

**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.

**\$314,000,000**  
**The City of New York**

**General Obligation Bonds, Fiscal 2008 Series A**  
**Subseries A-2 through A-5**

**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 Bonds when due will be insured by a bond insurance policy to be issued by Financial Security Assurance Inc. simultaneously with the delivery of the Bonds.

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters, subject to the approval of the legality of the Bonds by Sidley Austin 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 Edwards Angell Palmer & Dodge LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters 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 August 15, 2007.

*Fiscal 2008 Subseries A-2*

**Morgan Stanley**

**Ramirez & Co., Inc.**

**Roosevelt & Cross Incorporated**

*Fiscal 2008 Subseries A-3*

**Bear, Stearns & Co. Inc. Banc of America Securities LLC**

*Fiscal 2008 Subseries A-4*

**Citi**

**Lehman Brothers**

*Fiscal 2008 Subseries A-5*

**Merrill Lynch & Co.**

**UBS Investment Bank**

July 26, 2007

# \$314,000,000 General Obligation Bonds, Fiscal 2008 Series A Subseries A-2 through A-5

## Auction Rate Bonds

<u>August 1</u>	<u>Subseries A-2<sup>(1)(2)</sup></u>		<u>Subseries A-3<sup>(1)(3)</sup></u>		<u>Subseries A-4<sup>(1)(4)</sup></u>		<u>Subseries A-5<sup>(1)(5)</sup></u>	
	<u>Principal Amount</u>	<u>Price</u>	<u>Principal Amount</u>	<u>Price</u>	<u>Principal Amount</u>	<u>Price</u>	<u>Principal Amount</u>	<u>Price</u>
2026	\$78,500,000	100%	\$78,500,000	100%	\$78,500,000	100%	\$78,500,000	100%

- (1) Term Bonds.
- (2) Scheduled payment of principal and interest insured by Financial Security Assurance Inc. Morgan Stanley & Co. Incorporated, Ramirez & Co., Inc. and Roosevelt & Cross Incorporated are each the broker-dealers for the Subseries A-2 Auction Rate Bonds, which will bear interest at the Initial Rate from their date of issuance to and including Monday, August 20, 2007. Thereafter the Subseries A-2 Auction Rate Bonds will be in the Auction Rate Mode. The first Auction for the Subseries A-2 Auction Rate Bonds will be held on Monday, August 20, 2007 and thereafter an Auction will generally occur on Monday of each week. The first Interest Payment Date for the Subseries A-2 Auction Rate Bonds is on Tuesday, August 21, 2007 and succeeding Interest Payment Dates will generally occur on each Tuesday thereafter, or if any such Tuesday 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. Bear, Stearns & Co. Inc. and Banc of America Securities LLC are each the broker-dealers for the Subseries A-3 Auction Rate Bonds, which will bear interest at the Initial Rate from their date of issuance to and including Tuesday, August 21, 2007. Thereafter the Subseries A-3 Auction Rate Bonds will be in the Auction Rate Mode. The first Auction for the Subseries A-3 Auction Rate Bonds will be held on Tuesday, August 21, 2007 and thereafter an Auction will generally occur on Tuesday of each week. The first Interest Payment Date for the Subseries A-3 Auction Rate Bonds is on Wednesday, August 22, 2007 and succeeding Interest Payment Dates will generally occur on each Wednesday thereafter, or if any such Wednesday is not a Business Day, the next succeeding Business Day. See "APPENDIX B—AUCTION RATE BONDS."
- (4) Scheduled payment of principal and interest insured by Financial Security Assurance Inc. Citigroup Global Markets Inc. and Lehman Brothers Inc. are the broker-dealers for the Subseries A-4 Auction Rate Bonds, which will bear interest at the Initial Rate from their date of issuance to and including Wednesday, August 22, 2007. Thereafter the Subseries A-4 Auction Rate Bonds will be in the Auction Rate Mode. The first Auction for the Subseries A-4 Auction Rate Bonds will be held on Wednesday, August 22, 2007 and thereafter an Auction will generally occur on Wednesday of each week. The first Interest Payment Date for the Subseries A-4 Auction Rate Bonds is on Thursday, August 23, 2007 and succeeding Interest Payment Dates will generally occur on each Thursday thereafter, or if any such Thursday is not a Business Day, the next succeeding Business Day. See "APPENDIX B—AUCTION RATE BONDS."
- (5) Scheduled payment of principal and interest insured by Financial Security Assurance Inc. Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC are each the broker-dealers for the Subseries A-5 Auction Rate Bonds, which will bear interest at the Initial Rate from their date of issuance to and including Sunday, August 26, 2007. Thereafter the Subseries A-5 Auction Rate Bonds will be in the Auction Rate Mode. The first Auction for the Subseries A-5 Auction Rate Bonds will be held on Friday, August 24, 2007 and thereafter an Auction will generally occur on Friday of each week. The first Interest Payment Date for the Subseries A-5 Auction Rate Bonds is on Monday, August 27, 2007 and succeeding Interest Payment Dates will generally occur on each Monday thereafter, or if any such Monday 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 Financial Security Assurance Inc. ("FSA") contained in "Appendix C—Bond Insurer" and "Appendix D—Specimen Bond Insurance Policy" 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 2008 Series A, Subseries A-2 through A-5, consisting of \$314,000,000 multi-modal bonds issued as auction rate bonds (the “Auction Rate Bonds” or the “Bonds”). In addition to the \$314,000,000 Auction Rate Bonds, \$931,205,000 of the City’s General Obligation Bonds, Fiscal 2008 Series A, Subseries A-1, and Series B will be issued as fixed rate bonds (the “Fixed Rate Bonds”), which are described in a separate official statement and are not offered hereby.

While the Auction Rate Bonds may in the future be converted to a Rate Mode other than the Auction Rate Mode, this Official Statement only describes the Bonds while they bear interest at an Auction Rate and does not describe any Rate Period other than an Auction Rate Mode or other terms specifically applicable to the Bonds bearing interest at a rate other than an Auction Period Rate. Investors should not rely on this Official Statement in connection with the remarketing of the Bonds upon a conversion of the Rate Mode from an Auction Rate Mode to a different Rate Mode.

**SECTION I: INCLUSION BY SPECIFIC REFERENCE**

Portions of the City’s Official Statement dated July 26, 2007, 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

    Verification

    Continuing Disclosure Undertaking

    Financial Advisors

    Further Information

APPENDIX A—ECONOMIC AND DEMOGRAPHIC INFORMATION

APPENDIX B—FINANCIAL STATEMENTS

APPENDIX C—BONDS TO BE REDEEMED

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.” At the option of the City all or a portion of the Auction Rate Bonds may be converted to a Rate Mode other than the Auction Rate Mode and the Auction Rate Bonds so converted will be subject to mandatory tender. See “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 refunding 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, 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 August 1) at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, in the amounts and in the years set forth below:

<u>August 1</u>	<u>Subseries A-2 Amount</u>	<u>Subseries A-3 Amount</u>
2021	\$12,100,000	\$12,075,000
2022	15,300,000	15,325,000
2023	13,150,000	13,175,000
2024	9,875,000	9,825,000
2025	15,150,000	15,150,000
2026	12,925,000*	12,950,000*

  

<u>August 1</u>	<u>Subseries A-4 Amount</u>	<u>Subseries A-5 Amount</u>
2021	\$12,075,000	\$12,075,000
2022	15,325,000	15,325,000
2023	13,175,000	13,175,000
2024	9,825,000	9,825,000
2025	15,150,000	15,150,000
2026	12,950,000*	12,950,000*

\* August 1, 2026 is the maturity date of the Auction Rate Bonds even if such date is not otherwise an Interest Payment Date.

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 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](http://www.dtcc.com) and [www.dtc.org](http://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.

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. On May 21, 2007, the United States Supreme Court agreed to review a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States Constitution prohibits Kentucky from exempting interest on bonds issued by Kentucky and its localities and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State to eliminate the disparity between the tax treatment of out-of-state bonds and tax treatment of in-state bonds including bonds issued by the City. The impact of this decision may also affect the market price for, or the marketability of, the Bonds.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will

not have an adverse effect on the tax-exempt status of the 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 have been rated “AAA” by Fitch, Inc. (“Fitch”) and are expected to be rated “Aaa” by Moody’s Investors Service (“Moody’s”) and “AAA” by Standard & Poor’s Ratings Services (“Standard & Poor’s”). The ratings on the Auction Rate Bonds will be based on the insurance policy to be issued by FSA. The Auction Rate Bonds have received an unenhanced rating of “Aa3” from Moody’s and “AA–” from Fitch and are expected to receive an unenhanced rating of “AA” from Standard & Poor’s. 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.

Edwards Angell Palmer & Dodge LLP, New York, New York, Special Counsel to the City, will pass upon certain legal matters in connection with the preparation of this Official Statement.

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 A-2 Bonds are being purchased for reoffering by Morgan Stanley & Co. Incorporated on behalf of itself and as representative of Ramirez & Co., Inc. and Roosevelt & Cross Incorporated (the “Subseries A-2 Underwriters”). The Subseries A-2 Underwriters have agreed, subject to certain conditions, to purchase such Bonds from the City at an aggregate underwriter’s discount of \$208,513.34 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 Subseries A-2 Underwriters will be obligated to purchase all such Bonds if any such Bonds are purchased.

The Subseries A-3 Bonds are being purchased for reoffering by Bear, Stearns & Co. Inc. on behalf of itself and as representative of Banc of America Securities LLC (the “Subseries A-3 Underwriters”). The Subseries A-3 Underwriters have agreed, subject to certain conditions, to purchase such Bonds from the City at an aggregate underwriter’s discount of \$208,513.34 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 Subseries A-3 Underwriters will be obligated to purchase all such Bonds if any such Bonds are purchased.

The Subseries A-4 Bonds are being purchased for reoffering by Citigroup Global Markets Inc. on behalf of itself and as representative of Lehman Brothers Inc. (the “Subseries A-4 Underwriters”). The Subseries A-4 Underwriters have agreed, subject to certain conditions, to purchase such Bonds from the City at an aggregate underwriter’s discount of \$208,513.34 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 Subseries A-4 Underwriters will be obligated to purchase all such Bonds if any such Bonds are purchased.

The Subseries A-5 Bonds are being purchased for reoffering by Merrill Lynch, Pierce, Fenner and Smith Incorporated on behalf of itself and as representative of UBS Securities LLC (the “Subseries A-5

Underwriters”). The Subseries A-5 Underwriters have agreed, subject to certain conditions, to purchase such Bonds from the City at an aggregate underwriter’s discount of \$208,513.34 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 Subseries A-5 Underwriters will be obligated to purchase all such Bonds if any such Bonds are purchased.

The purchase of the Bonds by the Subseries A-2 Underwriters, the Subseries A-3 Underwriters, the Subseries A-4 Underwriters and the Subseries A-5 Underwriters is conditioned upon the issuance and delivery by the City of its General Obligation Bonds Fiscal 2008 Series A, Subseries A-1, and Fiscal 2008 Series B.

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, as of any Auction Date, 55% of the Index in effect on such Auction Date for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 90% of the Index in effect on such Auction Date for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

“*ARS Conversion Date*” means the date on which the Bonds of a Subseries Convert from a Rate Mode other than the Auction Rate Mode and begin to bear interest at the Auction Period Rate.

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

“*Auction Agent*” means Deutsche Bank Trust Company Americas 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 with respect to any Subseries:

(a) *Daily Auction Period.* If a Subseries of Bonds is in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period;

(b) *Flexible Auction Period.* If a Subseries of Bonds is in a Flexible Auction Period, the last Business Day of the Flexible Auction Period;

(c) *Other Auction Periods.* If a Subseries of Bonds is in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); except that the last Auction Date with respect to a Subseries of Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding such Conversion Date for such Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for such Bonds; and

(d) *Miscellaneous.* If a Subseries of Bonds is in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for such Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Subseries is set forth in the Certificate.

“*Auction Desk*” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“*Auction Period*” means with respect to each Subseries:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Subseries in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven-day Auction Period.* With respect to a Subseries in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A) When Auctions Occur on this Day	(B) Auction Periods Generally Begin this Day	(C) Auction Periods Generally End this Day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-Day Auction Period.* With respect to a Subseries in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) *35-Day Auction Period.* With respect to a Subseries in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) *Three-month Auction Period.* With respect to a Subseries in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period or Conversion Date and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period;

(g) *Six-month Auction Period.* With respect to a Subseries in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period or ARS Conversion Date and ending on the next succeeding January 31 or July 31;

(h) *Conversions.* If there is a conversion of a Subseries with Auctions generally conducted on the day of the week specified in column A of the table above, (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 succeeding day of the



week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding 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 of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding 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 the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding 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; and

(i) *Automatic Conversion.* Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“*Auction Period Rate*” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined as provided herein under “Determination of Auction Period Rate”; but in no event may the Auction Period Rate exceed the Maximum Rate.

“*Auction Procedures*” means the procedures for conducting Auctions for Bonds during an Auction Rate Mode set forth in Appendix B.

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

“*Auction Rate Bonds*” means the Subseries A-2 through A-5 Bonds bearing interest at their Initial Rates and any Multi-Modal Bonds bearing interest in the Auction Rate Mode.

“*Auction Rate Mode*” means the mode in which the 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 each Subseries on each Auction Date, the number of Units of 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.

“*Bid*” has the meaning specified herein under “Orders by Existing Owners and Potential Owners”.

“*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 described in this Appendix, 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 and the City. The “Broker-Dealer of record” with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

“*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.

“*Broker-Dealer Deadline*” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; but nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“*Business Day*” means “Business Day” as defined in the Certificate, but excluding, while Bonds bear interest at the Auction Period Rate, Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

“*Certificate*” means the Certificate of the Deputy Comptroller for Public Finance of the City, establishing the terms of the Fiscal 2008 Series A Bonds, including all Exhibits, Schedules and Appendices, and related proceedings.

“*Clerical Error*” means a clerical error in the processing of an Order, and includes the following: (i) a transmission error, including an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“*Conversion Date*” with respect to Bonds bearing interest at a rate determined by means of the Auction Procedures means the date on which any Subseries begins to bear interest at a rate which is determined other than by means of the Auction Procedures.

“*Conversion Notice*” means a notice of a change in the Rate Mode.

“*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 facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“*Error Correction Deadline*” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by

any Broker-Dealer; but in no event shall the Error Correction Deadline extend past 4:00 p.m., unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m.

“*Existing Owner*” means a Person who is the beneficial owner of Bonds; and for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“*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.

“*Flexible Auction Period*” means with respect to a Subseries,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Subseries with Auctions generally conducted on Fridays, 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, (ii) in the case of a Subseries with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Subseries with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Subseries with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Subseries with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Subseries.

“*Hold Order*” has the meaning specified herein under “Orders by Existing Owners and Potential Owners”.

“*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 Period.

“*Initial Period*” means the period commencing on the Issue Date and extending to and including the date set forth in the Official Statement as the last day of the Initial Period for each Subseries of Bonds and following an ARS Conversion Date the Initial Period will mean the period from the ARS Conversion Date to but not including the first Interest Payment Date after the ARS Conversion Date.

“*Insurer*” or “*Bond Insurer*” means Financial Security Assurance Inc. or any successor thereto.

“*Interest Payment Date*” with respect to a Subseries bearing interest at Auction Period Rates, means the first Interest Payment Date for such Subseries as set forth in this Official Statement and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first day of such

Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each date specified in the Certificate and the Business Day immediately following such Flexible Auction Period, and (d) the date when the principal of a Bond becomes due and payable (whether at mandatory tender, maturity, redemption or otherwise).

“*Issue Date*” means August 15, 2007.

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

“*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 regularly scheduled Interest Payment Date on or after August 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, for any Auction Rate Bond, (i) 12% if the interest on such Bond is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes or (ii) such Maximum Rate not exceeding 25% as fixed by an Authorized Officer of the City if the interest on such Bond is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

“*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 \$314,000,000 of the City’s General Obligation Bonds, Fiscal 2008 Series A, consisting of Subseries A-2 through A-5.

“*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 owned by such Person, if any; and that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“*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 Mode*” has the same meaning as “*Mode*.”

“*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, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an 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.

“*Sell Order*” has the meaning specified herein under “Orders by Existing Owners and Potential Owners.”

“*Series 2008 A Bonds*,” “*Series A Bonds*” or “*Fiscal 2008 Series A Bonds*” means the City’s General Obligation Bonds, Fiscal 2008 Series A, expected to be issued August 15, 2007.

“*SIFMA Municipal Index*” means the Securities Industry and Financial Markets Association 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 SIFMA 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.

“*Submission Deadline*” means, unless changed in the Certificate, 1:00 p.m. on each Auction Date not in a daily Auction Period and 11:00 a.m. on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Fiscal Agent or the City pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Fiscal Agent or the City. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m.

“*Submitted Bid*” has the meaning specified in paragraph (b) under the heading “Determination of Auction Rate”.

“*Submitted Hold Order*” has the meaning specified in paragraph (b) under the heading “Determination of Auction Rate”.

“*Submitted Order*” has the meaning specified in paragraph (b) under the heading “Determination of Auction Rate”.

“*Submitted Sell Order*” has the meaning specified in paragraph (b) under the heading “Determination of Auction Rate”.

“*Subseries*” shall mean the Multi-Modal Bonds of Subseries A-2 through A-5 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 for each Subseries, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not

higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“*Unit*” means a principal amount of Bonds equal to the minimum Authorized Denomination.

“*Winning Bid Rate*” means for each Subseries, the lowest rate specified in any Submitted Bid of such Subseries which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Subseries.

“*Written Notice*,” “*written notice*” or “*notice in writing*” means notice in writing which may be delivered by hand or first class mail and includes Electronic Means.

**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 Period Rate**

\$314,000,000 aggregate principal amount of the City’s General Obligation Bonds, Fiscal 2008 Series A, are to be issued as Multi-Modal Bonds, designated as Subseries A-2 through A-5, 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 Period 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 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 following an Auction Period. Not less than 20 days prior to the Conversion Date, the Fiscal Agent shall mail a written notice of the Conversion (which may be rescinded prior to 10 a.m. on the Business Day preceding the Conversion Date) to the registered owners of all Bonds to be Converted, specifying the Conversion Date. Such 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 subject to the terms of the Certificate.

## **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, the Insurer 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, the Fiscal Agent, the Insurer and the Broker-Dealer. 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 Morgan Stanley & Co. Incorporated, Ramirez & Co. Inc. and Roosevelt & Cross Incorporated with respect to the Subseries A-2 Bonds, Bear, Stearns & Co. Inc. and Banc of America Securities LLC with respect to the Subseries A-3 Bonds, Citigroup Global Markets Inc. and Lehman Brothers Inc. with respect to the Subseries A-4 Bonds and Merrill Lynch, Pierce, Fenner & Smith and UBS Securities LLC with respect to the Subseries A-5 Bonds (the "Broker-Dealers"). 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 with respect to each Subseries of the Bonds immediately following such removal. Any Broker-Dealer may resign upon 30 days' notice if at least one Broker-Dealer Agreement is in effect with respect to each Subseries of the Bonds. In addition, a Broker-Dealer may suspend Auctions under certain circumstances.

## **Certain Considerations Relating to the Auction Rate Bonds**

*Role of Broker-Dealers.* Morgan Stanley & Co. Incorporated, Ramirez & Co., Inc. and Roosevelt & Cross Incorporated have each been appointed by the City in a Broker-Dealer Agreement to serve as Broker-Dealers in the Auctions for the Subseries A-2 Bonds. Bear, Stearns & Co. Inc. and Banc of America Securities LLC have each been appointed by the City in a Broker-Dealer Agreement to serve



as Broker-Dealers in the Auctions for Subseries A-3 Bonds. Citigroup Global Markets Inc. and Lehman Brothers Inc. have each been appointed by the City in a Broker-Dealer Agreement to serve as Broker-Dealers in the Auctions for the Subseries A-4 Bonds. Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC have each been appointed by the City in a Broker-Dealer Agreement to serve as Broker-Dealers in the Auctions for the Subseries A-5 Bonds. Each of the Broker-Dealers has agreed to contact Existing Owners and Potential Owners and solicit Bids for the Subseries A-2 Bonds, Subseries A-3 Bonds, Subseries A-4 Bonds and Subseries A-5 Bonds respectively. The Broker-Dealers are paid by the City for their respective services and are sometimes collectively referred to herein as the “Broker-Dealers.”

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

Each of the Broker-Dealers as applicable will receive a Broker-Dealer fee from the City with respect to the Subseries A-2 Bonds, Subseries A-3 Bonds, Subseries A-4 Bonds and the Subseries A-5 Bonds respectively sold or successfully placed through it in Auctions for such subseries of Auction Rate Bonds. The Broker-Dealers may share a portion of such fees with other dealers that submit Orders through them that are filled in the Auction for such Auction Rate Bonds.

*Bidding by Broker-Dealers.* The Broker-Dealers are permitted, but not obligated, to submit Orders in Auctions for the Auction Rate Bonds for their own accounts either as buyers or sellers 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 such Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Auction Rate Bonds and thus, could determine the rate and size of its Orders so as to increase the likelihood that (i) its Orders will be accepted in the Auction for the Auction Rate Bonds and (ii) the Auction for the Auction Rate 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 Auction Rate Bonds, the Broker-Dealers’ interests in serving as Broker-Dealers in Auctions for the Auction Rate Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Auction Rate Bonds. *See “Role of Broker-Dealers.”* No Broker-Dealer would have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to submit Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealers routinely place bids in auctions including auctions for securities other than the Auction Rate Bonds for their own accounts to acquire securities for their inventories, 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 auctions from clearing at a rate that the Broker-Dealers believe does not reflect the market for such securities. Each Broker-Dealer may place one or more Bids in an Auction for the Auction Rate Bonds for its own account to acquire the Auction Rate Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Auction Rate Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Auction Rate Bonds. Each 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 Auction Rate Bonds for its own account, a Broker-Dealer also may Bid inside or outside the range of rates that they post in their Price Talk. *See “Price Talk.”*

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

Bids by the Broker-Dealers or by those they 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-Dealers not Bid or not encouraged others to Bid and (ii) the allocation of the Auction Rate Bonds being auctioned including displacing some Bidders who may have their Bids rejected or receive fewer Auction Rate Bonds than they would have received if the Broker-Dealers had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction for the Auction Rate Bonds clears successfully does not mean that an investment in the Auction Rate Bonds involves no significant liquidity or credit risk. None of the Broker-Dealers is obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Auction Rate Bonds to prevent an Auction Failure or an Auction for the Auction Rate Bonds from clearing at a rate such Broker-Dealer believes does not reflect the market for the Auction Rate 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.

The statements herein regarding bidding by a Broker-Dealer apply only to a Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Auction Rate Bonds, if all outstanding Auction Rate 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"). If the Broker-Dealers hold any Auction Rate Bonds for their own accounts on an Auction Date, it is the Broker-Dealers' practice to submit Sell Orders into the Auction for the Auction Rate Bonds with respect to such Auction Rate Bonds, which would prevent that Auction for the Auction Rate Bonds from being an All Hold Auction. Each Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Auction Rate Bonds, as set forth above.

*Price Talk.* Before the start of an Auction for the Auction Rate Bonds, a Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners such Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the Auction Rate 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 Auction Rate Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. Such Broker-Dealer occasionally may update and change the Price Talk based on changes in the City's or Bond Insurer'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. Potential Owners should confirm with their Broker-Dealer the manner by which their Broker-Dealer will communicate Price Talk and any changes to Price Talk.

*"All-or-Nothing" Bids.* The Broker-Dealers will 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 Auction Rate 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 Auction Rate 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 Auction Rate Bonds purchased or retained in the Auction for the Auction Rate Bonds may be lower than the market rate for similar investments.

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

*Deadlines.* Each particular Auction for the Auction Rate Bonds has a formal deadline by which all Bids must be submitted 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 for all customers—called the “Broker-Dealers Deadline”—by which Bidders must submit Bids to the Broker-Dealers. The Broker-Dealer Deadline is subject to change by the Broker-Dealers. Potential Owners should consult with their Broker-Dealer as to their Broker-Dealer Deadline. The Broker-Dealers may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. A Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition, until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw Orders submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Orders contained clerical errors. In the event of such a submission, modification or withdrawal, the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

*Existing Owner's Ability to Resell Auction Rate Securities May Be Limited.* An Existing Owner may sell, transfer or dispose of Auction Rate Bonds (i) in an Auction for the Auction Rate Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Auction Rate Bonds, only to or through Broker-Dealers.

Existing Owners will be able to sell all of the Auction Rate Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Auction Rate Bonds in the Auction for the Auction Rate 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 Auction Rate Bonds all, and may not be able to sell any, of the Auction Rate Bonds subject to such Submitted Sell Orders. As discussed above (*see* “Bidding by Broker-Dealers”), the Broker-Dealers may submit Bids in an Auction for the Auction Rate Bonds to avoid an Auction Failure, but they are not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealers Bidding in the Auction for the Auction Rate Bonds for their own accounts or, encouraging others to Bid. Therefore, Auction Failures are possible, especially if the City’s or the credit of a Bond Insurer 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 Auction Rate Bonds, there can be no assurance that a secondary market for the Auction Rate Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Auction Rate Bonds on the terms or at the times desired by an Existing Owner. A Broker-Dealer, in its own discretion, may decide to buy or sell the Auction Rate Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Auction Rate Bonds. However, the Broker-Dealer is not obligated to make a market in the Auction Rate Bonds and may discontinue trading in the Auction Rate Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the Auction Rate Bonds may receive an amount less than par, depending on market conditions.

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

The ability to resell the Auction Rate Bonds will depend on various factors affecting the market for the Auction Rate Bonds, including news relating to the City or the Bond Insurer, the attractiveness of alternative investments, investor demand for short term Auction Rate Bonds, the perceived risk of owning the Auction Rate Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Auction Rate Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate bonds), reactions of market

participants to regulatory actions (such as those described in “Securities and Exchange Commission Settlements” *below*) or press reports, financial reporting cycles and market conditions generally. Demand for the Auction Rate Bonds may change without warning, and declines in demand may be short-lived 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 to the City and the Trustee provided a replacement Auction Agent has been appointed and does not require, as a condition to the effectiveness of resignation, that a replacement Auction Agent be in place if its fee has not been paid in which case only 30 days’ notice of such resignation is required. The Broker-Dealer Agreements provide that the Broker-Dealers thereunder may resign upon 30 days’ notice provided that at least one Broker-Dealer Agreement is in effect with respect to the Auction Rate Bonds immediately following such resignation. In addition, a Broker-Dealer may suspend Auctions under certain circumstances. 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 Auction Rate Bonds, with the result that the interest rate on the Auction Rate Bonds will be determined as described in the Certificate. See “Auction Procedures” below.

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 (“Certain 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.

#### *Securities and Exchange Commission Settlements*

On May 31, 2006, the U.S. Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation of fifteen firms, including certain of the Broker Dealers (all except Ramirez & Co., Inc., Roosevelt & Cross Incorporated and UBS Securities LLC) (the “Settling Broker-Dealers”), 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, the Settling Broker-Dealers agreed to pay civil penalties. In addition, each Settling Broker-Dealer, without admitting or denying the SEC’s allegations, agreed 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 Settling Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Auction Rate Bonds.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including the Auction Agent, (the “Settling Auction Agents”) that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC’s allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Auction Rate Bonds.

## **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 Broker-Dealer 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, one or more Orders as to:

(A) the principal amount of 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 Auction Rate for such Auction Period,

(B) the principal amount of 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 Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) below), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a “Hold Order,” an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a “Bid,” and an Order containing the information referred to in clause (i)(C) above is referred to as a “Sell Order.”

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b)(i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in paragraph (a)(v) under the heading “Allocation of Bonds” if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in paragraph (b)(iv) under the heading “Allocation of Bonds” if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an 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 paragraph (b)(iv) under the heading “Allocation of Bonds” if Sufficient Clearing Bids do not exist.

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

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in paragraph (a)(vi) under the heading “Allocation of Bonds” if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Bonds of a Subseries held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer 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 such Broker-Dealer; but if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a Subseries to be converted held by such Existing Owner, such Broker-Dealer 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 such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided under “Submission of Orders by Broker-Dealers to Auction Agent;

(iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; and (iv) for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

#### **Submission of Orders by Broker-Dealers to Auction Agent**

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for a Subseries, all Orders with respect to such Subseries accepted by such Broker-Dealer in accordance with “Orders by Existing Owners and Potential Owners” above and specifying with respect to each Order or aggregation of Orders pursuant to paragraph (b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units, if any, that are the subject of such Order;

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

- (A) the number of Units, if any, subject to any Hold Order placed by such Existing Owner;
- (B) the number of Units, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and
- (C) the number of Units, if any, subject to any Sell Order placed by such Existing Owner; and
- (v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; in each case if the interest rates on the Bids are the same.

(c) None of the City, the Fiscal Agent or 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.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error on the part of the Broker-Dealer in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this paragraph (f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this paragraph (f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own

account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. on the Auction Date (or 2:00 p.m. in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising all (but not less than all) Broker-Dealers prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; but if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

#### **Treatment of Orders by the Auction Agent**

Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) below and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(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 one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a Subseries are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units for which such Broker-Dealer is the Broker-Dealer of record;

(ii)(A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the number of Units subject to Hold Orders referred to in clause (i) above;



(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the number of Units for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, 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 number of Units for which such Broker-Dealer is the Broker-Dealer of record over the number of Units for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (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 the number of Units equal to the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Fiscal Agent, or the City that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order 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.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Fiscal Agent or the City 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.

(g) If Orders covering all of the Bonds of a Subseries are not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; except that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a Subseries to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

#### **Determination of Auction Period Rate**

(a) If requested by the Fiscal Agent or a Broker-Dealer, not later than 10:30 a.m. (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Subseries, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Fiscal Agent, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Series of Bonds on each Auction Date, 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 (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth below if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Fiscal Agent, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (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) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth below if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Fiscal Agent, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

The percentage of the Index referred to above is specified below under the heading “Index”.

(d) In the event of a failed conversion from an Auction Period to any other period 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 Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

## **Allocation of Bonds**

(a) In the event of Sufficient Clearing Bids for a Subseries, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such Subseries 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 number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units 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 number of Units obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units 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 a Subseries, Submitted Orders for such Subseries 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 Rate 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 Rate 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 Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units 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 number of Units 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 Rate shall be rejected.

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

#### **Notice of Auction Period Rate**

(a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Subseries for which an Auction was held on such Auction Date:

(i) the Auction Period 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 number of Units, 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 number of Units, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units 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 number of Units 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 amount of interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and

(vii) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Subseries 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) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of 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 Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units to be purchased pursuant to such Bid (including, with respect to the 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 number of Units to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the City and Fiscal Agent by mutually acceptable Electronic Means and the Fiscal Agent shall promptly give notice of such Auction Rate to the Securities Depository.

#### **Miscellaneous Provisions Regarding Auctions**

(a) In this Appendix, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Mode with respect to each Subseries, the provisions relating to the Auction Rate Bonds, including this Appendix, may be amended by obtaining the consent of the Insurer and the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Fiscal Agent mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the City and the Fiscal Agent an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the City that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the City shall execute and the Fiscal Agent shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the City and the Fiscal Agent.

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, provided 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 the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

**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 the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to a Subseries among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The City shall initiate the change in the length of the Auction Period by giving written notice to the Fiscal Agent, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period 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.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Subseries.

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

(b) Changes in Auction Date. During any Auction Rate Mode, the Auction Agent, at the direction of the City, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the City's direction 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 and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which an Auction Period ends and the Interest Payment Date relating to such Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by a majority in interest of the Broker-Dealers, and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date which will permit the efficient implementation of the Auction Procedures, and the Interest Payment Date and the Auction Period shall be adjusted accordingly. This paragraph may be modified by an Authorized Officer of the City in his or her discretion.

## Index

(a) “Index” means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less, 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 Reuters Screen LIBORO1 Page (or such other page as may replace that page on that service or such other service or services as may be nominated by the British Bankers’ Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits for one month) 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. The Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the City and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the City and the Insurer. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

The percentage of the Index referred to herein under “Determination of Auction Period Rate” is 75% for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 110% for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

(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.

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**BOND INSURER**

The following information pertaining to Financial Security Assurance Inc. (“FSA”) has been supplied by 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 policy to be issued by 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 POLICY.”

**BOND INSURANCE***Bond Insurance Policy*

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. (“FSA”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Subseries A-2, A-3, A-4 and A-5 Bonds (the “FSA Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on 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 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 March 31, 2007, FSA’s combined policyholders’ surplus and contingency reserves were approximately \$2,601,527,000 and its total net unearned premium reserve was approximately \$2,089,989,000 in accordance with statutory accounting principles. At March 31, 2007, FSA’s consolidated shareholder’s equity was approximately \$2,753,483,000 and its total net unearned premium reserve was approximately \$1,649,524,000 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 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 rating 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.

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**SPECIMEN BOND INSURANCE POLICY**

**FINANCIAL SECURITY ASSURANCE**

**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 of 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 of 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 so 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 only 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.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 825-0100

Form 500NY (5/90)

FORM OF LEGAL OPINION OF BOND COUNSEL

August 15, 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 2008 Series A, Subseries A-2 through A-5 (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,



