The scheduled payment of principal of and interest on the Subseries C-3 Bonds are insured by Ambac Assurance Corporation (“Ambac”) (the “Ambac Insured Bonds”). Information about Ambac is set forth in Appendix C. A specimen Ambac insurance policy is set forth in Appendix D.

The scheduled payment of principal of and interest on the Subseries C-4 Bonds are insured by Financial Security Assurance, Inc. (“FSA”) (the “FSA Insured Bonds”). Information about FSA is set forth in Appendix C. A specimen FSA insurance policy is set forth in Appendix D.

Bond Certificates

Book-Entry Only System

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION III: MISCELLANEOUS

Supplemental Certificates

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

- (a) to cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision relating to the Auction Rate Bonds;
- (b) to identify particular Auction Rate Bonds for purposes not inconsistent with the Certificate, including credit or liquidity support, remarketing, serialization and defeasance; or
- (c) to insert such provisions with respect to the Auction Rate Bonds as are necessary or desirable and are not to the prejudice of the Bondholders.

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

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

Tax Exemption

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

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

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

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

Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Bonds made after March 31, 2007 to be subject to backup withholding if such interest is paid to registered owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner’s federal income tax liability provided the required information is furnished to the IRS.

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

Ratings

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

Legal Opinions

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

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

Fulbright & Jaworski L.L.P., New York, New York, Special Counsel to the City, will pass upon certain legal matters in connection with the preparation of this Official Statement.

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

Underwriting

The Subseries C-3 and C-4 Bonds are being purchased for reoffering by the Underwriters for whom J.P. Morgan Securities Inc. (“JP Morgan”) is acting as lead manager. The Underwriters have agreed, subject to certain conditions, to purchase such Bonds from the City at an aggregate underwriter’s discount of \$263,503.47 and to make an initial public offering of such Bonds at prices that are not in excess of the initial public offering price set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all such Bonds if any such Bonds are purchased.

THE CITY OF NEW YORK

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DEFINITIONS

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

“*All Hold Rate*” means for Auction Rate Bonds, as of any Auction Date, 55% of the Index in effect on such Auction Date.

“*Auction*” means each periodic implementation of the Auction Procedures.

“*Auction Agent*” means The Bank of New York, New York, New York or another Auction Agent appointed by the City.

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

“*Auction Date*” means, (1) in a daily Auction Period, each Business Day, (2) in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) in any other Auction Period, the Business Day preceding each Interest Payment Date (whether or not an Auction shall be conducted on such date); except that (a) the last Auction Date with respect to an Auction Period other than a daily Auction Period or Special Auction Period shall be the earlier of (i) the Business Day preceding the Interest Payment Date next preceding the Conversion Date and (ii) the Business Day preceding the Interest Payment Date preceding the maturity date; (b) in a daily Auction Period, the last Auction Date shall be the earlier of (i) the Business Day preceding the Conversion Date or (ii) the Business Day preceding the maturity date; and (c) the last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

“*Auction Definitions*” means the definitions of those terms that relate to the Auction Procedures.

“*Auction Period*” means (i) a Special Auction Period, (ii) with respect to Multi-Modal Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the succeeding Business Day, (iii) with respect to Multi-Modal Bonds in a seven-day Auction Period, a period of generally seven days beginning, unless otherwise specified by an Authorized Officer of the City, on a Friday (or, if later, the day following the prior Auction Period) and ending generally on a Thursday (or, if such day is not immediately followed by a Business Day, the day immediately preceding the next Business Day), (iv) with respect to Multi-Modal Bonds in a 28-day Auction Period, a period of generally 28 days, (v) with respect to Multi-Modal Bonds in a 35-day Auction Period, a period of generally 35 days, (vi) with respect to Multi-Modal Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day in which case on the next day which is followed by a Business Day), and (vii) with respect to Multi-Modal Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next June 30 or December 31 (unless such June 30 or December 31 is not followed by a Business Day, in which case on the next day which is followed by a Business Day); and if there is a conversion of Multi-Modal Bonds (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the Conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next Thursday, (unless such day is not followed by a Business Day, in which case on the next day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the Conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next day which

is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of Conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the Conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of Conversion. The Initial Rate Period for each Subseries of Auction Rate Bonds commences on the date of delivery of such Bonds and ends on the date preceding the first Interest Payment Date.

“*Auction Period Rate*” means the rate of interest to be borne by the Auction Rate Bonds during each Auction Period determined in accordance with the Auction Procedures, in no event to exceed the Maximum Auction Rate.

“*Auction Procedures*” means the procedures for conducting Auctions.

“*Auction Rate*” means for each Auction Rate Bond for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate; or if all of such Bonds are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

“*Auction Rate Bonds*” means the Subseries C-3 and C-4 Bonds bearing interest at their Initial Rates and any Multi-Modal Bonds bearing interest in the Auction Rate Mode.

“*Auction Rate Mode*” means the Interest Rate Mode in which the Multi-Modal Bonds bear interest at an Auction Period Rate.

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

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

“*Available Bonds*” means for Auction Rate Bonds on each Auction Date, the aggregate principal amount of such Bonds that are not the subject of Submitted Hold Orders.

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

“*Bidder*” means each Existing Owner and potential owner who places an Order.

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

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

“*Broker-Dealer*” means any entity that is permitted by law to perform the function required of a Broker-Dealer that is a member of, or a direct participant in, the Securities Depository, that has been selected by the City, and that is a party to a Broker-Dealer Agreement with the Auction Agent, that is either a member of the National Association of Securities Dealers, Inc., or registered as a dealer of municipal securities under the Securities Exchange Act of 1934, as amended.

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

“*Business Day*” means a day other than (i) a Saturday and Sunday or (ii) a day on which the City, the New York Stock Exchange, the Fiscal Agent, the Tender Agent, the Auction Agent, the Broker-Dealers, the Remarketing Agents or banks and trust companies in New York, New York, are authorized or required to remain closed.

“*Certificate*” means the Certificate of the Deputy Comptroller for Public Finance of the City, establishing the terms of the Series C Bonds, including all Exhibits, Schedules and Appendices, and related proceedings.

“*Conversion*” means a change in the Rate Mode of a Multi-Modal Bond or a change from one Auction Period to another Auction Period for an Auction Rate Bond.

“*Conversion Date*” means the date (which shall be a Business Day) of a Conversion or proposed Conversion.

“*Conversion Notice*” means a notice of a change in the Interest Rate Mode or Auction Period.

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

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

“*Electronic Means*” means telephone, telecopy, telegraph, telex, internet, electronic mail, facsimile transmission or any other similar means of electronic communication. Any communication by telephone as an Electronic Means shall be promptly confirmed in writing or by one of the other authorized means of electronic communication.

“*Existing Owner*” means a person who is listed as the beneficial owner of Bonds in the records of a Broker-Dealer.

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

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

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

“*Fiscal Agent*” means The Bank of New York and its successors as the City’s fiscal agent.

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

“*Index*” shall have the meaning given thereto in the Auction Procedures under the heading “Index.”

“*Initial Rate*” means each rate per annum at which Multi-Modal Bonds will bear interest during the Initial Rate Period, as set forth in the Certificate.

“*Initial Rate Period*” means the period commencing on the Issue Date and extending to and including the date set forth in the Certificate as the last day of the Initial Rate Period for each Subseries of Bonds.

“*Insurer*” or “*Bond Insurer*” means Ambac Assurance Corporation with respect to the Subseries C-3 Bonds and Financial Security Assurance Inc. with respect to the Subseries C-4 Bonds, or any successors thereto.

“*Interest Payment Date*” means with respect to any Auction Period, (a) other than a daily Auction Period or a Special Auction Period, the Business Day following such Auction Period, (b) that is a daily Auction Period, the first Business Day of the month following such Auction Period, and (c) that is a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day following such Special Auction Period, or (ii) 92 or more days, each thirteenth Monday after the first day of such Special Auction Period or the next Business Day if such Monday is not a Business Day and on the Business Day following such Special Auction Period. If any such date is not a Business Day, the Interest Payment Date shall be the following Business Day. With respect to all Bonds, interest shall be payable on each Mandatory Tender Date, redemption date or maturity date.

“*Issue Date*” means January 9, 2007.

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

“*LIBOR*” means, on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

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

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

“*Maximum Rate*” means, with respect to (i) the Liquidity Enhanced Bonds, 9%, (ii) Purchased Bonds, 25% or (iii) all other Bonds, such rate not exceeding 25% as may be specified in the Certificate.

“*Maximum Auction Rate*” means the lesser of (x) 14% or (y) the maximum rate permitted by applicable law.

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

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

“*Multi-Modal Bonds*” means \$100,000,000 of the City’s General Obligation Bonds, Fiscal 2006 Series J, consisting of Subseries C-3 and C-4.

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

“*Order*” means a Hold Order, Bid or Sell Order.

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

“*Potential Owner*” means any person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently beneficially owned by such Person, if any.

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

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

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

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

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

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

“*Record Date*” means, with respect to any Auction Period, the close of business on the Business Day preceding such Interest Payment Date.

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

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

“*Series 2007 C Bonds*,” “*Series C Bonds*” or “*Fiscal 2007 Series C Bonds*” means the City’s General Obligation Bonds, Fiscal 2007 Series C, expected to be issued January 9, 2007.

“*Special Auction Period*” means any period of not less than seven days nor more than three years which is not another Auction Period and which begins on an Interest Payment Date and ends on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

“*Submission Deadline*” means 1:00 p.m., on each Auction Date for Bonds not in a daily Auction Period and 11:00 a.m., on each Auction Date for Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

“*Submission Processing Deadline*” means the earlier of (i) 40 minutes after the Submission Deadline and (ii) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker-Dealers.

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

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

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

“*Sufficient Clearing Bids*” means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Auction Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

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

“*Winning Bid Rate*” means, if Sufficient Clearing Bids exist, the lowest rate specified in Submitted Bids such that if: (i) each Submitted Bid from Existing Owners specifying such lowest rate and all other Submitted Bids from Existing Owners specifying lower rates were accepted, thus entitling such Existing Owners to continue to hold the principal amount of Bonds subject to such Submitted Bids, and (ii) each Submitted Bid from Potential Owners specifying such lowest rate and all other Submitted Bids from Potential Owners specifying lower rates were accepted, then the Existing Owners described in clause (i) would continue to hold an amount of outstanding Bonds which, when added to the amount of outstanding Bonds to be purchased by Potential Holders described in clause (ii), would be equal to not less than the Available Bonds.

“*Written Notice*,” “*written notice*” or “*notice in writing*” means notice in writing which may be delivered by hand or first class mail and shall also mean facsimile or other electronic transmission.

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AUCTION RATE BONDS**General**

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

Auction Period and Auction Rate

\$100,000,000 aggregate principal amount of the City’s General Obligation Bonds, Fiscal 2007 Series C, are to be issued as Multi-Modal Bonds, designated as Subseries C-3 and C-4, which will bear interest at an Initial Rate for the Initial Rate Period as indicated on the inside cover page and thereafter at an Auction Rate and are to be in the Auction Rate Mode until converted to a different Rate Mode. The Auction Period for the Bonds will be an Auction Period of generally seven days, unless such Auction Period is changed to another Auction Period in accordance with the Auction Procedures described below. For any Auction Period, each Bond will bear interest at an Auction Period Rate determined on each Auction Date for each Auction Period with the Auction Procedures described below.

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

Interest Payment Dates

Interest will be payable initially as indicated on the inside cover page for the Auction Rate Bonds and succeeding Interest Payment Dates will occur as there indicated, or if any such day is not a Business Day, the next succeeding Business Day, and at maturity, redemption or Conversion. During Auction Periods other than the seven-day Auction Period, interest on the Bonds will be payable on an Interest Payment Date as described in Appendix A hereto. The record date for the Bonds is the Business Day preceding each Interest Payment Date.

Conversion of Auction Rate Bonds

Subject to the conditions in the Certificate the City may convert all or a portion of the Auction Rate Bonds to a different Mode by delivering a Conversion Notice to the Fiscal Agent, DTC, the Insurer, the Broker-Dealer and the Auction Agent specifying the Bonds to be converted, the Conversion Date and the Mode or Modes that will be effective on the Conversion Date. The Conversion Date for Auction Rate Bonds shall be an Interest Payment Date. The City must deliver such Conversion Notice not less than 15 days prior to the Conversion Date. The Fiscal Agent is to give written notice to the registered owner of each Bond of the City’s election to convert to another Mode and the Conversion Date. Such notice is to be given, by first-class mail, not later than three calendar days after receipt by the Fiscal Agent of the Conversion Notice.

The Fiscal Agent shall, no later than three days after receipt of the Conversion Notice, give notice by first-class mail to the Holders of Bonds to be converted, which notice shall state (i) that such Multi-Modal Bonds will be converted, subject to receipt of a Favorable Opinion of Bond Counsel; (ii) the effective date of such new Mode; (iii) that on the first day of the new Mode all such Multi-Modal Bonds being converted shall be purchased or deemed purchased at a purchase price equal to the principal amount thereof, plus accrued interest, if any; and (iv) the procedures for such purchase.

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

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

Changes in Auction Procedures

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

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

Auction Agent

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

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

Broker-Dealer

The City and the Auction Agent will enter into Broker-Dealer Agreements with J.P. Morgan Securities Inc., Loop Capital Markets LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Broker-Dealers") with respect to the Bonds. Such firms are the initial Broker-Dealers specified by the City as the beneficial owners' agent. The City may, from time to time, approve one or more additional Broker-Dealers. Any Broker-Dealer may be removed upon 30 days' notice, at the request of the City, if at least one Broker-Dealer Agreement is in effect immediately following such removal. Any Broker-Dealer may resign upon 30 days' notice, if at least one Broker-Dealer Agreement is in effect immediately following such resignation.

Special Considerations Relating to the Auction Rate Bonds

Securities and Exchange Commission Settlement

On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation of fifteen firms, including the Broker-Dealers (but not including Loop Capital

Markets LLC), that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, each of the Broker-Dealers (but not including Loop Capital Markets LLC) agreed to pay a civil penalty of \$1,500,000. In addition, each Broker-Dealer (but not including Loop Capital Markets LLC), without admitting or denying the SEC's allegations, agreed to be censured, to cease and desist from violating certain provisions of the securities laws, to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by that Broker-Dealer to conduct the auction process in accordance with disclosed procedures. The Broker-Dealers can offer no assurance as to how the settlement may affect the market for auction rate securities or the Bonds.

Role of Broker-Dealers

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

Each Broker-Dealer is designated in a Broker-Dealer Agreement as a Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. Each Broker-Dealer will receive Broker-Dealer Fees from the City with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. Each Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Bonds.

Bidding by Broker-Dealers

The Broker-Dealers are permitted, but not obligated, to submit Orders in Auctions for their own accounts either as a buyer or a seller and routinely do so in the auction rate securities market in their sole discretion. If a Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Bonds and, thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because the Broker-Dealers are appointed and paid by the City to serve as Broker-Dealers in the Auctions for the Bonds, the Broker-Dealers' interests in serving as Broker-Dealers in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Bonds. A Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

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

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

Bids by a Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate, including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid, and (ii) the allocation of the Bonds being auctioned, including displacing some Bidders who may have their Bids rejected or receive fewer Bonds than they would have received if the Broker-Dealer had not bid or encouraged others to bid. Because of these practices, the fact that an Auction for the Bonds clears successfully does not mean that an investment in the Bonds involves no significant liquidity or credit risk. The Broker-Dealers are not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Bonds to prevent an Auction Failure or to prevent an Auction for the Bonds from clearing at a rate the respective Broker-Dealer believes does not reflect the market for the Bonds. Investors should not assume that the Broker-Dealers will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealers or by those they may encourage to place Bids may cause lower Auction Rates to occur.

In any particular Auction for the Bonds, if all outstanding Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an “All Hold Auction”). When an All Hold Auction is likely, a Broker-Dealer may, but is not obligated to, advise its customers that are Existing Owners of that fact, which might facilitate the submission of Bids by Existing Owners that would avoid the occurrence of an All Hold Auction. If a Broker-Dealer determines to inform its customers that are Existing Owners of the likelihood of an All Hold Auction, it will make that information available through a means reasonably designed to make it available to all of its customers that are Existing Owners in time to act upon it. If a Broker-Dealer holds any Bonds for its own account on an Auction Date, it is the Broker-Dealer’s practice to submit a Sell Order into the Auction for the Bonds with respect to such Bonds, which would prevent that Auction for the Bonds from being an All Hold Auction. A Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Bonds, as set forth above.

“Price Talk”

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

“All-or-Nothing” Bids

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

No Assurances Regarding Auction Outcomes

The Broker-Dealers provide no assurance as to the outcome of any Auction. The Broker-Dealers also do not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction

for the Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Bonds purchased or retained in the Auction for the Bonds may be lower than the market rate for similar investments.

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

Deadlines

Each particular Auction for the Bonds has a formal time deadline for submission of Bids by the Broker-Dealers to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealers impose an earlier deadline (the "Internal Submission Deadline") by which Bidders must submit Bids to the Broker-Dealers. The Internal Submission Deadline is subject to change by the Broker-Dealers. Potential Owners should consult with a Broker-Dealer as to its Internal Submission Deadline. The Broker-Dealers may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. To the extent described below under "Submission of Orders by Broker-Dealers to Auction Agent," a Broker-Dealer may submit Bids after the Submission Deadline and prior to the Submission Processing Deadline.

Existing Owner's Ability to Resell Auction Rate Securities May Be Limited

An Existing Owner may sell, transfer or dispose of a Bond (i) in an Auction for the Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through a Broker-Dealer.

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

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

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

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

Resignation of the Auction Agent or the Broker-Dealers Could Impact the Ability to Hold Auctions

The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice, or 30 days' notice if it has not been paid, to the City and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreements provide that a Broker-Dealer may resign upon 30 Business Days' notice but require, as a condition to the effectiveness of such resignation, that at least one Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Bonds, with the result that the interest rate on the Bonds will be determined as described in the Auction Procedures, in this Appendix B.

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

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

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

Auction Procedures

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

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

Orders by Existing Owners and Potential Owners

- (a) Prior to the Submission Deadline on each Auction Date:
 - (i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:
 - (A) the principal amount of the Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,
 - (B) the principal amount of the Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or
 - (C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the next succeeding Interest Payment Date (or on the same day

in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

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

(b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of the section below entitled "Allocation of Bonds" if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

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

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

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

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) of the section below entitled "Allocation of Bonds" if Sufficient Clearing Bids do not exist.

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

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of the section below entitled "Allocation of Bonds" if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not equal to the authorized denomination for Bonds or an integral multiple thereof shall be rounded down to the nearest amount that is equal to the authorized denomination for Bonds, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Fiscal Agent or the City of the occurrence of a

payment default by the City and the Insurer and shall resume two Business Days after the date on which the Auction Agent receives notice from the Fiscal Agent that such default has been cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

Submission of Orders by Broker-Dealers to Auction Agent

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying with respect to each Order:

(i) the aggregate principal amount of Bonds, if any, that are the subject of such Order;

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

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;

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

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner;

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

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

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

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(f) Notwithstanding subsection (a) above, Broker-Dealers may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (i) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline but prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (i) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline.

(g) Neither the City, the Fiscal Agent nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

Determination of Auction Period Rate

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for Auction Rate Bonds, the Auction Agent shall advise the Broker-Dealers and the Fiscal Agent by telephone or other electronic communication acceptable to the parties of the All Hold Rate and the Index for the Bonds.

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

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Fiscal Agent by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the Fiscal Agent shall promptly notify the Securities Depository of such Auction Rate.

(d) If the Auction Agent fails to calculate, or for any reason fails to timely provide, the Auction Rate for any Auction Period, then (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Period Rate for the new Auction Period shall be the same as the Auction Period Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the next seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Period Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. If an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended. Notwithstanding the foregoing, no Auction Period shall be extended for more than 35 days. If at the end of 35 days the Auction Agent fails to calculate or provide the Auction Rate, the Auction Period Rate shall be the Maximum Auction Rate. Notwithstanding the foregoing, if the Auction

Procedures are suspended due to the failure of both the City and the Insurer to pay the principal of or interest on any Bond, the Auction Period Rate for the next succeeding Auction Period shall be the Maximum Auction Rate.

(e) In the event that all of the conditions for a change in the Mode applicable to the Bonds from an Auction Mode to any other Mode have not been met or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are not rated or if the Bonds are no longer maintained in book-entry form by the Securities Depository, then the Auction Period Rate shall be the Maximum Auction Rate.

Allocation of Bonds

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

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

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

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

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

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

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

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

(b) In the event there are not Sufficient Clearing Bids for Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for Bonds shall be accepted or rejected as follows in the following order of priority:

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

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

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

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

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

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

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

Notice of Auction Rate

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to Bonds for which an Auction was held on such Auction Date:

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

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

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

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

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

(vi) the immediately succeeding Auction Date.

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

Index

(a) For Auction Rate Bonds in an Auction Period of 35 days or less, the Index is LIBOR. For Auction Rate Bonds in an Auction Period of more than 35 days, the Index is equal to the yield on the United States Treasury security on the date the Auction Period began which has a maturity which most closely matches the last day of the Auction Period.

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

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

Changes in Auction Period or Auction Date

(a) Changes in Auction Period.

(i) During any Auction Rate Mode, the City may from time to time on any Interest Payment Date, change the length of the Auction Period with respect to any of the Bonds among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period. The City shall initiate the change in the length of the Auction Period by giving written notice to the Insurer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period for the Bonds specified in such notice shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period; except that in the case of a change from a Special Auction Period of 92 or more days, the date of such change shall be the Interest Payment Date immediately following the last day of such Special Auction Period.

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

(iii) On the conversion date for Bonds from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order.

(b) Changes in Auction Date.

During any Auction Rate Mode, the Auction Agent, with the written consent of the City, may specify an Auction Date for Bonds other than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date." The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Fiscal Agent, the City, the Broker-Dealers and the Securities Depository.

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BOND INSURERS

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

Ambac Assurance

Ambac Assurance has made a commitment to issue a Financial Guaranty Insurance Policy relating to the Subseries C-3 Bonds (the “Ambac Insured Bonds”), effective as of the date of issuance of the Ambac Insured Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Ambac Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Fiscal Agent. The insurance will extend for the term of the Ambac Insured Bonds and, once issued, cannot be cancelled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates, in case of principal, and on stated dates for payment, in case of interest. If the Ambac Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Ambac Insured Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the Ambac Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance’s obligations under the Bond Insurance Policy shall be fully discharged.

In the event the Fiscal Agent has notice that any payment of principal of or interest on an Ambac Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Ambac Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Ambac Insured Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the holder of the Ambac Insured Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Ambac Insured Bonds and will be fully subrogated to the surrendering Bondholder's rights to payment.

The insurance provided by the Financial Guaranty Insurance Policy is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

Ambac Assurance Corporation

Ambac Assurance Corporation is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,699,000,000 (unaudited) and statutory capital of approximately \$6,223,000,000 (unaudited) as of September 30, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Ambac Insured Bonds.

Ambac Assurance makes no representation regarding the Ambac Insured Bonds or the advisability of investing in the Ambac Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented in this Appendix C.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Inclusion of Certain Documents by Specific Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are included by specific reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;
4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;
5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006;
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006;
7. The Company's Current Report on Form 8-K dated and filed on October 25, 2006; and
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2006 and filed on November 8, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "—Available Information."

FSA

Concurrently with the issuance of the Bonds, FSA will issue its Municipal Bond Insurance Policy (the "Policy") for the Subseries C-4 Bonds) (the "FSA Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the Policy included as Appendix D to this Official Statement.

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

Financial Security Assurance Inc.

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

At September 30, 2006, FSA's combined policyholders' surplus and contingency reserves were approximately \$2,581,107,000 and its total net unearned premium reserve was approximately \$1,992,163,000 in accordance with statutory accounting practices. At September 30, 2006, FSA's consolidated shareholder's equity was approximately \$3,058,987,000 and its total net unearned premium reserve was approximately \$1,590,538,000 in accordance with generally accepted accounting principles.

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

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

SPECIMEN BOND INSURANCE POLICIES

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Ruada

President



Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

The insurance provided by this Policy is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

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

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

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

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

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

FORM OF LEGAL OPINION OF BOND COUNSEL

January 9, 2007

HONORABLE WILLIAM C. THOMPSON, JR.
COMPTROLLER
The City of New York
Municipal Building
New York, New York 10007
Dear Comptroller Thompson:

We have acted as counsel to The City of New York (the "City"), a municipal corporation of the State of New York (the "State"), in the issuance of its General Obligation Bonds, Fiscal 2007 Series C, Subseries C-3 and C-4 (the "Bonds").

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

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

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

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

3. Except as provided in the following sentence, interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation under existing law. Interest on the Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds in the event of a failure by the City to comply with 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 Bonds for federal income tax purposes on or after the date on which any action is taken under the Certificate upon the approval of counsel other than ourselves.

4. Interest on the 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 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 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 Bonds with original issue discount will be increased by the amount of such accrued interest.

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

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

Very truly yours,