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 IX: OTHER INFORMATION—Tax Exemption" herein for further information.

$605,060,000

The City of New York

General Obligation Bonds, Fiscal 2008 Series G and H

Dated: Date of Delivery | Due: As shown on the inside cover pages

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

Interest on the Bonds will be payable as shown on the inside cover pages. The Bonds can be purchased in principal amounts of $5,000 or any integral multiple thereof. Other terms of the Bonds including redemption provisions are described herein. *A detailed schedule of the Bonds is set forth on the inside cover pages.*

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters. The issuance of the Bonds is subject to the approval of the legality of the Bonds by Sidley Austin LLP, New York, New York, Bond Counsel to the City, and to certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the City by Fulbright & Jaworski L.L.P., New York, New York, Special Disclosure Counsel to the City. 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 January 3, 2008.

Morgan Stanley

Bear, Stearns & Co. Inc. | **Citi** | **Merrill Lynch & Co.**

Banc of America Securities LLC | **M.R. Beal & Company** | **DEPFA First Albany Securities LLC**
Goldman, Sachs & Co. | **JPMorgan** | **Lehman Brothers**
Loop Capital Markets LLC | **Prager, Sealy & Co., LLC** | **Ramirez & Co., Inc.**
RBC Capital Markets | **Siebert Brandford Shank & Co., LLC**
UBS Investment Bank | **Wachovia Bank, National Association**

Cabrera Capital Markets, Inc. | **Commerce Capital Markets, Inc.** | **Jackson Securities**
Janney Montgomery Scott LLC | **Popular Securities** | **Raymond James & Associates, Inc.**
Roosevelt & Cross Incorporated | **Southwest Securities, Inc.**

December 14, 2007

$605,060,000 General Obligation Bonds, Fiscal 2008 Series G and H

	$577,500,000 General Obligation Bonds, Fiscal 2008 Series G		
August 1	Principal Amount	Interest Rate	Yield
2009	$16,075,000	4%	3.12%
2009	8,790,000	5	3.12
2010	9,655,000	4	3.25
2010	16,200,000	5	3.25
2011	9,785,000	4	3.38
2011	17,400,000	5	3.38
2012	9,060,000	4	3.52
2012	21,075,000	5	3.52
2013	14,855,000	4	3.65
2013	16,620,000	5	3.65
2014	7,265,000	4	3.76
2014	25,720,000	5	3.76
2015	5,335,000	4	3.85
2015	29,235,000	5	3.85
2016	3,400,000	4	3.95
2016	30,805,000	5	3.95
2017	31,740,000	4	4.05
2018	29,360,000	4	4.15
2018 (1)	3,540,000	5	4.15
2019 (2)	4,965,000	4	4.07
2019	8,240,000	4⅛	4.24
2019 (1)	21,030,000	5	4.24
2020	8,360,000	4¼	4.32
2020 (1)	29,630,000	5	4.32
2021	5,535,000	4.30	4.39
2021 (1)	34,230,000	5	4.39
2022 (1)	41,755,000	5	4.45
2023 (1)	43,835,000	5	4.51
2024 (1)	45,990,000	5	4.56
2025 (1)	10,095,000	5	4.60
2027 (3)	17,920,000	4½	4.60

Interest on the Series G Bonds is payable on each February 1 and August 1 commencing August 1, 2008.

---

(1) Priced to first par call on August 1, 2017.

(2) Insured by Assured Guaranty Corp.

(3) Term Bond.

	$27,560,000 General Obligation Bonds, Fiscal 2008 Series H		
August 1	**Principal Amount**	**Interest Rate**	**Yield**
2008	$2,100,000	4%	2.93%
2009	2,400,000	4	3.12
2010	2,495,000	4	3.25
2011	2,595,000	4	3.38
2012	2,705,000	4	3.52
2013	2,815,000	4	3.65
2014	2,930,000	4	3.76
2015	3,050,000	4	3.85
2016	3,170,000	4	3.95
2017	3,300,000	4	4.05

Interest on the Series H Bonds is payable on each February 1 and August 1 commencing August 1, 2008.

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 pages hereof. The offering prices may be changed from time to time by the Underwriters. No representations are made or implied by the City or the Underwriters as to any offering of any derivative instruments.

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

This Official Statement contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the City, the inclusion 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 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 contained herein to reflect any change in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based between modifications to the City's financial plan required by law.

Other than with respect to information concerning Assured Guaranty Corp. ("Assured Guaranty") contained in Appendices D and E herein, none of the information in this Official Statement has been supplied or verified by Assured Guaranty and Assured Guaranty 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.

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, 2007 and 2006, which is a matter of public record, is included 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.

OFFICIAL STATEMENT OF THE CITY OF NEW YORK
TABLE OF CONTENTS

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.

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 $605,060,000 aggregate principal amount of the City's General Obligation Bonds, Fiscal 2008 Series G and H (the "Bonds").

INTRODUCTORY STATEMENT

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

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

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

As required by the New York State Financial Emergency Act For The City of New York (the "Financial Emergency Act" or the "Act") and the New York City Charter (the "City Charter"), the City prepares a four-year annual financial plan, which is reviewed and revised on a quarterly basis and which includes the City's capital, revenue and expense projections and outlines proposed gap-closing programs for years with projected budget gaps. The City's current financial plan projects budget balance in the 2008 fiscal year and budget gaps for each of the 2009 through 2011 fiscal years. A pattern of current year balance and projected subsequent year budget gaps has been consistent through the entire period since 1982, during which the City has achieved an excess of revenues over expenditures, before discretionary transfers, for each fiscal year. For information regarding the current financial plan, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS" and "SECTION VII: FINANCIAL PLAN." The City is required to submit its financial plans to the New York State Financial Control Board (the "Control Board"). For further information regarding the Control Board, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Review and Oversight.*"

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

The Mayor is responsible for preparing the City's financial plan which relates to the City and certain entities that receive funds from the City, including the financial plan for the 2008 through 2011 fiscal years submitted to the Control Board on June 20, 2007 (the "June Financial Plan") and Modification No. 08-1 to the June Financial Plan (as so modified the "2008-2011 Financial Plan" or "Financial Plan"). The City's projections set forth in the Financial Plan are based on various assumptions and contingencies which are uncertain and which may not materialize. Such assumptions and contingencies are described throughout this Official Statement and include the condition of the regional and local economies, the provision of State and federal aid, the impact on City revenues and expenditures of any future federal or State policies affecting the City and the cost of future labor settlements. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

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

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

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

SECTION I: RECENT FINANCIAL DEVELOPMENTS

2008-2011 Financial Plan

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

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

On October 26, 2007, the City submitted to the Control Board the Financial Plan which is a modification to the June Financial Plan and projects revenues and expenses for the 2008 fiscal year balanced in accordance with GAAP, and projects gaps of $2.7 billion, $4.8 billion and $6.5 billion in fiscal years 2009 through 2011, respectively.

The Financial Plan reflects decreases in projected net revenues since the June Financial Plan totaling $138 million, $577 million, $638 million and $852 million in fiscal years 2008 through 2011, respectively. The decreases reflect the projected impact of recent developments in the financial markets that are adversely affecting securities industry profitability and the number and value of real estate transactions that are consummated, resulting in reductions in real property transfer and personal and business income tax revenues. They also reflect a reduction in long-term economic growth forecasts for the United States and the City. Changes in projected tax revenues include (i) decreases in real property related transaction tax revenues of $256 million, $181 million, $226 million and $306 million in fiscal years 2008 through 2011, respectively; (ii) decreases in personal income tax revenues of $22 million, $272 million, $281 million and

$426 million in fiscal years 2008 through 2011, respectively; (iii) decreases in business income tax revenues of $75 million, $142 million, $105 million and $90 million in fiscal years 2008 through 2011, respectively; (iv) increases in sales tax revenues of $92 million in fiscal year 2008 and decreases in sales tax revenues of $6 million, $52 million and $58 million in fiscal years 2009 through 2011, respectively; (v) increases of $100 million in tax audit revenues in fiscal year 2008; and (vi) increases in hotel and all other non-property tax revenues of $22 million, $25 million, $25 million and $27 million in fiscal years 2008 through 2011, respectively.

The Financial Plan also reflects, since the June Financial Plan, increases in projected net expenditures totaling $158 million, $307 million, $786 million and $1.2 billion in fiscal years 2008 through 2011, respectively. Changes in projected expenditures include: (i) increases in labor costs totaling $90 million, $436 million, $1.1 billion and $1.6 billion in fiscal years 2008 through 2011, respectively, reflecting settlements of labor negotiations and the provision for similar increases for collective bargaining units not yet settled; (ii) increases in agency spending of $64 million, $28 million, $29 million and $30 million in fiscal years 2008 through 2011, respectively; (iii) an increase in debt service costs of $4 million in fiscal year 2008 and decreases in debt service costs of $32 million, $75 million and $50 million in fiscal years 2009 through 2011, respectively; and (iv) decreases in pension contributions of $125 million, $240 million and $350 million in fiscal years 2009 through 2011, respectively, as a result of higher-than-assumed rates of return on the investment of pension assets.

The Financial Plan also reflects the enactment of some of the tax programs previously reflected in the tax reduction program in the June Financial Plan, reducing tax revenues by $222 million, $268 million, $292 million and $333 million in fiscal years 2008 through 2011, respectively. The enacted programs include (i) a childcare tax credit with an estimated cost of $42 million, $43 million, $44 million and $45 million in fiscal years 2008 through 2011, respectively, (ii) personal and small business income tax credits and reductions with an estimated cost of $70 million, $108 million, $109 million and $166 million in fiscal years 2008 through 2011, respectively; and (iii) the City sales tax exemption for clothing and footwear purchases with an estimated cost of $110 million, $117 million, $119 million and $122 million in fiscal years 2008 through 2011, respectively.

On July 1, 2008, the local sales tax, which is currently imposed by the State at the rate of 4%, will expire and, absent legislative action, a 3% local sales tax imposed by the City would be in effect. The Financial Plan assumes that the City will receive the legislative authorization to continue the local sales tax at the rate of 4%. If the City did not receive such authorization, sales tax revenues would be reduced by approximately $1.19 billion, $1.25 billion and $1.31 billion in fiscal years 2009 through 2011, respectively.

The Financial Plan also does not reflect additional expense budget costs that would be incurred, unless there is a change in applicable law, as a result of Statement No. 49 of the Governmental Accounting Standards Board ("GASB 49"), which becomes effective on July 1, 2008 relating to the accounting treatment of pollution remediation costs. Currently, many of these costs are included in the City's capital budget and financed through the issuance of bonds. Preliminary estimates indicate that such additional expense budget costs could be approximately $500 million annually. See "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Reporting and Control Systems*."

On October 30, 2007, the Director of Management and Budget of the City directed City agencies to submit spending reduction programs of 2.5% for fiscal year 2008 and 5% for fiscal year 2009 in controllable City-funded spending, in order to provide overall City budget relief of $500 million in fiscal year 2008 and $1 billion in fiscal year 2009.

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

The State

The State ended its 2006-2007 fiscal year on March 31, 2007 in balance on a cash basis, with a reported closing balance in the General Fund of $3.0 billion. The Governor's Executive Budget for the 2007-2008 fiscal year projected ending the 2007-2008 fiscal year in balance on a cash basis, with a closing balance in the General Fund of $3.0 billion, and projected gaps of $2.3 billion in fiscal year 2008-2009, $4.5 billion in fiscal year 2009-2010, and $6.3 billion in fiscal year 2010-2011, assuming that all of the Governor's Executive Budget savings proposals were implemented. The State Legislature completed action on the budget for the 2007-2008 fiscal year on April 1, 2007 (the "Enacted Budget").

The State released its Annual Information Statement on May 8, 2007 (the "Annual Information Statement"), which reflected the State Legislature's modifications to the Governor's Executive Budget for the 2007-2008 fiscal year, and revisions to spending estimates in the Enacted Budget through April 19, 2007, the date of the State financial plan. In the Annual Information Statement, the State Division of the Budget noted that the Enacted Budget, similar to the Governor's Executive Budget, also projected ending the 2007-2008 fiscal year in balance on a cash basis, but that the Enacted Budget projected a closing balance in the General Fund of $3.0 billion and projected gaps of approximately $3.1 billion in fiscal year 2008-2009, $4.8 billion in fiscal year 2009-2010 and $6.6 billion in fiscal year 2010-2011.

The State updates the Annual Information Statement quarterly, and released updates to the Annual Information Statement dated August 3, 2007 and November 15, 2007 (the "November AIS Update"). The November AIS Update contains information regarding changes to the Enacted Budget, revisions to the State financial plan projections for fiscal years 2007-2008 through 2010-2011, operating results for the first half of fiscal year 2007-2008, an updated economic forecast for the nation and State, GAAP basis projections for fiscal year 2007-2008, a summary on debt and capital management, a discussion of special considerations related to the State financial plan for fiscal year 2007-2008, a summary of GAAP-basis results for the 2006-2007 fiscal year, State retirement system information, updated information on the activities of certain public authorities and localities and the status of certain litigation with the potential to adversely affect the State's finances. The November AIS Update also contains extracts from the Mid-Year Update to the 2007-2008 Financial Plan (the "Updated Financial Plan") which the State issued on October 30, 2007. The Updated Financial Plan projects ending fiscal year 2007-2008 in balance on a cash basis, with a closing balance in the General Fund of $2.8 billion, and projected gaps of $4.3 billion in fiscal year 2008-2009, $6.2 billion in fiscal year 2009-2010 and $7.9 billion in fiscal year 2010-2011.

The Annual Information Statement, the August AIS Update and the October Financial Plan Update identify a number of risks inherent in the implementation of the Enacted Budget and the State financial plan. Such risks include court actions affecting the receipts and disbursements included in the Enacted Budget; costs that could materialize as a result of adverse rulings in pending litigation; federal disallowances or other federal actions that could produce adverse effects on the State's projections of receipts and disbursements; costs that may materialize in connection with the State's negotiation of future collective bargaining agreements with the State's employee unions and salary increases to the judiciary and other elected officials; potential lower lottery revenue estimates and risks relating to the national and local economies that can increase the demand for means-tested programs like Medicaid and welfare; including large increases in energy prices, national security concerns and financial sector performances.

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 City Charter and in accordance with bond resolutions of the Mayor and a certificate of the Deputy Comptroller for Public Finance (with related proceedings, 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 and interest on the Bonds. Interest on the Bonds, calculated on a 30/360 day basis, will be payable to the registered owners thereof as shown on the registration books of the City on the Record Date (the fifteenth day of the calendar month immediately preceding the applicable interest payment date).

Payment Mechanism

Pursuant to the Financial Emergency Act, a general debt service fund (the "General Debt Service Fund" or the "Fund") has been established for City bonds and certain City notes. Pursuant to the Act, payments of the City real estate tax must be deposited upon receipt in the Fund, and retained under a statutory formula, for the payment of debt service (with exceptions for debt service, such as principal of seasonal borrowings, that is set aside under other procedures). The statutory formula has in recent years resulted in retention of sufficient real estate taxes to comply with the City Covenants (as defined in "—Certain Covenants and Agreements"). If the statutory formula does not result in retention of sufficient real estate taxes to comply with the City Covenants, the City will comply with the City Covenants either by providing for early retention of real estate taxes or by making cash payments into the Fund. The principal of and interest on the Bonds will be paid from the Fund until the Act expires 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. For information regarding the termination date of the Act, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Emergency Act and City Charter*".

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

Certain Covenants and Agreements

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

The State pledges and agrees in the Financial Emergency Act that the State will not take any action that will impair the power of the City to comply with the covenants described in the preceding paragraph (the "City Covenants") or any right or remedy of any owner of the Bonds to enforce the City Covenants (the "State Pledge and Agreement"). The City will covenant to make continuing disclosure with respect to the Bonds (the "Undertaking") to the extent summarized in "SECTION IX: OTHER INFORMATION—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 to redeem, at or prior to maturity, the bonds identified in Appendix C hereto by providing, with other City funds, for the payment of the principal of and interest and applicable redemption premium, if any, on such bonds to the extent and to the payment dates shown including the expenses of the City incurred in connection with the issuance and sale of the Bonds.

Optional Redemption

The Series G Bonds maturing after August 1, 2017 will be subject to redemption at the option of the City, on or after August 1, 2017, in whole or in part, by lot within each maturity and coupon, on any date, upon 30 days' notice to Bondholders, at par, plus accrued interest to the date of redemption. The City may select amounts, interest rates and maturities for redemption in its sole discretion. On and after any redemption date, interest will cease to accrue on the Bonds called for redemption. Any Bonds that are escrowed to maturity in the future will remain subject to optional redemption by the City.

Mandatory Redemption

The Series G Bonds maturing on August 1, 2027 are Term Bonds subject to mandatory redemption, by lot within such maturity, at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, on the dates and in the amounts set forth below:

August 1	Principal Amount to be Redeemed
2025	$7,170,000
2026	5,260,000
2027(1)	5,490,000

(1) Stated Maturity

At the option of the City, there shall be credited against any of the mandatory redemption amounts the principal amount of any such Term Bonds that have been defeased, purchased or redeemed and not previously so 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 Series G Bonds due in 2019 bearing interest at 4.0% (the "Insured Bonds") is insured by Assured Guaranty Corp. ("Assured Guaranty"). Information about Assured Guaranty is set forth in Appendix D. A specimen Assured Guaranty financial guaranty insurance policy is set forth in Appendix E.

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 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 Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 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.

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: GOVERNMENT AND FINANCIAL CONTROLS

Structure of City Government

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

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

— *The City Comptroller.* William C. Thompson, Jr., the Comptroller of the City, took office on January 1, 2002 and was elected to a second term which commenced on January 1, 2006. The City Comptroller is elected in a general election for a four-year term and is the chief fiscal officer of the City. The City Comptroller has extensive investigative and audit powers and responsibilities which include keeping the financial books and records of the City. The City Comptroller's audit responsibilities include a program of performance audits of City agencies in connection with the City's management, planning and control of operations. In addition, the City Comptroller is required to evaluate the Mayor's budget, including the assumptions and methodology used in the budget. The Office of the City Comptroller is responsible under the City Charter and pursuant to State law and City investment guidelines for managing and investing City funds for operating and capital purposes. The City Comptroller is also a member of the Control Board and is a trustee, the custodian and the delegated investment manager of the City's five pension systems. The investments of those pension system assets, aggregating approximately $115 billion as of September 30, 2007, are made pursuant to the directions of the respective boards of trustees.

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

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

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

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

City Financial Management, Budgeting and Controls

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

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

Office of Management and Budget

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

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

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

Office of the Comptroller

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

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

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

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

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

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

Financial Reporting and Control Systems

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

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

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

In November 2006 GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." GASB 49 sets standards for the accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution through activities such as site assessments and cleanups. The standard will become effective for the City's fiscal year 2009, which begins on July 1, 2008.

Under GASB 49, costs incurred for remediation obligations must generally be reported as expenses rather than as capital expenditures. As a result, under current law, the City will generally be precluded from including any pollution remediation costs, including those incurred in conjunction with the acquisition, construction, or reconstruction of assets, in its capital program after June 30, 2008; all such costs will need to be paid from the City's expense budget.

The City is in the process of assessing the impact of GASB 49 on the Financial Plan, its capital and expense budgets and its reported liabilities. Unless there is a change in applicable law, the City will have to incur costs payable through its expense budget which are not reflected in the Financial Plan to pay for pollution remediation. Preliminary estimates indicate that such additional expense budget costs could be approximately $500 million annually.

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

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

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

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

More than 92% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of trustees. As of September 30, 2007 aggregate pension assets were allocated approximately as follows: 47% U.S. equities; 26% U.S. fixed income; 19% international equities; 6% private equity and real estate; and 2% cash.

Financial Emergency Act and City Charter

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

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

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

The State Covenant is authorized to be included in bonds of the Municipal Assistance Corporation For The City of New York ("MAC") and bonds of the City. Since enactment of this amendment to the

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

However, the power to impose or continue a Control Period terminates in 2008. The power to impose or continue a Control Period is covered by a section of the Act that was not amended, providing that no Control Period shall continue beyond the earlier of July 1, 2008 or the date on which all bonds containing the State Covenant are discharged. The State Legislature did not amend this provision. Therefore, under current law, although the Act may continue in effect beyond July 1, 2008, no Control Period may be imposed after July 1, 2008.

Under current law, the Control Board is funded by MAC, using the City sales tax. MAC's existence terminates, by statute, on the later of July 1, 2008 or one year following the payment and discharge of all its liabilities. Upon MAC's termination, there would be no source of funding for the Control Board unless legislative action is taken.

Financial Review and Oversight

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

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

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

SECTION IV: SOURCES OF CITY REVENUES

The City derives its revenues from a variety of local taxes, user charges and miscellaneous revenues, as well as from federal and State unrestricted and categorical grants. State aid as a percentage of the City's revenues has remained relatively constant over the period from 1980 to 2007, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 71.5% of total revenues in the 2008 fiscal year while federal aid, including categorical grants, will provide 9.5%, and State aid, including unrestricted aid and categorical grants, will provide 19.0%. Adjusting the data for comparability, local revenues provided approximately 60.6% of total revenues in 1980, while federal and State aid each provided approximately 19.7%. A discussion of the City's principal revenue sources follows. For additional information regarding assumptions on which the City's revenue projections are based, see "SECTION VII: FINANCIAL PLAN—Assumptions." For information regarding the City's tax base, see "APPENDIX A—ECONOMIC AND DEMOGRAPHIC INFORMATION."

Real Estate Tax

The real estate tax, the single largest source of the City's revenues, is the primary source of funds for the City's General Debt Service Fund. The City expects to derive approximately 35.7% of its total tax revenues and 21.9% of its total revenues for the 2008 fiscal year from the real estate tax. For information concerning tax revenues and total revenues of the City for prior fiscal years, see "SECTION VI: FINANCIAL OPERATIONS—2003-2007 Summary of Operations."

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

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

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

(1) As approved by the City Council.

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

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

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

Assessment

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

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

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

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

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

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

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

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

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

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

Trend in Taxable Assessed Value

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

For fiscal year 2002, billable assessed valuation rose by $5.0 billion to $88.3 billion. The billable assessed valuation as determined by the City Department of Finance and as reported in the CAFR rose to $93.3 billion, $98.6 billion, $102.4 billion, $110.0 billion and $115.1 billion for fiscal years 2003 through 2007, respectively. The Department of Finance released the final assessment roll for fiscal year 2008 on June 9, 2007. The billable assessed value rose by $9.4 billion over the 2007 assessment roll to $124.5 billion, a growth of 8.1%. Billable assessed valuations are forecast to grow by 8.4%, 7.4% and 6.2% in fiscal years 2009 through 2011, respectively.

Collection of the Real Estate Tax

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

The City primarily uses two methods to enforce the collection of real estate taxes. The City has been authorized to sell real estate tax liens on class one properties which are delinquent for at least three years and class two, three and four properties which are delinquent for at least one year. The authorization to sell real estate tax liens expired August 31, 2006. The Financial Plan assumes the enactment of local legislation to re-authorize such sales within this fiscal year. In addition, the City is entitled to foreclose delinquent tax liens by *in rem* proceedings after one year of delinquency with respect to properties other than one- and two-family dwellings and condominium apartments for which the annual tax bills do not exceed $2,750, as to which a three-year delinquency rule is in effect.

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

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

In fiscal years 2003 through 2007, the City sold to separate statutory trusts real estate tax liens for which the City received net proceeds of approximately $22.6 million, $89.8 million, $37.7 million, $93.8 million and $40.2 million, respectively. The Financial Plan reflects receipt of $60 million in fiscal year 2008 from tax lien sales. As noted above, the authorization to sell tax liens expired on August 31, 2006. The Mayor is seeking City Council authorization to sell tax liens in fiscal year 2008.

REAL ESTATE TAX COLLECTIONS AND DELINQUENCIES

Fiscal Year	Tax Levy(1)	Tax Collections on Current Year Levy(2)	Tax Collections as a Percentage of Tax Levy	Prior Year (Delinquent Tax) Collections	Refunds(3)	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of End of Fiscal Year(4)	Delinquency as a Percentage of Tax Levy	Lien Sale(5)
				(Dollars In Millions)					
2003	$10,688.8	$ 9,943.5	93.0%	$126.3	$(149.1)	$ (457.2)	$(288.1)	2.70%	$22.6
2004	12,250.7	11,370.3	92.8	180.1	(195.1)	(591.0)	(289.3)	2.36	89.8
2005	12,720.0	11,521.7	90.6	136.2	(231.4)	(898.0)	(300.3)	2.36	37.7
2006	13,668.1	12,459.0	91.2	140.3	(222.1)	(929.9)	(279.2)	2.04	93.8
2007	14,291.2	12,986.7	90.9	159.5	(228.8)	(1,067.4)	(306.4)	2.14	40.2
2008(6) . . .	14,356.2	13,007.1	90.6	153.0	(236.0)	(1,002.4)	(346.7)	2.41	60.0

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

(2) Quarterly collections on current year levy.

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

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

(5) Net of reserve for defective liens.

(6) Forecast.

Other Taxes

The City expects to derive 64.3% of its total tax revenues for the 2008 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4% sales and compensating use tax, in addition to the 4½% sales and use tax imposed by the State upon receipts from retail sales of tangible personal property and certain services in the City; (ii) the personal income tax on City residents; (iii) a general corporation tax levied on the income of corporations doing business in the City; and (iv) a banking corporation tax imposed on the income of banking corporations doing business in the City.

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

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

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

Note: Totals may not add due to rounding.

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

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

Miscellaneous Revenues

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

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

Note: Totals may not add due to rounding.

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

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

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

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

Unrestricted Intergovernmental Aid

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

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

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

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

Federal and State Categorical Grants

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

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

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

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

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

SECTION V: CITY SERVICES AND EXPENDITURES

Expenditures for City Services

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

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

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

As of July 2002, the Mayor assumed responsibility for the City's public schools. The Board of Education ("BOE") has been replaced by the Department of Education ("DOE") which is overseen by a Chancellor, appointed by the Mayor, and the 13-member Panel for Educational Policy where the Mayor appoints 8 members including the Chancellor, and the Borough Presidents each appoint one member. The number of pupils in the school system is estimated to be approximately 1 million in each of the 2008 through 2011 fiscal years. Actual enrollment in fiscal years 2003 through 2007 has been 1,065,363, 1,060,413, 1,048,662, 1,033,608 and 1,015,265, respectively. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. OTHER THAN PERSONAL SERVICES COSTS—*Department of Education.*" The City's system of higher education, consisting of its Senior Colleges and Community Colleges, is operated under the supervision of the City University of New York ("CUNY"). The City is projected to provide approximately 43.5% of the costs of the Community Colleges in the 2008 fiscal year. The State has full responsibility for the costs of operating the Senior Colleges, although the City is required initially to fund these costs.

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

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

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

Employees and Labor Relations

Employees

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

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

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

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

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

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

Labor Relations

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

Collective bargaining for City employees is under the jurisdiction of either the New York City Office of Collective Bargaining, which was created under the New York City Collective Bargaining Law, or New York State Public Employment Relations Board ("PERB"), which was created under the State

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

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

Pensions

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

Capital Expenditures

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

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

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

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

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

The City's capital expenditures, including expenditures funded by State and federal grants, totaled $32.2 billion during the 2003 through 2007 fiscal years. City-funded expenditures, which totaled

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

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

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

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

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

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

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

SECTION VI: FINANCIAL OPERATIONS

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

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

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

2003-2007 Summary of Operations

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

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

	Fiscal Year(1)				
	Actual				
	2003	2004	2005	2006	2007
	(In Millions)				
Revenues and Transfers					
Real Estate Tax(2)	$10,063	$11,582	$11,616	$12,636	$13,123
Other Taxes(3)(4)	13,297	16,583	19,250	21,575	24,719
Miscellaneous Revenues(3)	4,648	3,370	5,073	3,862	4,243
Other Categorical Grants	1,006	956	862	1,150	1,037
Unrestricted Federal and State Aid(3)	1,443	963	604	494	35
Federal Categorical Grants	5,618	5,415	6,654	5,243	5,471
State Categorical Grants	8,317	8,455	8,823	9,586	10,186
Less: Disallowances Against Categorical Grants	(47)	(27)	(87)	(542)	(103)
Total Revenues and Transfers(5)	$44,345	$47,297	$52,795	$54,004	$58,711

	Fiscal Year(1)				
	Actual				
	2003	2004	2005	2006	2007
	(In Millions)				
Expenditures and Transfers					
Social Services	$ 9,321	$ 9,650	$10,329	$10,148	$11,078
Board of Education	12,673	13,061	13,776	14,794	15,748
City University	444	493	567	550	577
Public Safety and Judicial	6,204	6,125	6,507	6,694	6,842
Health Services	2,241	2,418	2,424	2,758	2,272
Pensions(6)	1,631	2,308	3,234	3,879	4,846
Debt Service(3)(7)	2,309	3,472	4,023	4,510	4,334
MAC Debt Service and Administrative Expenses(3)(7)	225	502	111	10	10
All Other(7)(8)	9,292	9,263	11,819	10,656	12,999
Total Expenditures and Transfers(5)	$44,340	$47,292	$52,790	$53,999	$58,706
Surplus(7)(8)	$ 5	$ 5	$ 5	$ 5	$ 5

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

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

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

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

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

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

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

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

Forecast of 2008 Results

The following table compares the forecast for the 2008 fiscal year contained in the June Financial Plan, which was submitted to the Control Board in June 2007 (the "June 2007 Forecast") with the forecast contained in the Financial Plan, which was submitted to the Control Board on October 26, 2007 (the "October 2007 Forecast"). Each forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	June 2007 Forecast	October 2007 Forecast	Increase/(Decrease) from June 2007 Forecast
		(In Millions)	
REVENUES			
Taxes			
General Property Tax	$12,984	$12,984	—
Other Taxes	22,676	22,215	(461)(1)
FY 2007 Discretionary Transfer	546	546	—
Tax Audit Revenue	559	659	100 (2)
Tax Reduction Program	(290)	(68)	222 (3)
Miscellaneous Revenues	5,997	6,063	66
Unrestricted Intergovernmental Aid	340	340	—
Less: Intra-City Revenues	(1,393)	(1,457)	(64)
Disallowances Against Categorical Grants	(15)	(15)	—
Subtotal – City Funds	$41,404	$41,267	$(137)
Other Categorical Grants	1,006	1,067	61
Inter-Fund Revenues	436	436	—
Total City Funds & Inter-Fund Revenues	$42,846	$42,770	$ (76)
Federal Categorical Grants	5,295	5,606	311 (4)
State Categorical Grants	10,824	10,958	134 (5)
Total Revenues	$58,965	$59,334	$ 369
EXPENDITURES			
Personal Services			
Salaries and Wages	$20,979	$21,189	$ 210 (6)
Pensions	5,728	5,728	—
Fringe Benefits	6,374	6,406	32
Total – Personal Services	$33,081	$33,323	$ 242
Other Than Personal Services			
Medical Assistance	5,714	5,797	83
Public Assistance	1,187	1,187	—
Pay-As-You-Go Capital	100	100	—
All Other	17,641	18,044	403 (7)
Total – Other Than Personal Services	$24,642	$25,128	$ 486
Debt Service & MAC Administrative Expenses	3,835	3,837	2
FY 2007 Budget Stabilization & Discretionary Transfers	(4,052)	(4,052)	—
FY 2008 Budget Stabilization	2,552	2,255	(297)
General Reserve	300	300	—
Total Expenditures	$60,358	$60,791	$ 433
Less: Intra-City Expenses	(1,393)	(1,457)	(64)
Net Total Expenditures	$58,965	$59,334	$ 369

---

(1) The decrease in Other Taxes is due to decreases in personal income taxes of $198 million, sales and use taxes of $18 million, general corporation tax of $145 million, mortgage recording tax of $174 million and real property transfer tax of $82 million,

(Footnotes continued on next page)

(Footnotes continued from previous page)

offset by increases in hotel occupancy tax of $20 million, cigarette tax revenue of $2 million, the State's STAR Program aid of $106 million, banking corporation tax of $17 million and unincorporated business tax of $11 million. The decreases reflect the enactment of some of the tax programs previously reflected in the Tax Reduction Program as described in footnote 3 below.

(2) The increase in Tax Audit Revenue reflects increases of $100 million in general corporation tax.

(3) The change in the Tax Reduction Program reflects the enactment of the personal income tax child care tax credit with an estimated impact of $42 million, tax reductions for small businesses with an estimated impact of $70 million and the City sales tax exemption on clothing and footwear with an estimated impact of $110 million. Other Taxes reflects the decreased tax revenues.

(4) The increase in Federal Categorical Grants is due to increases of $73.3 million in social services funding, $66.2 million in police department funding, $47.3 million in health and mental hygiene funding, $37.7 million in transportation funding, $34.1 in fire department funding and $52.4 million in other grants.

(5) The increase in State Categorical Grants is due to increases of $53.1 million in social services funding, $26.9 million in transportation funding, $21.0 million in health and mental hygiene funding and $33.0 million in other grants.

(6) The increase in Personal Services—Salaries and Wages is due to increases of $91 million for recent collective bargaining settlements, $45 million in budget modifications reflecting categorical expenditures which are offset by categorical grants and $42 million for overtime expense, $31 million transfer of expenditures from Other Than Personal Services to Personal Services and $1 million in net agency expenditures.

(7) The increase in Other Than Personal Services — All Other is due to increases of $417 million in budget modifications reflecting categorical expenditures which are offset by categorical grants and $17 million in energy expenditures offset by the $31 million transfer of expenditures from Other Than Personal Services to Personal Services.

[Remainder of page intentionally left blank.]

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2008 through 2011 fiscal years as contained in the Financial Plan. This table should be read in conjunction with the accompanying notes, "Actions to Close the Remaining Gaps" and "Assumptions" below. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	Fiscal Years(1)(2)			
	2008	2009	2010	2011
	(In Millions)			
REVENUES				
Taxes				
General Property Tax(3)	$12,984	$14,100	$15,186	$16,171
Other Taxes(4)(5)	22,215	21,456	22,221	22,696
FY 2007 Discretionary Transfer(6)	546	—	—	—
Tax Audit Revenue	659	559	560	560
Tax Reduction Program(7)	(68)	(239)	(283)	(301)
Miscellaneous Revenues(8)	6,063	5,084	5,101	5,134
Unrestricted Intergovernmental Aid	340	340	340	340
Less: Intra-City Revenues	(1,457)	(1,367)	(1,368)	(1,368)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$41,267	$39,918	$41,742	$43,217
Other Categorical Grants	1,067	1,007	1,012	1,014
Inter-Fund Revenues(9)	436	411	403	398
Total City Funds and Inter-Fund Revenues	$42,770	$41,336	$43,157	$44,629
Federal Categorical Grants	5,606	5,373	5,358	5,344
State Categorical Grants	10,958	11,424	12,289	12,733
Total Revenues	$59,334	$58,133	$60,804	$62,706
EXPENDITURES				
Personal Services				
Salaries and Wages	$21,189	$22,323	$24,082	$25,353
Pension	5,728	6,265	6,318	6,404
Fringe Benefits	6,406	6,815	7,282	7,795
Subtotal-Personal Services	$33,323	$35,403	$37,682	$39,552
Other Than Personal Services				
Medical Assistance	5,797	5,602	5,756	5,916
Public Assistance	1,187	1,187	1,187	1,187
Pay-As-You-Go Capital	100	200	200	200
All Other(10)	18,044	17,547	17,971	18,376
Subtotal-Other Than Personal Services	$25,128	$24,536	$25,114	$25,679
Debt Service & MAC Administrative Expenses(11)	3,837	3,896	4,247	5,002
FY 2007 Budget Stabilization & Discretionary Transfers(6)(12)	(4,052)	—	—	—
FY 2008 Budget Stabilization	2,255	(2,255)	—	—
FY 2009 Budget Stabilization		350	(350)	
General Reserve	300	300	300	300
	$60,791	$62,230	$66,993	$70,533
Less: Intra-City Expenses	(1,457)	(1,367)	(1,368)	(1,368)
Total Expenditures	$59,334	$60,863	$65,625	$69,165
GAP TO BE CLOSED	$ —	$(2,730)	$(4,821)	$(6,459)

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

The four year financial plan for the 2007 through 2010 fiscal years, as submitted to the Control Board in July 2006, contained the following projections for the 2007-2010 fiscal years: (i) for 2007, total revenues of $52.940 billion and total expenditures of $52.940 billion; (ii) for 2008, total revenues of $53.589 billion and total expenditures of $57.399 billion, with a gap to be closed of $3.810 billion; (iii) for 2009, total revenues of $54.497 billion and total expenditures of $59.081 billion, with a gap to be closed of $4.584 billion; and (iv) for 2010, total revenues of $56.259 billion and total expenditures of $60.328 billion, with a gap to be closed of $4.069 billion.

The four year financial plan for the 2006 through 2009 fiscal years, as submitted to the Control Board on July 6, 2005, contained the following projections for the 2006-2009 fiscal years: (i) for 2006, total revenues of $50.188 billion and total expenditures of

(Footnotes continued on next page)

$50.188 billion; (ii) for 2007, total revenues of $49.433 billion and total expenditures of $53.940 billion, with a gap to be closed of $4.507 billion; (iii) for 2008, total revenues of $50.518 billion and total expenditures of $54.988 billion, with a gap to be closed of $4.470 billion; and (iv) for 2009, total revenues of $52.142 billion and total expenditures of $56.067 billion, with a gap to be closed of $3.925 billion.

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

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

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

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

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

(6) FY 2007 Discretionary Transfer reflects the impact of a grant to the TFA of $546 million in fiscal year 2007 which will be used by the TFA to pay debt service in fiscal year 2008 and result in increased personal income tax revenues in fiscal year 2008.

(7) Tax Reduction Program reflects tax reductions for small businesses with an estimated impact of $35 million, $35 million, $37 million and $39 million in fiscal years 2008 through 2011, respectively, the PlaNYC 2030 tax initiatives with an estimated impact of $53 million, $224 million, $265 million and $281 million in fiscal years 2008 through 2011, respectively, offset by a cigarette tax increase with an estimated value of $20 million, $20 million, $19 million and $19 million in fiscal years 2008 through 2011, respectively. These proposals require both State and local approval.

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

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

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

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

(12) FY 2007 Budget Stabilization & Discretionary Transfers reflects the discretionary transfer of $3.313 billion into the General Debt Service Fund in fiscal year 2007 for debt service due in fiscal year 2008, the payment in fiscal year 2007 of $100 million in lease debt service and $639 million in subsidies, respectively, otherwise due in fiscal year 2008.

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

Actions to Close the Remaining Gaps

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

Assumptions

The Financial Plan is based on numerous assumptions, including the condition of the City’s and the region’s economies and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for City employees exceed the annual wage costs assumed for the 2008 through 2011 fiscal years; realization of projected interest earnings for pension fund assets and current assumptions with respect to wages for City employees affecting the City’s required pension fund contributions; the willingness and ability of the State to provide the aid contemplated by the Financial Plan and to take various other actions to assist the City; the ability of HHC and other such entities to maintain balanced budgets; the willingness of the federal government to provide the amount of federal aid contemplated in the Financial Plan; the impact on City revenues and expenditures of federal and State welfare reform and any future legislation affecting Medicare or other entitlement programs; adoption of the City’s budgets by the City Council in substantially the forms submitted by the Mayor; the ability of the City to implement cost reduction initiatives, and the success with which the City controls expenditures; the impact of conditions in the real estate market on real estate tax revenues; and the ability of the City and other financing entities to market their securities successfully in the public credit markets. See “SECTION I: RECENT FINANCIAL DEVELOPMENTS.” Certain of these assumptions are reviewed in reports issued by the City Comptroller and other public officials. See “SECTION VII: FINANCIAL PLAN—Certain Reports.”

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

Revenue Assumptions

1. GENERAL ECONOMIC CONDITIONS

The Financial Plan assumes a decrease in economic activity in calendar year 2007 compared to calendar year 2006. The following table presents a forecast of the key economic indicators for the calendar years 2006 through 2011. This forecast is based upon information available in October 2007.

Forecast of Key Economic Indicators

U.S. ECONOMY	2006	2007	2008	2009	2010	2011
	Calendar Years					
Economic Activity and Income						
Real GDP (billions of 2000 dollars)	11,319	11,542	11,778	12,123	12,460	12,805
Percent Change	2.9	2	2	2.9	2.8	2.8
Non-Agricultural Employment (millions)	136.2	137.9	138.9	140.7	142.4	144.0
Change from Prior Year	2.5	1.7	1	1.7	1.7	1.6
Percent Change	1.9	1.3	0.7	1.2	1.2	1.1
CPI-All Urban (1982-84=100)	201.6	207.0	210.8	214.5	218.6	222.5
Percent Change	3.2	2.7	1.8	1.8	1.9	1.8
Wage Rate ($ per year)	44,195	46,405	48,081	49,759	51,580	53,460
Percent Change	4.2	5	3.6	3.5	3.7	3.6
Personal Income ($ billions)	10,983	11,695	12,255	12,875	13,550	14,241
Percent Change	6.6	6.5	4.8	5.1	5.2	5.1
Pre-Tax Corp Profits ($ billions)	1,806	1,863	1,843	1,909	1,893	1,899
Percent Change	14.3	3.2	(1.1)	3.6	(0.8)	0.3
Unemployment Rate (Percent)	4.6	4.6	5	4.9	4.7	4.6
10-Year Treasury Bond Rate	4.8	4.7	4.6	5	5.3	5.3
Federal Funds Rate	5	5	4.3	4.6	4.8	4.8
NEW YORK CITY ECONOMY						
Real Gross City Product (billions of dollars)	490	487	477	487	502	515
Percent Change	6	(0.5)	(2.2)	2.2	3	2.6
Non-Agricultural Employment (thousands)	3,664	3,715	3,727	3,753	3,787	3,816
Change from Prior Year	62.2	50.6	12.1	26.2	33.9	28.6
Percent Change	1.7	1.4	0.3	0.7	0.9	0.8
CPI-All Urban NY-NJ Area (1982-84=100)	220.7	227.2	232	236.6	241.6	246.5
Percent Change	3.8	2.9	2.1	2	2.1	2
Wage Rate ($ per year)	73,252	78,255	78,615	79,549	82,967	86,669
Percent Change	7.4	6.8	0.5	1.2	4.3	4.5
Personal Income ($ billions)	370	397	406	419	440	462
Percent Change	7.8	7.1	2.5	3.2	4.9	4.9
NEW YORK REAL ESTATE MARKET						
Manhattan Primary Office Market						
Asking Rental Rate ($ per square foot)	53.93	71.7	79.89	82.56	90.35	94.79
Percent Change	12.9	32.9	11.4	3.3	9.4	4.9
Vacancy Rate – Percent	7.3	5.3	5.9	6	5.5	5.8

Source: OMB.

2. Real Estate Tax

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

The decrease in the average tax rate to $11.42 per $100 of assessed value for fiscal year 2008 is projected to remain in effect for the forecast period through 2011. Projections of real estate tax revenues reflect this 7% rate reduction with estimated costs of $1.05 billion, $1.14 billion, $1.22 billion and $1.3 billion in fiscal years 2008 through 2011, respectively.

Projections of real estate tax revenues include net revenues of $60 million, $38 million, $34 million and $31 million in fiscal years 2008, 2009, 2010 and 2011, respectively, from the sale of real property tax liens. Although the authorization to sell such real estate tax liens expired on August 31, 2006, the Financial Plan assumes the enactment of local legislation to reauthorize such sales. Projections of real estate tax revenues include the effects of the State's STAR Program which will reduce the real estate tax revenues by an estimated $160 million in each of fiscal years 2008 through 2011. Projections of real estate tax revenues reflect the estimated cost of extending the current tax reduction for owners of cooperative and condominium apartments amounting to $316 million, $321 million, $342 million and $360 million in fiscal years 2008 through 2011, respectively. Projections of real estate tax revenues reflect the real estate tax rebate of $400 to owner-occupants of houses, co-ops and condominiums which has an estimated cost of $256 million in each of fiscal years 2008 through 2011.

The delinquency rate was 2.4% for each of fiscal years 2004 and 2005, 2.0% in fiscal year 2006, and 2.1% in fiscal year 2007. The Financial Plan projects delinquency rates of 2.4%, 2.5%, 2.5% and 2.5% in fiscal years 2008 through 2011, respectively. For information concerning the delinquency rates for prior years, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Collection of the Real Estate Tax.*" For a description of proceedings seeking real estate tax refunds from the City, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes.*"

3. OTHER TAXES

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

	2008	2009	2010	2011
	(In Millions)			
Personal Income(1)(2)	$ 6,755	$ 6,454	$ 6,743	$ 6,642
General Corporation(2)	3,018	2,974	3,059	3,204
Banking Corporation	830	597	693	729
Unincorporated Business Income(2)	1,597	1,549	1,546	1,644
Sales(2)(3)	4,626	4,642	4,824	5,067
Commercial Rent	550	566	583	601
Real Property Transfer	1,299	1,135	1,127	1,114
Mortgage Recording	1,075	965	957	946
Utility	355	370	385	401
Cigarette	119	116	113	110
Hotel	357	374	389	404
All Other(4)	1,634	1,714	1,802	1,835
Total	$22,215	$21,456	$22,221	$22,696

Note: Totals may not add due to rounding.

(1) Personal Income does not include $158 million, $772 million, $763 million and $1.149 billion of personal income tax revenues projected to be retained by the TFA for debt service and other expenses in the 2008, 2009, 2010 and 2011 fiscal years, respectively. Personal Income includes $391 million, $361 million and $382 million of additional personal income tax revenues in fiscal years 2008 through 2010, respectively, reflecting the early provision for TFA debt service payments otherwise expected to be made in those fiscal years. Personal Income does not reflect the impact of the grant to the TFA of $546 million in fiscal year 2007, which is reflected in the Financial Plan under FY 2007 Discretionary Transfer and will be used by the TFA to pay debt service in fiscal year 2008, thereby increasing personal income tax revenue by that amount in fiscal year 2008. These projections include the effects of the State's STAR Program, which will reduce personal income tax revenues by an estimated $988 million, $961 million, $984 million and $1.017 billion in the 2008 through 2011 fiscal years, respectively. The State will reimburse the City for such reduced revenues. These projections include the effects of the earned income tax credit which will reduce personal income tax revenues by approximately $75 million, $78 million, $80 million and $82 million in fiscal years 2008 through 2011, respectively.

(2) These projections include the enactment of tax programs previously reflected in the Tax Reduction Program. The enacted programs include a childcare tax credit which will reduce personal income tax revenues by $42 million, $43 million, $44 million and $45 million in fiscal years 2008 through 2011, respectively; personal and small business income tax credits and reductions which will reduce tax revenues by $70 million, $108 million, $109 million and $166 million in fiscal years 2008 through 2011, respectively; and the City sales tax exemption for clothing and footwear purchases which will reduce sales tax revenues by $110 million, $117 million, $119 million and $122 million in fiscal years 2008 through 2011, respectively.

(3) These projections assume that the City will receive legislative authorization to continue the local sales tax at the rate of 4%. Without such legislative authorization, the local sales tax would decline effective July 1, 2008 to the rate of 3%, which would result in a reduction in sales tax revenues of approximately $1.19 billion, $1.25 billion and $1.31 billion in fiscal years 2009 through 2011, respectively. These projections include enactment of the City sales tax exemption on clothing and footwear purchases which will reduce sales tax revenues by an estimated $110 million, $117 million, $119 million and $122 million in fiscal years 2008 through 2011, respectively.

(Footnotes continued on next page)

(Footnotes continued from previous page)

(4) All Other includes, among others, OTB surtax revenues, beer and liquor taxes, and the automobile use tax. All Other also includes $1.148 billion, $1.121 billion, $1.144 billion and $1.177 billion in fiscal years 2008 through 2011, respectively, to be provided to the City by the State as reimbursement for the reduced property tax and personal income tax revenues resulting from the State's STAR Program.

The Financial Plan reflects the following assumptions regarding projected revenues from Other Taxes: (i) with respect to personal income tax, a decline in fiscal year 2008 reflecting a forecast decline in Wall Street bonuses in calendar year 2007 as well as the impact of recently enacted tax credits, a decline in fiscal year 2009 reflecting a forecast decline in both Wall Street bonuses in calendar year 2008 and a slowdown in the national economy, and moderate growth in fiscal years 2010 and 2011 reflecting renewed strength in Wall Street profitability and wage income growth; (ii) with respect to the general corporation tax, declines in fiscal years 2008 and 2009 reflecting forecast declines in New York Stock Exchange ("NYSE") member-firm profits in calendar years 2007 and 2008, and a slowdown in the national economy in calendar year 2008, and trend growth in fiscal years 2010 and 2011 reflecting a forecast rebound in Wall Street profitability and the national economy; (iii) with respect to the banking corporation tax, declines in fiscal years 2008 and 2009 due to expected declines in Wall Street related activity in calendar years 2007 and 2008 as a result of subprime market exposure and a slowdown in large commercial real estate transactions, a rebound in fiscal year 2010 and moderate growth in 2011 reflecting a forecast rebound in Wall Street related activity and the national economy; (iv) with respect to the unincorporated business tax, declines in fiscal years 2008 and 2009 reflecting forecast declines in NYSE member-firm profits in calendar years 2007 and 2008 and a slowdown in the national economy, no growth in fiscal year 2010 and moderate growth in fiscal year 2011 reflecting a rebound in NYSE member-firm profits and the national economy; (v) with respect to the sales tax, no growth in fiscal year 2008 reflecting a forecast decline in Wall Street bonuses in calendar year 2007 as well as the impact of the enactment of the City sales tax exemption on clothing and footware, near zero growth in fiscal year 2009 reflecting a forecast decline in both Wall Street bonuses in calendar year 2008 and a slowdown in the national economy and moderate growth in fiscal years 2010 and 2011 paralleling wage income growth; (vi) with respect to real property transfer tax, a steep decline in fiscal year 2008, as the number of transactions in the residential market declines sharply, the growth in the average sale price slows and the number and value of large commercial real estate transactions decreases due to the tighter credit market and re-pricing of real estate related risk pertaining to problems in the credit market, and continuing declines in fiscal years 2009 through 2011 as a result of continuing declines forecast in both the number of transactions and the average sale price for both the residential and commercial markets; (vii) with respect to mortgage recording tax, a steep decline in fiscal year 2008, as the number of transactions in the residential market declines sharply and the slowing growth in average sale price, coupled with tighter credit standards requiring higher down payments, reduces the mortgage loan amount subject to tax, and the number and value of large commercial real estate transactions decrease due to the tighter credit market, and continuing declines in fiscal years 2009 through 2011 with further declines forecast in both the number of transactions and the average sale price for both the residential and commercial markets; and (viii) with respect to the commercial rent tax, strong growth in fiscal year 2008, reflecting lower vacancy rates and increased asking rents and moderate growth from fiscal year 2009 through 2011 paralleling the slower employment growth forecast for the local economy.

On July 1, 2008, the local sales tax, which is currently imposed by the State at the rate of 4%, will expire and, absent legislative action, a 3% local sales tax imposed by the City would be in effect. The Financial Plan assumes that the City will receive the legislative authorization to continue the local sales tax at the rate of 4%. If the City did not receive such authorization, sales tax revenues would be reduced by approximately $1.19 billion, $1.25 billion and $1.31 billion in fiscal years 2009 through 2011, respectively.

4. Miscellaneous Revenues

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

	2008	2009	2010	2011
		(In Millions)		
Licenses, Permits and Franchises	$ 419	$ 420	$ 423	$ 427
Interest Income	387	137	144	144
Charges for Services	563	549	547	548
Water and Sewer Payments(1)	1,195	1,193	1,197	1,225
Rental Income	194	193	192	192
Fines and Forfeitures	724	723	724	724
Other	1,124	502	506	506
Intra-City Revenues	1,457	1,367	1,368	1,368
Total	$6,063	$5,084	$5,101	$5,134

(1) Received from the Water Board. For further information regarding the Water Board, see "Section VII: Financial Plan—Financing Program."

Miscellaneous Revenues—Rental Income reflects approximately $93.5 million in fiscal years 2008, 2009, 2010 and 2011 respectively, for lease payments for the City's airports.

Miscellaneous Revenues—Other reflects $550 million, $142 million, $143 million and $145 million of projected resources in fiscal years 2008 through 2011, respectively, from the receipt by the City of TSRs. The Financial Plan reflects that unpledged TSRs received by TSASC in fiscal years 2006 and 2007 and the funds in the trapping account will be released to the City in fiscal year 2008. For more information, see "Section IV: Sources of City Revenues—Miscellaneous Revenues." Economic and legal uncertainties relating to the tobacco industry and the settlement, including pending anti-trust litigation challenging a State statute implementing the settlement agreement and adjustments provided for under the settlement agreement, may significantly affect the receipt of TSRs by TSASC and the City.

5. Unrestricted Intergovernmental Aid

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

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

The Other Aid category consists of $13 million in prior year claims settlements in fiscal years 2008 through 2011.

The receipt of State Revenue Sharing funds could be affected by potential prior claims asserted by the State. For information concerning projected State budget gaps, see "Section I: Recent Financial Developments—The State."

6. Federal and State Categorical Grants

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

	2008	2009	2010	2011
		(In Millions)		
Federal				
Community Development	$ 277	$ 277	$ 262	$ 259
Welfare	2,364	2,399	2,392	2,392
Education	1,851	1,898	1,899	1,900
Other	1,114	799	805	793
Total	$5,606	$5,373	$5,358	$5,344

	2008	2009	2010	2011
		(In Millions)		
State				
Welfare	$ 1,980	$ 1,803	$ 1,803	$ 1,803
Education	7,872	8,628	9,494	9,932
Higher Education	195	195	195	195
Health and Mental Hygiene	477	438	437	443
Other	434	360	360	360
Total	$10,958	$11,424	$12,289	$12,733

The Financial Plan assumes that all existing federal and State categorical grant programs will continue, unless specific legislation provides for their termination or adjustment, and assumes increases in aid where increased costs are projected for existing grant programs. For information concerning projected State budget gaps and the possible impact on State aid to the City, see "INTRODUCTORY STATEMENT" and "SECTION I: RECENT FINANCIAL DEVELOPMENTS—The State." As of September 30, 2007, approximately 14.0% of the City's full-time and full-time equivalent employees (consisting of employees of the mayoral agencies and the DOE) were paid by Community Development funds, water and sewer funds and from other sources not funded by unrestricted revenues of the City.

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

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

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

Expenditure Assumptions

1. PERSONAL SERVICES COSTS

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

	2008	2009	2010	2011
		(In Millions)		
Wages and Salaries	$20,635	$21,214	$22,024	$22,706
Pensions	5,728	6,265	6,318	6,404
Other Fringe Benefits	6,406	6,815	7,282	7,795
Reserve for Collective Bargaining				
Department of Education	18	19	19	19
Other	536	1,090	2,039	2,628
Reserve Subtotal	554	1,109	2,058	2,647
Total	$33,323	$35,403	$37,682	$39,552

The Financial Plan projects that the authorized number of City-funded full-time and full-time equivalent employees whose salaries are paid directly from City funds, as opposed to federal or State funds or water and sewer funds, will increase from an estimated level of 270,424 on June 30, 2008 to an estimated level of 270,578 by June 30, 2011.

Other Fringe Benefits includes $1.5 billion, $1.6 billion, $1.7 billion and $1.9 billion in fiscal years 2008 through 2011, respectively, for OPEB expenditures for current retirees, which costs are currently paid by the City on a pay-as-you-go basis. For its fiscal year 2007, the City reported an OPEB liability of $57.8 billion in its government-wide financial statements, based upon an actuarial valuation and in accordance with GASB 45. There is no requirement to fund such liability. For information on deposits to a trust to fund a portion of the future cost of OPEB for current and future retirees, see “SECTION VI: FINANCIAL OPERATIONS—2003-2007 Summary of Operations.” For information on the OPEB reporting requirement, see “SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Reporting and Control Systems,*” and “APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note E.4.”

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

The City and the Patrolmen’s Benevolent Association (“PBA”) have entered arbitration before a PERB appointed arbitration panel. Hearings commenced on November 6, 2007 and are scheduled through December 2007. The City anticipates that a settlement will be awarded in the spring of 2008. For additional information, see “SECTION V: CITY SERVICES AND EXPENDITURES—Employee and Labor Relations—*Labor Relations*.”

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

2. Other Than Personal Services Costs

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

	2008	2009	2010	2011
		(In Millions)		
Administrative OTPS	$15,280	$14,822	$15,195	$15,489
Public Assistance	1,187	1,187	1,187	1,187
Medical Assistance	5,797	5,602	5,756	5,916
HHC Support	245	164	167	168
Pay-As-You-Go Capital	100	200	200	200
Other	2,519	2,561	2,609	2,719
Total	$25,128	$24,536	$25,114	$25,679

Administrative OTPS and Energy

The Financial Plan contains estimates of the City's administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services and estimates of energy costs in the 2008 fiscal year. Thereafter, to account for inflation, OTPS expenditures are projected to rise by 2.5% annually in fiscal years 2009 through 2011, respectively. Energy costs for each of the 2008 through 2011 fiscal years are assumed to vary annually, with total energy expenditures projected at $934 million in fiscal year 2008 and increasing to $957 million by fiscal year 2011.

Public Assistance

The number of persons receiving benefits under public assistance programs is projected to average 351,343 per month in the 2008 fiscal year. Of total public assistance expenditures in the City for the 2008 fiscal year, the City-funded portion is projected to be $447 million and is projected to remain at that level for each of fiscal years 2009 through 2011.

Medical Assistance

Medical assistance payments projected in the Financial Plan consist of payments to voluntary hospitals, skilled nursing facilities, intermediate care facilities, home care, pharmacy, managed care and physicians and other medical practitioners. The City-funded portion of medical assistance payments is estimated at $5.603 billion for the 2008 fiscal year and is expected to increase to $5.784 billion in fiscal year 2011. Such payments include, among other things, City-funded Medicaid payments, including City-funded Medicaid payments to HHC beginning in fiscal year 2008, as discussed below. City Medicaid costs (including City-funded Medicaid payments to HHC) assumed in the Financial Plan do not include the non-federal share of long-term care costs which have been assumed by the State.

Health and Hospitals Corporation

HHC operates under its own section of the Financial Plan as a Covered Organization. The HHC financial plan projects City-funded expenditures of $128 million in fiscal year 2008 increasing to $160 million in fiscal year 2011. City-funded expenditures include City subsidy, intra-City payments and grants.

HHC is projected to achieve balanced budgets in fiscal years 2008 through 2011 on an accrual basis. Total receipts before implementation of the HHC gap-closing program are projected to be $5.4 billion in fiscal year 2008 decreasing to $5.3 billion in fiscal year 2011. Total disbursements before implementation of the HHC gap-closing program are projected to be $5.6 billion in fiscal year 2008 increasing to $6.1 billion in fiscal year 2011. These projections assume increases in other than personal services costs and fringe benefits in fiscal years 2008 through 2011. Significant changes have been and may be made in Medicaid, Medicare and other third-party payor programs, which could have adverse impacts on HHC's financial condition.

Other

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

New York City Transit

NYCT operates under its own section of the Financial Plan as a Covered Organization. The financial plan for NYCT covering its 2008 through 2011 fiscal years was prepared in October 2007. The NYCT fiscal year coincides with the calendar year. The NYCT financial plan projects City assistance to the NYCT operating budget of $276.8 million in 2008 increasing to $314.6 million in 2011, in addition to real estate tax revenue dedicated for NYCT use of $654.2 million in 2008 decreasing to $637.3 million in 2011.

For 2008, the NYCT financial plan projects $6.5 billion in revenues and $8.4 billion in expenses, leaving a budget gap of $1.9 billion. This gap will be offset by a $1.2 billion depreciation adjustment, approximately $43.6 million in anticipated cash flow adjustments including reserve funds and additional receipts, $35.1 million in an MTA gap-closing program, and funds made available from a $546.6 million cash basis surplus in 2007, leaving a gap of $108.6 million in 2008. The NYCT financial plan forecasts operating budget gaps of $1 billion, $1.3 billion and $1.5 billion in 2009 through 2011, respectively, after depreciation, before the implementation of cash flow adjustments and additional gap-closing actions. The Financial Plan does not require that the NYCT financial plan out-year gaps be funded by the City. The Financial Plan assumes that the gaps in 2008 through 2011 will be closed by NYCT in part by productivity measures, increased user charges, additional management actions, reduced service levels, or some combination of these actions.

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

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

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

Department of Education

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

Judgments and Claims

In the fiscal year ended on June 30, 2007, the City expended $564.0 million for judgments and claims, $155.7 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of $634.8 million, $687.7 million, $738.2 million and $795.3 million for the 2008 through 2011 fiscal years, respectively. These projections incorporate a substantial amount of claims costs attributed to HHC for which HHC will reimburse the City. These amounts are estimated at $189.9 million for each of fiscal years 2008 through 2011. The City is a party to numerous lawsuits and is the subject of numerous claims and investigations. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 2007 amounted to approximately $5.4 billion. This estimate was made by categorizing the various claims and applying a statistical model, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and by supplementing the estimated liability with information supplied by the City's Corporation Counsel. For further information regarding certain of these claims, see "SECTION IX: OTHER INFORMATION—Litigation."

In addition to the above claims, numerous real estate tax *certiorari* proceedings involving allegations of inequality of assessment, illegality and overvaluation are currently pending against the City. The City's Financial Statements for the fiscal year ended June 30, 2007 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2007, could amount to approximately $751 million. Provision has been made in the Financial Plan for estimated refunds of $236 million, $244 million, $261 million and $276 million for the 2008 through 2011 fiscal years, respectively. For further information concerning these claims, certain remedial legislation related thereto and the City's estimates of potential liability, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

3. DEBT SERVICE & MAC ADMINISTRATIVE EXPENSES

Debt service estimates for the 2008 through 2011 fiscal years include estimates of debt service costs on outstanding City bonds and notes and conduit debt and future debt issuances based on current and projected future market conditions. Such debt service estimates also include estimated payments pursuant to interest rate exchange agreements but do not reflect receipts pursuant to such agreements. MAC administrative expenses for the 2008 fiscal year are certified by MAC and include State oversight costs and MAC operating expenses.

Certain Reports

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

On December 3, 2007, the City Comptroller released a report on the state of the City's economy and finances, which included a review of the Financial Plan. The report notes that the City's revenue projections are now lower than at the time of the June Financial Plan and that, coupled with significant increases in labor costs, the Financial Plan foresees budget gaps beginning in fiscal year 2009 that grow to $6.46 billion by fiscal year 2011.

In his report, the City Comptroller identified net resources and risks for fiscal years 2008 through 2011 which, when added to the projected results in the Financial Plan, would result in a surplus of $150 million in fiscal year 2008 and gaps of $2.66 billion, $5.01 billion and $6.42 billion in fiscal years 2009, 2010 and 2011, respectively. The difference from the Financial Plan projections results primarily from the City Comptroller's tax revenue projections, which exceed those in the Financial Plan by $255 million, $170 million and $35 million in fiscal years 2008, 2009 and 2011, respectively, but are $135 million less in fiscal year 2010. The report identified net expenditure risks which offset the higher revenue projections by $105 million, $102 million and $52 million in fiscal years 2008 through 2010, respectively, and an offset to expenditures of $5 million in fiscal year 2011 resulting from: (i) increased overtime expenditures of $100 million in each of fiscal years 2008 through 2011; and (ii) the shortfall in assumed federal education aid of $50 million in fiscal year 2008 and $100 million in each of fiscal years 2009 through 2011 offset by projected savings in judgment and claims expense of $35 million, $88 million, $138 million and $195 million in fiscal years 2008 through 2011, respectively, and projected savings in baseline public assistance grants of $10 million in each year of the Financial Plan.

On December 6, 2007, the staff of OSDC issued a report on the Financial Plan. The report identified net risks to the Financial Plan of approximately $154 million, $371 million, $481 million and $764 million in fiscal years 2008 through 2011, respectively, which, when added to the results projected in the Financial Plan, would produce gaps of $154 million, $3.1 billion, $5.3 billion and 7.2 billion in fiscal years 2008 through 2011, respectively.

The risks to the Financial Plan identified in the report include: (i) the failure of the State to restore revenue sharing payments of $327 million in each of fiscal years 2008 through 2011; (ii) increased spending for uniformed agency overtime of $90 million in fiscal year 2008 and $120 million in each of fiscal years 2009 through 2011; (iii) increased public assistance costs for the shelter allowance for residents of public housing of $5 million, $13 million, $17 million and $18 million in fiscal years 2008 through 2011, respectively; (iv) reduced tax revenue of $150 million in fiscal year 2009 and $200 million in each of fiscal years 2010 and 2011; (v) increased expenses related to Federal work force participation rate requirements of $100 million in each of fiscal years 2010 and 2011; and (vi) increased expenditures to subsidize the MTA in fiscal year 2011 of $300 million. The report noted that such risks could be partially offset by possible additional resources, including: (i) increased tax revenue collections of $200 million in fiscal year 2008; (ii) the availability of $50 million, $220 million, $260 million and $275 million in fiscal years 2008 through 2011, respectively, if the proposed PlaNYC 2030 Financing Authority is not created by the State; and (iii) savings of $18 million, $19 million, $23 million and $26 million in fiscal years 2008 through 2011, respectively, if modest tax cuts are not enacted by the State.

The report also noted that certain City-related public entities which face significant financial challenges could draw on City resources. Other significant issues identified by OSDC in the report include (i) the possibility of higher collective bargaining costs for uniformed employees; (ii) the growing cost of certain post-employment benefits for City employees; (iii) the effects of required accounting changes on the City's ability to finance certain pollution remediation costs as a result of GASB 49; and (iv) the City's rising debt burden, which is projected to increase annually and consume 13.7 percent of City fund revenues in fiscal year 2011. The OSDC report did not quantify the potential financial impact on the City from these issues.

On December 6, 2007, the staff of the Control Board issued a report on the Financial Plan. The report notes that the Financial Plan recognizes that the City is in the midst of a transition from the robust economic expansion of the past four years to a leaner period of slower growth over the next four years. The report quantified possible additional resources, partially offset by certain risks, to the Financial Plan. The report identified possible net additional resources of $376 million, $60 million, $53 million and $60 million in fiscal years 2008 through 2011, respectively. When combined with the results projected in the Financial Plan, these net additional resources would result in an estimated surplus of $376 million in fiscal year 2008 and estimated gaps of $2.7 billion in fiscal year 2009, $4.8 billion in fiscal year 2010 and $6.4 billion in fiscal year 2011. The possible additional resources identified in the report result from: (i) increased tax revenues of $300 million in fiscal year 2008; and (ii) increased miscellaneous revenues of $125 million in fiscal year 2008 and $150 million in each of fiscal years 2009 through 2011. The risks identified in the report are increased uniformed services overtime expenses of $49 million, $90 million, $97 million and $90 million in fiscal years 2008 through 2011, respectively.

Long-Term Capital Program

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

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

City-funded commitments, which were $344 million in fiscal year 1979, are projected to reach $10.6 billion in fiscal year 2008. City-funded expenditures are forecast at $5.7 billion in fiscal year 2008; total expenditures are forecast at $8.6 billion in fiscal year 2008. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2008 through 2017, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures."

The following table sets forth the major areas of capital commitment projected for the 2008 through 2011 fiscal years. See "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures." See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*"

2008-2011 CAPITAL COMMITMENT PLAN

	2008		2009		2010		2011		Total	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
					(In Millions)					
Mass Transit(1)	$ 100	$ 132	$ 89	$ 89	$ 90	$ 90	$ 75	$ 75	$ 354	$ 386
Roadway, Bridges	1,531	2,102	1,341	2,074	537	698	487	572	3,896	5,446
Environmental Protection(2)	3,532	3,751	3,106	3,109	2,141	2,141	2,501	2,501	11,281	11,503
Education(3)	1,162	3,241	1,252	3,285	1,241	2,481	1,283	2,565	4,938	11,572
Housing	786	988	342	443	282	383	332	428	1,742	2,242
Sanitation	407	413	772	772	274	274	273	273	1,726	1,732
City Operations/Facilities	7,253	7,911	4,198	4,266	1,804	1,832	1,867	1,916	15,121	15,926
Economic and Port Development	1,472	1,773	229	229	86	86	158	158	1,946	2,246
Reserve for Unattained Commitments	(5,686)	(5,686)	(270)	(270)	1,612	1,612	383	383	(3,961)	(3,961)
Total Commitments(4)	$10,558	$14,626	$11,060	$13,999	$8,067	$ 9,598	$7,356	$ 8,870	$37,041	$47,093
Total Expenditures(5)	$ 5,680	$ 8,584	$ 7,323	$ 9,846	$9,062	$10,635	$8,903	$10,853	$30,968	$39,918

Note: Totals may not add due to rounding.

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

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

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

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

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

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

In December 2006, the City issued an Asset Information Management System Report (the "AIMS Report"), which is its annual assessment of the asset condition and a proposed maintenance schedule for its assets and asset systems which have a replacement cost of $10 million or more and a useful life of at least ten years, as required by the City Charter. This report does not reflect any policy considerations which could affect the appropriate amount of investment, such as whether there is a continuing need for a particular facility or whether there have been changes in the use of a facility. The AIMS Report estimated that $5.14 billion in capital investment would be needed for fiscal years 2008 through 2011 to bring the assets to a state of good repair. The report also estimated that $299 million, $153 million, $182 million and $156 million should be spent on maintenance in fiscal years 2008 through 2011, respectively.

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

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

Financing Program

The following table sets forth the par amount of bonds issued and expected to be issued during the 2008 through 2011 fiscal years to implement the Four-Year Capital Program. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

2008-2011 FINANCING PROGRAM

	2008	2009	2010	2011	TOTAL
			(IN MILLIONS)		
CITY GENERAL OBLIGATION BONDS	$3,965	$4,730	$6,620	$6,470	$21,785
WATER AUTHORITY BONDS (1)(2)	2,127	2,389	2,316	2,305	9,137
TOTAL	$6,092	$7,119	$8,936	$8,775	$30,922

Note: Totals may not add due to rounding.

(1) Figures include notes and exclude refunding bonds.

(2) Water Authority Bonds includes a total allocation for reserve funds and costs of issuance of $625 million.

The City's financing program includes the issuance of water and sewer revenue bonds by the Water Authority which is authorized to issue bonds to finance capital investment in the City's water and sewer system. Pursuant to State law, debt service on this indebtedness is secured by water and sewer fees paid by users of the water and sewer system. Such fees are revenues of the Water Board, which holds a lease interest in the City's water and sewer system. After providing for debt service on obligations of the Water Authority and certain incidental costs, the revenues of the Water Board are paid to the City to cover the City's costs of operating the water and sewer system and as rental for the system. The City's Ten-Year

Capital Strategy applicable to the City's water and sewer system covering fiscal years 2008 through 2017, projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately $19.3 billion. The City's Capital Commitment Plan for fiscal years 2008 through 2011 reflects total anticipated City-funded water and sewer commitments of $10.9 billion which are expected to be financed with the proceeds of Water Authority debt.

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

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

In an effort to reduce its borrowing costs over the life of its bonds, the City began entering into interest rate exchange agreements commencing in fiscal year 2003. For a description of such agreements, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A.13." As of September 30, 2007, the total marked-to-market value of the City's interest rate exchange agreements was ($3,726,699).

In addition, in connection with its Courts Facilities Lease Revenue Bonds (The City of New York Issue) Series 2005A and B, DASNY entered into interest rate exchange agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. and JPMorgan Chase Bank, National Association. The City is obligated, subject to appropriation, to make lease payments to DASNY reflecting DASNY's obligations under these interest rate exchange agreements. Pursuant to such agreements with a notional amount of $125,500,000, an effective date of May 15, 2013 and a termination date of May 15, 2032, DASNY is to make payments based on the BMA Municipal Swap Index ("BMA") and receive a fixed rate of 4.179%. Pursuant to such agreements with a notional amount of $125,500,000, an effective date of June 15, 2005 and a termination date of May 15, 2039, DASNY pays a fixed rate of 3.017% and receives payments based on a LIBOR-indexed variable rate. As of September 30, 2007, the total marked-to-market value of the DASNY agreements was $4,342,152.

In addition, in connection with its Special Revenue Bonds, Fiscal 2004 Series A and B (New York Stock Exchange Project), the IDA entered into eight interest rate exchange agreements with Morgan Stanley Capital Services Inc., each with an effective date of August 21, 2003. The City is obligated, subject to appropriation, to make payments to the IDA reflecting the IDA's obligations under these interest rate exchange agreements. Pursuant to an agreement with a notional amount of $18,520,000 and a termination date of May 29, 2008 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 4.8%. Pursuant to an agreement with a notional amount of $2,580,000 and a termination date of March 1, 2012 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5%. Pursuant to an agreement with a notional amount of $2,710,000 and a termination date of December 14, 2012 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.125%. Pursuant to an agreement with a notional amount of $2,850,000 and a termination date of October 3, 2013 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.2%. Pursuant to an agreement with a notional amount of $3,000,000 and a termination date of July 24, 2014 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.3%. Pursuant to an agreement with a notional amount of $3,155,000 and a termination date of May 14, 2015 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.4%. Pursuant to an agreement with a notional amount of $3,325,000 and a termination date of February 26, 2016 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.4%. Pursuant to an agreement with a notional amount of $41,820,000 and a termination date of August 20, 2020 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.625%. As of September 30, 2007, the total marked-to-market value of these IDA interest rate exchange agreements was $1,758,463.

Seasonal Financing Requirements

The City since 1981 has fully satisfied its seasonal financing needs in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. To finance its projected cash flow needs, the City issued $1.5 billion of short-term obligations in fiscal years 2002, 2003 and 2004. No short-term obligations were required to be issued in each of fiscal years 2005, 2006 and 2007. The City regularly reviews its cash position and the need for short-term borrowing. The Financial Plan does not include the issuance of short term obligations in fiscal year 2008. The Financial Plan reflects the issuance of short term obligations in the amount of $2.4 billion in each of fiscal years 2009 through 2011.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City and PBC Indebtedness

The following table sets forth outstanding City and PBC indebtedness as of September 30, 2007. “City indebtedness” refers to general obligation debt of the City, net of reserves. “PBC indebtedness” refers to obligations of the City, net of reserves, to the following public benefit corporations (“PBCs”): the Housing Authority, the New York City Educational Construction Fund (“ECF”), New York State Housing Finance Agency (“HFA”), DASNY, CUCF, and the New York State Urban Development Corporation (“UDC”). PBC indebtedness is not debt of the City. However, the City has entered into agreements to make payments, subject to appropriation, to PBCs to be used for debt service on certain obligations constituting PBC indebtedness. Neither City indebtedness nor PBC indebtedness includes outstanding debt of the TFA, TSASC, Fiscal Year 2005 Securitization Corp., STAR Corp., or MAC, which are not obligations of, and are not paid by, the City; nor does such indebtedness include obligations of HYIC, for which the City has agreed to pay, as needed and subject to appropriation, interest on but not principal of such obligations.

(In Thousands)		
Gross City Long-Term Indebtedness(1)	$35,422,314	
Less: Assets Held for Debt Service(2)	(515,505)	
Net City Long-Term Indebtedness		$34,906,809
PBC Indebtedness		
Bonds Payable	366,734	
Capital Lease Obligations	1,529,707	
Gross PBC Indebtedness	1,896,441	
Less: Assets Held for Debt Service	(248,256)	
Net PBC Indebtedness		1,648,185
Combined Net City and PBC Indebtedness		$36,554,994

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

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

Trend in Outstanding Net City and PBC Indebtedness

The following table shows the trend in the outstanding City and PBC indebtedness as of June 30 of each of the fiscal years 1996 through 2006 and at September 30, 2007.

	City Indebtedness		PBC	
	Long-Term	Short-Term	Indebtedness	Total
	(In Millions)			
1997	$26,180	$—	$1,182	$27,362
1998	25,917	—	1,129	27,046
1999	26,287	—	1,403	27,690
2000	25,543	—	1,575	27,118
2001	25,609	—	1,533	27,142
2002	27,312	—	1,537	28,849
2003	29,043	—	2,059	31,102
2004	30,498	—	1,766	32,264
2005	33,688	—	1,941	35,629
2006	34,076	—	1,751	35,827
2007	34,396	—	1,637	36,033
September 30, 2007	34,907	—	1,648	36,555

Rapidity of Principal Retirement

The following table details, as of September 30, 2007, the cumulative percentage of total City indebtedness that is scheduled to be retired in accordance with its terms in each prospective five-year period.

Period	Cumulative Percentage of Debt Scheduled for Retirement
5 years	11.11%
10 years	37.91
15 years	62.49
20 years	82.96
25 years	94.23
30 years	99.61

City and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of September 30, 2007, on City and PBC indebtedness.

Fiscal Years	City Long-Term Indebtedness Principal	City Long-Term Indebtedness Interest	PBC Indebtedness	Total
	(In Thousands)			
2008	$ 515,505	$ 965,703	$ 89,283	$ 1,570,491
2009	1,592,845	1,552,816	60,739	3,206,400
2010	1,596,979	1,483,768	72,194	3,152,941
2011	1,818,875	1,404,650	65,699	3,289,224
2012 through 2147	28,649,768	11,991,326	1,360,270	42,001,364
Total	$34,173,972	$17,398,263	$1,648,185	$53,220,420

Certain Debt Ratios

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

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

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

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

Indebtedness of the City and Related Issuers

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

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

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

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

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

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

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

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

Certain Provisions for the Payment of City Indebtedness

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

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

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

Limitations on the City's Authority to Contract Indebtedness

The Financial Emergency Act imposes various limitations on the issuance of City indebtedness. No TANs may be issued by the City which would cause the principal amount of such issue of TANs to exceed

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

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

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

The following table sets forth the calculation of the debt-incurring power of the City as of November 30, 2007.

(In Thousands)

Total City Debt-Incurring Power under General Debt Limit		$60,102,403
Gross Debt-Funded	$33,871,162	
Less: Excluded Debt	(345,872)	
	33,525,290	
Less: Appropriations for Payment of Principal	(421,360)	
	33,103,931	
Contracts and Other Liabilities, Net of Prior Financings Thereof	8,350,479	
Total Indebtedness		41,454,410
City Debt-Incurring Power		$18,647,994

Note: Numbers may not add due to rounding.

Federal Bankruptcy Code

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

Public Benefit Corporation Indebtedness

City Financial Commitments to PBCs

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

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

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

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

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

Certain PBCs are further described below.

New York City Educational Construction Fund

As of September 30, 2007, $123.2 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF's leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

New York State Housing Finance Agency

As of September 30, 2007, $46.38 million principal amount of HFA refunding bonds relating to hospital and family care facilities leased to the City was outstanding. HFA does not receive third party revenues to offset the City's capital lease obligations with respect to these bonds. Lease payments, which are made by the City seven months in advance of payment dates of the bonds, are intended to cover development and construction costs, including debt service, of each facility plus a share of HFA's overhead and administrative expenses.

Dormitory Authority of the State of New York

As of September 30, 2007, $615.2 million principal amount and $827.9 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities and health facilities, respectively, in the City were outstanding. The court facilities and health facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

City University Construction Fund

As of September 30, 2007, approximately $467.7 million principal amount of DASNY bonds, relating to Community College facilities, subject to capital lease arrangements was outstanding. The City and the State are each responsible for approximately one-half of the CUCF's annual rental payments to DASNY for Community College facilities which are applied to the payment of debt service on the DASNY's bonds issued to finance the leased projects plus related overhead and administrative expenses of DASNY.

New York State Urban Development Corporation

As of September 30, 2007, $36.41 million principal amount of UDC bonds subject to executed or proposed lease arrangements was outstanding. The City leases schools and certain other facilities from UDC.

SECTION IX: OTHER INFORMATION

Pension Systems

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

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

For fiscal year 2007, the City's pension contributions for the five major actuarial pension systems, made on a statutory basis based on actuarial valuations performed as of June 30, 2005, plus the other pension expenditures were approximately $4.850 billion. Expense projections for fiscal years 2008 through 2011 are estimated at $5.728 billion, $6.265 billion, $6.318 billion and $6.404 billion, respectively. These projections are based on actuarial valuation estimates and reflect funding assumptions formulated by the Chief Actuary. The projections incorporate the impact of actual pension fund investment performance since 2000 which include significant losses in fiscal years 2001 through 2003, respectively, followed by investment gains in fiscal years 2004 through 2007. The assumed rate of return on pension investments is eight percent as governed by State law. The costs or incremental benefit of the return on pension investments in any given year is phased in using six-year averaging periods under the Chief Actuary's funding assumptions.

An independent actuarial firm issued a report in November 2006 on its statutory audit of the actuarial assumptions and methods governing City pension contributions. The Chief Actuary of the City is reviewing the report and may recommend revised funding assumptions to the trustees of the City's pension funds. Although the report is advisory and not binding, it calls for changing certain actuarial assumptions such as life expectancy which, with other recommendations, could result in net increased annual pension contributions of up to $500 million. The Financial Plan includes increased pension funding of $200 million in each of fiscal years 2009 through 2011 to address this issue.

The City funds its pensions consistent with the requirements of GASB, which has resulted in the City's pensions being 99.7% funded. In the last three comprehensive annual financial reports for each of the pension systems, the Chief Actuary has included two alternative measures of funded status, along with the required calculation, for the purpose of providing additional insight on the funded status of each plan. One of the alternative measures utilizes different assumptions including a conservative investment rate based on government securities rather than the actuarial assumed rate of 8%, which results in increased liability of approximately $42 billion as of June 30, 2004. The second of the two alternative measures results in approximately the same funded status as the required calculation.

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

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

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

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

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

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

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

Litigation

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

Taxes

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

Miscellaneous

1. In March 2005, the United Federation of Teachers, the union that represents the teachers in the New York City public school system, commenced an action and an Article 78 proceeding in New York Supreme Court, New York County, against the Teachers' System and the City alleging that, due to certain miscalculations relating, *inter alia*, to the interest earned on member contributions to a retirement plan known as the 20 Year Pension Plan, teachers who retired under this plan do not receive the entire amount of retirement benefits to which they are entitled. Plaintiffs sought declaratory relief and an award to 20 Year Pension Plan members of not less than $800 million to equal the difference between what plaintiffs allege they are entitled to under the 20 Year Pension Plan and the amount actually received. The City moved to dismiss the Article 78 proceeding and submitted an answer in the action. By decision dated October 17, 2006, the Court denied the City's motion to dismiss the Article 78 proceeding but granted the City's motion to dismiss the petitioners' contract claims. In October of 2007, the action and Article 78 proceeding were resolved by agreement of the parties. The parties agreed to resolve the dispute by supplementing the retirement benefits for the affected group by a total of $160 million over the

appropriate actuarially calculated period, which is normally approximately ten years. The settlement is subject to the approval of the Court.

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

3. Numerous proceedings alleging respiratory or other injuries from alleged exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City and other entities involved in the post-September 11 rescue and recovery process. Plaintiffs include, among others, Department of Sanitation employees, firefighters, police officers, construction workers and building clean-up workers. Several summonses with notices filed on behalf of a total of approximately 7,000 plaintiffs and alleging similar causes of action have also been filed naming the City and dozens of other defendants. However, only approximately 4,400 of these plaintiffs have to date served complaints on the City. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to federal court pursuant to the Air Transportation and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (2001), which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions on immunity grounds was denied on October 17, 2006. The City is appealing the denial of its immunity motion. Oral argument before the United States Court of Appeals for the Second Circuit occurred on October 1, 2007. Plaintiffs' motion to dismiss the appeal was heard at the same time. On December 4, 2006, the court confirmed federal jurisdiction in the action brought on behalf of building clean-up workers. A not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the "WTC Insurance Company") has been formed to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of $999,900,000. Most of the claims set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims.

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

2006. The action, however, is proceeding against other defendants, and plaintiff intends to appeal the dismissal of its claim against the City when discovery is complete or at the conclusion of the case.

4. One hundred ninety-one notices of claim were filed and of these, 179 actions have been commenced in federal court against the City in connection with the Staten Island Ferry accident on October 15, 2003. The notices and actions seek damages exceeding $3 billion for various claims including personal injury, wrongful death and emotional distress. On December 1, 2003 the City filed a limitation complaint in federal court pursuant to federal maritime law seeking to limit its potential liability to approximately $14 million, the value of the ferry involved in the accident. On August 3, 2005, plaintiffs brought a motion to dismiss the limitation complaint. On February 26, 2007, the City's limitation complaint was decided against the City and an appeal by the City is pending. The appeal is presently scheduled to be heard on January 23, 2008.

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

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

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"), 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 applicable bond proceedings upon the approval of counsel other than such firm. For purposes of the preceding sentence, references to the Bonds shall include the City's General Obligation Bonds, Fiscal

2008 Series D, Subseries D-3 and D-4, that were issued on December 4, 2007, which will be considered part of the same issue of bonds with the Fiscal 2008 Series G and Series H Bonds for federal income tax purposes.

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.

The excess, if any, of the amount payable at maturity of any maturity of the Bonds purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for federal, State and City income tax purposes to the same extent as interest on the Bonds. In general, the issue price of a maturity of the Bonds is the first price at which a substantial amount of Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bond for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such substantially identical Bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

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

Interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest on the Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Bonds 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. See "Future Tax Developments" below.

Future Tax Developments

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 interest on any of the Bonds 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 November 5, 2007, the United States Supreme Court heard oral argument in connection with its review of 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.

Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or State tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

Ratings

The Bonds have been rated "Aa3" by Moody's Investors Service ("Moody's"), "AA" by Standard & Poor's Ratings Services ("Standard & Poor's") and "AA–" by Fitch, Inc. ("Fitch"). The ratings on the Insured Bonds will be based on an insurance policy to be issued by Assured Guaranty. The City expects the Insured Bonds to be rated "Aaa," "AAA" and "AAA" by Moody's, Standard & Poor's and Fitch, respectively. 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 F hereto for the matters covered by such opinion and the scope of Bond Counsel's engagement in relation to the issuance of the Bonds. Such firm is also acting as counsel for and against the City in certain other unrelated matters.

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

Fulbright & Jaworski L.L.P., New York, New York, Special Disclosure 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.

Verification

The accuracy of (i) the mathematical computations of the adequacy of the maturing principal of and interest earned on the government obligations to be held in escrow to pay principal, interest not otherwise paid and redemption premiums, if any, on the bonds identified in Appendix C hereof and (ii) certain mathematical computations supporting the conclusion that the Bonds are not "arbitrage bonds" under the Code, will be verified by a verification agent selected by the City.

Underwriting

The Bonds are being purchased for reoffering by the Underwriters for whom Morgan Stanley & Co. Incorporated, Bear, Stearns & Co. Inc., Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Bonds shall be $3,407,901.83.

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

Continuing Disclosure Undertaking

As authorized by the Act, and to the extent that (i) Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "1934 Act") requires the underwriters (as defined in the Rule) of securities offered hereby (under this caption, if subject to the Rule, the "securities") to determine, as a condition to purchasing the securities, that the City will covenant to the effect of the Undertaking, and (ii) the Rule as so applied is authorized by a federal law that as so construed is within the powers of Congress, the City agrees with the record and beneficial owners from time to time of the outstanding securities (under this caption, if subject to the Rule, "Bondholders") to provide:

(a) within 185 days after the end of each fiscal year, to each nationally recognized municipal securities information repository and to any New York State information depository, core financial information and operating data for the prior fiscal year, including (i) the City's audited general purpose financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the City's revenues, expenditures, financial operations and indebtedness generally of the type found herein in Sections IV, V and VIII and under the captions "2003-2007 Summary of Operations" in Section VI and "Pension Systems" in Section IX; and

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

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

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

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

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

(6) adverse tax opinions or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

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

(11) rating changes; and

(12) failure of the City to comply with clause (a) above.

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

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

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

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

At the date hereof, there is no New York State information depository and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; and Interactive Data Pricing and Reference Data, Inc., 100 William Street, New York, New York 10038, Attn: NRMSIR. Filings may be made either directly with such repositories or through a central information repository approved in accordance with Rule 15c2-12.

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

Any amendment to the Undertaking may only take effect if:

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

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

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

Financial Advisors

The City has retained Public Resources Advisory Group and A.C. Advisory, Inc. to act as financial advisors with respect to the City's financing program and the issuance of the Bonds.

Financial Statements

The City's financial statements for the fiscal years ended June 30, 2007 and 2006 are included herein as Appendix B. 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, 2007 and 2006, which is a matter of public record, is included 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.

Further Information

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

Copies of the most recent financial plan submitted to the Control Board are available upon written request to the Office of Management and Budget, Attn: Director of Investor Relations, 75 Park Place, New York, New York 10007, and copies of the published Comprehensive Annual Financial Reports of the Comptroller are available upon written request to the Office of the Comptroller, Deputy Comptroller for Public Finance, Fifth Floor, Room 517, Municipal Building, One Centre Street, New York, New York 10007. Financial plans are prepared quarterly, and the Comprehensive Annual Financial Report of the Comptroller is typically prepared at the end of October of each year.

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

THE CITY OF NEW YORK

[THIS PAGE INTENTIONALLY LEFT BLANK]

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

New York City Economy

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

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

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

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1995 to 2005 (the most recent year for which City personal income data are available). From 1995 to 2005, personal income in the City averaged 4.5% growth compared to 5.3% for the nation. After increasing by 7.7% in 2004, total personal income increased by 4.2% in 2005. The following table sets forth information regarding personal income in the City from 1995 to 2005.

PERSONAL INCOME(1)

Year	Total NYC Personal Income ($ billions)	Per Capita Personal Income NYC	Per Capita Personal Income U.S.	NYC as a Percent of U.S.
1995	$221.2	$28,981	$23,078	125.6%
1996	234.1	30,407	24,176	125.8
1997	245.5	31,579	25,334	124.7
1998	262.0	33,341	26,880	124.0
1999	275.4	34,658	27,933	124.1
2000	296.0	36,910	29,844	123.7
2001	302.7	37,481	30,558	122.7
2002	299.8	36,987	30,792	120.1
2003	306.1	37,592	31,456	119.5
2004	329.6	40,300	33,075	121.8
2005	343.4	41,803	34,687	120.5

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

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

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1992 through 2000, the City experienced significant private sector job growth with the addition of approximately 452,700 new private sector jobs (an average annual growth rate of approximately 2.0%). Between 2000 and 2003 the City lost 174,300 private sector jobs. The City recovered 134,500 private sector jobs by the end of 2006.

As of October 2007, total employment in the City was 3,753,200 compared to 3,696,200 in October 2006, an increase of approximately 1.5%.

The table below shows the distribution of employment from 1996 to 2006.

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Goods Producing Sectors											
Construction	91	94	101	113	121	122	116	113	112	113	118
Manufacturing	201	201	196	187	177	156	139	127	121	114	106
Service Producing Sectors											
Trade Transportation and Utilities	533	538	542	556	570	557	537	534	539	547	557
Information	159	163	167	173	187	200	177	164	160	163	165
Financial Activities	464	468	477	481	489	474	445	434	435	445	458
Professional and Business Services	468	494	525	553	587	582	550	537	541	555	571
Education and Health Services	566	576	589	604	615	627	646	658	665	679	695
Leisure and Hospitality	217	228	236	244	257	260	255	260	270	277	283
Other Services	125	129	134	142	147	149	150	149	151	153	154
Total Private	2,822	2,889	2,967	3,052	3,149	3,127	3,015	2,975	2,995	3,047	3,109
Government	545	551	560	567	569	562	566	557	554	556	555
Total	3,367	3,440	3,527	3,619	3,718	3,689	3,581	3,531	3,549	3,602	3,664

Note: Totals may not add due to rounding.

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

Sectoral Distribution of Employment and Earnings

In 2005, the City's service producing sectors provided approximately 2.8 million jobs and accounted for approximately 78% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2005, the employment share for the financial activities and professional and business services sectors was approximately 28% while the earnings share for that same sector was approximately 49%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2005. Due to the earnings distribution in the City, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

The City's and the nation's employment and earnings by sector for 2005 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2005(1)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.5%	0.3%	1.2%
Construction	3.1	5.5	2.9	6.5
Manufacturing	3.2	10.6	2.7	12.8
Total Goods Producing	6.3	16.6	5.9	20.4
Service Producing Sectors				
Trade, Transportation and Utilities	15.2	19.4	9.1	16.0
Information	4.5	2.3	7.5	3.6
Financial Activities	12.4	6.1	28.7	10.1
Professional and Business Services	15.4	12.6	20.0	15.4
Education and Health Services	18.8	13.0	10.5	10.7
Leisure & Hospitality	7.7	9.6	3.8	3.8
Other Services	4.3	4.0	2.5	2.9
Total Service Producing	78.3	67.0	82.0	62.6
Total Private Sector	84.6	83.7	89.2	83.4
Government(3)	15.4	16.3	10.8	16.6

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

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

(2) Includes the sum of wage and salary disbursements, other labor income and proprietor's income. The latest information available is 2005 data.

(3) Excludes military establishments.

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

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

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

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

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

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

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

(3) Excludes military establishments.

Unemployment

As of October 2007, the total unemployment rate in the City was 5.3% compared to 4.3% in October 2006. The annual unemployment rate of the City's resident labor force is shown in the following table.

ANNUAL UNEMPLOYMENT RATE(1)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
New York City	8.8%	9.4%	7.9%	6.9%	5.8%	6.1%	8.0%	8.3%	7.0%	5.7%	4.9%
United States	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%

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

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

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

Public Assistance

As of October 2007, the number of persons receiving public assistance in the City was 355,510 compared to 386,992 in October 2006. The following table sets forth the number of persons receiving public assistance in the City.

PUBLIC ASSISTANCE

(Annual Averages in Thousands)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1,109.5	1,003.3	873.6	760.1	668.2	573.0	492.8	434.0	424.7	434.8	416.9	393.1

Taxable Sales

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. The sales tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. The total taxable sales volume has grown steadily since 1995 with a growth rate averaging over 4%. It is projected that total taxable sales will increase in 2006. The following table illustrates the volume of sales and purchases subject to the sales tax from 1995 to 2005.

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

Year(1)	Retail(2)	Utility & Communication Sales(3)	Services(4)	Manufacturing	Other(5)	All Total
1995	$27.6	$ 9.0	$10.7	$3.3	$ 8.8	$59.4
1996	29.1	9.8	11.4	3.6	9.3	63.2
1997	31.5	9.8	13.5	3.9	8.8	67.5
1998	33.4	9.8	14.8	4.2	9.7	71.9
1999	35.0	9.6	16.1	4.2	9.6	74.5
2000(6)	29.9	9.8	19.4	2.1	15.4	76.6
2001(6)	25.1	11.3	21.4	2.2	19.0	79.1
2002(6)	25.6	11.9	20.7	2.0	15.2	75.5
2003(6)	26.1	11.4	21.0	1.9	14.8	75.2
2004(6)	32.3	11.6	21.7	1.9	14.8	82.3
2005(6)	36.5	12.0	24.1	2.1	16.2	90.9

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

(1) For 1993 through 1999, the yearly data is for the period from September 1 of the year prior to the listed year through August 31 of the listed year. For 2000 through 2002 the yearly data is for the period from March 1 of the year prior to the listed year through the last day of February of the listed year.

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

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

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

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

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

Population

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

POPULATION

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

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

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

DISTRIBUTION OF POPULATION BY AGE

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

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

Housing

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

HOUSING INVENTORY
(In Thousands)

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

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

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

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

LARGEST REAL ESTATE TAXPAYERS

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

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

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

FINANCIAL STATEMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

Index

Deloitte.

Deloitte & Touche LLP

Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The People of The City of New York:

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

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

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

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

Deloitte & Touche LLP

October 30, 2007

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

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

Fund financial statements

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

Governmental funds

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

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

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

Fiduciary funds

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

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

Notes to financial statements

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

Financial Reporting Entity

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

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

Blended Component Units

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

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

Discretely Presented Component Units

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

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

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

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

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

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

Financial Analysis of the Government-wide Financial statements

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

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

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

Key elements of these changes are as follows:

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

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

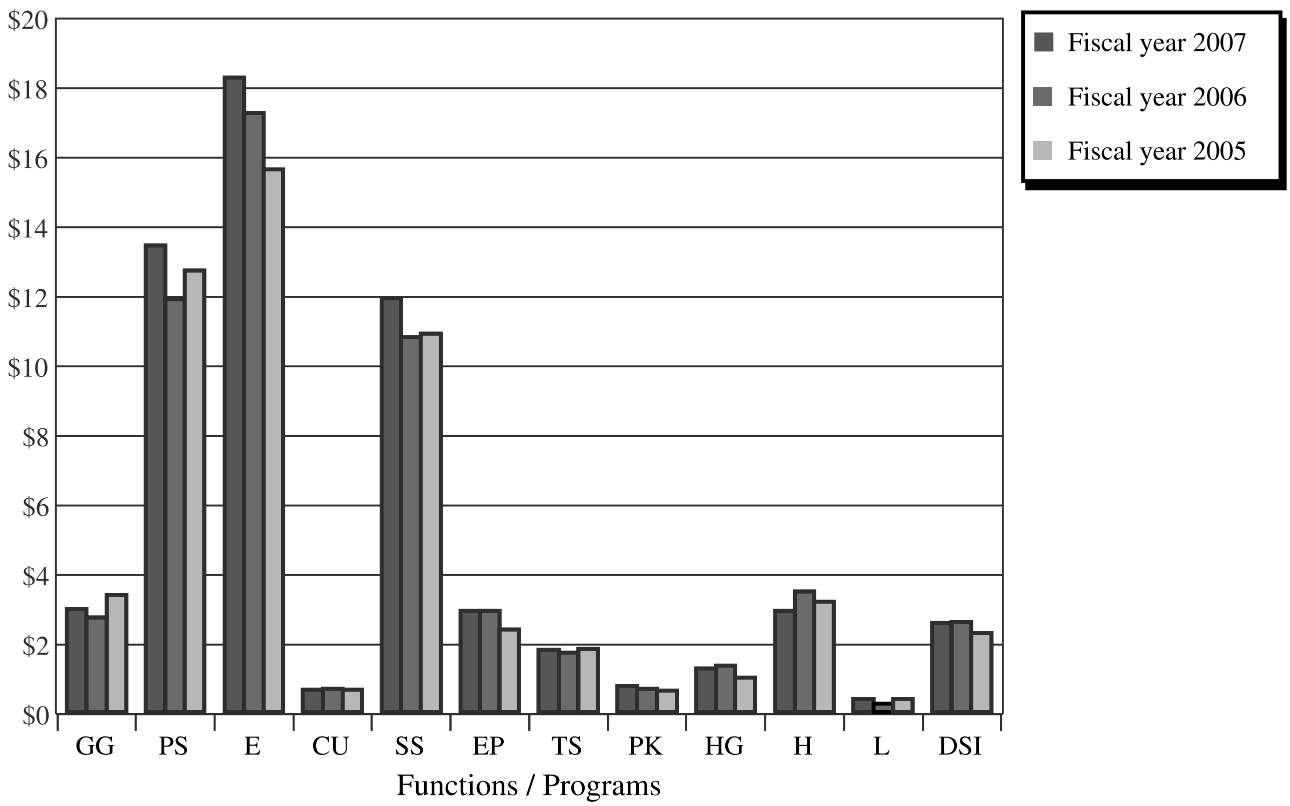
GASB45 establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.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

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

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

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

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



(1) Expenses exclude GASB45.

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

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

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

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

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

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

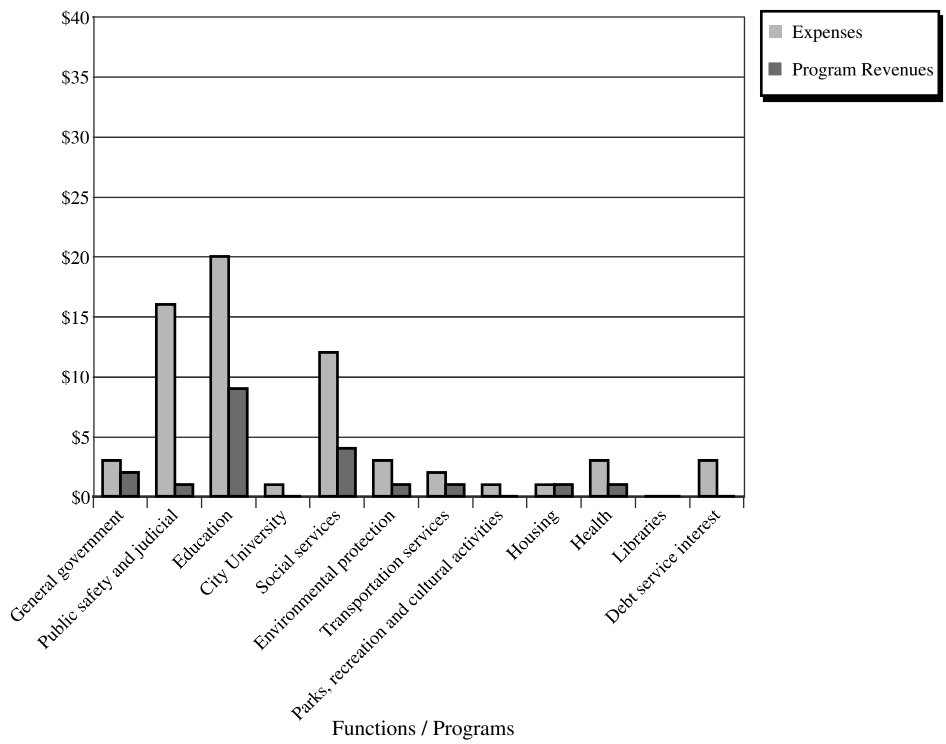
- An increase in the real estate tax resulting primarily from the continuing increase in billable assessed value.
- An increase in taxable sales due to increased employment (the addition of 52,000 jobs) and an increase in wage rate. In addition, an increase in sales tax from construction related taxable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

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

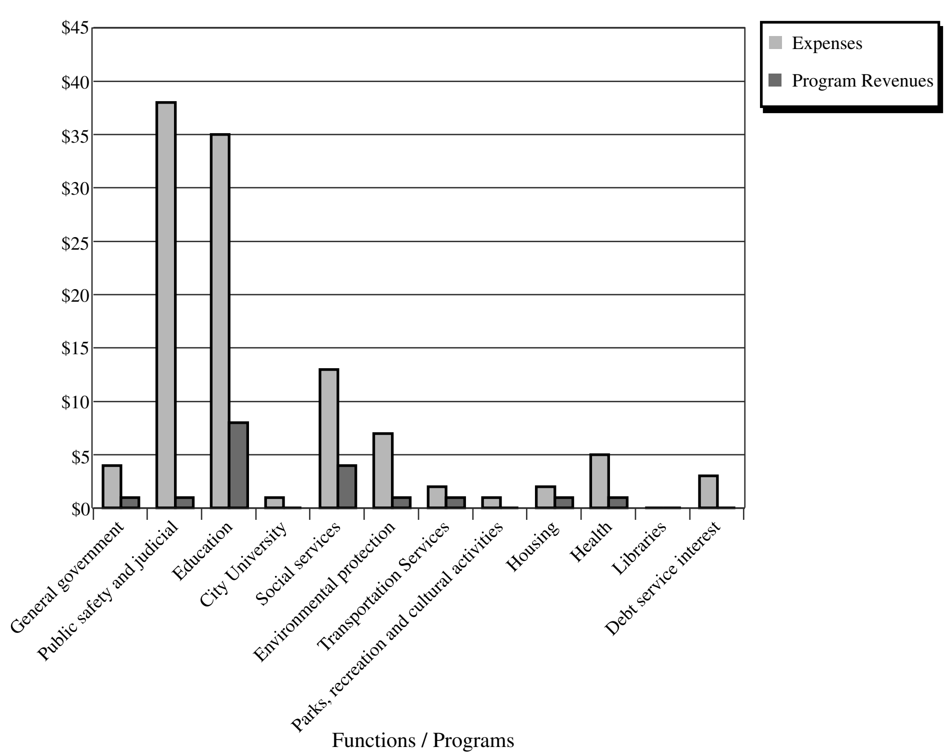
- Recognition of $53.5 billion of unfunded retirement health and related benefits earned by employees in fiscal year 2006 and prior years as part of the City's implementation of GASB45. These costs disproportionately impact uniform employees whose average length of retirement is longer than the general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

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

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



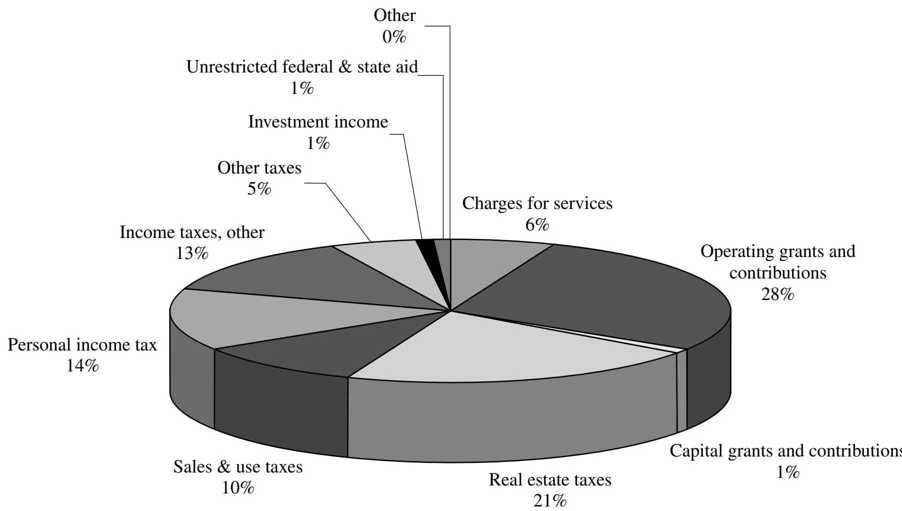
Expenses and Program Revenues — Governmental Activities(1)
June 30, 2006
(in billions)



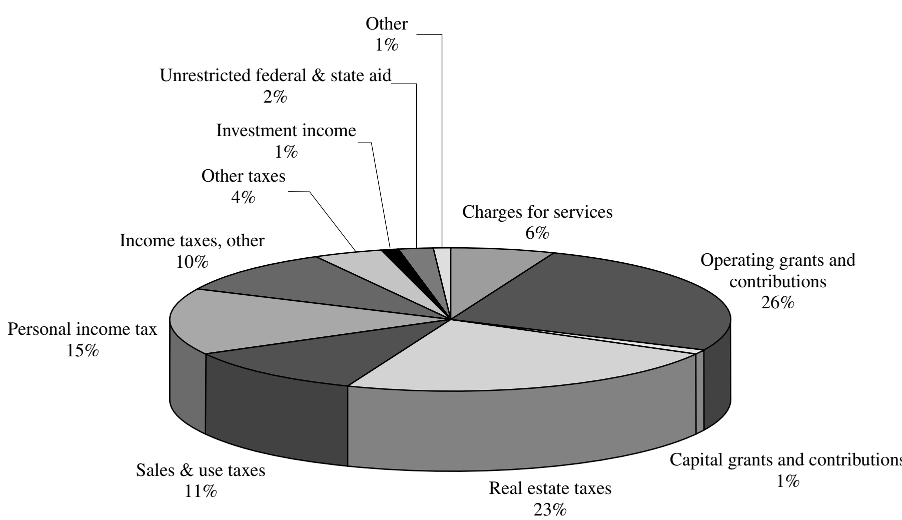
(1) Expenses include GASB45.

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

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



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



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

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

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

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

Financial Analysis of the Governmental Funds

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

Governmental Funds

	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total
			(in thousands)			
Fund balances (deficit), June 30, 2005	$ 417,841	$(1,460,885)	$ 2,088,280	$ 2,973,638	$ 1,829	$ 4,020,703
Revenues	53,900,778	2,155,522	27,350	2,550,523	(1,717,466)	56,916,707
Expenditures	(49,508,064)	(6,594,587)	(3,160,474)	(3,691,821)	1,715,637	(61,239,309)
Other financing sources (uses)	(4,388,072)	3,696,009	4,288,516	(10,065)	—	3,586,388
Fund balances (deficit), June 30, 2006	$ 422,483	$(2,203,941)	$ 3,243,672	$ 1,822,275	$ —	$ 3,284,489
Revenues	58,710,797	2,797,692	22,148	3,255,673	(1,861,580)	62,924,730
Expenditures	(53,107,582)	(7,496,388)	(3,919,643)	(3,929,254)	1,861,580	(66,591,287)
Other financing sources (uses)	(5,598,400)	3,573,719	4,025,819	4,546,550	—	6,547,688
Fund balances (deficit), June 30, 2007	$ 427,298	$(3,328,918)	$ 3,371,996	$ 5,695,244	$ —	$ 6,165,620

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies and other payments that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of $4.670 billion and $3.756 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2007 and 2006, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of $5 million in both fiscal years 2007 and 2006, which resulted in an increase in fund balance by this amount.

The General Debt Service Fund receives transfers (discretionary and other) from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2007, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling $3.315 billion in fiscal year 2007. Similar transfers in fiscal year 2006 of $3.205 billion also primarily account for the General Debt Service Fund fund balance at June 30, 2006.

The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resource is obtained from the issuance of City and TFA debt. Capital-related expenditures are first paid from the General Fund, which is reimbursed for these expenditures by the New York City Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, and other revenues and financing sources, the Capital Projects Fund will have a deficit. The deficit fund balances at June 30, 2007 and 2006, represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

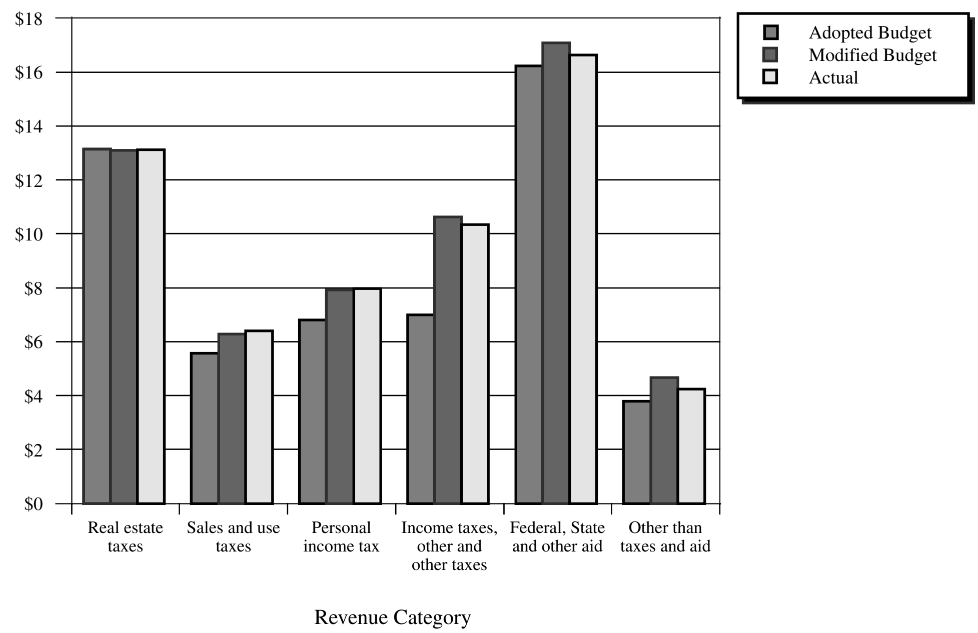
General Fund Budgetary Highlights

The following information is presented to assist the reader in comparing the original budget (Adopted Budget), and the final amended budget (Modified Budget) and the actual results compared with these budgeted amounts. The Adopted Budget can be modified subsequent to the end of the fiscal year.

General Fund Revenues

The following charts and tables summarize actual revenues by category for fiscal years 2007 and 2006 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

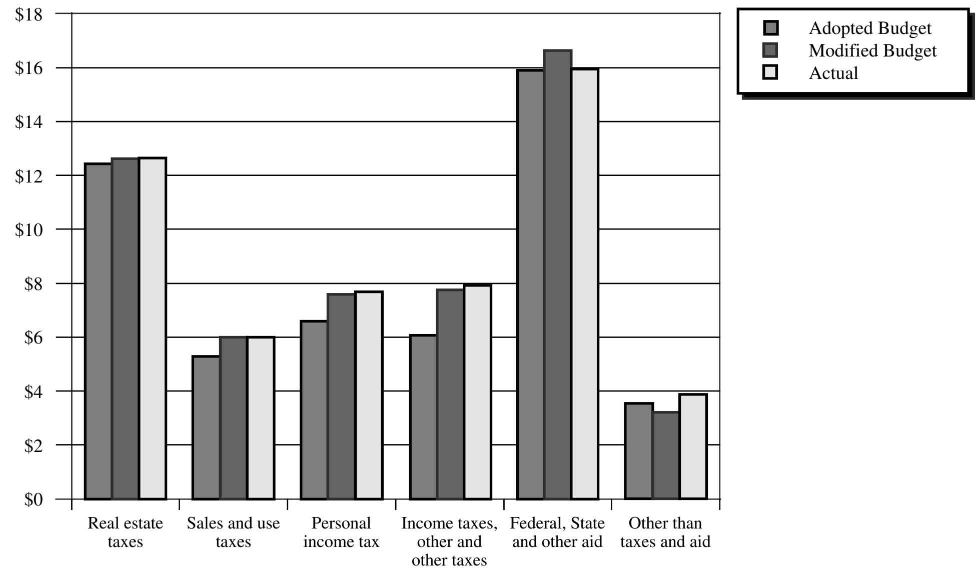
General Fund Revenues
Fiscal Year 2007
(in billions)



General Fund Revenues
Fiscal Year 2007
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	$13,140	$13,098	$13,123
Sales and use taxes	5,580	6,281	6,412
Personal income tax	6,812	7,930	7,963
Income taxes, other	4,584	6,645	7,451
Other taxes	2,405	3,981	2,892
Taxes (net of refunds)	32,521	37,935	37,841
Federal, State and other aid:			
Categorical	15,884	17,041	16,591
Unrestricted	340	33	35
Federal, State and other aid	16,224	17,074	16,626
Other than taxes and aid:			
Charges for services	1,820	1,914	1,921
Other revenues	1,980	2,743	2,323
Other than taxes and aid	3,800	4,657	4,244
Total revenues	$52,545	$59,666	$58,711

General Fund Revenues
Fiscal Year 2006
(in billions)

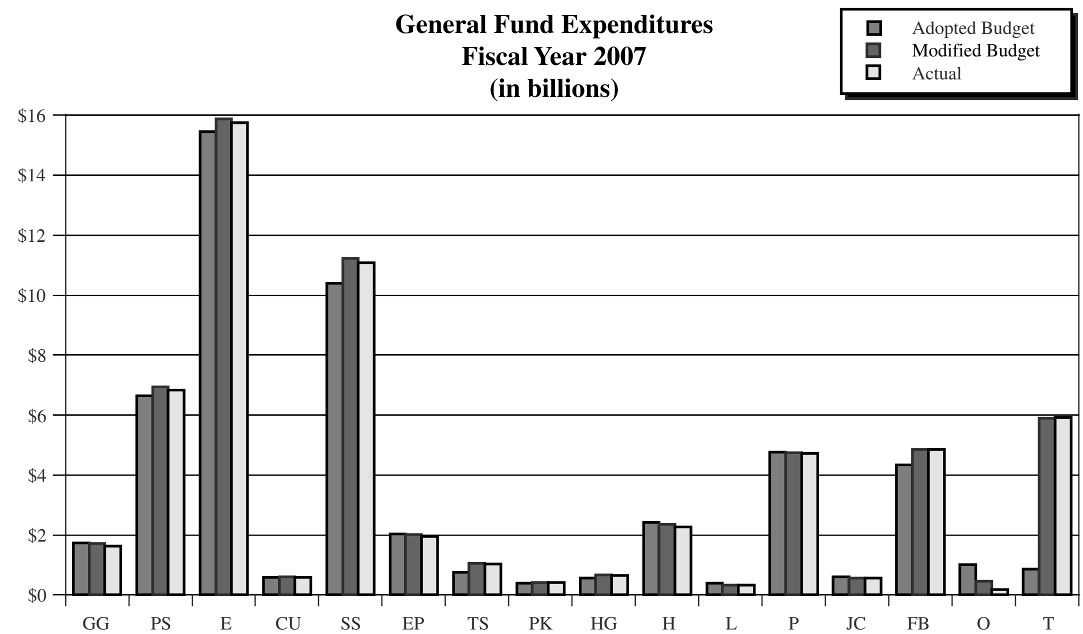


General Fund Revenues
Fiscal Year 2006
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	$12,438	$12,612	$12,636
Sales and use taxes	5,282	5,999	5,987
Personal income tax	6,586	7,589	7,676
Income taxes, other	3,867	4,603	5,532
Other taxes	2,210	3,141	2,381
Taxes (net of refunds)	30,383	33,944	34,212
Federal, State and other aid:			
Categorical	15,340	16,135	15,437
Unrestricted	562	489	494
Federal, State and other aid	15,902	16,624	15,931
Other than taxes and aid:			
Charges for services	1,706	1,786	1,837
Other revenues	1,783	2,334	1,921
Transfers from Nonmajor Debt Service Fund	48	76	103
Other than taxes and aid	3,537	4,196	3,861
Total revenues	$49,822	$54,764	$54,004

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2007 and 2006 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

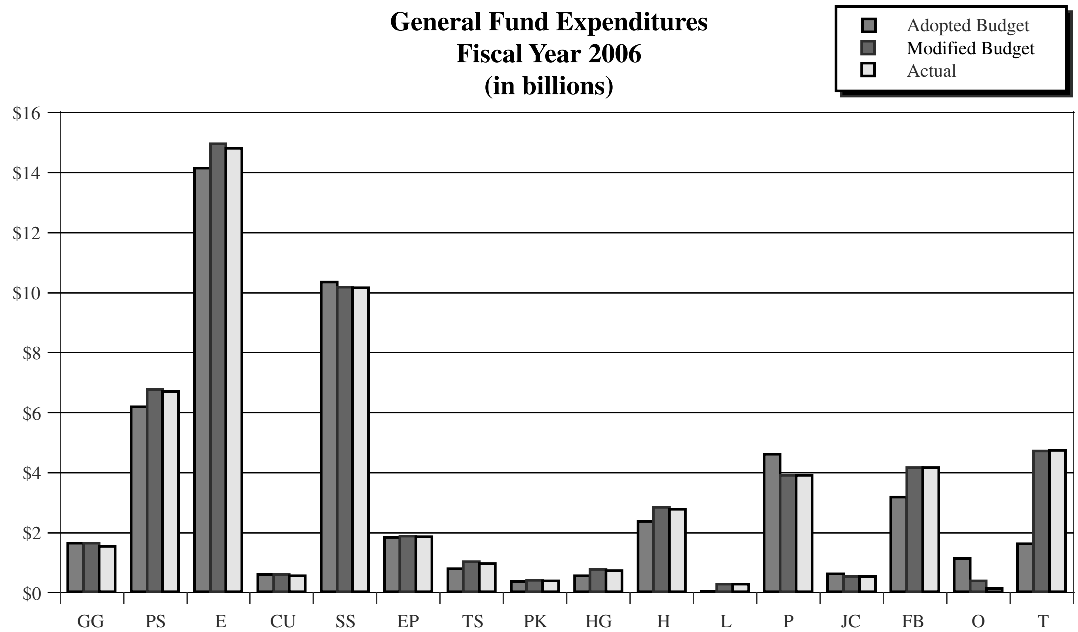


General Fund Expenditures

Fiscal Year 2007

(in millions)

	Adopted Budget	Modified Budget	Actual
General government (GG)	$ 1,731	$ 1,704	$ 1,620
Public safety and judicial (PS)	6,652	6,932	6,842
Education (E)	15,446	15,876	15,748
City University (CU)	574	601	577
Social services (SS)	10,388	11,227	11,078
Environmental protection (EP)	2,027	2,005	1,943
Transportation services (TS)	749	1,060	1,021
Parks, recreation and cultural activities (PK)	392	417	411
Housing (HG)	560	666	641
Health, including HHC (H)	2,413	2,346	2,273
Libraries (L)	39	331	330
Pensions (P)	4,755	4,737	4,726
Judgments and claims (JC)	602	564	564
Fringe benefits and other benefit payments (FB)	4,337	4,846	4,846
Other (O)	1,015	464	178
Transfers and other payments for debt service (T)	865	5,890	5,908
Total expenditures	$52,545	$59,666	$58,706



General Fund Expenditures

Fiscal Year 2006

(in millions)

	Adopted Budget	Modified Budget	Actual
General government (GG)	$ 1,618	$ 1,620	$ 1,530
Public safety and judicial (PS)	6,167	6,738	6,694
Education (E)	14,136	14,950	14,794
City University (CU)	580	588	550
Social services (SS)	10,332	10,164	10,148
Environmental protection (EP)	1,826	1,857	1,836
Transportation services (TS)	765	1,017	954
Parks, recreation and cultural activities (PK)	354	385	377
Housing (HG)	550	754	721
Health, including HHC (H)	2,363	2,820	2,758
Libraries (L)	33	261	261
Pensions (P)	4,599	3,882	3,879
Judgments and claims (JC)	601	517	517
Fringe benefits and other benefit payments (FB)	3,172	4,154	4,154
Other (O)	1,126	360	106
Transfers and other payments for debt service (T)	1,600	4,697	4,720
Total expenditures	$49,822	$54,764	$53,999

General Fund Surplus

The City had General Fund operating surpluses of $4.670 billion, $3.756 billion and $3.534 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2007, 2006 and 2005, respectively. For the fiscal years 2007, 2006 and 2005, the General Fund surplus was $5 million after expenditures and transfers (discretionary and other).

The expenditures and transfers (discretionary and other) made by the City after the adoption of its fiscal years 2007, 2006, and 2005 budgets follow:

	2007	2006	2005
		(in millions)	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	$ 153	$ 98	$ 341
Discretionary transfers to the General Debt Service Fund	3,160	3,106	1,507
Net equity contribution in bond refunding that accrued to future years debt service savings	2	1	1
Debt service prepayments for lease purchase debt service due in the fiscal year	165	74	88
Grant to TFA	546	—	947
Advance cash subsidies to the Public Library system	273	224	225
Advance cash subsidies to the TA and Metropolitan Transportation Authority (MTA)	275	248	248
Advance cash subsidies to the HHC	91	—	172
Total expenditures and transfers (discretionary and other)	4,665	3,751	3,529
Reported operating surplus	5	5	5
Total operating surplus	$4,670	$3,756	$3,534

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2007 Adopted Budget:

	2007
Additional resources:	(in millions)
Greater than expected personal income tax collections	$1,133
Greater than expected general corporation tax collections	1,219
Greater than expected mortgage tax collections	688
Greater than expected sales tax collections	117
Greater than expected banking corporation tax collections	762
Greater than expected unincorporated business tax collections	444
Greater than expected property transfer tax collections	855
Greater than expected commercial rent tax collections	26
Greater than expected all other tax collections	96
Federal categorical aid	408
State categorical aid	316
Greater than expected charges for services	101
Greater than expected interest income	160
Greater than expected non-grant revenues	70
Greater than expected revenues from licenses, permits, privileges, and franchises	76
Greater than expected fines and forfeitures	14
Lower than expected all other general administrative OTPS spending	630
Lower than expected supplies and materials costs	83
Lower than expected debt service costs	315
Lower than expected all other health insurance expenditures	204
Lower than expected public assistance spending	179
Greater than expected asset sales	12
Lower than expected judgments & claims expenditures	103
Lower than expected fuel and energy costs	103
Lower than expected all other social services spending (net of Medicaid and Public Assistance)	35
Greater than expected all other miscellaneous revenues	81
Lower than expected pension costs	40
General Reserve	300
All other net underspending and revenues above budget	22
Total	8,592
Enabled the City to provide for:	
Higher than expected personal services spending (net of pension, health insurance and overtime)	150
Additional contribution to the Retiree Health Benefits Trust Fund	500
Higher than expected spending for contractual services	667
Higher than expected overtime costs	296
Higher than expected Medicaid spending (including HHC)	289
Higher than expected all other fixed and miscellaneous charges	84
Higher than expected property and equipment costs	99
Higher than expected provisions for disallowance reserve	88
Lower than expected unrestricted Federal and State aid	305
Additional prepayment of certain debt service costs and subsidies due in fiscal years 2008-2010	4,663
Retirement of capital debt	1,254
Additional pay-as-you-go capital spending	100
Higher than expected payments to the HHC	55
Lower than expected real estate tax collections	17
Higher than expected payments to the libraries	20
Total	8,587
Reported Surplus	$ 5

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2006 Adopted Budget:

	2006
Additional resources:	(in millions)
Greater than expected personal income tax collections	$1,110
Greater than expected general corporation tax collections	832
Greater than expected mortgage tax collections	617
Greater than expected sales tax collections	294
Greater than expected banking corporation tax collections	428
Greater than expected unincorporated business tax collections	289
Greater than expected real estate tax collections	47
Greater than expected all other tax collections (net of projected audit revenue)	260
Federal categorical aid	135
State categorical aid	265
Greater than expected charges for services	131
Greater than expected revenues from licenses, permits, privileges, and franchises	39
Greater than expected fines and forfeitures	32
Greater than expected MAC proceeds	54
Greater than expected interest income	203
Greater than expected non-grant revenues	223
Lower than expected Medicaid spending	381
Lower than expected supplies and materials costs	93
Lower than expected all other general administrative OTPS spending	589
Lower than expected debt service costs	145
Lower than expected all other health insurance expenditures	130
Lower than expected public assistance spending	62
Lower than expected judgments and claims expenditures	104
Lower than expected pension costs	720
General Reserve	300
Total	7,483
Enabled the City to provide for:	
Higher than expected personal services spending (net of pension, health insurance and overtime)	237
Higher than expected spending for contractual services	667
Higher than expected overtime costs	314
Higher than expected all other fixed and miscellaneous charges	99
Higher than expected property and equipment costs	52
Higher than expected provisions for disallowance reserve	527
Higher than expected fuel and energy costs	50
Payment to the Retiree Health Benefits Trust Fund	1,000
Higher than expected all other social services spending (net of Medicaid and Public Assistance)	18
Higher than expected payments to the HHC (including Medicaid)	507
Additional prepayment of certain debt service costs and subsidies due in fiscal year 2007	3,751
Lower than expected unrestricted Federal and State aid	68
Lower than expected all other miscellaneous revenues	135
Lower than expected Federal and State revenue actions	50
All other net overspending and revenues below budget	3
Total	7,478
Reported Surplus	$ 5

Capital Assets

The City's investment in capital assets (net of accumulated depreciation), is detailed as follows:

	Governmental Activities		
	2007	2006	2005
		(in millions)	
Land*	$ 1,067	$ 968	$ 948
Buildings	20,205	19,319	19,006
Equipment	1,301	1,393	1,574
Infrastructure**	8,132	7,537	7,101
Construction work-in-progress*	3,626	2,954	2,054
Total	$34,331	$32,171	$30,683

* not depreciable

** Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, park land and improvements, and tunnels.

The net increase in the City's capital assets during fiscal year 2007 was $2.160 billion, a 6.7% increase. Capital assets additions in fiscal year 2007 were $6.140 billion, an increase of $1.158 billion from fiscal year 2006. Capital assets additions in the Education program totaling $1.312 billion and total new construction work-in-progress (the majority of which are in the Education program) totaling $2.644 billion accounted for 64% of the capital assets additions in fiscal year 2007.

The net increase in the City's capital assets during fiscal year 2006 was $1.488 billion, a 4.9% increase. Capital assets additions in fiscal year 2006 were $4.982 billion, a decrease of $470 million from fiscal year 2005. Capital assets additions in the Education program totaling $988 million and total new construction work-in-progress (the majority of which are in the Education program) totaling $2.359 billion accounted for 67% of the capital assets additions in fiscal year 2006.

Additional information on the City's capital assets can be found in Note D.2 of the financial statements.

Debt Administration

The City, through the Comptroller's Office of Public Finance, in conjunction with the Mayor's Office of Management and Budget, is charged with issuing debt to finance the implementation of the City's capital program. The following table summarizes the debt outstanding for New York City and City-related issuing entities at the end of fiscal years 2007, 2006 and 2005.

	New York City and City-Related Debt		
	2007	2006	2005
		(in millions)	
General Obligation Bonds[a]	$34,506	$35,844	$33,903
TFA Bonds	11,542	10,392	11,022
TFA Recovery Bonds	1,765	1,841	1,955
TFA BARBS	1,300	—	—
TSASC Bonds	1,317	1,334	1,283
IDA Bonds	102	104	106
STAR Bonds	2,368	2,470	2,552
FSC Bonds	337	387	460
HYIC Bonds	2,000	—	—
HYIC Notes	100	—	—
ECF Bonds	123	84	135
Total bonds and notes payable	55,460	52,456	51,416
Less treasury obligations	—	—	(39)
Net outstanding debt	$55,460	$52,456	$51,377

(a) Does not include capital contract liabilities.

General Obligation

On July 1, 2007, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled $39.5 billion (compared with $39.7 and $37.9 billion as of July 1, 2006 and 2005, respectively). The State Constitution provides that, with certain exceptions, the City may not contract indebtedness in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years. As of July 1, 2007, the City's 10% general limitation was $60 billion (compared with $53 and $47 billion as of July 1, 2006 and 2005 respectively). The City's remaining GO debt incurring power as of July 1, 2007, after providing for capital contract liabilities, totaled $20.6 billion.

As of June 30, 2007, the City's outstanding GO variable and fixed rate debt totaled $6.65 billion and $27.85 billion, respectively. During fiscal year 2007, the City's GO tax exempt daily and weekly variable rate debt averaged 3.59% and 3.6%, respectively. Of the $1.95 billion in GO bonds issued by the City in fiscal year 2007, a total of $1.13 billion was issued to refund certain outstanding bonds and a total of $820 million was issued for new money capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produced debt service savings of $97 thousand, $37.67 million and $12.03 million in fiscal years 2007, 2008 and 2009, respectively. The refundings will generate approximately $44.12 million in net present value savings throughout the life of the bonds.

A total of $70 million of the $1.95 billion GO bonds issued during fiscal year 2007 were issued as taxable debt. The taxable debt issued in fiscal year 2007 was sold on a competitive basis.

On June 5, 2007, Standard & Poor's (S&P) improved its rating on New York City General Obligation bonds from AA- to AA. On June 29, 2007, Fitch Ratings (Fitch) improved its rating on New York City General Obligation bonds from A+ to AA-. On July 18, 2007, Moody's Investors Service (Moody's) improved its rating on New York City General Obligation bonds from A1 to Aa3.

Short-term Financing

In fiscal year 2007, the City had no short-term borrowings.

TFA

The New York City Transitional Finance Authority (TFA) is a separate legal entity, created by the New York State Legislature in 1997 in order to ease the constraints imposed by the City's debt limit. TFA was originally authorized to issue up to $7.5 billion of debt. In fiscal year 2000, this authorization was increased by $4 billion, allowing TFA a total debt incurring capacity of $11.5 billion. On July 26, 2006, the debt incurring authorization was increased by $2 billion to a total of $13.5 billion. As of June 30, 2007, TFA had reached its debt limit and did not have the authority to issue new money bonds pursuant to this authorization.

In fiscal year 2007, TFA issued $2.89 billion of Bonds and Notes. Of the $2.89 billion, $1.4 billion of bonds and $600 million of Bond Anticipation Notes (BANs) were issued for new money capital purposes, $589 million of bonds was issued to redeem the BANs and a total of $300 million was issued to refund certain outstanding bonds. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds.

The refundings produce debt service savings of $128 thousand, $1.01 million and $12.6 million in fiscal years 2007, 2008 and 2009, respectively. The refundings will generate approximately $12.4 million in net present value savings throughout the life of the bonds.

In September, 2001, the New York State Legislature approved a special TFA authorization of $2.5 billion to fund capital and operating costs related to or arising from the events of September 11, 2001 (Recovery Bonds). The Legislature also authorized TFA to issue debt without limit as to principal amount, secured solely by state or federal aid received as a result of the disaster. To date, TFA issued $2 billion in Recovery Bonds pursuant to this authorization.

In fiscal year 2006, the New York State Legislature authorized TFA to issue bonds and notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's educational facilities capital plan and authorized the City to assign to TFA all or any portion of the state aid payable to the City or its school district pursuant to section 3602.6 of the New York State Education Law (State Building Aid) as security for the obligations. Pursuant to this authority, the Building Aid Revenue Bond (BARB) credit was created. The City assigned all the State Building Aid to the TFA. In fiscal year 2007, the City issued $1.3 billion in new money BARBs to finance a portion of the City's educational facilities capital plan. The BARBs are rated AA- by S&P, A1 by Moody's and A+ by Fitch.

As of June 30, 2007, the TFA's fixed rate debt outstanding, including Recovery bonds and Subordinate Lien bonds, totaled approximately $10.20 billion. This figure does not include $537 million of bonds legally defeased through the 2007 TFA prepayment.

As of June 30, 2007, the TFA's outstanding variable rate debt, which included $1.72 billion of TFA Recovery Bonds, totaled $3.10 billion. During fiscal year 2007 TFA's tax exempt daily and weekly variable rate debt averaged 3.59% and 3.60% respectively.

S&P maintained its rating on TFA Bonds at AAA. Moody's maintained its rating on TFA (senior lien) Bonds at Aa1 and maintained its rating on TFA (Subordinate Lien) Bonds at Aa2. Fitch maintained its rating on TFA Bonds at AA+.

TSASC

TSASC is a special purpose, bankruptcy-remote local development corporation created pursuant to the Not-for-Profit Corporation Law of the State of New York. TSASC is authorized to issue bonds to purchase from the City its future right, title and interest under a Master Settlement Agreement (the MSA) between participating cigarette manufacturers and 46 states, including the State of New York.

TSASC had no financing activity in fiscal year 2007. As of June 30, 2007, TSASC had approximately $1.32 billion of bonds outstanding.

As of June 30, 2007, TSASC's bonds are rated BBB by both S&P and Fitch.

Additional information on the City's long-term debt can be found in Note D.5. of the Basic Financial Statements.

Sales Tax Asset Receivable Corporation

In May, 2003, New York State statutorily committed $170 million of New York State Sales Tax receipts to the City in each fiscal year from 2004 through 2034. The Sales Tax Asset Receivable Corporation (STAR) was formed to securitize the payments and to use the proceeds to retire existing MAC debt, thereby expecting to save the City approximately $500 million per year for fiscal years 2004 through 2008.

As of June 30, 2007, STAR has $2.37 billion bonds outstanding.

Fiscal Year 2005 Securitization Corporation

In fiscal year 2005, $498.85 million of taxable bonds were issued by the Fiscal Year 2005 Securitization Corporation, a bankruptcy-remote local development corporation, established to restructure an escrow fund that was previously funded with general obligation bonds proceeds. This restructuring resulted in a net present value of $49.84 million saving to the City.

As of June 30, 2007, Fiscal Year 2005 Securitization Corporation has $337.12 million bonds outstanding.

Hudson Yards Infrastructure Corporation

In December, 2006, $2 billion of tax-exempt bonds were issued by the Hudson Yards Infrastructure Corporation (HYIC), a local development corporation established to provide financing for infrastructure improvements to facilitate economic development on Manhattan's far west side. Principal on the bonds will be repaid from revenues generated by the new development. To the extent that such revenues are not sufficient to cover interest payments, the City, subject to appropriation, has agreed to make interest support payments to HYIC.

As of June 30, 2007, Hudson Yards Infrastructure Corporation has $2.0 billion bonds and $100 million notes outstanding. The bonds are rated A3 by Moody's, A by S&P and A- by Fitch.

New York City Educational Construction Fund

In January, 2007, $51.34 million of tax-exempt bonds were issued by the New York City Educational Construction Fund (ECF), a public benefit corporation, established to facilitate the construction and improvement of City elementary and secondary school buildings in combination with other compatible lawful uses such as housing, office or other commercial buildings. The City is required to make rental payments on the school portions of the ECF projects sufficient to make debt service payments as they come due on ECF Bonds, less the revenue received by the ECF from the non-school portions of the ECF projects.

As of June 30, 2007, New York City Educational ConstructionFund has $123 million bonds outstanding. The bonds are rated A1 by Moody's and A+ by S&P.

Interest Rate Exchange Agreements

In an effort to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has from time to time entered into interest rate exchange agreements (Swaps) and sold options related to some of these Swaps. No new Swaps were initiated in fiscal year 2007. The City and a Counterparty did amend one Swap comfirmation, agreeing to eliminate the Counterparty's existing cancellation option in exchange for the City's agreement to increase its fixed rate payment from 2.818% per annum to 3.109% per annum starting on August 1, 2007. The City received specific authorization to enter into these agreements, or Swaps, under Section 54.90 of the New York State Local Finance Law. As of June 30, 2007, the City's outstanding notional amount on the various Swap agreements was $3.04 billion.

Subsequent Events

Subsequent to June 30, 2007, the City and TFA completed the following long-term financing:

City Debt: On August 15, 2007, the City sold its Series A and B bonds of $1.245 billion for refunding purposes.

On October 4, 2007, the City sold its Series C bonds of $1.050 billion for capital purposes.

TFA Debt: On September 4, 2007, TFA redeemed $170.3 million of TFA Recovery bonds with funds from an unrestricted City grant.

Commitments

At June 30, 2007, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $15.1 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates New York City Capital Projects Fund expenditures of $83.7 billion over the remaining fiscal years 2008 through 2017. To help meet its capital spending program, the City and TFA borrowed $4.1 billion in the public credit market in fiscal year 2007.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The City of New York, Office of the Comptroller, Bureau of Accountancy, 1 Centre Street, Room 808, New York, New York 10007-2341.

[This page intentionally left blank]

THE CITY OF NEW YORK

STATEMENT OF NET ASSETS

JUNE 30, 2007
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 8,792,731	$ 3,388,233
Investments, including accrued interest	1,897,633	2,467,516
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $352,926)	557,878	—
Federal, State and other aid	4,826,378	—
Taxes other than real estate	4,982,417	—
Other	1,237,987	2,751,656
Mortgage loans and interest receivable, net	79	5,146,770
Inventories	261,568	40,313
Due from Primary Government	—	15,718
Due from Component Units	1,221,880	—
Restricted cash and investments	5,783,996	3,418,626
Deferred charges	1,079,700	—
Capital assets:		
Land and construction work-in-progress	4,693,685	5,101,639
Other capital assets (net of depreciation):		
Property, plant and equipment	21,505,610	21,030,895
Infrastructure	8,131,857	—
Other	356,384	698,968
Total assets	65,329,783	44,060,334
LIABILITIES:		
Accounts payable and accrued liabilities	11,362,553	1,995,932
Accrued interest payable	731,737	107,401
Unearned revenues:		
Prepaid real estate taxes	2,695,880	—
Other	2,686,198	230,143
Due to Primary Government	—	1,221,880
Due to Component Units	15,718	—
Estimated disallowance of Federal, State and other aid	1,000,243	—
Payable for investment securities purchased	257,000	—
Other	78,277	81,190
Noncurrent liabilities:		
Due within one year	3,946,241	1,445,210
Due in more than one year	126,255,133	30,689,978
Total liabilities	149,028,980	35,771,734
NET ASSETS:		
Invested in capital assets, net of related debt	(5,239,185)	8,619,868
Restricted for:		
Capital projects	1,410,481	94,494
Debt service	5,387,171	912,804
Loans/security deposits	—	67,410
Donor/statutory restrictions	—	43,751
Operations	—	175,161
Unrestricted (deficit)	(85,257,664)	(1,624,888)
Total net assets (deficit)	$ (83,699,197)	$ 8,288,600

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2006
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 10,097,096	$ 2,268,908
Investments, including accrued interest	1,975,921	2,164,852
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $380,276)	610,317	—
Federal, State and other aid	4,801,976	—
Taxes other than real estate	4,183,489	—
Other	1,207,376	2,855,359
Mortgage loans and interest receivable, net	101	4,589,845
Inventories	243,868	38,933
Due from Primary Government	—	8,506
Due from Component Units	1,248,261	—
Restricted cash and investments	2,197,224	2,237,996
Deferred charges	1,172,211	—
Capital assets:		
Land and construction work-in-progress	3,921,932	4,992,385
Other capital assets (net of depreciation):		
Property, plant and equipment	20,712,461	19,624,510
Infrastructure	7,536,557	—
Other	141,042	313,950
Total assets	60,049,832	39,095,244
LIABILITIES:		
Accounts payable and accrued liabilities	11,057,803	1,865,272
Accrued interest payable	631,506	97,878
Unearned revenues:		
Prepaid real estate taxes	3,722,964	—
Other	2,374,653	213,088
Due to Primary Government	—	1,248,261
Due to Component Units	8,506	—
Estimated disallowance of Federal, State and other aid	898,858	—
Payable for investment securities purchased	257,000	—
Other	28,963	50,738
Noncurrent Liabilities:		
Due within one year	4,127,130	843,801
Due in more than one year	117,836,264	25,577,904
Total liabilities	140,943,647	29,896,942
NET ASSETS:		
Invested in capital assets, net of related debt	(5,373,813)	8,792,877
Restricted for:		
Capital projects	506,564	120,593
Debt service	4,740,099	776,200
Loans/security deposits	—	70,220
Donor/statutory restrictions	—	43,684
Operations	—	157,806
Unrestricted (deficit)	(80,766,665)	(763,078)
Total net assets (deficit)	$(80,893,815)	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

(in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Units
Primary government:						
General government	$ 3,057,503	$ 716,687	$ 750,801	$ 52,268	$ (1,537,747)	$ —
Public safety and judicial	15,510,212	384,840	576,334	2,552	(14,546,486)	—
Education	19,645,691	61,056	8,843,004	480,026	(10,261,605)	—
City University	675,888	195,766	166,392	1,133	(312,597)	—
Social services	12,080,533	44,388	4,446,502	4,609	(7,585,034)	—
Environmental protection	3,218,040	1,205,445	9,959	17,664	(1,984,972)	—
Transportation services	1,839,849	801,441	175,737	200,890	(661,781)	—
Parks, recreation and cultural activities	780,515	75,798	9,698	18,230	(676,789)	—
Housing	1,287,183	208,802	365,056	104,698	(608,627)	—
Health (including payments to HHC)	3,025,268	71,799	953,352	—	(2,000,117)	—
Libraries	375,453	1	—	169	(375,283)	—
Debt service interest	2,560,133	—	—	—	(2,560,133)	—
Total primary government	$64,056,268	$3,766,023	$16,296,835	$ 882,239	(43,111,171)	—
Component Units	$14,173,615	$9,484,142	$ 2,251,452	$ 920,387	—	(1,517,634)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					12,891,783	—
Sales and use taxes					6,430,020	—
Personal income tax					8,715,777	—
Income taxes, other					7,877,281	—
Other taxes					2,863,364	—
Investment income					669,173	292,609
Unrestricted Federal and State aid					560,964	3,237
Other					297,427	312,086
Total general revenues					40,305,789	607,932
Change in net assets					(2,805,382)	(909,702)
Net Assets (Deficit) - Beginning					(80,893,815)	9,198,302
Net Assets (Deficit) - Ending					$(83,699,197)	$ 8,288,600

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
(in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary Government:						
General government	$ 3,861,343	$ 579,356	$ 843,680	$ 30,220	$ (2,408,087)	$ —
Public safety and judicial	38,107,802	254,835	562,163	21,394	(37,269,410)	—
Education	34,564,249	65,288	7,909,702	10,775	(26,578,484)	—
City University	907,472	189,293	156,367	—	(561,812)	—
Social services	13,025,782	54,595	4,218,203	3,205	(8,749,779)	—
Environmental protection	6,906,033	1,101,564	23,424	31,266	(5,749,779)	—
Transportation services	2,155,180	783,563	152,945	214,943	(1,003,729)	—
Parks, recreation and cultural activities	974,610	64,856	16,442	7,706	(885,606)	—
Housing	1,711,951	194,468	323,761	154,423	(1,039,299)	—
Health (including payments to HHC)	4,699,686	57,342	920,292	1,742	(3,720,310)	—
Libraries	301,342	—	—	—	(301,342)	—
Debt service interest	2,573,905	—	—	—	(2,573,905)	—
Total primary government	$109,789,355	$ 3,345,160	$15,126,979	$ 475,674	(90,841,542)	—
Component Units	$ 13,931,527	$ 9,023,077	$ 1,954,404	$ 831,956	—	(2,122,090)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					12,723,800	—
Sales and use taxes					5,974,655	—
Personal income tax					8,533,813	—
Income taxes, other					5,768,620	—
Other taxes					2,380,807	—
Investment income					465,685	225,382
Unrestricted Federal and State aid					973,766	8,231
Other					319,122	90,462
Total general revenues					37,140,268	324,075
Change in net assets					(53,701,274)	(1,798,015)
Net Assets (Deficit) — Beginning					(27,192,541)	10,996,317
Net Assets (Deficit) — Ending					$(80,893,815)	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2007
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 6,429,077	$ 36,277	$2,284,172	$ 43,205	$ —	$ 8,792,731
Investments, including accrued interest	136,728	—	1,094,258	666,647	—	1,897,633
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $352,926)	557,878	—	—	—	—	557,878
Federal, State and other aid	4,211,523	614,855	—	—	—	4,826,378
Taxes other than real estate	4,397,260	—	—	585,157	—	4,982,417
Other	1,154,897	—	—	83,000	—	1,237,897
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $317,010)	—	—	—	79	—	79
Due from other funds	2,956,382	249,638	—	311,411	(311,411)	3,206,020
Due from Component Units	860,020	361,860	—	—	—	1,221,880
Restricted cash and investments	—	488,443	—	5,295,553	—	5,783,996
Other	—	45,193	—	270,107	—	315,300
Total assets	$20,703,765	$ 1,796,266	$3,378,430	$7,255,159	$(311,411)	$32,822,209
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 9,196,929	$ 1,772,144	$ 6,434	$ 387,046	$ —	$11,362,553
Accrued tax refunds:						
Real estate taxes	48,544	—	—	—	—	48,544
Personal income tax	46,513	—	—	45,149	—	91,662
Other	39,646	—	—	—	—	39,646
Accrued judgments and claims	375,288	85,247	—	—	—	460,535
Deferred revenues:						
Prepaid real estate taxes	2,695,880	—	—	—	—	2,695,880
Uncollected real estate taxes	493,601	—	—	—	—	493,601
Taxes other than real estate	3,934,476	—	—	—	—	3,934,476
Other	2,429,629	—	—	621,082	—	3,050,711
Due to other funds	—	3,267,793	—	249,638	(311,411)	3,206,020
Due to Component Units	15,718	—	—	—	—	15,718
Estimated disallowance of Federal, State and other aid	1,000,243	—	—	—	—	1,000,243
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	20,276,467	5,125,184	6,434	1,559,915	(311,411)	26,656,589
Fund balances:						
Reserved for:						
Capital projects	—	282,088	—	1,128,393	—	1,410,481
Debt service	—	—	3,371,996	2,015,096	—	5,387,092
Noncurrent mortgage loans	—	—	—	79	—	79
Unreserved (deficit), reported in:						
General Fund	427,298	—	—	—	—	427,298
New York City Capital Projects Fund	—	(3,611,006)		—	—	(3,611,006)
Nonmajor Capital Projects Funds	—	—	—	1,910,089	—	1,910,089
Nonmajor Debt Service Funds	—	—	—	641,587	—	641,587
Total fund balances (deficit)	427,298	(3,328,918)	3,371,996	5,695,244	—	6,165,620
Total liabilities and fund balances	$20,703,765	$ 1,796,266	$3,378,430	$7,255,159	$(311,411)	$32,822,209

The reconciliation of the fund balances of governmental funds to the net assets (deficit) of governmental activities in the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2006
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
Assets:						
Cash and cash equivalents	$ 7,936,278	$ 54,871	$1,790,997	$ 314,950	$ —	$10,097,096
Investments, including accrued interest	258,405	—	1,459,987	257,529	—	1,975,921
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $380,276)	610,317	—	—	—	—	610,317
Federal, State and other aid	4,211,299	590,677	—	—	—	4,801,976
Taxes other than real estate	3,678,014	—	—	505,475	—	4,183,489
Other	1,136,038	—	—	77,000	—	1,213,038
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $314,550)	—	—	—	101	—	101
Due from other funds	2,289,648	—	—	200,733	(200,733)	2,289,648
Due from Component Units	922,137	326,124	—	—	—	1,248,261
Restricted cash and investments	—	680,148	—	1,517,076	—	2,197,224
Other	—	49,531	—	47,961	—	97,492
Total assets	$21,042,136	$ 1,701,351	$3,250,984	$2,920,825	$ (200,733)	$28,714,563
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable and accrued liabilities	$ 9,517,809	$ 1,276,179	$ 7,312	$ 256,503	$ —	$11,057,803
Accrued tax refunds:						
Real estate taxes	29,257	—	—	—	—	29,257
Personal income tax	33,672	—	—	38,475	—	72,147
Other	25,898	—	—	—	—	25,898
Accrued judgments and claims	394,244	138,732	—	—	—	532,976
Deferred revenues:						
Prepaid real estate taxes	3,722,964	—	—	—	—	3,722,964
Uncollected real estate taxes	561,308	—	—	—	—	561,308
Taxes other than real estate	3,202,691	—	—	—	—	3,202,691
Other	2,224,446	—	—	546,572	—	2,771,018
Due to other funds	—	2,490,381	—	—	(200,733)	2,289,648
Due to Component Units	8,506	—	—	—	—	8,506
Estimated disallowance of Federal, State and other aid	898,858	—	—	—	—	898,858
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	20,619,653	3,905,292	7,312	1,098,550	(200,733)	25,430,074
Fund balances:						
Reserved for:						
Capital projects	—	501,828	—	4,736	—	506,564
Debt service	—	—	3,243,672	1,496,326	—	4,739,998
Noncurrent mortgage loans	—	—	—	101	—	101
Unreserved (deficit), reported in:						
General Fund	422,483	—	—	—	—	422,483
New York City Capital Projects Fund	—	(2,705,769)	—	—	—	(2,705,769)
Nonmajor Capital Projects Funds	—	—	—	16,079	—	16,079
Nonmajor Debt Service Funds	—	—	—	305,033	—	305,033
Total fund balances (deficit)	422,483	(2,203,941)	3,243,672	1,822,275	—	3,284,489
Total liabilities and fund balances	$21,042,136	$ 1,701,351	$3,250,984	$2,920,825	$ (200,733)	$28,714,563

The reconciliation of the fund balances of governmental funds to the net assets (deficit) of governmental activities in the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to financial statements.

THE CITY OF NEW YORK

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2007
(in thousands)

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

Total fund balances—governmental funds	$ 6,165,620
Inventories recorded in the Statement of Net assets are recorded as expenditures in the governmental funds	261,568
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	34,331,152
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	5,913,464
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(56,281,716)
OPEB liability	(57,761,938)
Accrued interest payable	(731,737)
Capital lease obligations	(2,831,919)
Accrued vacation and sick leave	(3,110,959)
Pension liability	(726,600)
Landfill closure and post-closure care costs	(1,612,871)
Other long-term liabilities	(7,313,261)
Net assets (deficit) of governmental activities	$(83,699,197)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006
(in thousands)

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

Total fund balances—governmental funds	$ 3,284,489
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds	243,868
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	32,170,950
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	5,370,463
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds payable	(53,199,813)
OPEB liability	(53,507,451)
Accrued interest payable	(631,506)
Capital lease obligations	(2,924,619)
Accrued vacation and sick leave	(2,840,213)
Pension liability	(764,000)
Landfill closure and post-closure care costs	(1,652,000)
Other long-term liabilities	(6,443,983)
Net assets (deficit) of governmental activities	$(80,893,815)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
Revenues:						
Real estate taxes	$13,122,812	$ —	$ —	$ —	$ —	$13,122,812
Sales and use taxes	6,412,020	—	—	—	—	6,412,020
Personal income tax	7,963,170	—	—	684,607	—	8,647,777
Income taxes, other	7,451,281	—	—	—	—	7,451,281
Other taxes	2,892,579	—	—	—	—	2,892,579
Federal, State and other categorical aid	16,590,572	875,011	—	232,173	—	17,697,756
Unrestricted Federal and State aid	35,054	—	—	—	—	35,054
Charges for services	1,920,752	—	—	—	—	1,920,752
Tobacco settlement	—	—	—	208,433	—	208,433
Investment income	473,060	—	22,067	169,966	—	665,093
Interest on mortgages, net	—	—	—	4,080	—	4,080
Other revenues	1,849,497	1,922,681	81	1,956,414	(1,861,580)	3,867,093
Total revenues	58,710,797	2,797,692	22,148	3,255,673	(1,861,580)	62,924,730
Expenditures:						
General government	1,619,918	945,278	—	118,080	—	2,683,276
Public safety and judicial	6,841,914	206,533	—	—	—	7,048,447
Education	15,748,016	2,131,709	—	1,863,048	(1,861,580)	17,881,193
City University	577,201	18,409	—	—	—	595,610
Social services	11,078,051	72,644	—	—	—	11,150,695
Environmental protection	1,943,299	2,079,965	—	—	—	4,023,264
Transportation services	1,020,892	827,678	—	—	—	1,848,570
Parks, recreation and cultural activities	410,671	494,052	—	—	—	904,723
Housing	641,216	436,007	—	—	—	1,077,223
Health (including payments to HHC)	2,272,482	246,256	—	—	—	2,518,738
Libraries	330,061	37,857	—	—	—	367,918
Pensions	4,726,200	—	—	—	—	4,726,200
Judgments and claims	564,037	—	—	—	—	564,037
Fringe benefits and other benefit payments	4,846,211	—	—	—	—	4,846,211
Administrative and other	177,801	—	127,567	99,643	—	405,011
Debt Service:						
Interest	—	—	1,626,585	799,987	—	2,426,572
Redemptions	—	—	2,165,491	1,048,496	—	3,213,987
Lease payments	309,612	—	—	—	—	309,612
Total expenditures	53,107,582	7,496,388	3,919,643	3,929,254	(1,861,580)	66,591,287
Excess (deficiency) of revenues over expenditures	5,603,215	(4,698,696)	(3,897,495)	(673,581)	—	(3,666,557)
Other Financing Sources (Uses):						
Transfers from General Fund	—	300,000	4,024,185	1,274,215	—	5,598,400
Transfers from Nonmajor Capital Projects Funds	—	2,383,609	—	114,492	—	2,498,101
Principal amount of bonds issued	—	820,000	—	5,340,710	—	6,160,710
Bond premium	—	24,845	44,792	264,555	—	334,192
Capitalized leases	—	45,265	—	—	—	45,265
Refunding bond proceeds	—	—	1,127,830	321,400	—	1,449,230
Transfers to New York City Capital Projects Fund	(300,000)	—	—	(2,383,609)	—	(2,683,609)
Transfers from (to) General Debt Service Fund	(4,024,185)	—	—	4,605	—	(4,019,580)
Transfers to Nonmajor Debt Service Funds, net	(1,274,215)	—	(4,605)	(114,492)	—	(1,393,312)
Payments to refunded bond escrow holder	—	—	(1,166,383)	(377,671)	—	(1,544,054)
Transferable development rights installment purchase agreement	—	—	—	102,345	—	102,345
Total other financing sources (uses)	(5,598,400)	3,573,719	4,025,819	4,546,550	—	6,547,688
Net change in fund balances	4,815	(1,124,977)	128,324	3,872,969	—	2,881,131
Fund Balances (Deficit) at Beginning of Year	422,483	(2,203,941)	3,243,672	1,822,275	—	3,284,489
Fund Balances (Deficit) at End of Year	$ 427,298	$(3,328,918)	$ 3,371,996	$ 5,695,244	$ —	$ 6,165,620

The reconciliation of the net change in fund balances of governmental funds to the change in net assets of governmental activities in the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$12,636,355	$ —	$ —	$ —	$ —	$12,636,355
Sales and use taxes	5,986,655	—	—	—	—	5,986,655
Personal income tax	7,675,813	—	—	350,000	—	8,025,813
Income taxes, other	5,531,620	—	—	—	—	5,531,620
Other taxes	2,380,744	—	—	—	—	2,380,744
Federal, State and other categorical aid	15,436,591	438,021	—	170,000	—	16,044,612
Unrestricted Federal and State aid	494,154	—	—	—	—	494,154
Charges for services	1,836,959	—	—	—	—	1,836,959
Tobacco settlement	5,410	—	—	193,688	—	199,098
Investment income	362,197	—	27,350	67,018	(1,829)	454,736
Interest on mortgages, net	—	—	—	4,809	—	4,809
Other revenues	1,554,280	1,717,501	—	1,765,008	(1,715,637)	3,321,152
Total revenues	53,900,778	2,155,522	27,350	2,550,523	(1,717,466)	56,916,707
EXPENDITURES:						
General government	1,530,074	665,096	—	3,235	—	2,198,405
Public safety and judicial	6,693,911	212,111	—	—	—	6,906,022
Education	14,794,254	1,781,904	—	1,715,593	(1,715,637)	16,576,114
City University	550,366	13,780	—	—	—	564,146
Social services	10,147,669	39,308	—	—	—	10,186,977
Environmental protection	1,836,396	1,935,273	—	—	—	3,771,669
Transportation services	954,155	782,904	—	—	—	1,737,059
Parks, recreation and cultural activities	376,808	382,845	—	—	—	759,653
Housing	721,483	459,376	—	—	—	1,180,859
Health (including payments to HHC)	2,757,802	269,673	—	—	—	3,027,475
Libraries	261,140	52,317	—	—	—	313,457
Pensions	3,878,950	—	—	—	—	3,878,950
Judgments and claims	516,801	—	—	—	—	516,801
Fringe benefits and other benefit payments	4,154,015	—	—	—	—	4,154,015
Administrative and other	105,394	—	145,324	58,209	—	308,927
Debt Service:						
Interest	—	—	1,559,898	818,904	—	2,378,802
Redemptions	—	—	1,455,252	1,095,880	—	2,551,132
Lease payments	228,846	—	—	—	—	228,846
Total expenditures	49,508,064	6,594,587	3,160,474	3,691,821	(1,715,637)	61,239,309
Excess (deficiency) of revenues over expenditures	4,392,714	(4,439,065)	(3,133,124)	(1,141,298)	(1,829)	(4,322,602)
OTHER FINANCING SOURCES (USES):						
Transfers from (to) General Fund	—	200,000	4,281,010	(92,938)	—	4,388,072
Transfers to Nonmajor Capital Projects Funds	—	—	—	(1,500)	—	(1,500)
Principal amount of bonds issued	—	3,405,000	—	—	—	3,405,000
Bond premium	—	76,818	64,182	—	—	141,000
Capitalized leases	—	14,191	—	—	—	14,191
Refunding bond proceeds	—	—	1,421,810	1,942,974	—	3,364,784
Transfers to New York City Capital Projects Fund	(200,000)	—	—	—	—	(200,000)
Transfers from (to) General Debt Service Fund	(4,281,010)	—	—	198	—	(4,280,812)
Transfers from (to) Nonmajor Debt Service Funds, net	92,938	—	(198)	1,500	—	94,240
Payments to refunded bond escrow holder	—	—	(1,478,288)	(1,860,299)	—	(3,338,587)
Total other financing sources (uses)	(4,388,072)	3,696,009	4,288,516	(10,065)	—	3,586,388
Net change in fund balances	4,642	(743,056)	1,155,392	(1,151,363)	(1,829)	(736,214)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	417,841	(1,460,885)	2,088,280	2,973,638	1,829	4,020,703
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 422,483	$(2,203,941)	$ 3,243,672	$ 1,822,275	$ —	$ 3,284,489

The reconciliation of the net change in fund balances of governmental funds to the change in net assets of governmental activities in the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

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

Net change in fund balances—governmental funds		$ 2,881,131
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 4,168,181	
Depreciation expense	(1,994,493)	2,173,688
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.* sales, trade-ins, and donations) is to decrease net assets		96,914
The issuance of long-term debt (*i.e.,* bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(7,709,940)	
Principal payments of bonds	4,423,849	
Other	(65,000)	(3,351,091)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(594,990)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		243,453
OPEB obligation		(4,254,487)
Change in net assets—governmental activities		$ (2,805,382)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2006
(in thousands)

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

Net change in fund balances—governmental funds		$ (736,214)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 3,522,523	
Depreciation expense	(2,018,812)	1,503,711
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.* sales, trade-ins, and donations) is to decrease net assets		106,750
The issuance of long-term debt (*i.e.,* bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(6,769,784)	
Principal payments of bonds	5,748,719	
Other	(154,437)	(1,175,502)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(764,653)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		872,085
OPEB obligation		(53,507,451)
Change in net assets—governmental activities		$(53,701,274)

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

	Budget			Better (Worse) Than Modified Budget
	Adopted	Modified	Actual	
REVENUES:				
Real estate taxes	$13,140,204	$13,097,924	$13,122,812	$ 24,888
Sales and use taxes	5,580,300	6,281,000	6,412,020	131,020
Personal income tax	6,812,101	7,930,450	7,963,170	32,720
Income taxes, other	4,583,500	6,645,000	7,451,281	806,281
Other taxes	2,404,964	3,980,942	2,892,579	(1,088,363)
Federal, State and other categorical aid	15,884,228	17,040,746	16,590,572	(450,174)
Unrestricted Federal and State aid	339,797	33,461	35,054	1,593
Charges for services	1,819,560	1,914,051	1,920,752	6,701
Interest income	313,220	477,160	473,060	(4,100)
Other revenues	1,667,050	2,265,348	1,849,497	(415,851)
Total revenues	52,544,924	59,666,082	58,710,797	(955,285)
EXPENDITURES:				
General government	1,731,098	1,704,281	1,619,918	84,363
Public safety and judicial	6,652,146	6,931,718	6,841,914	89,804
Education	15,446,218	15,875,591	15,748,016	127,575
City University	573,801	601,186	577,201	23,985
Social services	10,388,283	11,226,460	11,078,051	148,409
Environmental protection	2,027,331	2,005,268	1,943,299	61,969
Transportation services	749,457	1,060,096	1,020,892	39,204
Parks, recreation and cultural activities	391,695	416,875	410,671	6,204
Housing	559,497	665,793	641,216	24,577
Health (including payments to HHC)	2,413,440	2,345,777	2,272,482	73,295
Libraries	39,377	330,697	330,061	636
Pensions	4,754,616	4,736,838	4,726,200	10,638
Judgments and claims	601,506	564,380	564,037	343
Fringe benefits and other benefit payments	4,337,174	4,846,210	4,846,211	(1)
Interest on short-term borrowings	36,685	—	—	—
Lease payments for debt service	284,773	312,380	309,612	2,768
Other	1,014,626	464,250	177,801	286,449
Total expenditures	52,001,723	54,087,800	53,107,582	980,218
Excess of revenues over expenditures	543,201	5,578,282	5,603,215	24,933
OTHER FINANCING USES:				
Transfer to Nonmajor Debt Service Fund	(10,000)	(1,274,215)	(1,274,215)	—
Transfer to New York City Capital Projects Fund	(200,000)	(300,000)	(300,000)	—
Transfers and other payments for debt service	(333,201)	(4,004,067)	(4,024,185)	(20,118)
Total other financing uses	(543,201)	(5,578,282)	(5,598,400)	(20,118)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	$ —	$ —	4,815	$ 4,815
FUND BALANCE AT BEGINNING OF YEAR			422,483	
FUND BALANCE AT END OF YEAR			$ 427,298	

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

(in thousands)

	Budget			Better (Worse) Than Modified Budget
	Adopted	Modified	Actual	
REVENUES:				
Real estate taxes	$12,438,204	$12,611,904	$12,636,355	$ 24,451
Sales and use taxes	5,282,250	5,998,700	5,986,655	(12,045)
Personal income tax	6,586,000	7,589,000	7,675,813	86,813
Income taxes, other	3,867,100	4,602,600	5,531,620	929,020
Other taxes	2,210,082	3,141,369	2,380,744	(760,625)
Federal, State and other categorical aid	15,339,889	16,135,156	15,436,591	(698,565)
Unrestricted Federal and State aid	562,419	489,460	494,154	4,694
Charges for services	1,705,641	1,786,421	1,836,959	50,538
Tobacco settlement	238,291	5,410	5,410	—
Interest income	159,390	360,140	362,197	2,057
Other revenues	1,386,190	1,968,514	1,554,280	(414,234)
Total revenues	49,775,456	54,688,674	53,900,778	(787,896)
EXPENDITURES:				
General government	1,618,257	1,619,862	1,530,074	89,788
Public safety and judicial	6,167,421	6,737,697	6,693,911	43,786
Education......	14,135,613	14,949,965	14,794,254	155,711
City University	580,392	587,939	550,366	37,573
Social services	10,332,445	10,163,688	10,147,669	16,019
Environmental protection	1,825,670	1,856,843	1,836,396	20,447
Transportation services	765,177	1,017,251	954,155	63,096
Parks, recreation and cultural activities	353,509	385,211	376,808	8,403
Housing	549,841	754,338	721,483	32,855
Health (including payments to HHC)	2,363,032	2,819,471	2,757,802	61,669
Libraries	32,577	261,292	261,140	152
Pensions	4,599,415	3,881,905	3,878,950	2,955
Judgments and claims	600,706	517,241	516,801	440
Fringe benefits and other benefit payments	3,172,319	4,154,033	4,154,015	18
Interest on short-term borrowings	26,250	—	—	—
Lease payments for debt service	217,436	228,852	228,846	6
Other	1,125,639	360,390	105,394	254,996
Total expenditures	48,465,699	50,295,978	49,508,064	787,914
Excess of revenues over expenditures	1,309,757	4,392,696	4,392,714	18
OTHER FINANCING SOURCES (USES):				
Transfer from Nonmajor Debt Service Fund	47,902	75,721	102,938	27,217
Transfer to Nonmajor Debt Service Fund	(10,000)	(5,000)	(10,000)	(5,000)
Transfer to New York City Capital Projects Fund	(200,000)	(200,000)	(200,000)	—
Transfers and other payments for debt service	(1,147,659)	(4,263,417)	(4,281,010)	(17,593)
Total other financing uses	(1,309,757)	(4,392,696)	(4,388,072)	4,624
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	$ —	$ —	4,642	$ 4,642
FUND BALANCE AT BEGINNING OF YEAR			417,841	
FUND BALANCE AT END OF YEAR			$ 422,483	

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 1,359,747	$ 802,795
Receivables:		
Member loans	1,330,296	—
Investment securities sold	4,922,027	—
Accrued interest and dividends	503,496	—
Other	76,395	—
Investments:		
Other short-term investments	3,287,284	—
Debt securities	27,436,521	897,893
Equity securities	62,274,477	—
Guaranteed investment contracts	2,472,629	—
Management investment contracts	89,908	—
Mutual funds	30,110,263	—
Collateral from securities lending transactions	21,119,743	—
Due from Pension Funds	4,355	—
Other	88,107	—
Total assets	155,075,248	1,700,688
LIABILITIES:		
Accounts payable and accrued liabilities	1,408,044	728,045
Payable for investment securities purchased	6,935,436	—
Accrued benefits payable	574,015	—
Due to Variable Supplements Trust Funds	4,355	—
Securities lending transactions	21,163,951	—
Other	531	972,643
Total liabilities	30,086,332	1,700,688
NET ASSETS:		
Held in Trust for Benefit Payments	$124,988,916	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 54,543	$ 716,762
Receivables:		
Member loans	1,313,092	—
Investment securities sold	3,551,934	—
Accrued interest and dividends	456,588	—
Investments:		
Other short-term investments	3,610,840	—
Debt securities	24,444,649	776,714
Equity securities	53,735,093	—
Guaranteed investment contracts	2,273,787	—
Management investment contracts	104,297	—
Mutual funds	25,438,964	—
Collateral from securities lending transactions	18,163,920	—
Due from Pension Funds	3,498	—
Other	51,960	—
Total assets	133,203,165	1,493,476
LIABILITIES:		
Accounts payable and accrued liabilities	488,698	548,376
Payable for investment securities purchased	7,122,561	—
Accrued benefits payable	376,803	—
Due to Variable Supplements Trust Funds	3,498	—
Securities lending transactions	18,215,247	—
Other	983	945,100
Total liabilities	26,207,790	1,493,476
NET ASSETS:		
Held in Trust for Benefit Payments	$106,995,375	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions	$ 1,409,070
Employer contributions	8,323,415
Other employer contributions	21,839
Total contributions	9,754,324
Investment income:	
Interest income	1,987,595
Dividend income	2,072,722
Net appreciation in fair value of investments	15,925,884
Less investment expenses	275,408
Investment income, net	19,710,793
Securities lending transactions:	
Securities lending income	1,253,727
Securities lending fees	(1,195,918)
Net securities lending income	57,809
Payments from Pension Funds	7,608
Other	84,929
Total additions	29,615,463
DEDUCTIONS:	
Benefit payments and withdrawals	11,497,207
Payments to Variable Supplements Trust Funds	7,608
Other	4,754
Administrative expenses	112,353
Total deductions	11,621,922
Increase in plan net assets	17,993,541
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	106,995,375
End of Year	$124,988,916

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006
(in thousands)

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions	$ 1,339,584
Employer contributions	5,378,294
Other employer contributions	21,727
Total contributions	6,739,605
Investment income:	
Interest income	1,854,082
Dividend income	1,037,506
Net appreciation in fair value of investments	7,461,387
Less investment expenses	204,720
Investment income, net	10,148,255
Securities lending transactions:	
Securities lending income	768,826
Securities lending fees	(709,760)
Net securities lending income	59,066
Payments from Pension Funds	5,479
Other	35,972
Total additions	16,988,377
DEDUCTIONS:	
Benefit payments and withdrawals	9,753,958
Payments to Variable Supplements Trust Funds	5,479
Other	7,578
Administrative expenses	105,707
Total deductions	9,872,722
Increase in plan net assets	7,115,655
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	99,879,720
End of Year	$106,995,375

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2007
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2006	Housing Development Corporation October 31, 2006	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 1,175,086	$ 569,379	$ 224,082	$ 1,225,523	$ 85,159	$ 20,471	$ 88,533	$ 3,388,233
Investments, including accrued interest	437,464	681,862	267,132	100,814	240	—	980,004	2,467,516
Other receivables	447,486	104,747	337,518	1,263,437	112,677	644	485,147	2,751,656
Mortgage loans and interest receivable, net	—	83	5,095,738	—	50,949	—	—	5,146,770
Inventories	—	10,134	—	30,179	—	—	—	40,313
Due from Primary Government	15,718	—	—	—	—	—	—	15,718
Restricted cash and investments	—	250,635	1,491,539	178,667	114,621	8,088	1,375,076	3,418,626
Capital assets:								
Construction work-in-progress	4,766,145	—	—	335,494	—	—	—	5,101,639
Property, plant and equipment	20,795,397	10,807,988	4,609	5,266,501	9,433	68,539	189,180	37,141,647
Accumulated depreciation	(7,125,846)	(5,684,444)	(2,828)	(3,182,663)	(5,770)	(57,079)	(52,122)	(16,110,752)
Other	134,673	79,610	46,585	19,587	31,884	—	386,629	698,968
Total assets	20,646,123	6,819,994	7,464,375	5,237,539	399,193	40,663	3,452,447	44,060,334
LIABILITIES:								
Accounts payable and accrued liabilities	42,898	632,408	263,248	914,776	92,455	41,334	8,813	1,995,932
Accrued interest payable	34,609	7,726	53,267	11,799	—	—	—	107,401
Deferred revenues	87,381	30,764	104,571	—	4,022	—	3,405	230,143
Due to Primary Government	361,860	—	859,819	—	—	201	—	1,221,880
Other	—	30,174	—	583	13,625	5,381	31,427	81,190
Noncurrent Liabilities:								
Due within one year	1,010,971	60,339	180,809	153,184	—	7,377	32,530	1,445,210
Due in more than one year	16,691,440	2,046,026	4,968,605	3,547,892	119,911	138,720	3,177,384	30,689,978
Total liabilities	18,229,159	2,807,437	6,430,319	4,628,234	230,013	193,013	3,253,559	35,771,734
NET ASSETS:								
Invested in capital assets, net of related debt	2,130,364	4,967,031	—	1,371,576	2,569	11,270	137,058	8,619,868
Restricted for:								
Capital projects	—	—	—	20,669	67,628	6,197	—	94,494
Debt service	161,661	—	448,713	114,237	—	—	188,193	912,804
Loans/security deposits	—	—	—	—	63,828	—	3,582	67,410
Statutory reserve	—	—	—	32,667	—	—	—	32,667
Donor restrictions	—	—	—	11,084	—	—	—	11,084
Operations	175,161	—	—	—	—	—	—	175,161
Unrestricted (deficit)	(50,222)	(954,474)	585,343	(940,928)	35,155	(169,817)	(129,945)	(1,624,888)
Total net assets (deficit)	$ 2,416,964	$ 4,012,557	$ 1,034,056	$ 609,305	$ 169,180	$ (152,350)	$ 198,888	$ 8,288,600

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2006
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2005	Housing Development Corporation October 31, 2005	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 966,959	$ 459,057	$ 242,950	$ 446,058	$ 44,565	$ 18,595	$ 90,724	$ 2,268,908
Investments, including accrued interest	515,317	525,035	95,520	53,562	237	—	975,181	2,164,852
Other receivables	463,495	120,805	303,841	1,239,975	100,214	675	626,354	2,855,359
Mortgage loans and interest receivable, net	—	100	4,546,842	—	42,903	—	—	4,589,845
Inventories	—	11,435	—	27,498	—	—	—	38,933
Due from Primary Government	8,506	—	—	—	—	—	—	8,506
Restricted cash and investments	—	311,914	1,507,687	195,926	139,643	10,358	72,468	2,237,996
Capital assets:								
Construction work-in-progress	4,546,209	—	—	446,176	—	—	—	4,992,385
Property, plant and equipment	19,224,903	10,403,479	4,579	4,863,452	10,051	65,583	164,783	34,736,830
Accumulated depreciation	(6,615,509)	(5,382,475)	(2,443)	(3,008,082)	(5,344)	(53,797)	(44,670)	(15,112,320)
Other	130,728	67,603	54,913	21,933	31,951	—	6,822	313,950
Total assets	19,240,608	6,516,953	6,753,889	4,286,498	364,220	41,414	1,891,662	39,095,244
LIABILITIES:								
Accounts payable and accrued liabilities	15,361	638,752	240,355	847,932	81,090	33,724	8,058	1,865,272
Accrued interest payable	33,558	9,955	42,070	12,295	—	—	—	97,878
Deferred revenues	93,289	16,922	92,307	—	1,323	—	9,247	213,088
Due to Primary Government	326,124	—	921,928	—	—	209	—	1,248,261
Other	—	28,659	—	583	12,983	5,458	3,055	50,738
Noncurrent Liabilities:								
Due within one year	566,061	53,702	55,352	141,257	—	6,644	20,785	843,801
Due in more than one year	15,306,834	520,939	4,552,018	3,301,559	109,427	117,669	1,669,458	25,577,904
Total liabilities	16,341,227	1,268,929	5,904,030	4,303,626	204,823	163,704	1,710,603	29,896,942
NET ASSETS:								
Invested in capital assets, net of related debt	2,556,766	4,911,341	—	1,189,552	3,612	11,493	120,113	8,792,877
Restricted for:								
Capital projects	—	—	—	38,646	73,568	8,379	—	120,593
Debt service	171,859	—	420,095	113,596	—	—	70,650	776,200
Loans/security deposits	—	—	—	—	67,849	—	2,371	70,220
Statutory reserve	—	—	—	31,530	—	—	—	31,530
Donor restrictions	—	—	—	12,154	—	—	—	12,154
Operations	157,806	—	—	—	—	—	—	157,806
Unrestricted (deficit)	12,950	336,683	429,764	(1,402,606)	14,368	(142,162)	(12,075)	(763,078)
Total net assets (deficit)	$ 2,899,381	$ 5,248,024	$ 849,859	$ (17,128)	$ 159,397	$ (122,290)	$ 181,059	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMPONENT UNITS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

(in thousands)

	Water and Sewer System	Housing Authority December 31, 2006	Housing Development Corporation October 31, 2006	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
Expenses	$ 2,804,227	$ 4,277,850	$ 235,353	$ 5,887,605	$ 592,280	$ 285,943	$ 90,357	$14,173,615
Program Revenues:								
Charges for services	2,133,077	696,612	256,767	5,863,324	210,484	252,068	71,810	9,484,142
Operating grants and contributions	—	1,911,829	—	307,770	31,853	—	—	2,251,452
Capital grants, contributions and other	—	356,611	—	199,350	346,193	—	18,233	920,387
Total program revenues	2,133,077	2,965,052	256,767	6,370,444	588,530	252,068	90,043	12,655,981
Net (expenses) program revenues.	(671,150)	(1,312,798)	21,414	482,839	(3,750)	(33,875)	(314)	(1,517,634)
General Revenues:								
Investment income	98,132	52,596	64,629	49,416	8,646	1,588	17,602	292,609
Unrestricted Federal and State aid	—	—	—	—	3,237	—	—	3,237
Other	90,601	24,735	98,154	94,178	1,650	2,227	541	312,086
General revenues	188,733	77,331	162,783	143,594	13,533	3,815	18,143	607,932
Change in net assets	(482,417)	(1,235,467)	184,197	626,433	9,783	(30,060)	17,829	(909,702)
Net Assets—Beginning	2,899,381	5,248,024	849,859	(17,128)	159,397	(122,290)	181,059	9,198,302
Net Assets (deficit)—Ending	$ 2,416,964	$ 4,012,557	$1,034,056	$ 609,305	$ 169,180	$ (152,350)	$ 198,888	$ 8,288,600

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2005	Housing Development Corporation October 31, 2005	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
Expenses	$ 2,428,339	$2,785,900	$ 178,558	$ 7,456,772	$ 624,094	$ 382,973	$ 74,891	$ 13,931,527
Program Revenues:								
Charges for services	1,978,930	676,545	180,915	5,533,361	319,790	257,911	75,625	9,023,077
Operating grants and contributions	—	1,669,448	—	258,309	26,647	—	—	1,954,404
Capital grants, contributions and other	—	330,538	—	223,174	266,018	—	12,226	831,956
Total program revenues	1,978,930	2,676,531	180,915	6,014,844	612,455	257,911	87,851	11,809,437
Net (expenses) program revenues	(449,409)	(109,369)	2,357	(1,441,928)	(11,639)	(125,062)	12,960	(2,122,090)
General Revenues:								
Investment income	105,239	37,496	43,389	20,140	6,065	996	12,057	225,382
Unrestricted Federal and State aid	—	—	—	—	8,231	—	—	8,231
Other	88,447	57,343	—	(59,109)	1,245	2,418	118	90,462
General revenues	193,686	94,839	43,389	(38,969)	15,541	3,414	12,175	324,075
Change in net assets	(255,723)	(14,530)	45,746	(1,480,897)	3,902	(121,648)	25,135	(1,798,015)
Net Assets—Beginning	3,155,104	5,262,554	804,113	1,463,769	155,495	(642)	155,924	10,996,317
Net Assets (deficit)—Ending	$ 2,899,381	$5,248,024	$ 849,859	$ (17,128)	$ 159,397	$ (122,290)	$ 181,059	$ 9,198,302

See accompanying notes to financial statements.

A. Summary of Significant Accounting Policies

The accompanying basic financial statements of The City of New York (City or primary government) are presented in conformity with generally accepted accounting principles (GAAP) for governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The amounts shown in the "Primary Government" and "Component Units" columns of the accompanying government-wide financial statements are only presented to facilitate financial analysis and are not the equivalent of consolidated financial statements.

The following is a summary of the significant accounting policies and reporting practices of the City:

1. Reporting Entity

The City of New York is a municipal corporation governed by the Mayor and the City Council. The City's operations also include those normally performed at the county level, and accordingly, transactions applicable to the operations of the five counties that comprise the City are included in these financial statements.

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

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

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

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

Blended Component Units

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

Municipal Assistance Corporation for The City Of New York (MAC). MAC is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation. MAC was created by State legislation enacted in 1975 (as amended to date, the Act) for purposes of providing financing assistance including funding for certain oversight of the City's financial activities. To carry out such purposes, MAC was empowered to sell bonds and notes for the purpose of paying or loaning the proceeds of such sales to the City and to exchange its obligations for those of the City.

The Act provides that MAC shall continue for a term ending the later of July 1, 2008 or one year after all its liabilities have been fully paid and discharged. On July 1, 2008, MAC will have paid in full all its previously defeased bonds from amounts placed in an irrevocable trust. On July 1, 2008, MAC will have other liabilities such as accounts payable outstanding. MAC's current plan is to have these other liabilities fully paid and discharged by August 30, 2008. Upon the termination of the existence of MAC, all of its rights and property shall pass to and be vested in the State of New York.

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

In addition to State legislative authorization to issue Future Tax Secured bonds for capital purposes, TFA is authorized to have outstanding Recovery bonds to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center and to issue bonds, notes, or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system.

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

TSASC, Inc. (TSASC). TSASC is a special purpose, local development corporation organized in 1999 under the not-for-profit corporation law of the State of New York. TSASC is an instrumentality of the City, but is a separate legal entity from the City.

Pursuant to a purchase and sale agreement with the City, the City sold to TSASC all of its future right, title, and interest in the tobacco settlement revenues (TSRs) under the Master Settlement Agreement and the Decree and Final Judgment. This settlement agreement resolved cigarette smoking-related litigation between the settling states and participating manufacturers, released the participating manufacturers from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The City is allocated a share of the TSRs received by New York State. The future rights, title, and interest of the City to the TSRs were sold to TSASC.

The purchase price of the City's future right, title, and interest in the TSRs was financed by the issuance of a series of bonds and the Residual Certificate. Prior to the restructuring of TSASC's debt, the Residual Certificate represented the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs as set forth in the original Indenture.

On February 8, 2006, TSASC restructured all outstanding indebtedness by issuing Series 2006-1 bonds in the amount of $1.353 billion. The restructuring relieved TSASC of its obligations under the original Indenture to deposit a portion of the TSRs and other revenue (Collections) into a trapping account.

Under the Amended and Restated Indenture dated January 1, 2006, the Residual Certificate represents the entitlement to receive all amounts in excess of specified percentages of collections used to fund debt service and operating expenses of TSASC. The collections in excess of the specified percentages will be transferred to the TSASC Tobacco Settlement Trust (Trust), as owner of the Residual Certificate and then to the City as the beneficial owner of the Trust. The Indenture allows transfers to the Trust after December 6, 2007.

The new Indenture provides that a specified percentage of collections are pledged, and required to be applied to the payment of debt and operating costs. That percentage is 37.40% and is subject to reduction at June 1, 2024, and at each June 1st thereafter, depending on the magnitude of cumulative bond redemptions under the turbo redemption feature of Series 2006-1 bonds (which requires all pledged collections, after payment of operating costs, to be applied to payment of principal of and interest on Series 2006-1 bonds).

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

New York City Educational Construction Fund (ECF). ECF was created in 1967 as a corporate governmental agency of the State of New York, constituting a public benefit corporation. ECF was established to develop combined occupancy structures containing school and nonschool portions. ECF was created by the Education Law of the State and is authorized to issue bonds, notes, or other obligations to finance the construction and improvement of elementary and secondary school buildings within the City.

New York City School Construction Authority (SCA). SCA is a public benefit corporation created by the New York State Legislature in 1988. SCA's responsibilities as defined in the enabling legislation are the design, construction, reconstruction, improvement, rehabilitation and repair of the City's public schools. SCA is governed by a three-member Board of Trustees, all of whom are appointed by the Mayor which includes the Schools Chancellor of the City who serves as the Chairman.

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

As SCA represents a pass-through entity, in existence for the sole purpose of capital projects, all expenditures are capitalized. Upon substantial completion of the capital projects, the assets are transferred to the City.

Fiscal Year 2005 Securitization Corporation (FSC). FSC was established in 2004 as a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York. FSC is a financing instrumentality of the City, but is a separate legal entity from the City. FSC was formed for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing City general obligation bonds. The securities, which are held by the trustee for FSC, as they mature will fully fund the debt service and operational expenditures of FSC for the life of FSC's bonds.

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

Sales Tax Asset Receivable Corporation (STAR). STAR is a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York in 2003. STAR is a financing instrumentality of the City, but is a separate legal entity from the City. STAR was created to issue debt to finance the payment of principal, interest, and redemption premium (if any), on all outstanding bonds of MAC, on all outstanding bonds of the City held by MAC, and to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service. The payment of the outstanding MAC bonds results in the receipt by the City of tax revenues that would otherwise be paid to MAC for the payment of debt service on MAC's bonds. The foregoing was consideration for an assignment by the City of all of its rights and interest in the $170 million annual payment by the New York State Local Government Assistance Corporation which commenced with fiscal year 2004 and will terminate with fiscal year 2034 and which will be used for debt service on STAR bonds.

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

Hudson Yards Development Corporation (HYDC). HYDC, a local development corporation organized by the City under the not-for-profit corporation law of the State of New York began operations in 2005 to manage and implement the City's economic development initiative for the development and redevelopment activities (Project) of the Hudson Yards area on the West Side of Manhattan (Project Area). HYDC is governed by a Board of Directors, a majority of whom are appointed by the Mayor. HYDC works with various City and State agencies and authorities and with private developers on the design and construction and implementation of the various elements of the Project, and to further private development and redevelopment of the Project Area.

Hudson Yards Infrastructure Corporation (HYIC). HYIC, a local development corporation organized by the City under the not-for-profit corporation law of the State of New York began operations in 2005 for the purpose of financing certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (Project). HYIC does not engage in development directly, but finances development to be spearheaded by HYDC and carried out by existing public entities. HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and to collect revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from the City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by a Board of Directors elected by its five Members, all of whom are officials of the City. HYIC's Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions.

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

Discretely Presented Component Units

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

The component units column in the government-wide financial statements include the financial data of these entities, which are reported in a separate column to emphasize that they are legally separate from the City. They include the following:

New York City Health and Hospitals Corporation (HHC). HHC, a public benefit corporation, assumed responsibility for the operation of the City's municipal hospital system in 1970. HHC's integrated health care networks provide the full continuum of care—primary and specialty care, inpatient acute, outpatient, long-term care, and home health services—under a single medical and financial management structure. HHC's financial statements include the accounts of HHC and its blended component units, MetroPlus Health Plan, Inc., HHC Insurance Company, Inc., HHC Capital Corporation, and a closely affiliated not-for-profit corporation, The HHC Foundation of New York City, Inc.

HHC mainly provides, on behalf of the City, comprehensive medical and mental health services to City residents regardless of ability to pay. Funds appropriated from the City are payments, either directly or indirectly, for services rendered by HHC. The City pays for patient care rendered to prisoners, uniformed City employees, and various discretely funded facility-specific programs. HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City which includes settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts, as well as other HHC costs including interest on City debt which funded HHC capital acquisitions. HHC reimburses the City for medical malpractice settlements it pays on behalf of HHC, up to an agreed upon amount to be negotiated each year.

New York City Off-Track Betting Corporation (OTB). OTB was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City. OTB earns: (i) revenues on its betting operations ranging between 15% and 31% of wagers handled, depending on the type of wager; (ii) a 5% surcharge and surcharge breakage on pari-mutuel winnings; (iii) a 1% capital acquisition surcharge on multiple, exotic, and super exotic wagering pools; (iv) breakage, the revenue resulting from the rounding down of winning payoffs; (v) uncashed pari-mutuel tickets which represent winning tickets outstanding; and (vi) 50% of all out-of-state and 45% of all Finger Lakes simulcasting surcharge revenues. Pursuant to State law, OTB: (i) distributes various portions of the surcharge to other localities in the State; (ii) allocates various percentages of wagers handled to the racing industry; (iii) allocates various percentages of wagers handled together with all uncashed pari-mutuel tickets to the State; (iv) pays regulatory fees (.50% of OTB's gross handle) to the Racing and Wagering Board and (v) distributes to the City the remaining portion of surcharge (surcharge revenue), generally 50% from the tracks after deducting the amounts payable to other local governments and the revenue derived from surcharge. Also, after deducting the Corporation's operating expenses and statutory distributions any remaining net income, except for amounts retained for capital acquisitions, is distributable to the City. There are no such amounts available for distribution for fiscal years 2007 and 2006. In addition, OTB acts as a collection agent for the City with respect to surcharge and surcharge breakage due from other community off-track betting corporations.

OTB's current liabilities exceeded its current assets by $31.1 million and coupled with an increase in the net asset deficit by $30.1 million during fiscal year 2007 raises questions concerning OTB's ability to operate as a "going concern." Operating initiatives instituted by OTB to reduce expenses, including a reduction in its workforce and maximizing branch profitability have not been sufficient to offset increases in operating expenses and statutory distributions. OTB has continued to seek legislative relief from the statutory distribution requirements of New York State laws. There is no assurance that the New York State legislature will adopt the necessary changes to New York State laws to provide relief to OTB.

Jay Street Development Corporation (JSDC). JSDC is a special purpose, local development corporation organized by the City in 2000 under the not-for-profit corporation law of the State of New York. JSDC is an instrumentality of the City, but is a separate legal entity from the City. JSDC was created to purchase, lease, sublease, own, hold, sell, assign, or pledge the real property known as the Court Unit of 330 Jay Street Condominium located at 330 Jay Street in Brooklyn, New York and to finance the costs of construction of a building thereon which will be used for the "Courts Facility."

The City entered into a Lease and Agreement with JSDC for the City to lease the Courts Facility in exchange for rental payments in amounts sufficient to pay the principal of and interest (and redemption premium, if any) on JSDC's bonds, financing costs for the bonds, administrative expenses of JSDC, and certain other costs. The City also entered into a ground lease with the Developer for an undivided interest in the land appurtenant to the Courts Facility (Ground Lease). On April 1, 2005, JSDC purchased the Courts Facility from the Developer pursuant to its purchase option under the lease with the Developer. The City assigned to JSDC its purchase option under the Ground Lease, and on April 1, 2005, JSDC also purchased the undivided interest in the land appurtenant to the Courts Facility from the Developer, pursuant to that assigned option. The lease and agreement will expire in 2022 (when all of JSDC's outstanding bonds will have been paid), at which time the title for the Courts Facility and the undivided interest in the land appurtenant will transfer to the City. The City has the option to purchase the Courts Facility and the undivided interest in the land appurtenant to the Courts Facility at any time prior to the expiration of the lease and agreement by providing 60 days written notice and making payment to JSDC of an amount sufficient to pay in full all principal and interest on bonds outstanding and all other obligations of JSDC.

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

New York City Housing Development Corporation (HDC). HDC, a corporate governmental agency constituting a public benefit corporation and instrumentality of the State of New York was established in 1971 to encourage private housing development by providing low interest mortgage loans. The combined financial statements include: (i) the accounts of HDC and (ii) two active discretely presented component units: Housing Assistance Corporation and the New York City Residential Mortgage Insurance Corporation. Also, HDC includes the Housing New York Corporation which became an inactive subsidiary of HDC on November 3, 2003 and is not expected to be dissolved and the NYC HDC Real Estate Owned Corporation which was established as a subsidiary of HDC on September 20, 2004 and during HDC's last fiscal year, there was no activity by this subsidiary. It is treated as a blended component of HDC. HDC finances significant amounts of its activities through issuance of HDC bonds and notes. The bonds and notes of HDC are not debts of either the State or the City. HDC has a fiscal year ending October 31.

HDC operates in a manner similar to a private business that includes activities such as financing of real estate development, investment banking, and commercial lending. HDC is supported by various loan and bond program fees that may include commitment, financing, and mortgage insurance and servicing fees on certain of its mortgage loans and for loans serviced for the City. Mortgage loan earnings and other loan-related interests represent HDC's major source of operating revenue. HDC maintains separate accounts for each bond issue and component unit, and its general operating fund to control and manage money for particular purposes and to demonstrate that it is properly using specific resources.

New York City Housing Authority (HA). HA is a public benefit corporation chartered in 1934 under the New York State Public Housing Law. HA develops, constructs, manages, and maintains low cost housing for eligible low income families in the City. HA also maintains a leased housing program which provides housing assistance payments to families.

Substantial operating deficits result from the essential services that HA provides, and such operating deficits will continue in the foreseeable future. To meet the funding requirements of these operating deficits, HA receives subsidies from: (a) the Federal government, primarily the U.S. Department of Housing and Urban Development, in the form of annual grants for operating assistance, debt service payments, contributions for capital, and reimbursement of expenditures incurred for certain Federal housing programs; (b) New York State in the form of debt service and capital payments; and (c) the City in the form of capital and debt service payments. Subsidies are established through budgetary procedures which establish amounts to be funded by the grantor agencies. Projected operating surplus or deficit amounts are budgeted on an annual basis and approved by the grantor agency. Capital project budgets are submitted at various times during the year. HA has a calendar year-end.

New York City Industrial Development Agency (IDA). IDA is a public benefit corporation established in 1974 to actively promote, retain, attract, encourage, and develop an economically sound commerce and industry base to prevent unemployment and economic deterioration in the City. IDA assists industrial, commercial, and not-for-profit organizations in obtaining long-term, low-cost financing for fixed assets through a financing transaction which includes the issuance of double and triple tax-exempt industrial development bonds (IDBs) and, in turn, the participating organizations must meet certain economic development criteria, the most important of which is job creation and/or retention. In addition, IDA assists participants who do not qualify for IDBs through a "straight lease" structure. The straight lease also provides tax benefits to the participants without having to issue IDBs or otherwise take part in the participants' financing. Whether IDA issues IDBs or merely enters into a straight lease, IDA may provide one or more of the following tax benefits: exemption from mortgage recording tax; payments in lieu of real property taxes that are less than full taxes; and exemption from City and State sales and use taxes as applied to construction materials and machinery and equipment. IDA is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financing assistance. Its membership is prescribed by statute and includes public officials and private business leaders.

New York City Economic Development Corporation (EDC). EDC is a local development corporation organized in 1966 according to the not-for-profit corporation law of the State of New York. EDC's financial statements include the accounts of EDC and its affiliates, Metropolitan Business Assistance, Ltd. and Apple Industrial Development Corporation. EDC renders a variety of services and administers certain economic development programs on behalf of the City relating to attraction, retention, and expansion of commerce and industry in the City. These services and programs include encouragement of construction, acquisition, rehabilitation, and improvement of commercial and industrial enterprises within the City, and provision of grants to qualifying business enterprises as a means of helping to create and retain employment therein.

New York City Marketing Development Corporation (MDC). MDC is a local development corporation organized in 2003 under the not-for-profit corporation law of the State of New York. MDC is the City's central office for sponsorship, licensing, brand management, media management, advertising, and marketing. MDC assists the City through the development, enhancement, and protection of the trademarks, patents, copyrights, and other unique intangible assets of the City and by utilizing these assets in developing marketing partnerships, sponsorships, and licensing and other agreements for the financial benefit of the City. MDC's goals are to generate revenue for the City without raising taxes; support City agencies and important City initiatives; and promote the City for economic development, business prosperity, and growth in employment and tourism.

For fiscal year 2007, MDC operated under an extension of its contract with the City for fiscal year 2006. Midway through fiscal year 2007, the City decided to transition the functions and operations of MDC to another City-affiliated not-for-profit, NYC & Company, Inc. (NYCC). During this process, all employees of MDC became employees of NYCC effective February 1, 2007. The transition was completed with the registration of the NYCC contract with the City on June 14, 2007, which incorporated all the services formerly provided by MDC, and with the assignment of all MDC's revenue contracts to NYCC as of June 28, 2007. As a result, MDC's contract with the City was allowed to expire on June 30, 2007 and will only function to meet any outstanding financial and legal obligations incurred prior to that date.

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

The funds for RIP were provided by owners/developers of certain residential projects which caused the relocation of commercial and manufacturing businesses previously located at those sites. These funds consist of conversion contributions or escrow payments mandated by the City's Zoning Resolution for this type of development. The ability of BRAC to extract fees for residential conversion ended as of January 1, 1998 per the Zoning Resolution.

As required by the Zoning Resolution, developers/owners of specific City properties needed to pay a conversion contribution (BRAC payment) in order to receive a building permit for the conversion of space from commercial to residential use. As stipulated by the Zoning Resolution, in the event that such conversion resulted in the displacement of industrial and/or commercial firms located within the City, the developer was required to establish an escrow account. The funds were released to the displaced firm once eligible relocation had taken place.

Contributions were deposited to the BRAC fund in the event that a displaced firm did not relocate within the City within one year of the establishment of the escrow agreement. In addition, if the space to be converted was vacant for less than five years, the conversion contribution was made to the BRAC fund.

All conversion contributions received by BRAC are restricted for the use of administering industrial retention/relocation programs consistent with the Zoning Resolution. One such program, the Industrial Relocation Grant Program provides grants up to $30,000 to eligible New York City manufacturing firms to defray their moving costs. Grants are awarded after a firm completes its relocation. This program will continue to operate only with the current accumulated net assets now available.

Brooklyn Navy Yard Development Corporation (BNYDC). BNYDC was organized in 1966 as a not-for-profit corporation according to the not-for-profit corporation law of the State of New York. The primary purpose of BNYDC is to provide economic rehabilitation in Brooklyn, to revitalize the economy, and create job opportunities. In 1971, BNYDC leased the Brooklyn Navy Yard from the City for the purpose of rehabilitating it and attracting new businesses and industry to the area. The Mayor appoints the majority of the members of the Board of Directors.

New York City Water Board (Water Board) and New York City Municipal Water Finance Authority (Water Authority). The Water and Sewer System (NYW), consisting of two legally separate and independent entities, the Water Board and the Water Authority began operations in 1985. NYW provides for water supply and distribution, and sewage collection, treatment, and disposal for the City. The Water Authority was established to issue debt to finance the cost of capital improvements to the water distribution and sewage collection system, and to refund any and all outstanding bonds and general obligation bonds of the City issued for water and sewer purposes. The Water Board was established to lease the water distribution and sewage collection system from the City and to establish and collect rates, fees, rents, and other charges for the use of, or for services furnished, rendered, or made available by the water distribution and sewage collection system to produce cash sufficient to pay debt service on the Water Authority's bonds and to place NYW on a self-sustaining basis.

WTC Captive Insurance Company, Inc. (WTC Captive). WTC Captive is a not-for-profit corporation incorporated in the State of New York in 2004 in response to the events of September 11, 2001. WTC Captive was funded by the Federal Emergency Management Agency (FEMA) and used this funding to support issuance of an insurance contract that provides specified coverage (general liability, environmental liability, professional liability, and marine liability) against certain third-party claims made against the City and approximately 145 contractors and subcontractors working on the City's FEMA-funded debris removal project at the World Trade Center site or the Fresh Kills landfill during the 'exposure period' from September 11, 2001 to August 30, 2002. Coverage is provided on both an excess of loss and first dollar basis, depending on the line of coverage. WTC Captive has a calendar year-end.

New York City Capital Resource Corporation (CRC). CRC is a local development corporation organized in 2006 under the not-for-profit corporation law of the State of New York to assist qualified not-for-profit institutions, small manufacturing companies, and other entities eligible under the Federal tax laws in obtaining tax-exempt bond financing. CRC is a conduit bond issuer for the Loan Enhanced Assistance Program (LEAP). LEAP's goal is to facilitate access to private activity tax-exempt bond financing for qualified borrowers by simplifying the transaction structure, standardizing the required documentation, and achieving greater efficiency in marketing the tax-exempt debt.

CRC is a self-supporting entity and charges various program fees which may include application fees, financing fees, legal fees, and compliance fees. CRC is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financing assistance. Its membership is prescribed by statute and includes public officials and private business leaders.

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

2. Basis of Presentation

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

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

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

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

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

The City reports the following major governmental funds:

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

New York City Capital Projects Fund. This fund is used to record all revenues, expenditures, assets, and liabilities associated with City capital projects. It accounts for resources used to construct or acquire fixed assets and make capital improvements. Resources of the New York City Capital Projects Fund are derived principally from proceeds of City and TFA bond issues, payments from the Water Authority, and from Federal, State, and other aid.

General Debt Service Fund. This fund, required by State legislation on January 1, 1979 is administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this fund.

Additionally, the City reports the following fund types:

Fiduciary Funds

The Fiduciary Funds are used to account for assets and activities when a governmental unit is functioning either as a trustee or an agent for another party. They include the following:

The **Pension and Other Employee Benefit Trust Funds** account for the operations of:

- New York City Employees' Retirement System (NYCERS)
- New York City Teachers' Retirement System—Qualified Pension Plan (TRS)
- New York City Board of Education Retirement System—Qualified Pension Plan (BERS)
- New York City Police Pension Fund (POLICE)
- New York City Fire Pension Fund (FIRE)
- New York City Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York City Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York City Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York City Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- Transit Police Officers' Variable Supplements Fund (TPOVSF)
- Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)

- Housing Police Officers' Variable Supplements Fund (HPOVSF)
- Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- Correction Officers' Variable Supplements Fund (COVSF)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/457 Plan)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(k) Plan)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/408(q) Plan)
- New York City Retiree Health Benefits Trust (RHBT)

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

These funds use the accrual basis of accounting and a measurement focus on the periodic determination of additions, deductions, and net assets held in trust for benefit payments.

The **Agency Funds** account for miscellaneous assets held by the City for other funds, governmental units, and individuals. The Agency Funds are custodial in nature and do not involve measurement of results of operations.

Discretely Presented Component Units

The discretely presented component units consist of **HHC, OTB, HDC, HA, EDC, NYW** and the nonmajor component units. These activities are accounted for in a manner similar to private business enterprises, in which the focus is on the periodic determination of revenues, expenses, and net income.

3. Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City either gives or receives value without directly receiving or giving equal value in exchange, include sales and income taxes, property taxes, grants, entitlements, and donations which are recorded on the accrual basis of accounting. Revenues from sales and income taxes are recognized when the underlying exchange transaction takes place. Revenues from property tax are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund types use the flow of current financial resources measurement focus. This focus is on the determination of, and changes in financial position, and generally only current assets and current liabilities are included on the balance sheet. These funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Revenues from taxes are generally considered available if received within two months after the fiscal year-end. Revenues from categorical and other grants are generally considered available if received within one year after the fiscal year-end. Expenditures are recorded when the related liability is incurred and payment is due, except for principal and interest on long-term debt and certain estimated liabilities which are recorded only when payment is due.

The measurement focus of the Pension and Other Employee Benefit Trust Funds is on the flow of economic resources. This focus emphasizes the determination of net income, changes in net assets, and financial position. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. These funds use the accrual basis of accounting whereby revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred. The Pension Trust Funds' contributions from members are recorded when the employer makes payroll deductions from Plan members. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the discretely presented component units have elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

The Agency Funds use the accrual basis of accounting and do not measure the results of operations.

4. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. Encumbrances not resulting in expenditures by year-end, lapse.

5. Cash and Investments

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during fiscal years 2007 and 2006 were approximately $1,228 million and $785 million, respectively.

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

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

Investments of the Pension and Other Employee Benefit Trust Funds are reported at fair value. Investments are stated at the last reported sales price on a national securities exchange or as priced by a nationally recognized securities pricing service as on the last business day of the fiscal year except for securities held as alternative investments where fair value is determined by the general partners of the partnerships the funds are invested in, and other experts with this asset class.

A description of the City's securities lending activities for the Pension and certain Other Employee Benefit Trust Funds in fiscal years 2007 and 2006 is included in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2007 and 2006 (estimated at $262 million and $244 million, respectively, based on average cost) have been reported on the government-wide statement of net assets. Inventories are recorded as expenditures in governmental funds at the time of purchase, and accordingly have not been reported on the governmental funds balance sheet.

7. Restricted Cash and Investments

Certain proceeds of the City and component unit bonds, as well as certain resources set aside for bond repayment, are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants. None of the government-wide statement of net assets is restricted by enabling legislation.

8. Capital Assets

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection system, and other elements of the City's infrastructure having a minimum useful life of five years, having a cost of more than $35,000, and having been appropriated in the Capital Budget (see Note C.1.). Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported in the government-wide financial statements. These statements also contain the City's infrastructure elements that are now required to be capitalized under GAAP. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, park land and improvements, and tunnels. The capital assets of the water distribution and sewage collection system are recorded in the Water and Sewer System component unit financial statements under a lease agreement between the City and the Water Board.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated capital assets are stated at their fair market value as of the date of the donation. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease (see Note D.3.).

Accumulated depreciation and amortization are reported as reductions of capital assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 40 to 50 years for buildings; 5 to 35 years for equipment; and 15 to 50 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is less.

9. Allowance for Uncollectible Mortgage Loans

Mortgage loans and interest receivable in the Debt Service Funds are net of an allowance for uncollectible amounts of $317.0 million and $314.6 million for fiscal years 2007 and 2006, respectively. The allowance is composed of the balance of first mortgages one or more years in arrears and the balance of refinanced mortgages where payments to the City are not expected to be completed for approximately 25 to 30 years.

10. Vacation and Sick Leave

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

11. Judgments and Claims

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

12. Long-term Liabilities

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

13. Derivatives

The City did not enter into any new derivative transactions during fiscal years 2007 and 2006. In April, 2007, the City and a counterparty did amend one swap confirmation in connection with a synthetic fixed rate swap that had been entered into in January, 2003 with a notional amount of $80 million. The City and the counterparty agreed to eliminate the counterparty's existing cancellation option in exchange for the City's agreement to increase its fixed rate payment from 2.818% per annum to 3.109% per annum starting on August 1, 2007. Certain disclosures have been made for the cumulative derivatives contracted since fiscal year 2003 which are reported at fair value on the government-wide statement of net assets and include disclosure of the objectives for entering into the derivatives and the derivatives' fair values and risk exposures.

Swap Transaction Summary

In an effort to lower its borrowing costs over the life of its bonds and to diversify some of its existing derivatives portfolio, the City has entered into Interest Rate Exchange Agreements (swaps) and sold options related to some of these swaps. As of June 30, 2007 and 2006, the total notional amount of the City's swaps and swaptions outstanding was $3.045 billion and $3.053 billion, respectively. The total marked to market value of the City's swaps and swaptions as of June 30, 2007 and 2006 was approximately $14.3 million and $(14.8) million, respectively, which were reported on the government-wide statement of net assets. The table includes certain significant terms and the marked to market values for the City's cumulative swap transactions.

Transaction Number	Prior Years Since Fiscal Year 2003 1-14(a) (in thousands)
Notional Amount:	
as of 6/30/07	$3,044,785
as of 6/30/06	$3,053,445
Up-front Cash Payment to the City	$ 40,585
Option Premium	$ 19,860
Payments Made by the City:	
as of 6/30/07	$ (294,385)
as of 6/30/06	$ (191,192)
Payments Received by the City(b):	
as of 6/30/07	$ 352,865
as of 6/30/06	$ 180,748
Marked to Market Value:	
as of 6/30/07	$ 14,326
as of 6/30/06	$ (14,828)

(a) No new swap transactions were entered into by the City during fiscal years 2007 and 2006.

(b) Includes Up-front Cash Payment and Option Premium.

Risks

While the City did not enter into any new swap transactions during fiscal years 2007 and 2006, below is a list of risks inherent in the types of swap transactions that the City has entered into since fiscal year 2003.

Counterparty Risk: The risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If a counterparty were to default under its agreement when the counterparty would owe a termination payment to the City, the City may have to pay another entity to assume the position of the defaulting counterparty. The City has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Termination Risk: The risk that a counterparty will terminate a swap at a time when the City owes it a termination payment. The City has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the City; other City defaults which remain uncured for 30 days after notice; City bankruptcy; insolvency of the City (or similar events); or a downgrade of the City's credit rating below investment grade (i.e., BBB-/Baa3). The total return swap has additional termination events in addition to those just described, including: the counterparty may terminate the swap on any business day on which the par value of the bonds exceeds the market value of the bonds by $75 million. The likelihood of such a discrepancy between the par and market values is mitigated by a reset mechanism which adjusts the bond coupon upward or downward by an amount equal to the movement of the AAA Municipal Market Data Index since its previous reset.

Basis Risk: The risk that the City's variable rate payments will not equal its variable rate receipts because they are based on different indices. Under the terms of its synthetic fixed rate swap transactions, the City pays a variable rate on its bonds based on the Securities Industry and Financial Markets Association Index (SIFMA) but receives a variable rate on the swap based on a percentage of the London Interbank Offered Rate (LIBOR). In its August, 2004 basis swap, the City's variable payer rate is based on SIFMA and its variable receiver rate on a percentage of LIBOR. However, the stepped percentages of LIBOR received by the City mitigate the risk that the City will be harmed in low interest rate environments by the compression of the SIFMA and LIBOR indices. As the overall level of interest rates decreases, the percentage of LIBOR received by the City increases.

Tax Risk: The risk that a change in Federal tax rates will alter the fundamental relationship between the SIFMA and LIBOR indices. A reduction in Federal tax rates, for example, will likely increase the City's payment on its underlying variable rate bonds in the synthetic fixed rate transactions and its variable payer rate in the basis swaps.

14. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2007 were due July 1, 2006 and January 1, 2007 except that payments by owners of real property assessed at $80,000 or less and cooperatives whose individual units on average are valued at $80,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2007 taxes was June 29, 2006. The lien date is the date taxes are due.

Real estate tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first two months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government-wide financial statements recognize real estate tax revenue (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied.

The City offered an actual 1.5% discount for the prepayment of real estate taxes for fiscal years 2008 and 2007. Payment of real estate taxes before July 15, 2007, on properties with an assessed value of $80,000 or less and before July 1, 2007, on properties with an assessed value over $80,000 received the discount. Collections of these real estate taxes received on or before June 30, 2007 and 2006 were $2.7 billion and $3.7 billion, respectively. These amounts were recorded as deferred revenue.

The City sold approximately $45.2 million of real property tax liens, fully attributable to fiscal year 2007, at various dates in fiscal year 2007. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $3.3 million worth of liens sold in fiscal year 2007 will require replacement. The estimated refund accrual amount of $4 million, including the surcharge and interest, resulted in fiscal year 2007 net sale proceeds of $41.2 million.

In fiscal year 2007, $10.0 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2006 sale. This resulted in a decrease to fiscal year 2007 revenue of $1.0 million for the refund amount in excess of the fiscal year 2006 accrual of $9 million and decreased the proceeds of the fiscal year 2006 sale to $82.0 million down from the original fiscal year 2006 proceeds reported last year of $83.0 million.

The City sold approximately $92.0 million of real property tax liens, fully attributable to fiscal year 2006, at various dates in fiscal year 2006. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $7.3 million worth of liens sold in fiscal year 2006 will require replacement. The estimated refund accrual amount of $9 million, including the surcharge and interest, resulted in fiscal year 2006 net sale proceeds of $83.0 million.

In fiscal year 2006, $.2 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2005 sale. This resulted in an increase to fiscal year 2006 revenue of $10.8 million for the refund amount was less than the fiscal year 2005 accrual of $11 million and increased the proceeds of the fiscal year 2005 sale to $48.5 million up from the original fiscal year 2005 proceeds reported last year of $37.7 million.

In fiscal years 2007 and 2006, $353 million and $380 million, respectively, were provided as allowances for uncollectible real estate taxes against the balance of the receivable. Delinquent real estate taxes receivable that are estimated to be collectible but which are not collected in the first two months of the next fiscal year are recorded as deferred revenues in the governmental funds balance sheet but included in general revenues on the government-wide statement of activities.

The City is permitted to levy real estate taxes for general operating purposes in an amount up to 2.5% of the average full value of taxable real estate in the City for the last five years and in unlimited amounts for the payment of principal and interest on long-term City debt. Amounts collected for payment of principal and interest on long-term debt in excess of that required for that purpose in the year of the levy must be applied towards future years' debt service. For the fiscal years ended June 30, 2007 and 2006, excess amounts of $153 million and $98 million, respectively, were transferred to the General Debt Service Fund.

15. Other Taxes and Other Revenues

Taxpayer-assessed taxes, such as sales and income taxes, net of refunds, are recognized in the accounting period in which they become susceptible to accrual for the fund financial statements. Additionally, the government-wide financial statements recognize sales and income taxes (net of refunds) which are not available to the governmental fund type in the accounting period for which the taxes are assessed.

16. Federal, State, and Other Aid

For the government-wide and fund financial statements, categorical aid, net of a provision for estimated disallowances is reported as receivables when the related eligibility requirements are met. Unrestricted aid is reported as revenue in the fiscal year of entitlement.

17. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized as expenditures in the period incurred. Bond discounts in the government-wide financial statements units are deferred and amortized over the term of the bonds using a method which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges. Bond issuance costs are amortized in the government-wide financial statements over the term of the bonds using the straight-line method.

18. Intra-entity Activity

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as transfers. Such payments include transfers for debt service and capital construction. In the government-wide financial statements, resource flows between the primary government and the discretely presented component units are reported as if they were external transactions.

19. Subsidies

The City makes various payments to subsidize a number of organizations which provide services to City residents. These payments are recorded as expenditures in the year paid.

20. Pensions

Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Note E.5.), regardless of the amount recognized as pension expense on the modified accrual basis of accounting. Annual pension cost should be equal to the annual required contributions to the pension plan, calculated in accordance with certain parameters.

21. Other Postemployment Benefits

Other Postemployment Benefits (OPEB) cost for healthcare is required to be measured and disclosed using the accrual basis of accounting (see Note E.4.), regardless of the amount recognized as OPEB expense on the modified accrual basis of accounting. Annual OPEB cost should be equal to the annual required contributions to the OPEB plan, calculated in accordance with certain parameters.

22. Estimates and Assumptions

A number of estimates and assumptions relating to the reporting of revenues, expenditures, assets and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

23. Pronouncements Issued But Not Yet Effective

In September, 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or as a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent property tax liens, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements.

Statement No. 48 also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

In addition to clarifying guidance (supersedes Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues* and amends Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*) on accounting for sales and pledges of receivables and future revenues, Statement No. 48:

- Requires enhanced disclosures pertaining to future revenues that have been pledged or sold. These disclosures are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so.
- Provides guidance on sales of receivables and future revenues within the same financial reporting entity.
- Provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues, including residual interests and recourse provisions.

The City will be required to implement Statement No. 48 in fiscal year ending June 30, 2008. While earlier application of the Statement is encouraged, the City has not completed the task of estimating the impact of Statement No. 48 on its financial statements.

In November, 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution (e.g., hazardous wastes spills and asbestos contamination) by participating in pollution remediation activities such as site assessments and cleanups. Pollution remediation obligations exclude pollution prevention or control obligations relating to current operations and future pollution remediation activities such as landfill closure and postclosure care. Statement No. 49 identifies the obligating events which require a governmental entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The Statement amends: NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*, GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, to provide specific reporting guidance for pollution remediation obligations, including disclosure requirements. Comparability of financial statements among governments will be enhanced by Statement No. 49 requiring all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported. The Statement also will enhance users' ability to assess governments' obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable.

The requirements of Statement No. 49 are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented. While earlier application of the Statement is encouraged, the City has not completed the process of evaluating the impact of Statement No. 49 on its financial statements.

In May, 2007, GASB issued Statement No. 50 *Pension Disclosures,* an amendment of GASB Statements No. 25 and No. 27. The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The Statement more closely aligns the financial reporting requirements for pensions with those for Other Postemployment Benefits (OPEB) and consequently, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by Statement No. 50 amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers.

The requirements of Statement No. 50 are effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. While earlier application of the Statement is encouraged, the City has not completed the task of evaluating the impact of Statement No. 50 on its financial statements. In the initial year of implementation, defined benefit pension plans and sole and agent employers that use the aggregate actuarial cost method to determine the ARC are required to present elements of information in the schedule of funding progress using the entry age actuarial cost method as of the most recent actuarial valuation date. In subsequent years, plans and employers should add to that schedule information as of subsequent actuarial valuation dates until the requirements of Statements 25 and 27, as amended, with regard to the minimum number of years or actuarial valuations to be included have been met.

In June, 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Statement No. 51 also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The objective of Statement No. 51 is to establish accounting and financial reporting requrements for intangible assets to reduce inconsistencies relating to recognition, initial measurement, and amortization, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered indentifiable. Additionally, the Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. Statement No. 51 also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software. The Statement also establishes guidance specific to intangible assets related to amortization. Guidance is provided on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

The requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For the City, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of the Statement and those that would be considered internally generated. Early implementation of this Statement is not encouraged. The City has not completed the process of evaluating the impact of Statement No. 51 on its financial statements.

B. Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances (deficit) as reflected on the governmental funds balance sheet and total net assets (deficit) of governmental activities as shown on the government-wide statement of net assets is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the difference are related to the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

A summary reconciliation of the difference between net change in fund balances as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and change in net assets of governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

C. Stewardship, Compliance, and Accountability

1. Budgets and Financial Plans

Budgets

Annual Expense Budget appropriations, which are prepared on the modified accrual basis, are adopted for the General Fund, and unused appropriations lapse at fiscal year-end. The City uses appropriations in the Capital Budget to authorize the expenditure of funds for various capital projects. Capital appropriations, unless modified or rescinded, remain in effect until the completion of each project.

The City is required by State Law to adopt and adhere to a budget, on a basis consistent with GAAP, that would not have General Fund expenditures in excess of revenues.

Expenditures made against the Expense Budget are controlled through the use of quarterly spending allotments and units of appropriation. A unit of appropriation represents a subdivision of an agency's budget and is the level of control at which expenditures may not legally exceed the appropriation. The number of units of appropriation and the span of operating responsibility which each unit represents, differs from agency to agency depending on the size of the agency and the level of control required. Transfers between units of appropriation and supplementary appropriations may be made by the Mayor subject to the approval provisions set forth in the City Charter. Supplementary appropriations increased the Expense Budget by $7.121 billion and $4.941 billion subsequent to its original adoption in fiscal years 2007 and 2006, respectively.

Financial Plans

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

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

2. Deficit Fund Balance

The New York City Capital Projects Fund has cumulative deficits of $3.3 billion and $2.2 billion at June 30, 2007 and 2006, respectively. These deficits represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

D. Detailed Notes on All Funds

1. Deposits and Investments

Deposits

The City's bank depositories are designated by the Banking Commission, which consists of the Comptroller, the Mayor, and the Finance Commissioner. Independent bank rating agencies are used to determine the financial soundness of each bank, and the City's banking relationships are under periodic operational and credit reviews.

The City Charter limits the amount of deposits at any time in any one bank or trust company to a maximum of one-half of the amount of the capital and net surplus of such bank or trust company. The discretely presented component units included in the City's reporting entity maintain their own banking relationships which generally conform with the City's. Bank balances are currently insured up to $100,000 in the aggregate by the Federal Deposit Insurance Corporation (FDIC) for each bank for all funds other than monies of the retirement systems, which are held by well-capitalized banks and are insured by the FDIC up to $100,000 per retirement system member. At June 30, 2007 and 2006, the carrying amount of the City's unrestricted cash and cash equivalents was $8.793 billion and $10.097 billion, respectively, and the bank balances were $2.371 billion and $2.204 billion, respectively. Of the unrestricted bank balances, $11 million and $8 million were exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it or the City will not be able to recover collateral securities that are in the possession of an outside party) because the respective bank balances were uninsured and uncollateralized at June 30, 2007 and 2006, respectively. Neither the blended component units: SCA, HYDC, and Private Housing Loan Programs as of June 30, 2007 and 2006, respectively, nor the City's General Debt Service Fund as of June 30, 2006 had a deposit policy for custodial credit risk. At June 30, 2007 and 2006, the carrying amount of the restricted cash and cash equivalents was $1.528 billion and $1.055 billion, respectively, and the bank balances were $3.6 million and $.7 million, respectively. Of the restricted bank balances, $3.5 million and $.6 million were exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it or the City will not be able to recover collateral securities that are in the possession of an outside party) because the respective bank balances were uninsured and uncollateralized at June 30, 2007 and 2006, respectively. TFA, a blended component unit did not have a deposit policy for custodial credit risk as of June 30, 2007 and 2006; also, the blended component units: HYIC, FSC, and STAR lacked a deposit policy for custodial credit risk as of June 30, 2007.

Investments

The City's investment of cash in its governmental fund types is currently limited to U.S. Government guaranteed securities and U.S. Government agency securities purchased directly and through repurchase agreements from primary dealers as well as commercial paper rated A1 and P1 by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively. The repurchase agreements must be collateralized by U.S. Government guaranteed securities, U.S. Government agency securities, or eligible commercial paper in a range of 100% to 102% of the matured value of the repurchase agreements. The following is a summary of the fair value of investments of the City as of June 30, 2007 and 2006:

Governmental activities:

	Investment Maturities (in years)			
	2007		2006	
Investment Type	Less than 1	1 to 5	Less than 1	1 to 5
	(in thousands)			
Unrestricted				
U.S. Government securities	$1,139,158	$ —	$1,700,040	$ 18,352
U.S. Government agency obligations	349,328	—	257,529	—
Commercial paper	409,147	—	—	—
Total unrestricted	$1,897,633	$ —	$1,957,569	$ 18,352
Restricted				
U.S. Government securities	$ 50,968	$ 311,868	$ 444,210	$328,374
Commercial paper	395,978	—	85,960	—
U.S. Government agency obligations	1,394,414	238,198	—	266,351
Repurchase agreements	77,153	1,787,760	17,475	—
Total restricted	$1,918,513	$2,337,826	$ 547,645	$594,725

Interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's portfolio is managed by limiting the weighted average maturity to a period of less than 2 years. The City's current weighted average is less than 90 days.

Credit risk. Investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. As of June 30, 2007 and 2006, investments in Federal National Mortgage Association (FNMA or Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and Federal Home Loan Bank (FHLB) were rated in the highest long-term or short-term ratings category (as applicable) by Standard & Poor's and/or Moody's Investor Service. These ratings were AAA and A-1+ by Standard & Poor's and Aaa and P-1 by Moody's for long-term and short-term instruments respectively. The majority of these investments were not rated by Fitch ratings, but those that were carried its highest long-term or short-term ratings of AAA or F1+, respectively. Investments in commercial paper were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor's, P-1 by Moody's, and/or F1+ by Fitch ratings). Repurchase agreements are not rated. Resolution Funding Strip investments are guaranteed by the U.S. Treasury.

Concentration of credit risk. The City's investment policy limits investments to no more than $250 million invested at any time in either commercial paper of a single issuer or investment agreement with a single provider.

Custodial credit risk-investments. For investments, custodial credit risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of the City.

The City manages custodial credit risk by limiting its investments to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the City.

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

1. Fixed income investments may be made in U.S. Government guaranteed securities or securities of U.S. Government agencies, securities of companies rated BBB or better by both Standard and Poor's Corporation and Moody's Investors Service, Inc., and any bond that meets the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.
2. Equity investments may be made only in those stocks that meet the qualifications of the New York State Retirement and Social Security Laws, the New York State Banking Law, and the New York City Administrative Code.
3. Short-term investments may be made in the following:
   a. U.S. Government guaranteed securities or U.S. Government agency securities.
   b. Commercial paper rated A1 or P1 or F1 by Standard & Poor's Corporation or Moody's Investors Service, Inc. or Fitch, respectively.
   c. Repurchase agreements collateralized in a range of 100% to 102% of matured value, purchased from primary dealers of U.S. Government securities.
   d. Investments in bankers' acceptances, certificates of deposit, and time deposits are limited to banks with worldwide assets in excess of $50 billion that are rated within the highest categories of the leading bank rating services and selected regional banks also rated within the highest categories.
4. Investments up to 25% of total pension fund assets in instruments not specifically covered by the New York State Retirement and Social Security Law.
5. No investment in any one corporation can be: (i) more than 2% of the pension plan net assets; or (ii) more than 5% of the total outstanding issues of the corporation.

All investments are held by the City's custodial banks (in bearer or book-entry form) solely as agent of the Comptroller of The City of New York on behalf of the various account owners. Payments for purchases are not released until evidence of ownership of the underlying investments are received by the City's custodial bank.

Securities Lending

State statutes and boards of trustees policies permit the Pension and certain Other Employee Benefit Trust Funds (Systems and Funds) to lend their securities (the underlying securities) to brokers-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Systems' and Funds' custodians lend the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Government and U.S. Government agencies' bonds, asset-backed securities, and international equities and bonds held in collective investment funds. In return, the Systems and Funds receive collateral in the form of cash and U.S. Government agency securities at 100% to 105% of the principal plus accrued interest for reinvestment. At year-end, the Systems and Funds had no credit risk exposure to borrowers because the amounts the Systems and Funds owe the borrowers exceed the amounts the borrowers owe the Systems and Funds. The contracts with the Systems' and Funds' custodian requires borrowers to indemnify the Systems and Funds if the borrowers fail to return the securities, if the collateral is inadequate, and if the borrowers fail to pay the Systems and Funds for income distributions by the securities' issuers while the securities are on loan.

The securities lending program in which the Systems and Funds participate only allows pledging or selling securities in the case of borrower default.

All securities loans can be terminated on demand within a period specified in each agreement by either the Systems and Funds or the borrowers. The underlying fixed income securities have an average maturity of 10 years. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. During fiscal year 2003, the value of certain underlying securities became impaired because of the credit failure of the issuer. Accordingly, the carrying amounts of the collateral reported in four of the Systems' statements of fiduciary net assets were reduced by a total of $80 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions. During fiscal years 2004 through 2006, $10.4 million was recovered as a distribution of bankruptcy proceeds and $18.2 million was received as a partial settlement from litigation. In fiscal year 2007, an additional $7.1 million was recovered as an ongoing distribution of bankruptcy proceeds.

The City reports securities loaned as assets on the Statement of Fiduciary Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are also recorded as assets. Liabilities resulting from these transactions are reported on the Statement of Fiduciary Net Assets. Accordingly, the City records the investments purchased with the cash collateral as Investments, Collateral From Securities Lending Transactions with a corresponding liability as Securities Lending Transactions.

2. Capital Assets

The following is a summary of capital assets activity for the fiscal years ended June 30, 2006 and 2007:

Primary Government	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
				(in thousands)			
Governmental activities:							
Capital assets, not being depreciated:							
Land	$ 948,235	$ 35,362	$ 15,643	$ 967,954	$ 99,417	$ —	$ 1,067,371
Construction work-in-progress	2,054,131	2,358,965	1,459,118	2,953,978	2,643,836	1,971,500	3,626,314
Total capital assets, not being depreciated	3,002,366	2,394,327	1,474,761	3,921,932	2,743,253	1,971,500	4,693,685
Capital assets, being depreciated:							
Buildings	30,412,179	1,459,118	165,292	31,706,005	1,971,500	54,197	33,623,308
Equipment	5,524,903	186,148	251,772	5,459,279	273,044	177,858	5,554,465
Infrastructure	11,105,898	942,048	433,537	11,614,409	1,151,884	391,451	12,374,842
Total capital assets, being depreciated	47,042,980	2,587,314	850,601	48,779,693	3,396,428	623,506	51,552,615
Less accumulated depreciation:							
Buildings	11,406,060	1,128,775	147,934	12,386,901	1,084,673	53,420	13,418,154
Equipment	3,951,515	359,687	245,280	4,065,922	353,235	165,148	4,254,009
Infrastructure	4,004,889	530,350	457,387	4,077,852	556,585	391,452	4,242,985
Total accumulated depreciation	19,362,464	2,018,812(1)	850,601	20,530,675	1,994,493(1)	610,020	21,915,148
Total capital assets, being depreciated, net	27,680,516	568,502	—	28,249,018	1,401,935	13,486	29,637,467
Governmental activities capital assets, net	$30,682,882	$2,962,829	$1,474,761	$32,170,950	$4,145,188	$1,984,986	$34,331,152

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2007 and 2006 as follows:

	2007	2006
	(in thousands)	
Governmental activities:		
General government	$ 299,883	$ 350,163
Public safety and judicial	214,052	223,287
Education	622,883	577,368
City University	10,500	10,487
Social services	80,178	73,874
Environmental protection	97,786	125,214
Transportation services	402,983	391,729
Parks, recreation and cultural activities	187,378	189,524
Housing	35,771	33,917
Health	30,360	30,363
Libraries	12,719	12,886
Total depreciation expense—governmental activities	$1,994,493	$2,018,812

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2007 and 2006. Sources of funding for capital assets are not available prior to fiscal year 1987.

	2007	2006
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	$ 5,105,519	$ 5,105,519
City bonds	45,872,338	42,395,200
Federal grants	1,073,013	1,050,947
State grants	105,538	105,331
Private grants	330,493	330,494
Capitalized leases	3,759,399	3,714,134
Total funding sources	$56,246,300	$52,701,625

At June 30, 2007 and 2006, governmental activities capital assets include approximately $1.2 billion of City-owned assets leased for $1 per year to the New York City Transit Authority which operates and maintains the assets. In addition, assets leased to HHC and to the Water and Sewer System are excluded from the governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in buildings at June 30, 2007 and 2006 are leased properties that have elements of ownership. These assets are recorded as capital assets as follows:

	Capital Leases	
Governmental activities:	2007	2006
	(in thousands)	
Capital asset:		
Buildings, gross	$3,759,399	$3,714,134
Less accumulated amortization	927,480	789,515
Buildings, net	$2,831,919	$2,924,619

Capital Commitments

At June 30, 2007, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $15.1 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates New York City Capital Projects Fund expenditures of $83.7 billion over fiscal years 2008 through 2017. To help meet its capital spending program, the City and TFA borrowed $4.1 billion in the public credit market in fiscal year 2007. The City and TFA plan to borrow $5.6 billion in the public credit market in fiscal year 2008.

3. Leases

The City leases a significant amount of property and equipment from others. Leased property having elements of ownership is recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property not having elements of ownership are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when payable. Total expenditures on such leases for the fiscal years ended June 30, 2007 and 2006 were approximately $603 million and $587 million, respectively.

As of June 30, 2007, the City (excluding discretely presented component units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	Capital Leases	Operating Leases	Total
Governmental activities:		(in thousands)	
Fiscal year ending June 30:			
2008	$ 257,604	$ 368,441	$ 626,045
2009	231,952	352,443	584,395
2010	240,556	333,726	574,282
2011	239,767	308,351	548,118
2012	238,466	289,577	528,043
2013-2017	1,115,878	1,195,575	2,311,453
2018-2022	963,512	762,861	1,726,373
2023-2027	425,436	292,458	717,894
2028-2032	316,396	24,787	341,183
2033-2037	101,887	18,480	120,367
2038-2042	37,849	87	37,936
Future minimum payments	4,169,303	$3,946,786	$8,116,089
Less interest	1,337,384		
Present value of future minimum payments	$2,831,919		

The present value of future minimum lease payments includes approximately $1.527 billion for leases with Public Benefit Corporations (PBC) where State law generally provides that in the event the City fails to make any required lease payment, the amount of such payment will be deducted from State aid otherwise payable to the City and paid to PBC.

The City also leases City-owned property to others, primarily for markets, ports, and terminals. Total rental revenue on these capital and operating leases for the fiscal years ended June 30, 2007 and 2006 was approximately $211 million and $209 million, respectively. As of June 30, 2007, the following future minimum rentals are provided for by the leases:

	Capital Leases	Operating Leases	Total
Governmental activities:		(in thousands)	
Fiscal year ending June 30:			
2008	$ 4,265	$ 167,169	$ 171,434
2009	4,295	161,498	165,793
2010	4,334	157,010	161,344
2011	4,184	152,467	156,651
2012	1,882	146,635	148,517
2013-2017	11,270	708,200	719,470
2018-2022	12,676	673,445	686,121
2023-2027	13,259	628,380	641,639
2028-2032	14,290	613,952	628,242
2033-2037	10,694	613,948	624,642
2038-2042	2,888	569,606	572,494
2043-2047	1,994	566,723	568,717
2048-2052	1,800	408,984	410,784
2053-2057	1,800	45,956	47,756
2058-2062	1,800	45,956	47,756
2063-2067	1,800	45,956	47,756
2068-2072	1,800	44,893	46,693
2073-2077	1,800	43,599	45,399
2078-2082	900	29,256	30,156
2083-2087	—	25,700	25,700
Thereafter until 2106	—	2	2
Future minimum lease rentals	97,731	$5,849,335	$5,947,066
Less interest	56,647		
Present value of future minimum lease rentals	$ 41,084		

4. Short-Term Liabilities

Changes in Short-term liabilities

In fiscal years 2006 and 2007, the changes in short-term liabilities were as follows:

Primary Government	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
				(in thousands)			
Governmental activities:							
Notes payable:							
Bond anticipation notes (1)	$ —	$ —	$ —	$ —	$ 600,000	$ 600,000	$ —
Total notes payable	$ —	$ —	$ —	$ —	$ 600,000	$ 600,000	$ —

(1) The Bond anticipation notes are used by TFA to provide financing for the City's capital expenditures.

5. Long-Term Liabilities

Changes in Long-term liabilities

In fiscal years 2006 and 2007, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
				(in thousands)				
Governmental activities:								
Bonds and notes payable:								
General obligation bonds	$33,903,279	$ 4,826,810	$ 2,885,657	$ 35,844,432	$ 1,947,830	$ 3,286,551	$ 34,505,711	$1,764,660
TFA bonds	12,976,615	597,235	1,341,305	12,232,545	3,589,370	1,215,090	14,606,825	105,905
TSASC bonds	1,283,297	1,353,778	1,303,510	1,333,565	—	16,705	1,316,860	—
IDA bonds	106,265	—	1,775	104,490	—	1,860	102,630	1,950
STAR bonds	2,551,435	—	81,030	2,470,405	—	102,290	2,368,115	15,485
FSC bonds	460,295	—	73,735	386,560	—	49,440	337,120	16,110
HYIC bonds	—	—	—	—	2,000,000	—	2,000,000	—
HYIC notes	—	—	—	—	200,000	100,000	100,000	33,333
ECF bonds	134,960	—	51,015	83,945	51,340	12,095	123,190	13,910
Total before treasury obligations and discounts	51,416,146	6,777,823	5,738,027	52,455,942	7,788,540	4,784,031	55,460,451	1,951,353
Less treasury obligations	38,852	—	38,852	—	—	—	—	—
Total before discounts	51,377,294	6,777,823	5,699,175	52,455,942	7,788,540	4,784,031	55,460,451	1,951,353
Less premiums/discounts (net)	(615,503)	97,728	226,096	(743,871)	308,403	385,797	(821,265)	—
Total bonds and notes payable	51,992,797	6,680,095	5,473,079	53,199,813	7,480,137	4,398,234	56,281,716	1,951,353
Capital lease obligations	3,044,080	14,191	133,652	2,924,619	45,265	137,965	2,831,919	132,854
Other tax refunds	1,421,538	98,045	31,538	1,488,045	380,308	98,045	1,770,308	131,308
Judgments and claims	4,810,171	1,263,000	1,054,263	5,018,908	1,441,714	1,106,513	5,354,109	1,314,253
Real estate tax certiorari	622,352	92,374	146,381	568,345	233,986	51,377	750,954	88,121
Vacation and sick leave	2,593,691	494,459	247,937	2,840,213	522,766	252,020	3,110,959	252,020
Pension liability	806,200	64,500	106,700	764,000	61,100	98,500	726,600	—
OPEB liability	—	55,690,322	2,182,871	53,507,451	7,164,986	2,910,499	57,761,938	—
Landfill closure and postclosure care costs	1,300,082	381,578	29,660	1,652,000	13,066	52,195	1,612,871	76,332
Total changes in governmental activities long-term liabilities	$66,590,911	$64,778,564	$ 9,406,081	$121,963,394	$17,343,328	$ 9,105,348	$130,201,374	$3,946,241

Note: City bonds and notes payable are generally liquidated with resources of the General Debt Service Fund. Other long-term liabilities are generally liquidated with resources of the General Fund.

The bonds and notes payable, net of treasury obligations, at June 30, 2007 and 2006 summarized by type of issue are as follows:

Primary Government	2007 General Obligations	2007 Revenue	2007 Total	2006 General Obligations	2006 Revenue	2006 Total
	(in thousands)					
Governmental activities:						
Bonds and notes payable:						
General obligation bonds	$34,505,711	$ —	$34,505,711	$35,844,432	$ —	$35,844,432
TFA bonds	13,306,825	1,300,000	14,606,825	12,232,545	—	12,232,545
TSASC bonds	1,316,860	—	1,316,860	1,333,565	—	1,333,565
IDA bonds	102,630	—	102,630	104,490	—	104,490
STAR bonds	2,368,115	—	2,368,115	2,470,405	—	2,470,405
FSC bonds	337,120	—	337,120	386,560	—	386,560
HYIC bonds	—	2,000,000	2,000,000	—	—	—
HYIC notes	—	100,000	100,000	—	—	—
ECF bonds	—	123,190	123,190	—	83,945	83,945
Total bonds and notes payable	$51,937,261	$3,523,190	$55,460,451	$52,371,997	$ 83,945	$52,455,942

The following table summarizes future debt service requirements as of June 30, 2007:

Primary Government	Governmental Activities: General Obligation Bonds Principal	General Obligation Bonds Interest(1)	Revenue Bonds and Notes Principal	Revenue Bonds and Notes Interest
	(in thousands)			
Fiscal year ending June 30:				
2008	$ 1,904,110	$ 2,412,416	$ 46,998	$ 180,307
2009	1,902,841	2,336,715	59,618	164,397
2010	1,881,310	2,252,998	58,964	163,400
2011	2,393,021	2,157,821	26,275	162,472
2012	2,548,220	2,105,218	31,870	161,325
2013-2017	12,537,883	8,934,106	157,720	785,620
2018-2022	12,228,527	5,855,850	192,975	744,990
2023-2027	9,188,644	3,001,939	252,075	690,905
2028-2032	5,244,747	1,107,787	308,275	623,072
2033-2037	1,543,133	267,234	388,420	541,937
2038-2042	564,778	143,425	—	487,500
2043-2047	3	16	2,000,000	487,500
Thereafter until 2147	44	153	—	—
	51,937,261	30,575,678	3,523,190	5,193,425
Less interest component	—	30,575,678	—	5,193,425
Total future debt service requirements	$51,937,261	$ —	$3,523,190	$ —

(1) Includes interest for general obligation bonds estimated at 4% rate on tax-exempt adjustable rate bonds and at 6% rate on taxable adjustable rate bonds which are the rates at the end of the fiscal year.

The average (weighted) interest rates for outstanding City general obligation bonds as of both June 30, 2007 and 2006 was 4.7% and both ranged from 0% to 10%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2007 and 2006, the City issued $1.13 billion and $1.422 billion, respectively, of general obligation bonds to advance refund general obligation bonds of $1.11 billion and $1.424 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of $1.86 million and $810 thousand, respectively, were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the government-wide financial statements. In fiscal year 2007, the refunding transactions will decrease the City's aggregate debt service payments by $71.58 million and provide an economic gain of $44.12 million. In fiscal year 2006, the refunding transactions decreased the City's aggregate debt service payments by $114.1 million and provided an economic gain of $91.2 million. At June 30, 2007 and 2006, $10.820 billion and $10.279 billion, respectively, of the City's outstanding general obligation bonds were considered defeased.

The State Constitution requires the City to pledge its full faith and credit for the payment of the principal and interest on City term and serial bonds and guaranteed debt. The general debt-incurring power of the City is limited by the Constitution to 10% of the average of five years' full valuations of taxable real estate. Excluded from this debt limitation is certain indebtedness incurred for water supply, certain obligations for transit, sewage, and other specific obligations which exclusions are based on a relationship of debt service to net revenue.

As of July 1, 2007, the 10% general limitation was approximately $60.102 billion (compared with $53.336 billion as of July 1, 2006). Also, as of July 1, 2007, the City's remaining debt-incurring power totaled $20.598 billion, after providing for capital commitments.

Pursuant to State legislation on January 1, 1979, the City established a General Debt Service Fund administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this Fund. In fiscal year 2007, discretionary and other transfers of $3.315 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2008 debt service. In addition, in fiscal year 2007, discretionary transfers of $711 million were made for lease purchase debt service and for a transfer to a component unit of the Debt Service Funds. In fiscal year 2006, discretionary and other transfers of $3.205 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2007 debt service. In addition, in fiscal year 2006, discretionary transfers of $74 million were made for lease purchase debt service.

Swap payments and associated debt

The table that follows represents debt service payments on certain general obligation variable-rate bonds, net of swap payments (see Note A.13.) associated with those bonds, as of June 30, 2007. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2007 remains constant over the life of the bonds.

	Governmental Activities			
	General Obligation Bonds			
Primary Government	Principal	Interest	Interest Rate Swaps, Net	Total
	(in thousands)			
Fiscal year ending June 30:				
2008	$ 9,005	$ 120,917	$ (13,448)	$ 116,474
2009	19,845	120,118	(13,407)	126,556
2010	49,705	118,427	(13,321)	154,811
2011	37,900	116,825	(13,227)	141,498
2012	39,325	115,043	(13,154)	141,214
2013-2017	426,910	526,939	(58,959)	894,890
2018-2022	701,325	383,935	(44,965)	1,040,295
2023-2027	527,470	234,685	(34,833)	727,322
2028-2032	673,350	120,992	(20,873)	773,469
2033-2037	111,980	5,081	(967)	116,094
Total	$ 2,596,815	$1,862,962	$(227,154)	$4,232,623

Judgments and Claims

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contract; alleged violations of law; and condemnation proceedings.

As of June 30, 2007 and 2006, claims in excess of $601 billion and $548 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be $5.4 billion and $5.0 billion, respectively.

As explained in Note A.11., the estimate of the liability for unsettled claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by categorizing the various claims and applying a historical average percentage, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and supplemented by information provided by the New York City Law Department with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information and application of the foregoing procedures.

Numerous proceedings alleging respiratory or other injuries from alleged exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City and other entities involved in the post-September 11 rescue and recovery process. Plaintiffs include, among others, Department of Sanitation employees, firefighters, police officers, construction workers, and building clean-up workers. Several summonses with notices filed on behalf of a total of approximately 7,000 plaintiffs and alleging similar causes of action have also been filed naming the City and dozens of other defendants. However, only approximately 4,400 of these plaintiffs have to date served complaints on the City. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to Federal court pursuant to the Air Transportation and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (2001), which grants exclusive Federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions on immunity grounds was denied on October 17, 2006. The City is appealing the denial of its immunity motion. Oral argument is currently scheduled before the United States Court of Appeals for the Second Circuit on October 1, 2007. Plaintiffs' motion to dismiss the appeal will be heard at the same time. On December 4, 2006, the court confirmed Federal jurisdiction in the action brought on behalf of building clean-up workers. The City has formed a not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the WTC Insurance Company) to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of $999,900,000. Most of the claims set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims.

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

One hundred ninety-one notices of claim were filed and of these, 179 actions have been commenced in Federal court against the City in connection with the Staten Island Ferry accident on October 15, 2003. The notices and actions seek damages exceeding $3 billion for various claims including personal injury, wrongful death, and emotional distress. On December 1, 2003, the City filed a limitation complaint in Federal court pursuant to Federal maritime law seeking to limit its potential liability to approximately $14 million, the value of the ferry involved in the accident. On August 3, 2005, plaintiffs brought a motion to dismiss the limitation complaint. On February 26, 2007, the City's limitation complaint was decided against the City and an appeal by the City is pending.

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

In March, 2005, the United Federation of Teachers, the union that represents the teachers in the New York City public school system, commenced an action and an Article 78 proceeding in New York Supreme Court, New York County, against the New York City Teachers' Retirement System and the City alleging that, due to certain miscalculations relating, *inter alia,* to the interest earned on member contributions to a retirement plan known as the 20 Year Pension Plan, teachers who retired under this plan do not receive the entire amount of retirement benefits to which they are entitled. Plaintiffs seek declaratory relief and an award to 20 Year Pension Plan members of not less than $800 million to equal the difference between what plaintiffs allege they are entitled to under the 20 Year Pension Plan and the amount actually received. The City has moved to dismiss the Article 78 proceeding and has submitted an answer in the action. By decision dated October 17, 2006, the Court denied the City's motion to dismiss the Article 78 proceeding but granted the City's motion to dismiss the petitioners' contract claims. If plaintiffs were to prevail in this matter, it could result in substantial costs to the City.

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

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

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality, and illegality of assessment. In response to these actions, in December, 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential liability for outstanding certiorari proceedings to be $751 million and $568 million at June 30, 2007 and 2006, respectively, as reported in the government-wide financial statements.

Pension Liability

For fiscal years 2001 through 2005 inclusive, the City incurred a pension liability that was the result of Chapter 125 of the Laws of 2000 (Chapter 125/00) which provided for a five-year phase-in schedule for funding the additional actuarial liabilities created by providing eligible retirees and eligible beneficiaries with increased Supplementation as of September, 2000 and with automatic Cost-of-Living Adjustments (COLA) beginning September, 2001. Chapter 278 of the Laws of 2002 (Chapter 278/02) extended the phase-in period for funding the additional liabilities attributable to the benefits provided under Chapter 125/00 to ten years from five years. Chapter 152 of the Laws of 2006 eliminated for fiscal year 2006 and thereafter the ten-year phase-in period arising under Chapter 278/02 and instead, the additional actuarial liabilities created by the benefits provided by Chapter 125/00 are funded as part of the normal contribution (see Note E.5.).

Landfill Closure and Postclosure Care Costs

Heretofore, the City's only active landfill available for waste disposal was the Fresh Kills landfill which initially ceased landfill operations in March, 2001. The landfill was reopened per the Governor's amended Executive Order No. 113, which authorized the City to continue the acceptance and disposal of waste materials received from the site of the World Trade Center disaster of September 11, 2001. The landfill subsequently closed in August, 2002. For government-wide financial statements, the measurement and recognition of the liability for closure and postclosure care is based on total estimated current cost and landfill usage to date. For fund financial statements, expenditures are recognized using the modified accrual basis of accounting where a liability is recognized only when liquidated with expendable financial resources.

Upon the landfill becoming inactive, the City is required by Federal and State law to close the landfill, including final cover, stormwater management, landfill gas control, and to provide postclosure care for a period of 30 years following closure. The City is also required under Consent Order with the New York State Department of Environmental Conservation to conduct certain corrective measures associated with the landfill. The corrective measures include construction and operation of a leachate mitigation system for the active portions of the landfill as well as closure, postclosure, and groundwater monitoring activities for the sections no longer accepting solid waste.

The liability for these activities as of June 30, 2007 which equates to the total estimated current cost is $1.385 billion based on the maximum cumulative landfill capacity used to date. There are no costs remaining to be recognized. During fiscal year 1996, New York State legislation was enacted which states that no waste will be accepted at the Fresh Kills landfill on or after January 1, 2002. Accordingly, the liability for closure and postclosure care costs is based upon an effective cumulative landfill capacity used to date of approximately 100%. Cost estimates are based on current data including contracts awarded by the City, contract bids, and engineering studies. These estimates are subject to adjustment for inflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates.

During fiscal year 2007, expenditures for landfill closure and postclosure care costs totaled $56.4 million.

Resource Conservation and Recovery Act Subtitle D Part 258, which became effective April, 1997, requires financial assurance regarding closure and postclosure care. This assurance was most recently provided, on March 7, 2007, by the City's Chief Financial Officer placing in the Fresh Kills landfill operating record representations in satisfaction of the Local Government Financial Test.

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

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

	Amount (in thousands)
Landfill	$1,385,254
Hazardous waste sites	227,617
Total landfill and hazardous waste sites liability	$1,612,871

6. Interfund Receivables, Payables, and Transfers

At June 30, 2007 and 2006, primary government and discretely presented component unit receivable and payable balances and interfund transfers were as follows:

Governmental activities:

Due from/to other funds:

Receivable Fund	Payable Fund	2007	2006
		(in thousands)	
General Fund	New York City Capital Projects Fund	$2,956,382[1]	$2,289,648[1]
New York City Capital Projects Fund	TFA	249,638	—
Total due from/to other funds		3,206,020	2,289,648

Component units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity	2007	2006
Primary government—General Fund:	Component units: HDC	859,819	921,928
	OTB	201	209
		860,020	922,137
Primary government—New York City Capital Projects Fund	Component unit—Water Authority	361,860	326,124
Total due from component units		1,221,880	1,248,261
Component unit—Water Board	Primary government—General Fund	15,718	8,506
Total due to component units		15,718	8,506
Total due from/to primary government and component units		1,237,598	1,256,767
Total primary government and component units receivable and payable balances		$4,443,618	$3,546,415

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

Note: During both fiscal years 2007 and 2006, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

Governmental activities:

Interfund transfers:

	Transfer To:											
	General Fund		New York City Capital Projects Fund		General Debt Service Fund		Nonmajor Capital Projects Funds		Nonmajor Debt Service Funds		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	(in thousands)											
Transfer From:												
General Fund	$ —	$ —	$ 300,000	$ 200,000	$4,024,185	$4,281,010	$ —	$ —	$1,274,215	$ —	$5,598,400	$4,481,010
General Debt Service Fund	—	—	—	—	—	—	—	—	4,605	198	4,605	198
Nonmajor Capital Projects Funds	—	—	2,383,609	—	—	—	—	—	114,492	—	2,498,101	—
Nonmajor Debt Service Funds	—	92,938	—	—	—	—	—	1,500	—	—	—	94,438
Total	$ —	$ 92,938	$2,683,609	$ 200,000	$4,024,185	$4,281,010	$ —	$ 1,500	$1,393,312	$ 198	$8,101,106	$4,575,646

Transfers are used to: (i) move unrestricted General Fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as aids or matching funds for grant programs, (ii) move restricted amounts borrowed by authorized fund or component unit to finance Capital Projects Fund expenditures, (iii) move unrestricted surplus revenue from the General Fund to finance Capital Projects Fund expenditures and prepay debt service coming due in the next fiscal year, and (iv) move revenue from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due.

In the year ended June 30, 2007, the City made the following one-time transfer:
A transfer of an unrestricted grant of $1.264 billion on June 28, 2007 to TFA. These funds are being used: (i) to fund debt service requirements for tax secured debt during fiscal year 2008, (ii) for a cash defeasance escrow of $546 million, and (iii) for the early retirement of $170.3 million of tax secured variable rate debt on September 4, 2007.

E. Other Information

1. Audit Responsibility

In fiscal years 2007 and 2006, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than Deloitte & Touche LLP are the Municipal Assistance Corporation for The City of New York, New York City Transitional Finance Authority, New York City School Construction Authority, New York City Health and Hospitals Corporation, New York City Off-Track Betting Corporation, Jay Street Development Corporation, New York City Housing Development Corporation, New York City Industrial Development Agency, New York City Economic Development Corporation, Business Relocation Assistance Corporation, Brooklyn Navy Yard Development Corporation, New York City Water Board and New York City Municipal Water Finance Authority, Deferred Compensation Plans, WTC Captive Insurance Company, Inc., New York City Capital Resource Corporation, and the New York City Educational Construction Fund.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2007 and 2006:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2007	2006	2007	2006	2007	2006	2007	2006
	(percent)							
Total assets	6	3	85	83	51	58	6	6
Revenues / additions (deductions) and other financing sources	8	3	77	77	64	13	4	9

The report of independent auditors dated October 17, 2007 on the New York City Off-Track Betting Corporation's financial statements included an explanatory paragraph stating that "...the Corporation's current liabilities exceed its current assets, it has a net deficit, and the statutory distribution requirements of New York State laws raise substantial doubt about its ability to continue as a going concern..."

2. Subsequent Events

Subsequent to June 30, 2007, the City and TFA completed the following long-term financing:

Long-term Financing

City Debt: On August 15, 2007, the City sold its Series A and B bonds of $1.245 billion for refunding purposes.
On October 4, 2007, the City sold its Series C bonds of $1.050 billion for capital purposes.

TFA Debt: On September 4, 2007, TFA redeemed $170.3 million of TFA Recovery bonds with funds from an unrestricted City grant.

3. Other Employee Benefit Trust Funds

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

DCP through the City offers its employees two defined contribution plans and a deemed IRA created in accordance with Internal Revenue Code Sections 457, 401(k), and 408(q). DCP is available to certain employees of The City of New York and related agencies and instrumentalities. The deemed IRA, called the NYCE IRA is available as both a traditional and Roth IRA to those employees eligible to participate in the 457 Plan and 401(k) Plan and their spouses along with former employees and their spouses. DCP permits employees to defer a portion of their salary on either a pre-tax (traditional) or after-tax (Roth) basis until future years. The compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency or hardship (as defined by the Internal Revenue Code). Deferred assets in the NYCE IRA are available for withdrawal at anytime.

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

Participants in DCP can choose among eight investment options, or one of twelve pre-arranged portfolios (effective 2007) consisting of varying percentages of those investment options.

New York City Retiree Health Benefits Trust (RHBT)

RHBT was established for the exclusive benefit of the City's retired employees and their dependents who meet the eligibility requirements to fund the postemployment benefits (other than those paid through the Management Benefits Fund) provided through the welfare benefit plans and welfare benefit funds and the reimbursement of certain Medicare premiums. RHBT was enacted by local law to afford the City the ability to address the ongoing liability of funding the costs of health benefits for the City's retired workers and their dependents covered under the City's health and welfare plans. Amounts contributed to RHBT by the City are held in trust and are irrevocable and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants. Consequently, RHBT is presented as an Other Employee Benefit Trust Fund in the City's financial statements. The separate annual financial statements of RHBT are available at: Office of the Comptroller, Bureau of Accountancy — Room 808, 1 Centre Street, New York, New York 10007.

Summary of Significant Accounting Policies:

Basis of Accounting. The measurement focus of RHBT is on the flow of economic resources. This focus emphasizes the determination of changes in trust net assets. With this measurement focus, all assets and liabilities associated with the operation of this fiduciary fund are included on the statement of fiduciary net assets. This fund uses the accrual basis of accounting whereby contributions from the employer are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments. Investments are reported on the statement of fiduciary net assets at fair value based on quoted market prices.

Required Supplementary Information

The schedule of funding progress presents the results of OPEB valuations as of June 30, 2006 and 2005 for the fiscal year ending June 30, 2007. Looking forward, the schedule will eventually provide additional multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)*	(3) Unfunded AAL (UAAL)	(4) Funded Ratio	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll
			(2)-(1)	(1)÷(2)		(3)÷(5)
			(in thousands)			
6/30/06	$1,001,332	$56,077,151	$55,075,819	1.8%	$16,546,829	332.8%
6/30/05	0	50,543,963	50,543,963	0.0	15,737,531	321.2

*Based on the Frozen Entry Age Actuarial Cost Method.

4. Other Postemployment Benefits

Plan Description. The New York City Health Benefits Program (Plan) is a single-employer defined benefit healthcare plan funded by the New York City Retiree Health Benefits Trust (RHBT), an Other Employee Benefit Trust Fund of the City, which provides Other Postemployment Benefits (OPEB) to eligible retirees and beneficiaries. OPEB includes: health insurance, Medicare Part B reimbursements, and welfare fund contributions. RHBT issues a publicly available financial report that includes financial statements and required supplementary information for funding the Plan's OPEB and the report is available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

Funding Policy. The Administrative Code of The City of New York (ACNY) defines OPEB to include Health Insurance and Medicare Part B Reimbursments; Welfare Benefits stem from the City's various collective bargaining agreements all of which are to be funded by RHBT. The City is not required by law or contractual agreement to provide funding for RHBT other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal year ended June 30, 2007, the City paid $2.9 billion on behalf of the Plan. Based on current practice (the Substantive Plan which is derived from ACNY), the City pays the full cost of basic coverage for non-Medicare-eligible/Medicare-eligible retiree participants. The costs of these benchmark plans are reflected in the actuarial valuations by using age-adjusted premium amounts. Plan retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for the benchmark plans. The City also reimburses covered employees 100% of the Medicare Part B premium rate applicable to a given year and there is no retiree contribution to the Welfare Funds. The City pays per capita contributions to the Welfare Funds the amounts of which are based on negotiated contract provisions.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was actuarially determined by using the Frozen Entry Age Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB45). Under this method, in general, the excess of the Actuarial Present Value of Projected Benefits over the sum of: (i) the Actuarial Value of Assets plus (ii) the Unfunded Frozen Actuarial Accrued Liability is allocated on a level basis over the earnings of the covered active employees between the valuation date and assumed exit. This allocation is performed for the group as a whole. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. Under this method, actuarial gains/losses, as they occur, reduce/increase future Normal Costs. The following table shows the elements of the City's annual OPEB cost for the year, the amount actually paid on behalf of the Plan, and changes in the City's net OPEB obligation to the Plan for the year ended June 30, 2007:

	Amount (in thousands)
Annual required contribution	$60,672,437
Interest on net OPEB obligation	2,140,298
Adjustment to annual required contribution	(55,647,749)
Annual OPEB cost (expense)	7,164,986
Payments made	2,910,499
Increase in net OPEB obligation	4,254,487
Net OPEB obligation—beginning of year	53,507,451
Net OPEB obligation—end of year	$57,761,938

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2007 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
	(in thousands)		
6/30/07	$ 7,164,986	40.6%	$57,761,938
6/30/06	55,690,322	3.9	53,507,451

Funded Status and Funding Progress. As of June 30, 2006, the most recent (initial) actuarial valuation date, the Plan was 1.8% funded. The actuarial accrued liability for benefits was $56.1 billion, and the actuarial value of assets was $1.0 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $55.1 billion. The covered payroll (annual payroll of active employees covered by the Plan) was $16.5 billion, and the ratio of the UAAL to the covered payroll was 332.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The determined actuarial valuations of OPEB provided under the Plan incorporated the use of demographic and salary increase assumptions among others as reflected below. While the use of estimating techniques and the reliance on available data were required to meet legally-imposed deadlines for early implementation of GASB45 for fiscal year 2006, equivalent results for fiscal year 2007 reflect refinements to the data and a reduction in the use of estimations. Amounts determined regarding the funded status of the Plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information in Note E.3. disclosures required by GASB43 for OPEB Plan reporting presents the results of OPEB valuations as of June 30, 2006 and 2005 and looking forward, the schedule will eventually provide additional multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. The actuarial assumptions used in the June 30, 2006 and 2005 OPEB actuarial valuations are classified as those used in the New York City Retirement Systems (NYCRS) valuations and those specific to the OPEB valuations. NYCRS consist of: (i) New York City Employees' Retirement System; (ii) New York City Teachers' Retirement System; (iii) New York City Board of Education Retirement System; (iv) New York City Police Pension Fund; and (v) New York City Fire Pension Fund. The OPEB actuarial valuations for NYCRS incorporate only the use of certain demographic and salary increase assumptions. The demographic assumptions requiring NYCRS Board approval were adopted by each respective Board of Trustees during fiscal year 2006. Those actuarial assumptions and methods that required New York State legislation were enacted, effective for fiscal year 2006 and later, as Chapter 152 of the Laws of 2006 (Chapter 152/06). These demographic assumptions are unchanged from the June 30, 2005 OPEB actuarial valuation. The OPEB-specific actuarial assumptions used in the June 30, 2006 OPEB actuarial valuation of the Plan are as follows:

Valuation Date	June 30, 2006.
Discount Rate	4.0% per annum.[1]

Per Capita Claims Costs . . . .

HIP HMO and GHI/EBCBS benefit costs reflect age adjusted premiums, with age adjustments from assumed average age of covered population. Insured premiums without age adjustment for other coverage. Premiums assumed to include administrative costs.

For the June 30, 2005 valuation, the HIP HMO premium rate was used for all non-Medicare-eligible retirees and dependents with basic medical coverage. The Mental Health/Substance Abuse rider is reflected for pre-Medicare retirees in HIP HMO and GHI/EBCBS. The GHI/EBCBS Senior Care premium is used for all Medicare-eligible retirees and dependents with basic medical coverage except those in HIP HMO.

For the June 30, 2006 valuation, fiscal year 2007 monthly employer premium contributions were reported by the Mayor's Office of Labor Relations. In most cases, the premium contributions remained the same throughout the year. HIP HMO Medicare rates varied by month and by specific Plan option. These variations are the result of differing Medicare Advantage reimbursements. We blended the various monthly rates by proportion of enrollment. The GHI/EBCBS rates increased during September, 2006 and the increased premium rate is reflected in the calculations.

---

[1] 2.5% CPI, 1.5% real rate of return on short-term investments.

Initial monthly premium rates used in valuations are shown in the following tables:

	Monthly Rate for Fiscal Year 2006[1]	
Plan	**Basic**	**MH/SA Rider[2]**
HIP HMO		
Non-Medicare Single	$286.86	$ 5.04
Non-Medicare Family	702.83	12.34
Medicare	58.15	NA
GHI/EBCBS Senior Care	140.23	NA

	Monthly Rate for Fiscal Year 2007[3]	
Plan	**Basic**	**MH/SA Rider**
HIP HMO		
Non-Medicare Single	$311.67	NA
Non-Medicare Family	763.57	NA
Medicare	57.88	NA
GHI/EBCBS		
Non-Medicare Single	306.51	NA
Non-Medicare Family	796.94	NA
Medicare	146.90	NA
Others		
Non-Medicare Single	311.67	NA
Non-Medicare Family	763.57	NA
Medicare	146.90	NA

---

[1] Used for June 30, 2005 actuarial valuation.

[2] Included in June 30, 2005 OPEB obligations for both HIP HMO and GHI-CBP/EBCBS non-Medicare-eligible retirees but later determined to be provided only for HIP HMO retirees.

[3] Used in June 30, 2006 actuarial valuation.

NA: Not Applicable.

Welfare Funds . . . . Reported annual contribution amounts for fiscal year 2006 used for current retirees.

Weighted average contribution rates for fiscal year 2007 used for future retirees.

Contributions assumed to increase by Medicare Plans trend rates.

For Welfare Fund contribution amounts reflected in the June 30, 2005 actuarial valuation, see "Report on the First Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program" dated October 11, 2006.

Medicare Part B Premiums . . . .

Calendar Year	Monthly Premium
2005	$78.20
2006	88.50
2007	93.50*

* Reflected only in the June 30, 2006 actuarial valuation.

2007 Medicare Part B premium assumed to increase by Part B trend rates.

For the June 30, 2006 valuation, overall Part B premium amounts assumed to increase by the following percentages to reflect the income-related increases in Part B premiums effective 2007 and later:

Fiscal Year Beginning	Part B Increase
6/30/2006	0.7%
6/30/2007	2.2
6/30/2008	3.7
6/30/2009	4.5
6/30/2010	4.6

Increasing by 0.1% each year thereafter.

For the June 30, 2005 valuation, no retiree assumed to have income in excess of threshold which would result in increasing Medicare Part B premium above 25% of Part B costs.

The actual 2008 Medicare Part B premium, which was announced on October 1, 2007, just prior to issuance of this Report was not reflected in the June 30, 2006 valuation.

Health Care Cost Trend Rate (HCCTR) . . Covered medical expenses are assumed to increase by the following percentages:

HCCTR Assumptions

Year Ending[1]	Pre-Medicare Plans	Medicare Plans	Part B Premium
2007[2]	10.0%	8.0%	10.0%
2008	9.5	7.0	9.5
2009	9.0	6.0	9.0
2010	8.5	5.0	8.5
2011	8.0	5.0	8.0
2012	7.5	5.0	7.5
2013	7.0	5.0	7.0
2014	6.5	5.0	6.5
2015	6.0	5.0	6.0
2016	5.5	5.0	5.5
2017 and later	5.0	5.0	5.0

[1] Fiscal year for Pre-Medicare Plans and Medicare Plans and calendar year for Medicare Part B Premiums.

[2] For the June 30, 2006 actuarial valuation, rates shown for 2007 were not reflected since actual values for the fiscal year 2007 per capita costs, fiscal year 2007 Welfare Fund contributions, and calendar year 2007 Medicare Part B premium amounts were used.

Age-Related Morbidity . . . . Assumed increases in premiums per year of age for HIP HMO and GHI/EBCBS consistent with those set forth in a July, 2005 article in the North American Actuarial Journal by Jeffrey R. Petertil.

Age	Annual Increase
Under 40	0.0%
40 – 49	3.0
50 – 54	3.3
55 – 59	3.6
60 – 64	4.2
65 – 69	3.0
70 – 74	2.5
75 – 79	2.0
80 – 84	1.0
85 – 89	0.5
90 and over	0.0

The premiums are age adjusted for HIP HMO and GHI/EBCBS participants from assumed age 40 for non-Medicare-eligible retirees and from assumed age 73 for Medicare-eligible retirees.

Medicare . . . . Medicare is assumed to be the primary payer over age 65 and for retirees currently on Medicare. For future disability retirements, Medicare is assumed to start 2.5 years after retirement in the June 30, actuarial valuation for the following portion of retirees:

	Valuation as of June 30	
	2006	2005
NYCERS	35%	35%
TRS	45	45
BERS	45	45
POLICE	15	15
FIRE	20	25

Participation . . . . Active participation assumptions based on current retiree elections. Actual elections for current retirees. Portions of current retirees not eligible for Medicare are assumed to change elections upon attaining age 65 based on patterns of elections of Medicare-eligible retirees. Detailed assumptions appear in the following tables:

Plan Participation Assumptions

Benefits	June 30, 2006 Valuation				
	NYCERS	TRS	BERS	POLICE	FIRE
Pre-Medicare					
–GHI/EBCBS	65%	83%	73%	76%	71%
–HIP HMO	22	6	16	13	16
–Other HMO	8	4	3	9	12
–Waiver	5	7	8	2	1
Medicare					
–GHI	72	87	78	82	77
–HIP HMO	21	9	16	12	16
–Other HMO	4	2	2	4	6
–Waiver	3	2	4	2	1
Post-Medicare Migration					
–Other HMO to GHI	50	0	33	50	50
–HIP HMO to GHI	0	0	0	0	0
–Pre-Med. Waiver					
** to GHI @ 65	13	35	50	0	0
** to HIP @ 65	13	35	0	0	0

Plan Participation Assumptions

Benefits	June 30, 2005 Valuation				
	NYCERS	TRS	BERS	POLICE	FIRE
Pre-Medicare					
–GHI/EBCBS	63%	83%	67%	73%	71%
–HIP HMO	20	6	20	13	16
–Other HMO	12	4	5	9	12
–Waiver	5	7	8	5	1
Medicare					
–GHI	70	87	85	76	77
–HIP HMO	20	9	10	13	16
–Other HMO	7	2	2	9	6
–Waiver	3	2	3	2	1
Post-Medicare Migration					
–Other HMO to GHI	50	0	0	50	50
–HIP HMO to GHI	0	0	50	0	0
–Pre-Med. Waiver					
** to GHI @ 65	13	35	38	30	1
** to HIP @ 65	13	35	38	30	1

Dependent Coverage . . . . Dependent coverage is assumed to terminate when a retiree dies except in the following situations:

(i) Lifetime coverage is provided to the surviving spouse or domestic partner and coverage to age 19 (or 23 if full-time student) for children of uniformed members of the Police or Fire Departments who died in the Line-of-Duty.

(ii) Effective November 13, 2001, other surviving spouses of retired uniformed members of the Police and Fire Departments may elect to continue coverage for life by paying 102% of stated premium.

For survivors of POLICE and FIRE who die other than in the Line-of-Duty (assumed to be all who terminate with Accidental Death Benefits), the valuation assumes that 30% of spouses eligible for survivor continuation will elect the benefit, with costs equal to 30% greater than the age-adjusted premiums for surviving spouses for HIP HMO and GHI/EBCBS participants. The valuation includes the entire cost of additional surviving spouse benefits, although the Office of the Actuary understands that some of this amount may be reimbursed through welfare funds.

Dependents . . . . Dependent assumptions based on distribution of coverage of recent retirees which are shown in the following table. Wives assumed to be three years younger than husbands. Actual spouse data for current retirees. Child dependents of current retirees assumed to receive coverage until age 23. Child dependents of future retirees assumed to receive coverage for five years after retirement.

Dependent Coverage Assumptions

Group	June 30, 2006 Valuation				
	NYCERS	TRS	BERS	POLICE	FIRE
Male					
–Single Coverage	30%	45%	35%	15%	10%
–Spouse	40	35	55	15	20
–Child/No Spouse	5	5	2	5	5
–Spouse and Child	25	15	8	65	65
Total	100%	100%	100%	100%	100%
Female					
–Single Coverage	70%	60%	60%	45%	10%
–Spouse	20	32	35	10	20
–Child/No Spouse	5	3	2	25	5
–Spouse and Child	5	5	3	20	65
Total	100%	100%	100%	100%	100%

For accidental death, 80% of POLICE and FIRE members are assumed to have family coverage.

Dependent Coverage Assumptions

Group	June 30, 2005 Valuation				
	NYCERS	TRS	BERS	POLICE	FIRE
Male					
–Single Coverage	30%	45%	35%	15%	10%
–Spouse	40	35	55	15	35
–Child/No Spouse	5	5	2	5	5
–Spouse and Child	25	15	8	65	50
Total	100%	100%	100%	100%	100%
Female					
–Single Coverage	70%	60%	60%	45%	10%
–Spouse	20	32	35	10	35
–Child/No Spouse	5	3	2	25	5
–Spouse and Child	5	5	3	20	50
Total	100%	100%	100%	100%	100%

For accidental death, 85% of POLICE and FIRE members are assumed to have family coverage.

Demographic Assumptions	The same assumptions that were used to value the pension benefits of NYCRS for determining employer contributions for fiscal years beginning 2006 were adopted by each respective Board of Trustees.
COBRA Benefits	Although COBRA beneficiaries pay 102% of “premiums,” typical claim costs for COBRA participants run about 50% greater than other participants. There is no cost to the City for COBRA beneficiaries in community-rated HMOs, including HIP, since these individuals pay their full community rate. However, the City’s costs under the experience-rated GHI/EBCBS coverage is affected by the claims for COBRA-covered individuals. In order to reflect the cost of COBRA coverage, the cost of excess claims for GHI covered individuals and families is estimated assuming 15% of employees not eligible for other benefits included in the valuation elect COBRA coverage for 15 months. These assumptions are based on experience of other large employers. This percentage is applied to the overall enrollment in the active plan and reflects a load for individuals not yet members of the retirement systems who are still eligible for COBRA benefits. This results in an assumption in the June 30, 2006 actuarial valuation of a lump sum COBRA cost of $500 for terminations during fiscal year 2007 ($450 lump sum cost during fiscal year 2006 was assumed in the June 30, 2005 actuarial valuation). The $500 ($450) lump sum amount is increased by the HCCTR for future years but is not adjusted for age-related morbidity.
Stabilization Fund	For the June 30, 2006 valuation, a 1.6% load on all City GASB45 obligations only. For the June 30, 2005 valuation, a 0.25% load on all benefit costs.
Educational Construction Fund	The actuarial assumptions used for determining obligations for ECF are shown in Appendix E of the Report on the Second Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated October 4, 2007. The Report was prepared as of June 30, 2006 in accordance with GASB45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 808, 1 Centre Street, New York, NY 10007.
CUNY TIAA	The actuarial assumptions used for determining obligations for CUNY TIAA are shown in Appendix F of the Report on the Second Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated October 4, 2007. The Report was prepared as of June 30, 2006 in accordance with GASB45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 808, 1 Centre Street, New York, NY 10007.

5. Pension and Other Employee Benefit Trust Funds

Pension Systems

Plan Descriptions

The City sponsors or participates in pension systems providing benefits to its employees. The pension systems function in accordance with existing State statutes and City laws. Each system combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employers and the members.

The majority of City employees are members of one of the following five major actuarially-funded pension systems collectively known as the New York City Retirement Systems (NYCRS):

1. New York City Employees’ Retirement System (NYCERS) is a cost-sharing, multiple-employer public employee retirement system, for employees of the City not covered by one of the other pension systems and employees of certain component units of the City and certain other government units.

2. New York City Teachers' Retirement System-Qualified Pension Plan (TRS) is a cost-sharing, multiple-employer public employee retirement system, for pedagogical employees in the public schools of the City and Charter Schools and certain other specified school and college employees.

3. New York City Board of Education Retirement System-Qualified Pension Plan (BERS) is a cost-sharing, multiple-employer public employee retirement system, for nonpedagogical employees of the Department of Education and Charter Schools and certain employees of the School Construction Authority.

4. New York City Police Pension Fund (POLICE) is a single-employer public employee retirement system, for full-time uniformed employees of the Police Department. Note: In conjunction with the establishment of an administrative staff separate from the New York City Police Department in accordance with Chapter 292 of the Laws of 2001, the New York City Police Department, Subchapter Two Pension Fund is generally referred to herein as the New York City Police Pension Fund as set forth in the Administrative Code of The City of New York (ACNY) Section 13-214.1.

5. New York City Fire Pension Fund (FIRE) is a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department. Note: The New York City Fire Department, Subchapter Two Pension Fund is generally referred to herein as the New York City Fire Pension Fund as set forth in ACNY Section 13-313.1.

NYCRS provide pension benefits to retired employees based on salary, length of service, and member contributions. In addition, NYCRS provide automatic Cost-of-Living Adjustments (COLA) and other supplemental pension benefits to certain retirees and beneficiaries. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. NYCRS also provide death benefits.

Subject to certain conditions, members become fully vested as to benefits upon the completion of 5 years of service. Except for NYCERS, permanent, full-time employees are generally required to become members of NYCRS upon employment. Permanent full-time employees who are eligible to participate in NYCERS are required to become members within six months of their permanent employment status but may elect to become members earlier. Other employees who are eligible to participate in NYCERS and BERS may become members at their option. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances.

Plan Membership

As of June 30, 2006, June 30, 2005 and June 30, 2004, the membership of NYCRS[1] consisted of:

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Plan membership at June 30, 2006:						
Retirees and beneficiaries receiving benefits	128,863	67,576	12,573	42,474	17,485	268,971
Terminated vested members not yet receiving benefits	7,302	5,801	265	752	24	14,144
Other inactives*	29,119	10,604	3,185	2,405	31	45,344
Active members	178,741	109,992	23,095	35,194	11,641	358,663
Total plan membership	344,025	193,973	39,118	80,825	29,181	687,122

* Represents members no longer on payroll, including pending withdrawals, members on leaves of absence, members awaiting refunds of contributions or benefit determinations, etc.

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Plan membership at June 30, 2005:						
Retirees and beneficiaries receiving benefits	127,714	65,168	11,971	41,131	17,443	263,427
Terminated vested members not yet receiving benefits	6,775	5,172	200	650	21	12,818
Other inactives*	29,717	12,638	3,112	2,181	153	47,801
Active members	175,332	104,850	23,005	35,324	11,470	349,981
Total plan membership	339,538	187,828	38,288	79,286	29,087	674,027

* Represents members no longer on payroll, including members on leaves of absence and members awaiting refunds of contributions or benefit determinations, etc.

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Plan membership at June 30, 2004:						
Retirees and beneficiaries receiving benefits	127,345	62,728	11,625	39,452	17,459	258,609
Terminated vested members not yet receiving benefits	5,888	4,754	187	597	12	11,438
Other inactives*	29,425	9,094	4,775	2,221	60	45,575
Active members	174,997	105,391	20,899	35,049	11,239	347,575
Total plan membership	337,655	181,967	37,486	77,319	28,770	663,197

* Represents members no longer on payroll, including members on leaves of absence and members awaiting refunds of contributions or benefit determinations, etc.

[1] Effective with fiscal year 2006, employer contributions are determined under One-Year Lag methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. Therefore, the June 30, 2005 (Lag) valuation date was used for determining the fiscal year 2007 employer contributions.

Funding Policy

The City's funding policy is to contribute statutorily-required contributions (statutory contributions). Together with member contributions and investment income, these statutory contributions would ultimately be sufficient to pay benefits when due.

Statutory contributions for the NYCRS, determined by the Actuary in accordance with State statutes and City laws, are generally funded by the employers within the appropriate fiscal year.

Member contributions are established by law and vary by Plan. In general, Tier I and Tier II member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees, are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Effective December, 2000, certain Transit Authority Tier III and Tier IV members make basic member contributions of 2.0% of salary in accordance with Chapter 10 of the Laws of 2000. Certain members of NYCERS and BERS also make additional member contributions.

During the Spring 2000 session, the New York State Legislature approved and the Governor signed laws which provided Supplementation benefits and COLA for retirees (Chapter 125 of the Laws of 2000), additional service credits for certain Tier I and Tier II members, reduced member contributions for certain Tier III and Tier IV members (Chapter 126 of the Laws of 2000), and several other changes in benefits for various groups. Except for the statutory limitations for funding certain Supplementation benefits and COLA, these enhancements are fully reflected in the actuarial valuations as of June 30, 2004, 2003, 2002, 2001, and 2000.

Chapter 152 of the Laws of 2006 (Chapter 152/06) implemented changes in the actuarial procedures for determining employer contributions beginning fiscal year 2006. In particular Chapter 152/06 provided the One-Year Lag methodology and Chapter 152/06 also eliminated the use of the ten-year phase-in of Chapter 278 of the Laws of 2002 (Chapter 278/02) for funding the additional actuarial liabilities created by Chapter 125 of the Laws of 2000 (Chapter 125/00). These enhancements are fully reflected, without phase-in, in the June 30, 2005 (Lag) and the June 30, 2004 (Lag) actuarial valuations (i.e., fiscal year 2007 and fiscal year 2006 employer contributions, respectively).

Annual Pension Costs

NYCRS annual pension costs and the City's statutory contributions for fiscal year 2007 were determined as part of the June 30, 2005 (Lag) actuarial valuations on the basis of revised actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

The changes in actuarial assumptions and methods effective fiscal year 2006 result in somewhat lesser statutory contributions for fiscal years 2006 and 2007 and increased statutory contributions for future fiscal years.

The annual pension costs for NYCRS, for the fiscal years ended June 30, 2007, 2006, and 2005 were as follows:

	2007	2006	2005
		(in millions)	
NYCERS	$1,471.0	$1,024.4	$1,020.4
TRS	1,600.9	1,316.6	1,304.0
BERS	129.8	90.8	106.4
POLICE	1,513.7	1,302.6	1,105.9
FIRE	676.4	601.7	515.1
Total annual pension costs	$5,391.8	$4,336.1	$4,051.8

For fiscal year 2007, the City's statutory contributions for NYCRS based on the actuarial valuations performed as of June 30, 2005 (Lag), plus other pension expenditures were approximately $4,856.3 million.

For fiscal years 2007 and 2006, the annual pension costs for NYCERS, TRS, and BERS computed in accordance with GASB27 and consistent with generally accepted actuarial principles are greater than the statutory contributions paid by the City, primarily because the City is only one of the participating employers in NYCERS, TRS, and BERS.

For fiscal years 2007 and 2006, the annual pension costs for POLICE and FIRE computed in accordance with GASB27 and consistent with generally accepted actuarial principles are less than the statutory contributions, primarily because of the interest on and amortization of the Net Pension Obligations for POLICE and FIRE.

For fiscal year 2005, the annual pension costs for NYCRS computed in accordance with GASB27 and consistent with generally accepted actuarial principles, are greater than the statutory contributions paid by the City primarily because (1) the City is only one of the participating employers in NYCERS, TRS, and BERS and (2) Chapter 125/00, as later modified by Chapter 278/02, provided for a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

Chapter 152/06 eliminated the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by Chapter 125/00.

The City's statutory contributions for the fiscal years ended June 30, 2007, 2006, and 2005 were as follows:

	2007	2006	2005
		(in millions)	
NYCERS*	$ 824.1	$ 584.8	$ 455.7
TRS*	1,581.3	1,300.8	1,212.5
BERS*	124.5	87.1	92.6
POLICE	1,544.3	1,337.7	1,033.3
FIRE	683.2	608.8	489.5
OTHER**	98.9	95.8	86.3
Total actual pension contributions	$4,856.3	$4,015.0	$3,369.9

* NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems. The City's statutory contributions as a percentage of the total statutory contributions (calculated for fiscal year 2005 on a basis reflecting the phase-in of liabilities required under Chapter 278/02 and Chapter 125/00) for all employers participating in NYCERS, TRS, and BERS for fiscal years ended June 30, 2007, 2006, and 2005 were:

	2007	2006	2005
NYCERS	56.02%	57.09%	55.38%
TRS	98.78	98.80	98.71
BERS	95.87	95.86	95.85

In accordance with GASB27, the City's obligation for NYCERS, TRS, and BERS is fulfilled by paying its portion of the total statutory contributions determined.

** Other pension expenditures represent contributions to other actuarial and pay-as-you-go pension systems for certain employees, retirees, and beneficiaries not covered by any of NYCRS. The City also contributes per diem amounts into certain union-administered annuity funds.

Net Pension Obligations

NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems and the City has no net pension obligations to these systems.

Note: The annual pension costs for these systems are the statutory contributions. For fiscal year 2007, the actuarially-required contributions equal the statutory contributions.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for fiscal year 2007 are as follows:

	POLICE	FIRE	TOTAL
		(in millions)	
(1) Annual Required Contribution	$1,544.3	$683.2	$2,227.5
(2) Interest on Net Pension Obligation	43.5	17.6	61.1
(3) Adjustment to Annual Required Contribution	74.1	24.4	98.5
(4) Annual Pension Cost=(1)+(2)-(3)	1,513.7	676.4	2,190.1
(5) Statutory Contribution	1,544.3	683.2	2,227.5
(6) Decrease in Net Pension Obligation=(4)-(5)	(30.6)	(6.8)	(37.4)
(7) Net Pension Obligation Beginning of Year	543.9	220.1	764.0
(8) Net Pension Obligation End of Year=(6)+(7)	$ 513.3	$213.3	$ 726.6

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

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
		(in millions)		
POLICE	6/30/07	$1,513.7	102%	$513.3
	6/30/06	1,302.6	103	543.9
	6/30/05	1,105.9	93	579.0
FIRE	6/30/07	676.4	101	213.3
	6/30/06	601.7	101	220.1
	6/30/05	515.1	95	227.2

Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the actuarially-funded pension systems for the fiscal years ending June 30, 2007 and 2006 are as follows:

	2007	2006
Valuation Date	*June 30, 2005 (Lag).(1)*	*June 30, 2004 (Lag).(1)*
Actuarial Cost Method	*Frozen Initial Liability.(2)*	*Frozen Initial Liability.(2)*
Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)	*Increasing dollar for FIRE.(3) Level dollar for UAAL attributable to BERS, NYCERS, and TRS 2002 ERI (Part A only). (4) All outstanding components of UAAL are being amortized over closed periods.*	*Increasing dollar for FIRE.(3) Level dollar for UAAL attributable to NYCERS 2000 Early Retirement Incentive (ERI); BERS, NYCERS, and TRS 2002 ERI (Part A only). (4) All outstanding components of UAAL are being amortized over closed periods.*
Remaining Amortization Period	*4 years for FIRE(3) and 2 years for 2002 ERI (Part A only).*	*5 years for FIRE(3), 1 year for 2000 ERI, and 3 years for 2002 ERI (Part A only).*
Actuarial Asset Valuation Method	*Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.*	*Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.*
Investment Rate of Return	*8.0% per annum(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*	*8.0% per annum(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*
Post-Retirement Mortality	*Tables adopted by Boards of Trustees during fiscal year 2006.*	*Tables adopted by Boards of Trustees during fiscal year 2006.*
Active Service: Withdrawal Death, Disability, Retirement	*Tables adopted by Board of Trustees during fiscal year 2006.*	*Tables adopted by Board of Trustees during fiscal year 2006.*
Salary Increases	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)*	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)*
Cost-of-Living Adjustments	*1.3% per annum.(5)*	*1.3% per annum.(5)*

(1) Under One-Year Lag methodology, the actuarial valuation determines the employer contribution for the second following fiscal year.

(2) Under the Frozen Initial Liability Actuarial Cost Method, the excess of the Actuarial Present Value (APV) of projected benefits of the membership as of the valuation date, over the sum of the Actuarial Value of Assets plus the UAAL, if any, and the APV of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll as of the valuation date. The Initial Liability was reestablished by the Entry Age Actuarial Cost Method as of June 30, 1999 but with the UAAL not less than $0. Actuarial gains and losses are reflected in the employer normal contribution rate. For NYCERS, TRS, and BERS, the financial results using this Frozen Initial Liability Actuarial Cost Method differ minimally from those that would be produced using the Aggregate Actuarial Cost Method. For POLICE and FIRE, the financial results using this Frozen Initial Liability Actuarial Cost Method are the same as those that would be produced using the Aggregate Actuarial Cost Method and the Frozen Entry Age Actuarial Cost Method, respectively.

(3) In conjunction with Chapter 85 of the Laws of 2000 (Chapter 85/00), there is an amortization method. However, the initial UAAL of NYCERS, TRS, BERS, and POLICE equal $0 and no amortization periods are required.
(4) Laws established UAAL for Early Retirement Incentive Programs to be amortized on a level dollar basis over periods of 5 years.
(5) Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.

Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially-funded NYCRS are conducted by an independent actuarial firm every two years.

The most recent actuarial study analyzed experience for fiscal years 2002 through 2005. In a report dated November, 2006, the independent actuarial auditor made recommendations to the actuarial assumptions and methods. The Actuary is reviewing these recommendations.

In accordance with the ACNY and with appropriate practice, the Boards of Trustees of the five actuarially-funded NYCRS are to periodically review and adopt actuarial assumptions as proposed by the Actuary for use in the determination of employer contributions.

In August, 2005, based upon a review of an October, 2003 experience study, the Actuary issued reports for the NYCRS proposing changes in actuarial assumptions and methods for determining employer contributions for fiscal years beginning on and after July 1, 2005 (August 2005 Reports). Where required, the Boards of Trustees of the NYCRS adopted those changes to actuarial assumptions that required Board approval and the State Legislature and the Governor enacted Chapter 152/06 to provide for those changes to the actuarial assumptions and methods that required legislation, including the Actuarial Interest Rate (AIR) assumption of 8.0% per annum.

Chapter 152/06 provides effective for fiscal years 2006 and after for the changes in actuarial assumptions and methods that require legislation, including the continuation of the AIR assumption of 8.0% per annum and continuation of the current Frozen Initial Liability (FIL) Actuarial Cost Method and the existing Unfunded Actuarial Accrued Liability (UAAL). In addition, Chapter 152/06 provides for elimination of the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

Chapter 152/06 also established the One-Year Lag methodology (OYLM). Under this methodology a fiscal year 20XX employer contribution is determined using a June 20XX-2 valuation date. This methodology requires technical adjustments to certain components determined as of a valuation date used to compute a fiscal year employer contribution.

Beginning with the June 30, 2004 (Lag) actuarial valuations, the Actuarial Asset Valuation Method (AAVM) was changed to a method which reset the Actuarial Asset Values (AAV) to Market Values (i.e., Market Value Restart) as of June 30, 1999. As of each June 30 thereafter the AAVM recognizes investment returns greater or less than expected over a period of six years.

Under this revised AAVM, any Unexpected Investment Returns (UIR) for fiscal years 2000 and later are phased into the AAV beginning the following June 30 at a rate of 15%, 15%, 15%, 15%, 20%, and 20% per year (or cumulative rates of 15%, 30%, 45%, 60%, 80%, and 100% over a period of six years).

These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for fiscal years 2000 to 2004.

For fiscal years 2000 through 2005, the AAVM was changed as of June 30, 1999 to reflect a market basis for investments held and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under this prior AAVM, any UIR for fiscal years 2000 through 2005 inclusive were phased into AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25%, and 30% per year (or at a cumulative rate of 10%, 25%, 45%, 70%, and 100% over five years).

Chapter 85/00 reestablished UAAL and eliminated the Balance Sheet Liability (BSL) for actuarial purposes as of June 30, 1999. The schedule of payments toward the reestablished UAAL provides that the UAAL, if any, be amortized over a period of 11 years beginning fiscal year 2000, where each annual payment after the first equals 103% of its preceding annual payment.

Chapter 86 of the Laws of 2000 established UAAL as of June 30, 2001 for an Early Retirement Incentive Program to be amortized on a level basis over a period of 5 years beginning in fiscal year 2002.

Chapter 69 of the Laws of 2002 established UAAL as of June 30, 2003 for an Early Retirement Incentive Program (Part A only) to be amortized on a level basis over a period of 5 years beginning in fiscal year 2004.

Other Employee Benefit Trust Funds

Fund Descriptions

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

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

POLICE administers the Police Officers' Variable Supplements Fund (POVSF) and the Police Superior Officers' Variable Supplements Fund (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of ACNY.

1. POVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) as police officers and who retired on or after October 1, 1968.

2. PSOVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) holding the rank of sergeant or higher, or detective and who retired on or after October 1, 1968.

FIRE administers the Firefighters' Variable Supplements Fund (FFVSF) and the Fire Officers' Variable Supplements Fund (FOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 3 of ACNY.

3. FFVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) as firefighters (or wipers) and who retired on or after October 1, 1968.

4. FOVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) and who retired on or after October 1, 1968.

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

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

6. TPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000 became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPSOVSF whenever the assets of TPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2004, NYCERS is required to transfer assets so that TPSOVSF can meet its benefit obligations when due.

7. HPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of Chapter 719 of the Laws of 1994. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPOVSF whenever the assets of HPOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2006, NYCERS is required to transfer assets so that HPOVSF can meet its benefit obligations when due.

8. HPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000 became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPSOVSF whenever the assets of HPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2001, NYCERS is required to transfer assets so that HPSOVSF can meet its benefit obligations when due.

9. COVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or 25 years of service, depending upon the plan) as members of the Uniformed Correction Force on or after July 1, 1999. Prior to calendar year 2019, total supplemental benefits paid are limited to the assets of COVSF. For calendar years 2019 and later, the plan provides for a schedule of defined supplemental benefits that are guaranteed by the City. Scheduled benefits to COVSF participants were paid for calendar years 2000 to 2005. Due to insufficient assets, no benefits were paid to COVSF participants for calendar year 2006.

Funding Policy and Contributions

ACNY provides that POLICE and FIRE transfer to their respective VSFs amounts equal to certain excess earnings on equity investments, generally limited to the unfunded accumulated benefit obligation for each VSF. The excess earnings are defined as the amount by which earnings on equity investments exceed what the earnings would have been had such funds been invested at a yield comparable to that available from fixed income securities, less any cumulative deficiencies.

ACNY provides that NYCERS transfer to COVSF amounts equal to certain excess earnings on equity investments, less any cumulative deficiencies. ACNY also provides, as a consequence of Chapter 255 of the Laws of 2000, that NYCERS make the required transfers to TPOVSF, TPSOVSF, HPOVSF, and HPSOVSF, inclusive of prior year's cumulative deficiencies, sufficient to meet their annual benefit payments.

For fiscal years 2007 and 2006, excess earnings on equity investments, inclusive of prior year's cumulative deficiencies, are estimated to be equal to zero and, therefore, no transfers will be due to VSFs as of June 30, 2007 and June 30, 2006, respectively.

For fiscal years 2007 and 2006, required transfers from NYCERS of approximately $1.8 million and $.1 million, respectively, were made to HPOVSF.

For fiscal years 2007 and 2006, required transfers from NYCERS of approximately $2.3 million and $2.3 million, respectively, were made to HPSOVSF.

For fiscal years 2007 and 2006, required transfers from NYCERS of approximately $2.4 million and $2.4 million, respectively, were made to TPSOVSF.

As of June 30, 2007, NYCERS has accrued approximately $1.2 million, $1.5 million, and $1.6 million toward the amounts expected to be transferred to HPOVSF, HPSOVSF, and TPSOVSF, respectively, to meet the December, 2007 benefit obligations of those funds.

Required Supplementary Information (Unaudited)

The schedule of funding progress presents the following information for each of the past eight consecutive fiscal years for each of the NYCRS: the actuarial valuation date, the actuarial asset value, the actuarial accrued liability, the unfunded actuarial accrued liability, the actuarial asset value as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial accrued liability to annual covered payroll. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of June 30, 2005 (Lag), June 30, 2004 (Lag), June 30, 2004, 2003, 2002, 2001, 2000, and 1999.

	Actuarial Valuation Date	(1) Actuarial Asset Value (AAV) (a)	(2) Actuarial Accrued Liability (AAL)* (a) & (b)	(3) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1) (in millions)	(4) Funded Ratio (1) ÷ (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3) ÷ (5)
NYCERS	6/30/05(Lag)	$39,692.4	$39,797.1	$104.7	99.7%	$9,670.8	1.1%
	6/30/04(Lag)	40,638.6	40,786.6	148.0	99.6	9,361.2**	1.6
	6/30/04	40,088.2	40,236.2	148.0	99.6	9,157.4	1.6
	6/30/03	42,056.0	42,244.2	188.2	99.6	8,807.6	2.1
	6/30/02	43,561.1	43,619.9	58.8	99.9	8,901.1	0.7
	6/30/01	43,015.4	43,087.6	72.2	99.8	8,515.3	0.8
	6/30/00	42,393.6	42,418.7	25.1	99.9	7,871.0	0.3
	6/30/99	40,936.0	40,936.0	0.0	100.0	7,593.2	0.0
TRS	6/30/05(Lag)	32,865.1	32,872.3	7.2	100.0	6,273.9	0.1
	6/30/04(Lag)	33,149.3	33,159.7	10.4	100.0	6,175.9**	0.2
	6/30/04	32,817.1	32,827.5	10.4	100.0	6,219.8	0.2
	6/30/03	33,169.2	33,182.6	13.4	100.0	5,828.8	0.2
	6/30/02	34,177.8	34,181.1	3.3	100.0	5,469.2	0.1
	6/30/01	35,410.2	35,414.5	4.3	100.0	5,015.4	0.1
	6/30/00	36,142.4	36,147.5	5.1	100.0	4,721.5	0.1
	6/30/99	34,626.1	34,626.1	0.0	100.0	4,217.7	0.0
BERS	6/30/05(Lag)	1,841.0	1.846.3	5.3	99.7	715.1	0.7
	6/30/04(Lag)	1,843.8	1,850.6	6.8	99.6	624.9**	1.1
	6/30/04	1,822.7	1,829.5	6.8	99.6	624.9	1.1
	6/30/03	1,833.8	1,842.0	8.2	99.6	651.0	1.3
	6/30/02	1,835.8	1,835.8	0.0	100.0	736.7	0.0
	6/30/01	1,781.7	1,781.7	0.0	100.0	694.2	0.0
	6/30/00	1,749.4	1,749.4	0.0	100.0	666.0	0.0
	6/30/99	1,705.4	1,705.4	0.0	100.0	592.2	0.0
POLICE	6/30/05(Lag)	18,767.3	18,767.3	0.0	100.0	2,812.9	0.0
	6/30/04(Lag)	18,735.1	18,735.1	0.0	100.0	2,757.7**	0.0
	6/30/04	18,510.6	18,510.6	0.0	100.0	2,460.8	0.0
	6/30/03	18,781.4	18,781.4	0.0	100.0	2,433.9	0.0
	6/30/02	18,913.6	18,913.6	0.0	100.0	2,496.2	0.0
	6/30/01	18,141.7	18,141.7	0.0	100.0	2,500.1	0.0
	6/30/00	17,601.9	17,601.9	0.0	100.0	2,465.7	0.0
	6/30/99	16,877.8	16,877.8	0.0	100.0	2,332.0	0.0
FIRE	6/30/05(Lag)	6,169.2	6,261.5	92.3	98.5	908.3	10.2
	6/30/04(Lag)	6,277.3	6,382.5	105.2	98.4	864.8**	12.2
	6/30/04	6,185.8	6,291.0	105.2	98.3	805.0	13.1
	6/30/03	6,441.5	6,558.0	116.5	98.2	748.8	15.6
	6/30/02	6,612.3	6,738.7	126.4	98.1	789.7	16.0
	6/30/01	6,525.7	6,660.7	135.0	98.0	799.2	16.9
	6/30/00	6,388.1	6,530.6	142.5	97.8	741.5	19.2
	6/30/99	6,179.8	6,328.7	148.9	97.6	729.7	20.4

* Based on the Frozen Initial Liability Actuarial Cost Method.

** The annualized covered payrolls as of June 30, 2004 under the One-Year Lag methodology used to compute fiscal year 2006 employer contributions differ from that as of June 30, 2004 to compute fiscal year 2005 employer contributions due to changes in actuarial assumptions and more recent information on labor contract settlements.

(a) The AAVM in use for the June 30, 2004 (Lag) and later actuarial valuations resets the AAV to Market Value (*i.e.*, "Market Value Restart") as of June 30, 1999. As of each June 30 thereafter, the AAVM recognizes investment returns greater or less than expected over a period of six years.

Under this AAVM, UIR for fiscal years 2000, 2001, etc., are phased into the AAV beginning June 30, 2000, 2001, etc., at rates of 15%, 15%, 15%, 15%, 20%, and 20% per year (*i.e.,* cumulative rates of 15%, 30%, 45%, 60%, 80%, and 100% over a period of six years).

These averaging factors were applied against the UIR computed under the prior five-year AAVM used for fiscal years 2000 to 2004.

This AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the fiscal year 2006 employer contribution in conjunction with the One-Year Lag methodology and the revised economic and noneconomic assumptions in accordance with the August, 2005 Reports. As of June 30, 1999, the economic and noneconomic assumptions were revised due to experience review. The AAVM was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under the AAVM used for the June 30, 1999 to June 30, 2004 actuarial valuations, any UIR for fiscal years 2000 and later were phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25%, and 30% per year (*i.e.*, cumulative rates of 10%, 25%, 45%, 70%, and 100% over a period of five years).

(b) To effectively assess the funding progress of a Plan, it is usually appropriate to compare AAV and AAL calculated in a manner consistent with the Plan's funding method over a period of time. AAL is the portion of the actuarial present value of pension plan benefits and expenses which is not provided for by future employer normal costs and future member contributions.

Note, however, that UAAL is the excess of AAL over AAV. Under the FIL Actuarial Cost Method, the initial UAAL is frozen at the date of establishment and amortized over time. That UAAL is not adjusted from one actuarial valuation to the next to reflect actuarial gains and losses.

APPENDIX C

BONDS TO BE REDEEMED

The City expects to redeem City bonds listed below (the "Bonds To Be Redeemed"), at or prior to maturity, by applying the proceeds of the Fiscal 2008 Series G and Fiscal 2008 Series H Bonds, with other City funds, to provide for the payment of the principal of and interest and redemption premium, if any, on such bonds to the extent and to the payment dates set forth below. The refunding is contingent upon the delivery of the Fiscal 2008 Series G and Fiscal 2008 Series H Bonds.

The bonds are being provided for in whole or in part as indicated in the notes.

Bonds To Be Redeemed that are to be paid at maturity which are redeemable by their terms, if any, may be called for redemption at the option of the City if the escrow account is hereafter restructured to provide for their redemption. Any such restructuring must preserve (a) the sufficiency of the escrow account to pay the principal, interest to maturity or redemption, and any redemption premium on all Bonds To Be Redeemed and (b) the exclusion from gross income for federal income tax purposes of interest on the Bonds and the Bonds To Be Redeemed.

Series	Dated Date	Maturities	Interest Rate	Payment Date	Amount
1997D	August 15, 1996	November 1, 2009	6.500%	November 1, 2009	$7,000,000[(p)]
1998B	July 15, 1997	August 1, 2016	5.250	February 15, 2008	165,000[(a)]
		August 1, 2017	5.250	February 15, 2008	8,145,000[(p)]
1998C	November 18, 1997	November 15, 2011	5.125	February 15, 2008	8,455,000[(p)]
		November 15, 2013	5.375	February 15, 2008	2,405,000[(a)]
		November 15, 2021	5.250	February 15, 2008	8,070,000[(p)(t)]
		November 15, 2027	5.375	February 15, 2008	28,495,000[(p)(t)]
1998F	January 6, 1998	August 1, 2009	5.375	February 15, 2008	23,110,000[(p)]
		August 1, 2010	5.125	February 15, 2008	25,655,000[(p)]
		August 1, 2012	5.250	February 15, 2008	27,375,000[(p)]
		August 1, 2013	5.125	February 15, 2008	6,420,000[(p)]
		August 1, 2014	5.250	February 15, 2008	19,835,000[(p)]
		August 1, 2015	5.250	February 15, 2008	18,385,000[(p)]
		August 1, 2016	5.250	February 15, 2008	14,775,000[(p)]
		August 1, 2017	5.250	February 15, 2008	25,955,000[(p)]
		August 1, 2019	5.375	February 15, 2008	7,540,000[(p)(t)]
		August 1, 2023	5.000	February 15, 2008	100,880,000[(p)(t)]
		August 1, 2024	5.250	February 15, 2008	29,915,000[(p)]
1998G	February 18, 1998	August 1, 2010	4.600	February 15, 2008	3,040,000[(p)]
		August 1, 2011	5.250	February 15, 2008	24,945,000[(p)]
		August 1, 2012	5.000	February 15, 2008	3,835,000[(p)]
		August 1, 2013	5.350	February 15, 2008	24,020,000[(a)]
		August 1, 2014	5.000	February 15, 2008	14,745,000[(p)]
		August 1, 2015	5.000	February 15, 2008	17,975,000[(p)]
		August 1, 2016	5.250	February 15, 2008	21,255,000[(p)]
		August 1, 2018	5.000	February 15, 2008	21,675,000[(p)(t)]

Series	Dated Date	Maturities	Interest Rate	Payment Date	Amount
1998G	February 18, 1998	August 1, 2022	5.000%	February 15, 2008	$69,185,000(p)(t)
		August 1, 2025	5.125	February 15, 2008	36,680,000(p)(t)
2001B	October 10, 2000	August 1, 2008	4.800	August 1, 2008	17,340,000(p)
2002D	June 3, 2002	June 1, 2011	4.700	June 1, 2011	500,000(p)
		June 1, 2011	5.750	June 1, 2011	2,350,000(p)

(p) The amount shown is being defeased and is a portion of the bonds of this description.

(a) The amount shown is being defeased and is all of the bonds of this description, except those, if any, that have been previously defeased.

(t) The amount will be credited against the following redemption or maturity dates:

1998C 2021 Term Bond

November 15	Amount
2018	$3,125,000
2019	25,000
2020	25,000
2021	4,895,000

1998C 2027 Term Bond

November 15	Amount
2022	$3,980,000
2023	4,190,000
2024	4,415,000
2025	5,100,000
2026	5,265,000
2027	5,545,000

1998F 2019 Term Bond

August 1	Amount
2018	$7,540,000

1998F 2023 Term Bond

August 1	Amount
2020	$26,020,000
2021	22,440,000
2022	26,020,000
2023	26,400,000

1998G 2018 Term Bond

August 1	Amount
2018	$21,675,000

1998G 2022 Term Bond

August 1	Amount
2019	$33,815,000
2020	11,620,000
2021	12,210,000
2022	11,540,000

1998G 2025 Term Bond

August 1	Amount
2023	$13,045,000
2024	11,520,000
2025	12,115,000

APPENDIX D

BOND INSURANCE

The following information pertaining to Assured Guaranty Corp. ("Assured Guaranty" or the "Insurer") has been supplied by Assured Guaranty. 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 financial guaranty insurance policy (the "Policy") to be issued by Assured Guaranty 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 E—SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

The Insurance Policy

Assured Guaranty has made a commitment to issue the Policy relating to the Series G Bonds due in 2019 bearing interest at 4.0% (the "Insured Bonds"), effective as of the date of issuance of such Insured Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Insured Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment by the City (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the City solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Insured Bonds, the stated maturity date thereof, or the date on which such Insured Bonds 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 a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Insured Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the City to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on the Insured Bonds. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the holder of such Insured Bond in respect of any Insured Payment by or on behalf of the City, which amount has been recovered from such holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or the Paying Agent, to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the date on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the holders of the Insured Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

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

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the

United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc., "AAA" by Fitch, Inc. and "Aaa" by Moody's Investors Service, Inc. Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of Assured Guaranty Corp.

As of December 31, 2006, Assured Guaranty had total admitted assets of $1,248,270,663 (audited), total liabilities of $962,316,898 (audited), total surplus of $285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of $916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2007, Assured Guaranty had total admitted assets of $1,324,414,515 (unaudited), total liabilities of $1,073,740,147 (unaudited), total surplus of $250,674,368 (unaudited) and total statutory capital (surplus plus contingency reserves) of $950,697,359 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") in making such determinations.

The following documents are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The consolidated balance sheets of Assured Guaranty as of December 31, 2006 and December 31, 2005 and the related consolidated statements of operations and comprehensive income, of shareholder's equity and of cash flows for each of the three years in the period ended December 31, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2006 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 28, 2007), as amended by the Form 10-K/A filed by AGL on March 1, 2007;
- The unaudited consolidated balance sheet and statement of shareholder's equity of Assured Guaranty as of and for the period ended March 31, 2007, respectively, and the related

consolidated statements of operations and comprehensive income and cash flows for the three months ended March 31, 2007 and March 31, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 (which was filed by AGL with the SEC on May 7, 2007);

- The unaudited consolidated balance sheet and statement of shareholder's equity of Assured Guaranty as of and for the period ended June 30, 2007, respectively, and the related consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2007 and June 30, 2006, and the statements of cash flows for the six months ended June 30, 2007 and June 30, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (which was filed by AGL with the SEC on August 9, 2007);

- The unaudited consolidated balance sheet and statement of shareholder's equity of Assured Guaranty as of and for the period ended September 30, 2007, respectively, and the related consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2007 and September 30, 2006, and the statements of cash flows for the nine months ended September 30, 2007 and September 30, 2006, prepared in accordance with GAAP, included as Exhibit 99.1 to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 (which was filed by AGL with the SEC on November 8, 2007); and

- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "Bond Insurance—The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

All consolidated financial statements of Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty makes no representation regarding, nor does it accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance".

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

ASSURED GUARANTY®

Assured Guaranty Corp.
1325 Avenue of the Americas
New York, NY 10019
t. 212.974.0100
www.assuredguaranty.com

Financial Guaranty Insurance Policy

Issuer: **Policy No.:**

Obligations: **Premium:**

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation 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 a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department – Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "**Term**" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By:__________________________________
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

____
Counsel

SIDLEY AUSTIN LLP
SIDLEY

SIDLEY AUSTIN LLP
787 SEVENTH AVENUE
NEW YORK, NY 10019
(212) 839 5300
(212) 839 5599 FAX

BEIJING
BRUSSELS
CHICAGO
DALLAS
FRANKFURT
GENEVA
HONG KONG
LONDON
LOS ANGELES
NEW YORK
SAN FRANCISCO
SHANGHAI
SINGAPORE
SYDNEY
TOKYO
WASHINGTON, D.C.

FOUNDED 1866

January 3, 2008

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 G and H (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. For purposes of the preceding sentence, references to the Bonds shall include the City's General Obligation Bonds, Fiscal 2008 Series D, Subseries D-3 and D-4, that were issued on December 4, 2007, which will be considered part of the same issue of bonds with the Fiscal 2008 Series G and Series H Bonds for federal income tax purposes.

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,

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]