

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, 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" herein for further information.

\$1,030,615,000

The City of New York

General Obligation Bonds, Fiscal 2012 Series E and F

Dated: Date of Delivery

Due: As shown on the inside cover page

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

Interest on the Bonds will be payable on each February 1 and August 1, commencing August 1, 2012. 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 page.*

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 Orrick, Herrington & Sutcliffe LLP, New York, New York, Special Disclosure Counsel to the City. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, Counsel to the Underwriters. It is expected that the Bonds will be available for delivery in New York, New York, on or about March 8, 2012.

Morgan Stanley

**BofA Merrill Lynch
J.P. Morgan**

**Citigroup
Siebert Brandford Shank & Co., L.L.C.**

**Barclays Capital
Fidelity Capital Markets
Loop Capital Markets, LLC
Roosevelt & Cross Incorporated**

**Goldman, Sachs & Co.
Ramirez & Co., Inc.
Southwest Securities, Inc.**

**M.R. Beal & Company
Jefferies & Company
Rice Financial Products Company
Wells Fargo Bank, National
Association**

**Cabrera Capital Markets, LLC
Lebenthal & Co., LLC
Raymond James & Associates, Inc.**

**Jackson Securities
MFR Securities, Inc.
RBC Capital Markets**

**Janney Montgomery Scott LLC
Morgan Keegan
TD Securities**

February 24, 2012

\$1,030,615,000 General Obligation Bonds, Fiscal 2012 Series E and F

<u>August 1,</u>	<u>\$171,305,000 Fiscal 2012 Series E</u>				<u>\$859,310,000 Fiscal 2012 Series F</u>			
	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2012	\$10,000,000	2½%	0.10%	64966JTY2				
2013	10,275,000	2½	0.23	64966JTZ9	\$41,010,000	2½%	0.23%	64966JUQ7
2014	10,665,000	5	0.40	64966JUA2	7,740,000	2	0.40	64966JUR5
2014					15,810,000	4	0.40	64966JVL7
2014					17,585,000	5	0.40	64966JVV3
2015	11,215,000	5	0.63	64966JUB0	7,470,000	3	0.63	64966JUS3
2015					33,730,000	5	0.63	64966JVM5
2016	11,790,000	5	0.83	64966JUC8	4,605,000	3	0.83	64966JUT1
2016					56,530,000	5	0.83	64966JVN3
2017	12,395,000	5	1.08	64966JUD6	2,210,000	3	1.08	64966JUJ8
2017					42,265,000	5	1.08	64966JVP8
2018	13,030,000	5	1.41	64966JUE4	5,615,000	2	1.41	64966JUV6
2018					55,535,000	5	1.41	64966JVQ6
2019	1,410,000	3	1.70	64966JUF1	7,470,000	4	1.70	64966JUW4
2019	12,275,000	5	1.70	64966JUM6	22,505,000	5	1.70	64966JVR4
2020	4,965,000	2	1.99	64966JUG9	14,775,000	4	1.99	64966JUX2
2020	9,330,000	5	1.99	64966JUN4	15,115,000	5	1.99	64966JVS2
2021	4,910,000	4	2.21	64966JUH7	44,810,000	5	2.21	64966JUY0
2021	10,015,000	5	2.21	64966JUP9				
2022	15,585,000	4	2.39 ⁽¹⁾	64966JUJ3	12,090,000	4	2.39 ⁽¹⁾	64966JVV5
2022					32,645,000	5	2.39 ⁽¹⁾	64966JUZ7
2023	16,305,000	5	2.52 ⁽¹⁾	64966JUK0	44,785,000	5	2.52 ⁽¹⁾	64966JVA1
2024	17,140,000	5	2.61 ⁽¹⁾	64966JUL8	44,525,000	5	2.61 ⁽¹⁾	64966JVB9
2025					44,830,000	5	2.68 ⁽¹⁾	64966JVC7
2026					30,010,000	5	2.78 ⁽¹⁾	64966JVD5
2027					1,310,000	4	2.87 ⁽¹⁾	64966JVE3
2027					40,470,000	5	2.87 ⁽¹⁾	64966JVT0
2028					44,685,000	5	2.95 ⁽¹⁾	64966JVF0
2029					42,935,000	5	3.03 ⁽¹⁾	64966JVG8
2030					44,765,000	5	3.12 ⁽¹⁾	64966JVH6
2031					44,800,000	5	3.18 ⁽¹⁾	64966JVJ2
2032					7,805,000	3¼	3.25	64966JVK9
2032					28,875,000	5	3.25 ⁽¹⁾	64966JVU7

(1) Priced to first optional call on February 1, 2022.

* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the City makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

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

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.

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, 2011 and 2010, 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.

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.

IN CONNECTION WITH OFFERS AND SALES OF THE BONDS, NO ACTION HAS BEEN TAKEN BY THE CITY THAT WOULD PERMIT A PUBLIC OFFERING OF THE BONDS, OR POSSESSION OR DISTRIBUTION OF ANY INFORMATION RELATING TO THE PRICING OF THE BONDS, THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR PUBLICITY MATERIAL RELATING TO THE BONDS, IN ANY NON-UNITED STATES JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, EACH UNDERWRITER IS OBLIGATED TO COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY NON-UNITED STATES JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE BONDS OR POSSESSES OR DISTRIBUTES THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR PUBLICITY MATERIAL RELATING TO THE BONDS AND WILL OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE BONDS UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY NON-UNITED STATES JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES AND THE CITY SHALL HAVE NO RESPONSIBILITY THEREFOR.

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OFFICIAL STATEMENT OF THE CITY OF NEW YORK

This Official Statement provides certain information concerning The City of New York (the “City”) in connection with the sale of \$1,030,615,000 aggregate principal amount of the City’s tax-exempt General Obligation Bonds, consisting of \$171,305,000 Fiscal 2012 Series E (the “Series E Bonds”) and \$859,310,000 Fiscal 2012 Series F (the “Series F Bonds” and together with the Series E Bonds, the “Bonds”).

INTRODUCTORY STATEMENT

The Bonds are general obligations of the City for the payment of which the City has pledged its faith and credit. All real property subject to taxation by the City is 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 8,175,000, 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 2011 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 and except for the application of Statement No. 49 of the Government Accounting Standards Board (“GASB 49”), as described below. See “SECTION VI: FINANCIAL OPERATIONS—2007-2011 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 2012 and 2013 fiscal years in accordance with GAAP except for the application of GASB 49. The City’s current financial plan projects budget gaps for each of the 2014 through 2016 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.” For information regarding the June 2010 amendment of the Financial Emergency Act with respect to the application of GASB 49 to the City budget, see “SECTION III: GOVERNMENT AND FINANCIAL CONTROLS.” 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 for future State

fiscal years 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—2012-2016 Financial Plan." In addition, the City has made various assumptions with respect to federal aid. Future federal actions, including the possible inability of Congress to approve an increase in the federal debt limit, 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 2012 through 2015 fiscal years submitted to the Control Board on June 29, 2011 (the "June Financial Plan"), and Modification No. 12-2 to the June Financial Plan, submitted to the Control Board on February 2, 2012 which, among other things, contains the Mayor's preliminary budget for the 2013 fiscal year and extends the Financial Plan to include the 2016 fiscal year (as so modified, the "2012-2016 Financial Plan" or the "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 legislation and policies affecting the City and the cost of future labor settlements. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

Implementation of the Financial Plan is dependent on the City's ability to market successfully its bonds and notes, including revenue and tax anticipation notes that it may issue under certain circumstances to finance seasonal working capital requirements. 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." 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 in the financial markets generally, as well as future developments concerning the City, and public discussion of such developments, 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

For the 2011 fiscal year, the City's General Fund had a total surplus of \$3.747 billion, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, except for the application of GASB 49 as described below, after discretionary and other transfers. The 2011 fiscal year is the thirty-first consecutive year that the City has achieved balanced operating results when reported in accordance with GAAP, except for the application of GASB 49.

2012-2016 Financial Plan

The City's expense and capital budgets for the 2012 fiscal year were adopted on June 29, 2011. The June Financial Plan, which was consistent with the City's expense and capital budgets as adopted for the 2012 fiscal year, projected revenues and expenses for the 2012 fiscal year balanced in accordance with

GAAP, except for the application of GASB 49, as described below. The June Financial Plan projected gaps of \$4.6 billion, \$4.8 billion and \$4.9 billion in fiscal years 2013 through 2015, respectively.

On February 2, 2012, the Mayor released his preliminary budget for the 2013 fiscal year and the City submitted to the Control Board the Financial Plan for the 2012 through 2016 fiscal years, which relates to the City and certain entities that receive funds from the City. The Financial Plan is a modification to the June Financial Plan, as subsequently modified by the financial plan submitted to the Control Board on November 18, 2011 (the “November Financial Plan”). The Financial Plan projects revenues and expenses for the 2012 and 2013 fiscal years balanced in accordance with GAAP, except for the application of GASB 49, and projects gaps of approximately \$3.0 billion, \$3.5 billion and \$3.4 billion in fiscal years 2014 through 2016, respectively, after the implementation of a gap-closing program described below.

The Financial Plan reflects, since the June Financial Plan, increases in projected net revenues of \$136 million, \$335 million, \$317 million and \$511 million in fiscal years 2012 through 2015, respectively. Changes in projected revenues include: (i) increases in real property tax revenues of \$186 million, \$165 million, \$344 million and \$576 million in fiscal years 2012 through 2015, respectively; (ii) decreases in personal income tax revenues of \$192 million, \$72 million, \$164 million and \$190 million in fiscal years 2012 through 2015, respectively; (iii) decreases in business tax revenues of \$191 million, \$132 million, \$192 million and \$231 million in fiscal years 2012 through 2015, respectively; (iv) increases in real property transfer and mortgage recording tax revenues of \$101 million, \$172 million, \$219 million and \$211 million in fiscal years 2012 through 2015, respectively; (v) increases in sales tax revenues of \$70 million, \$82 million, \$81 million and \$74 million in fiscal years 2012 through 2015, respectively; (vi) decrease in State School Tax Relief Program (the “STAR Program”) aid of \$1 million in fiscal year 2012; (vii) increases in tax audit revenues of \$30 million in each of fiscal years 2012 through 2015; (viii) increases in hotel tax revenues of \$78 million in fiscal year 2012 and \$93 million in each of fiscal years 2013 through 2015; (ix) increases in all other taxes of \$33 million, \$22 million, \$14 million and \$19 million in fiscal years 2012 through 2015, respectively; and (x) a net increase in all other revenues of \$22 million in fiscal year 2012, and net decreases in all other revenues of \$25 million, \$108 million and \$71 million in fiscal years 2013 through 2015, respectively.

The Financial Plan also reflects, since the June Financial Plan, decreases in projected net expenditures of \$696 million, \$981 million, \$861 million and \$268 million in fiscal years 2012 through 2015, respectively. Changes in projected expenditures include: (i) decreases of \$1 billion in each of fiscal years 2013 and 2014 as a result of drawing down the Retiree Health Benefit Trust Fund in each of those years; (ii) decreases in debt service of \$81 million, \$99 million, \$64 million and \$42 million in fiscal years 2012 through 2015, respectively, primarily as a result of lower interest rates; (iii) a reduction in reserve for claims from past periods of \$500 million in fiscal year 2012; (iv) a reduction in the general reserve of \$200 million in fiscal year 2012; (v) decreases in employer health insurance costs of \$2 million, \$42 million, \$46 million and \$51 million in fiscal years 2012 through 2015, respectively; (vi) net increases in other expenses of \$512 million, \$585 million, \$619 million and \$555 million in fiscal years 2012 through 2015, respectively; and (vii) increases in pension costs of \$131 million and \$172 million in fiscal years 2014 and 2015, respectively, as a result of a delay in proposed pension reforms from assumptions a year ago offset by the Governor’s proposed pension reforms, the enactment of which require State legislation. Changes in projected expenditures also include decreases of \$425 million, \$425 million, \$501 million and \$902 million in fiscal years 2012 through 2015, respectively, reflecting proposed changes in pension assumptions and methods of the City Actuary including a reduction in the interest rate assumption from eight percent (gross of expenses) to seven percent (net of expenses), a change in funding methodology to an alternative but commonly-used method, a market value restart and other changes in assumptions. Certain components of the Actuary’s draft proposals require State legislation. For additional information on proposed changes in pension assumptions and methods, see “SECTION IX: OTHER INFORMATION – Pension Systems.”

In addition, the Financial Plan sets forth a gap-closing program to maintain budget balance in fiscal year 2012, to achieve budget balance in fiscal year 2013, and to reduce previously projected gaps for each of fiscal years 2014 and 2015. The gap-closing actions include (i) agency programs reflecting reduced agency expenditures or increased revenues totaling \$465 million, \$1.019 billion, \$626 million and \$627 million in fiscal years 2012 through 2015, respectively; and (ii) taxi medallion sales reflecting an increase of \$1 billion in projected revenues in fiscal year 2013. The number of taxi medallions that may be sold is subject to State administrative approval.

The Financial Plan includes a Reserve for Collective Bargaining containing funding for unsettled non-uniformed employees for the 2006-2008 round of bargaining. The Financial Plan contains funding for settled employees in the 2008-2010 round of collective bargaining, but does not contain funding for unsettled employees including the United Federation of Teachers (“UFT”). Each 1% increase for UFT employees would cost approximately \$100 million annually. The Financial Plan does not include funding for wage increases for any employees in the first three years following the 2008-2010 round of collective bargaining, but does provide for 1.25% increases per year for all employees commencing three years after the 2008-2010 round of collective bargaining. Each 1% increase for all City employees costs approximately \$300 million annually.

The Financial Plan also reflects, since the June Financial Plan, an increase in the provision for prepayment of future expenses in fiscal year 2013, as a result of decreased expenditures or increased revenues, resulting in the net additional benefit of \$1.3 billion in fiscal year 2013.

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

The State

The State ended the 2010-2011 fiscal year with a general fund (the “General Fund”) balance of \$1.37 billion, including \$1.2 billion in reserves. The State Legislature completed action on the \$133.4 billion budget for the 2011-2012 fiscal year on March 31, 2011 (the “Enacted Budget”). The State Annual Information Statement dated May 24, 2011 (the “Annual Information Statement”) reflects the Enacted Budget and revisions to spending estimates therein through May 6, 2011, the date of the State financial plan. The State updates the Annual Information Statement quarterly and released quarterly updates on August 22, 2011, November 22, 2011 (the “November AIS Update”) and February 8, 2012 (the “February AIS Update”).

The February AIS Update describes, among other things, gap-closing resources and actions to eliminate the State’s general fund (the “General Fund”) gap and the Governor’s Executive Budget for fiscal year 2012-2013 (the “Governor’s Executive Budget”) as presented to the Legislature on January 17, 2012 and modified by amendments submitted in February 2012. The November AIS Update reflected a potential General Fund budget shortfall of \$350 million in fiscal year 2011-2012. Based on several factors, including the availability of excess cash balances in other funds, the State Division of the Budget (“DOB”) now projects no budget shortfall and expects to end the current fiscal year in balance on a General Fund cash basis. General Fund receipts, including transfers from other funds, are expected to total \$57.2 billion in fiscal year 2011-2012, an increase of \$348 million compared to the November AIS Update. Since the November AIS Update, estimated tax receipts are unchanged, estimated debt service expenses have been revised downward and the estimate for all other receipts, including miscellaneous receipts and cash transfers from other funds, has been increased based on collections to date and current fund balances. Estimated disbursements have been reduced across a range of programs in local assistance and debt service, reflecting operating costs to date, the continuing impact of cost control measures imposed on discretionary spending and conservative estimation of General Fund costs. The State expects the General Fund to end fiscal year 2011-2012 with a cash balance of \$1.7 billion, including reserve funds. The Governor’s Executive Budget contains a gap-closing program, which, if enacted as proposed, would eliminate the General Fund gap of \$3.5 billion in fiscal year 2012-2013 and lower the estimated budget gaps in fiscal years 2013-2014 through 2015-2016 by \$2.91 billion, \$2.07 billion and \$525

million, respectively, resulting in remaining budget gaps of \$715 million, \$2.97 billion and \$3.72 billion in such years, respectively. The fiscal year 2011-2012 gap-closing program consists primarily of \$2 billion in savings from spending control and \$1.5 billion in new resources from tax reform. The Governor's Executive Budget is a proposal and there can be no assurance that the State Legislature will not make changes that have an adverse impact on the budgetary projections contained therein or that it will take final action on the Governor's Executive Budget prior to the start of fiscal year 2012-2013 on April 1, 2012.

The Annual Information Statement and February AIS Update identify a number of risks inherent in the implementation of the Governor's Executive Budget and the State financial plan. Such risks include, but are not limited to, the performance of the national and State economies; the impact of international events on consumer confidence, oil supplies and oil prices; the impact of behavioral changes concerning financial sector profitability and the structure of financial sector bonuses, as well as any future legislation governing the structure of compensation; the impact of financial and real estate market developments on bonus income and capital gains realizations; shifts in monetary policy affecting interest rates and the financial markets; the impact of consumer spending on State tax collections; increased demand in entitlement-based and claims-based programs such as Medicaid, public assistance and general public health; access to the capital markets; litigation against the State; and actions taken by the federal government, including audits, disallowances, changes in aid levels; changes to Medicaid rules; and risks concerning the implementation of gap-closing actions, including reductions in State agency spending.

On June 24, 2011 the Governor signed into law the State's tax levy limitation law which restricts, among other things, the amount of real property taxes that may be levied on or behalf of a municipality in a particular year. Such law does not apply to the City.

Job Growth

Private sector jobs in the City declined by 140,000, or 4.3%, from a peak in August 2008 to a low in August 2009. From September 2009 through December 2011, private sector jobs in the City increased by 90,000, or 65% of private sector jobs lost. Private sector jobs in the United States declined by 8.9 million, or 7.7%, from a peak in January 2008 to a low in February 2010. From February 2010 through December 2011, private sector jobs in the United States grew by 3.4 million, or 38% of private sector jobs lost. Recent information on job trends at both the national and City levels suggests continued modest growth; however, volatility over the past year has caused some uncertainty in the outlook for continued growth.

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 cover and 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, 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 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 E 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 in Appendix E and for the payment of certain costs of issuance.

Optional Redemption

The Bonds maturing after August 1, 2021 will be subject to redemption at the option of the City, on or after February 1, 2022 in whole or in part, on any date, at par, plus accrued interest to the date of redemption. 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.

Selection of Bonds to be Redeemed

The particular series, subseries, maturities, amounts and interest rates of Bonds to be redeemed at the option of the City will be determined by the City in its sole discretion. If less than all of the Bonds of a series, subseries, maturity and interest rate are called for prior redemption, such Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

Notice of Redemption

When Bonds are redeemed, the City will give notice of redemption only to DTC (not to the Beneficial Owners of the Bonds) not less than 30 or more than 60 days prior to the date fixed for redemption.

Defeasance

As a condition to legal defeasance of any of the Bonds, the City must obtain an opinion of counsel to the effect that the owners thereof will not recognize income, gain or loss for federal income tax purposes as a result of such legal defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred. Any Bonds that are escrowed to maturity in the future will remain subject to optional redemption by the City.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, acts as securities depository for the Bonds. Reference to the Bonds under this caption “Book-Entry Only System” shall mean all Bonds held through DTC. 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 of a Series or Subseries, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Purchasers may own beneficial ownership interests in the Bonds in the United States through DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 is the holding company for DTC National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Bonds deposited by Direct 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. or such other DTC nominee 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 will 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 its Fiscal Agent, The Bank of New York Mellon, 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 of a Series or Subseries 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 of such Series or Subseries 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 under this caption "Book-Entry Only System" has been extracted from information furnished by DTC. Neither the City nor the Underwriters 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, was elected to a second term which commenced on January 1, 2006 and was elected for a third term which commenced on January 1, 2010. 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.* John C. Liu, the Comptroller of the City, took office on January 1, 2010. 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 \$114.8 billion as of December 31, 2011, 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.* Bill de Blasio, the Public Advocate, took office on January 1, 2010. 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.

On November 2, 2010, the City Charter was amended to provide 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 consecutive full terms, unless one full term or more has elapsed since that person last held such office. Such term limit applies only to officials first elected to office on or after November 2, 2010.

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 and the City Charter require the City to maintain its Expense Budget balanced when reported in accordance with GAAP. For fiscal years 2009 and 2010, the City was authorized to phase in implementation of GASB 49 for budgetary purposes. In June 2010, the Financial Emergency Act was amended to permanently waive the budgetary impact of GASB 49 by allowing the City to include certain pollution remediation costs in its capital budget and to finance such costs with the issuance of bonds. 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 2011 fiscal year, which includes, among other things, the City's financial statements for the 2011 fiscal year, was issued on October 28, 2011. The CAFR for the 2010 fiscal year received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the thirty-first 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 thirty-one consecutive fiscal years with a General Fund surplus when reported in accordance with then applicable GAAP, except with regard to the application of GASB 49.

In June 2004, the Government Accounting Standards Board (“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. As of June 30, 2011, the City reported an OPEB liability of \$83.9 billion in its government-wide financial statements, based upon an actuarial valuation in accordance with GASB 45. See “APPENDIX B—FINANCIAL STATEMENTS—Note E-5.” There is no requirement to fund the future OPEB obligation. For information on the trust established to fund a portion of the future OPEB liability, see “SECTION VI: FINANCIAL OPERATIONS—2007-2011 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 (“PRO”), which are obligations to address the current or potential detrimental effects of existing pollution through activities such as site assessments and cleanups. The City implemented GASB 49 in fiscal year 2009 for financial reporting purposes. For fiscal year 2011, the City reported a PRO liability of \$226.2 million, the costs of known pollution which the City is obligated to remediate, estimated as of June 30, 2011. See “APPENDIX B — FINANCIAL STATEMENTS — Note D.4.” In addition to requiring recognition of PRO, under GASB 49 costs incurred for pollution remediation are generally reported as operating expenses rather than as capital expenditures. The City reported pollution remediation expenditures of approximately \$286.7 million in fiscal year 2011.

On April 30, 2008, pursuant to the Financial Emergency Act, the Control Board approved a phase-in of the budgetary impact of GASB 49, enabling the City to continue to finance with the issuance of bonds certain pollution remediation costs for projects authorized prior to fiscal year 2011 and, consequently, to achieve budget balance in fiscal years 2009 and 2010 in accordance with GAAP except for the application of GASB 49. In June 2010, the State amended the Financial Emergency Act to permanently waive the budgetary impact of GASB 49.

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 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 97% 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 December 31, 2011, aggregate pension assets were allocated approximately as follows: 39.5% U.S. equity; 28.4% fixed income; 16.6% international equity; 6.9% private equity; 2.7% private real estate; 0.8% hedge funds; and 5.1% cash.

Financial Emergency Act and City Charter

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

From 1975 to June 30, 1986, the City was subject to a Control Period, as defined in the Act, which was terminated upon the satisfaction of the statutory conditions for termination, including the termination of all federal guarantees of obligations of the City, a determination by the Control Board that the City had maintained a balanced budget in accordance with GAAP for each of the three immediately preceding fiscal years and a certification by the State and City Comptrollers that sales of securities by or for the benefit of the City satisfied its capital and seasonal financing requirements in the public credit markets and were expected to satisfy such requirements in the 1987 fiscal year. With the termination of the Control Period, certain Control Board powers were suspended including, among others, its power to approve or disapprove certain contracts (including collective bargaining agreements), long-term and short-term borrowings, and the four-year financial plan and modifications thereto of the City and the Covered Organizations. Pursuant to the Act and the City Charter, the City is required to develop a four-year financial plan each year and to modify the plan as changing circumstances require. Under current law, prior to July 1, 2008 the Control Board was required to 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 were (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 impaired 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 was a substantial likelihood that such

securities could 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 would satisfy substantially all of the capital and seasonal financing requirements of the City during such period in accordance with the financial plan then in effect.

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

The State Covenant is authorized to be included in bonds of the City. Since enactment of this amendment to the Act, 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 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).

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

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 2011, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 71.6% of total revenues in the 2012 fiscal year while federal aid, including categorical grants, will provide 11.5%, and State aid, including unrestricted aid and categorical grants, will provide 16.9%. 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 42.2% of its total tax revenues and 26.4% of its total revenues for the 2012 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—2007-2011 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, which amount may be further limited by the State Constitution or laws. On June 24, 2011 the Governor signed into law the State’s tax levy limitation law which restricts, among other things, the amount of real property taxes that may be levied on or behalf of a municipality in a particular year. Such law does not apply to the City. 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)								
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
2009(5)	15,903.5	13,213.6	1,168.9	7.6	17,525.7	75.4	1.87	12.28
2010	17,588.1	16,472.3	295.8	1.7	18,641.4	88.4	2.01	12.28
2011	18,323.7	16,418.4	921.2	5.0	18,898.5	86.9	2.17	12.28
2012	19,284.5	17,181.1	1,135.5	5.9	18,936.0	90.7	2.28	12.28

- (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.
- (4) The decrease in the average tax rate between fiscal years 2007 and 2008 reflects the 7% decrease effective July 1, 2007. The increase in the average tax rate between fiscal years 2008 and 2009 reflects the rescission of the 7% property tax decrease effective January 1, 2009.
- (5) Includes the mid-year property tax increase of \$576 million, effective January 1, 2009, rescinding the 7% property tax decrease enacted in June 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 shown in the table below, which were used to compute the 2012 fiscal year operating limit and general debt limit, have been established by the State Board and include the results of the fiscal year 2010 market value survey.

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

<u>Fiscal Year</u>	<u>Billable Assessed Valuation of Taxable Real Estate(2)</u>	÷	<u>Special Equalization Ratio</u>	=	<u>Full Valuation(2)</u>
2008	\$125,777,268,853		0.1703		\$738,562,941,004
2009	134,294,731,881		0.1847		727,096,545,106
2010	143,334,172,616		0.1977		725,008,460,374
2011	149,311,931,232		0.1944		768,065,489,877
2012	157,121,003,987		0.1857		846,101,260,027
				Average:	\$760,966,939,277

- (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 2011 fiscal year, the billable assessed value of all real estate (taxable and exempt) was \$255.6 billion comprised of \$90.3 billion of fully exempt real estate, \$61.6 billion of partially taxable real estate and \$103.7 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 2012 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 2012, class one was assessed at approximately 6% of market value and classes two, three and four were each assessed at 45.0% 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 2012 tax rates were set on June 29, 2011 and reflect a 5% limitation on the market value adjustment for 2011. The class tax rates were amended and restated on November 3, 2011 to limit the market value adjustment to 2.5%. The average tax rate for fiscal year 2012 was maintained at \$12.28 per \$100 of assessed value.

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

Trend in Taxable Assessed Value

During the decade prior to fiscal year 1993, real estate tax revenues grew substantially. Because State law provides for increases in assessed values of most properties to be phased into property tax bills over five-year periods, billable assessed values continued to grow and real estate tax revenue increased through fiscal year 1993 even as market values declined during the local recession. From fiscal year 1994 through fiscal year 1997 billable assessed values declined, reflecting the impact of the protracted local recession on office vacancy rates and on office building valuations. Billable assessed value resumed slow growth in fiscal year 1998, growing 0.7%, 2.2%, 3.1%, 4.0%, 6.0%, 5.7%, 5.7%, 3.8% and 7.5% in fiscal years 1998 through 2006, respectively.

For fiscal year 2007, billable assessed valuation rose by \$5.1 billion to \$115.1 billion. The billable assessed valuation as determined by the City Department of Finance rose to \$124.5 billion, \$133.0 billion, \$141.8 billion, \$147.6 billion and \$155.4 billion for fiscal years 2008 through 2012, respectively. The Department of Finance released the tentative assessment roll for fiscal year 2013 on January 19, 2012. The billable assessed value rose by \$8.8 billion over the 2012 assessment roll to \$164.2 billion, a growth of 5.7%. However, the final roll for fiscal year 2013 to be released in May 2012 is expected to show a growth of 4.2% over fiscal year 2012. With a forecast decline in the class two and class four market values combined with a deflated level of existing pipeline of deferred assessment increases yet to be phased in, the billable assessed valuations are forecast to grow by 3.3%, 3.1% and 3.1% in fiscal years 2014 through 2016, respectively.

Collection of the Real Estate Tax

Real estate tax payments are due each July 1 and January 1. Prior to January 1, 2009, 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 were eligible to make tax payments in quarterly installments on July 1, October 1, January 1 and April 1. Effective January 1, 2009, owners of all properties assessed at \$250,000 or less are eligible to make tax payments in quarterly installments. Prior to January 1, 2009, an annual interest rate of 9% compounded daily was 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. As of January 1, 2009, the assessed value threshold subject to the late payment interest rate of 9% was raised from \$80,000 to \$250,000. 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 was extended through December 31, 2014. 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.

From time to time, the City sells tax liens to separate statutory trusts. In fiscal years 2007 through 2011, the City’s tax lien program resulted in net proceeds of approximately \$40.2 million, \$35.5 million, \$33.9 million, \$39.0 million and \$2.4 million, respectively. The Financial Plan reflects receipt of \$82.0 million in fiscal year 2012 from tax lien sales.

REAL ESTATE TAX COLLECTIONS AND DELINQUENCIES

Fiscal Year	Tax Levy(1)	Tax Collections on Current Year Levy(2)	Tax Collections as a Percentage of Tax Levy	Prior Year (Delinquent Tax) Collections	Refunds	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of End of Fiscal Year(3)	Delinquency as a Percentage of Tax Levy	Lien Sale Program(4)
(Dollars In Millions)									
2007	\$14,291.2	\$12,986.7	90.9%	\$159.5	\$(228.8)	\$(1,067.4)	\$(306.4)	2.14%	\$40.2
2008	14,356.2	13,070.7	91.0	194.8	(239.3)	(1,023.6)	(261.9)	1.82	35.5
2009	15,903.5	14,423.4	90.7	162.6	(290.4)	(1,187.3)	(283.9)	1.79	33.9
2010	17,588.1	16,168.6	92.0	215.2	(239.3)	(1,077.6)	(341.9)	1.94	39.0
2011	18,323.7	16,830.2	91.8	265.7	(230.0)	(1,093.0)	(400.5)	2.19	2.4
2012(5)	19,284.5	17,772.2	92.2	240.0	(282.0)	(1,115.2)	(397.2)	2.06	82.0

- (1) As approved by the City Council.
- (2) Quarterly collections on current year levy.
- (3) These figures include taxes due on certain publicly owned property and exclude delinquency on shelter rent and exempt property.
- (4) Includes repurchases of defective tax liens amounting to \$3.0 million and \$14.2 million in the 2007 and 2011 fiscal years, respectively.
- (5) Forecast.

Other Taxes

The City expects to derive 57.8% of its total tax revenues for the 2012 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4.5% sales and compensating use tax, commencing August 1, 2009, in addition to the 4% sales and use tax imposed by the State upon receipts from retail sales of tangible personal property and certain services in the City and the 0.375% metropolitan transportation district surcharge imposed by the State for the Metropolitan Transit Authority (“MTA”); (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. Administrative expenses of the Control Board and OSDC, which are projected to be approximately \$7 million in fiscal year 2012, and State administrative costs are deducted from sales tax revenues payable to the City. A portion of sales tax revenues payable to the City would be paid to the TFA if personal income tax revenues did not satisfy specified debt service ratios.

Revenues from taxes other than the real estate tax in the 2011 fiscal year increased by \$2.432 billion, an increase of approximately 1.2% from the 2010 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real estate tax, for each of the City's 2007 through 2011 fiscal years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	(In Millions)				
Personal Income(1)	\$ 7,933	\$ 9,697	\$ 7,489	\$ 7,576	\$ 8,138
General Corporation	3,124	2,932	2,320	1,976	2,278
Banking Corporation	1,219	628	1,099	969	1,346
Unincorporated Business Income	1,670	1,852	1,785	1,560	1,675
Sales	4,619	4,868	4,594	5,059	5,586
Commercial Rent	512	545	583	594	601
Real Property Transfer	1,723	1,408	742	615	795
Mortgage Recording	1,570	1,138	515	366	434
Utility	360	392	398	375	394
Cigarette	122	123	96	94	70
Hotel	326	379	342	363	422
All Other(2)	457	419	475	515	536
Audits	1,085	1,016	948	769	989
Total	<u>\$24,719</u>	<u>\$25,397</u>	<u>\$21,386</u>	<u>\$20,832</u>	<u>\$23,264</u>

Note: Totals may not add due to rounding.

- (1) Personal Income excludes \$685 million, \$164 million and \$138 million retained by the TFA in fiscal years 2007 through 2009, respectively. In fiscal years 2010 and 2011, Personal Income includes the personal income tax revenues of \$191 million and \$695 million, respectively, retained by the TFA for funding requirements associated with TFA Future Tax Secured Bonds. In fiscal years 2007 through 2011, Personal Income includes \$928 million, \$1.113 billion, \$1.039 billion, \$718 million and \$494 million, respectively, which was provided to the City by the State as a reimbursement for the reduced personal income tax revenues resulting from the 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, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. Personal Income also reflects the impact of grants or the early provision for TFA debt service in fiscal years 2005 through 2007 which increased tax revenue by \$229 million, \$391 million, \$362 million and \$382 million in fiscal years 2007 through 2010, respectively. Personal Income also reflects the impact of \$546 million of certain additional grants to the TFA in each of fiscal years 2007 through 2009, and \$371 million in fiscal year 2010 which were used by the TFA to pay debt service in the following fiscal year thereby increasing personal income tax revenues by a like amount in each of those fiscal years.
- (2) All Other includes, among others, surtax revenues from New York City Off-Track Betting Corporation ("OTB"), beer and liquor taxes, and the automobile use tax, but excludes the STAR Program aid of \$1.093 billion, \$1.255 billion, \$1.188 billion, \$904 million and \$712 million in fiscal years 2007 through 2011, 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 2007 through 2011 fiscal years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	(In Millions)				
Licenses, Permits and Franchises	\$ 470	\$ 502	\$ 493	\$ 487	\$ 525
Interest Income	473	377	124	22	21
Charges for Services	613	638	687	746	776
Water and Sewer Payments	1,064	1,202	1,284	1,540	1,295
Rental Income	211	257	255	234	253
Fines and Forfeitures	741	830	802	833	820
Other	671	1,238	981	828	698
Total	<u>\$4,243</u>	<u>\$5,044</u>	<u>\$4,626</u>	<u>\$4,690</u>	<u>\$4,388</u>

Note: Totals may not add due to rounding.

Rental income in fiscal years 2007 through 2011 includes approximately \$98 million, \$102.7 million, \$102.7 million, \$102.7 million and \$106.3 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. Water and Sewer Payments includes \$267.3 million in fiscal year 2010 for collective bargaining settlements relating to certain water and sewer system workers.

Other miscellaneous revenues for fiscal years 2008, 2009, 2010 and 2011 include \$552 million, \$145.6 million, \$121.2 million and \$114.9 million respectively, of tobacco settlement receivables (“TSRs”) from the settlement of litigation with certain cigarette manufacturers, that were not retained by TSASC. Other miscellaneous revenues for fiscal years 2007 through 2011 do not include TSRs retained by TSASC for debt service and operating expenses totaling \$208 million, \$79 million, \$87 million, \$69 million and \$69 million respectively. Pursuant to the TSASC indenture, less than 40% of the TSRs are pledged to the TSASC bondholders and the remainder flow to the City. 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 2007 include \$170 million from HHC reimbursement, \$141 million from the sale of 308 taxi medallions and \$39 million from the reimbursement of prior year expenditures. Other miscellaneous revenues for fiscal year 2008 include \$180 million from HHC reimbursement, \$25 million from asset sales and \$48 million from the sale of 109 taxi medallions. Other miscellaneous revenues for fiscal year 2009 include \$71 million from HHC reimbursement, \$175 million from restitution agreements, \$125 million in the refund of FICA overpayments from the period 1989 through 2005 and \$106 million from the reimbursement of prior year expenditures. Other miscellaneous revenues for fiscal year 2010 include \$133.5 million in settlement revenue from a deferred prosecution, \$133.8 million from Battery Park City Authority (“BPCA”) joint purpose funds and \$122.5 million from

the reimbursement of prior year expenditures. Other miscellaneous revenues for fiscal year 2011 include \$70.8 million in settlement revenue from a deferred prosecution and BPCA joint purpose funds of \$66.2 million.

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 2007 through 2011 fiscal years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	(In Millions)				
State Per Capita Aid(1)	\$20	\$242	\$327	\$(26)	0
Other	15	0	0	8	39
Total	<u>\$35</u>	<u>\$242</u>	<u>\$327</u>	<u>\$(18)</u>	<u>\$39</u>

(1) Fiscal year 2010 reflects a prior year disallowance of \$25.7 million as a result of the elimination of State revenue sharing.

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 2007 through 2011 fiscal years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	(In Millions)				
Federal					
Community Development(1)	\$ 241	\$ 260	\$ 251	\$ 263	\$ 241
Social Services	2,429	2,619	2,758	3,084	3,209
Education	1,745	1,739	1,717	2,911	2,762
Other	1,056	1,074	1,215	1,458	1,665
Total	<u>\$ 5,471</u>	<u>\$ 5,692</u>	<u>\$ 5,941</u>	<u>\$ 7,716</u>	<u>\$ 7,877</u>
State					
Social Services	\$ 1,889	\$ 2,060	\$ 2,034	\$ 2,099	\$ 1,743
Education	7,145	8,011	8,639	8,078	8,110
Higher Education	165	174	178	173	154
Health and Mental Health	428	487	468	448	397
Other	559	689	805	847	851
Total	<u>\$10,186</u>	<u>\$11,421</u>	<u>\$12,124</u>	<u>\$11,645</u>	<u>\$11,255</u>

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

SECTION V: CITY SERVICES AND EXPENDITURES

Expenditures for City Services

Three types of governmental agencies provide public services within the City's borders and receive financial support from the City. One category is the mayoral agencies established by the City Charter which include, among others, the Police, Fire and Sanitation Departments. Another is the independent agencies which are funded in whole or in part through the City 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 public benefit corporations ("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—2007-2011 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 federal Temporary Assistance for Needy Families ("TANF") block grant funds through the State for 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. Historically, the cost of the Safety Net Assistance Program was borne equally by the City and the State. The 2011-2012 State Budget increases the City share of the Safety Net Assistance Program to 71 percent and fully funds the Family Assistance Program with TANF block grant funds thereby eliminating the City Share of 25% for the Family Assistance Program.

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 has been replaced by the 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 2012 through 2015 fiscal years. Actual enrollment in fiscal years 2007 through 2011 has been 1,015,586, 1,011,240, 1,011,950, 1,027,497 and 1,039,084, 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 38.1% of the costs of the Community Colleges in the 2012 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 State legislation in fiscal year 2006 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 State legislation capping City Medicaid payments, 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, 2011, 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 2007 through 2011 fiscal years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Education	137,678	140,268	139,208	136,369	134,209
Police	51,957	51,977	52,304	50,715	49,671
Social Services, Homeless and Children’s Services	23,034	23,454	22,841	21,838	21,303
City University Community Colleges and Hunter Campus Schools	6,608	6,936	7,286	7,775	7,653
Environmental Protection and Sanitation	16,092	16,106	15,777	15,317	14,824
Fire	16,216	16,390	16,230	15,970	15,752
All Other	54,697	55,887	55,565	53,699	51,483
Total	<u>306,282</u>	<u>311,018</u>	<u>309,211</u>	<u>301,683</u>	<u>294,895</u>

The following table presents the number of full-time employees of certain Covered Organizations, as reported by such Organizations, at the end of each of the City’s 2007 through 2011 fiscal years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Transit Authority	47,746	49,055	48,139	46,582	44,966
Housing Authority	12,398	11,800	11,281	11,222	11,248
HHC	<u>37,799</u>	<u>38,439</u>	<u>38,626</u>	<u>37,744</u>	<u>36,798</u>
Total(1)	<u>97,943</u>	<u>99,294</u>	<u>98,046</u>	<u>95,548</u>	<u>93,012</u>

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

The foregoing tables include persons whose salaries or wages are paid by certain public employment programs, 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 the 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 May 6, 2011, the City published the Ten-Year Capital Strategy for fiscal years 2012 through 2021. The Ten-Year Capital Strategy totals \$54.1 billion, of which approximately 74% would be financed with City funds, and reflects reductions to the previous Ten-Year Capital Strategy for fiscal years 2010 through 2019. 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, among other items: (i) \$20.2 billion to construct new schools and improve existing educational facilities; (ii) \$12.6 billion for improvements to the water and sewer system; (iii) \$3.4 billion for expanding and upgrading the City's housing stock; (iv) \$2.4 billion for reconstruction or resurfacing of City streets; (v) \$651.7 million for continued City-funded investment in mass transit; (vi) \$3.4 billion for the continued reconstruction and rehabilitation of all four East River bridges and 108 other bridge structures; (vii) \$1.2 billion to expand current jail capacity; and (viii) \$369.9 million 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 bonds by the City, the Water Authority and the TFA. From time to time, 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 \$46.2 billion during the 2007 through 2011 fiscal years. City-funded expenditures, which totaled \$37.0 billion during the 2007 through 2011 fiscal years, have been financed through the issuance of bonds by the City, the TFA and the Water Authority. The following table summarizes the major categories of capital expenditures in the City’s 2007 through 2011 fiscal years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
	(In Millions)					
Education	\$2,132	\$2,358	\$ 2,750	\$ 2,953	\$2,015	\$12,209
Environmental Protection	1,949	2,313	2,700	2,625	2,824	12,412
Transportation	757	767	925	1,082	951	4,482
Transit Authority(1)	70	47	77	74	65	333
Housing	436	503	413	429	330	2,111
Hospitals	187	143	189	253	128	899
Sanitation	131	188	230	347	234	1,129
All Other(2)	1,834	2,687	2,759	2,773	2,551	12,605
Total Expenditures(3)	<u>\$7,496</u>	<u>\$9,005</u>	<u>\$10,044</u>	<u>\$10,536</u>	<u>\$9,099</u>	<u>\$46,180</u>
City-funded Expenditures(4)	<u>\$5,098</u>	<u>\$6,310</u>	<u>\$ 7,248</u>	<u>\$ 9,824</u>	<u>\$8,602</u>	<u>\$37,082</u>

- (1) Excludes the Transit Authority’s non-City portion of the MTA capital program.
- (2) All Other includes, among other things, parks, correction facilities, public structures and equipment.
- (3) Total Expenditures for the 2007 through 2011 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures 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, 2011, 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 “2007-2011 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.

2007-2011 Summary of Operations

The following table sets forth the City's results of operations for its 2007 through 2011 fiscal years in accordance with GAAP.

The information regarding the 2007 through 2011 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 2010 and 2011 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 2007 through 2009 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				
	2007	2008	2009	2010	2011
	(In Millions)				
Revenues and Transfers					
Real Estate Tax(2)	\$13,123	\$13,204	\$14,487	\$16,369	\$17,086
Other Taxes(3)(4)	24,719	25,397	21,386	20,832	23,264
Miscellaneous Revenues(3)	4,243	5,044	4,626	4,690	4,388
Other Categorical Grants	1,037	1,090	1,280	1,579	1,523
Unrestricted Federal and State Aid(3)	35	242	327	(18)	39
Federal Categorical Grants	5,471	5,692	5,941	7,716	7,877
State Categorical Grants	10,186	11,421	12,124	11,645	11,255
Less: Disallowances Against Categorical Grants	(103)	(114)	—	—	(112)
Total Revenues and Transfers(5)	<u>\$58,711</u>	<u>\$61,976</u>	<u>\$60,171</u>	<u>\$62,813</u>	<u>\$65,320</u>
Expenditures and Transfers					
Social Services	\$11,078	\$12,511	\$12,151	\$12,370	11,786
Board of Education	15,748	16,855	17,774	18,411	18,862
City University	577	621	658	719	736
Public Safety and Judicial	6,842	7,259	7,683	8,000	8,281
Health Services	2,272	1,588	1,843	1,661	1,667
Pensions(6)	4,726	5,616	6,265	6,631	6,843
Debt Service(3)(7)	4,334	5,371	1,603	3,596	5,255
MAC Administrative Expenses(3)	10	3	—	—	—
All Other(7)(8)	12,999	12,147	12,189	11,420	11,885
Total Expenditures and Transfers(5)	<u>\$58,706</u>	<u>\$61,971</u>	<u>\$60,166</u>	<u>\$62,808</u>	<u>\$65,315</u>
Surplus(7)(8)	<u>\$ 5</u>				

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- (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 2007 through 2011, Real Estate Tax includes \$165.1 million, \$142.2 million, \$148.7 million, \$185.9 million and \$218.1 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 Administrative Expenses include amounts paid to MAC by the State for 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." Other Taxes excludes \$685 million, \$164 million and \$138 million of personal income taxes in fiscal years 2007 through 2009, respectively, retained by the TFA. In fiscal years 2010 and 2011, the funding requirements associated with TFA Future Tax Secured Bonds of \$191 million and \$695 million, respectively, is included in Debt Service as a debt service expense and the personal income tax revenues retained by the TFA of \$191 million and \$695 million, respectively, for such funding requirements is included in Other Taxes as revenues to the City. Debt Service does not include debt service on TSASC bonds and, through fiscal year 2009, does not include the funding requirements associated with TFA Future Tax Secured 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) Surplus is the surplus after discretionary and other transfers and expenditures. The City had general fund operating revenues exceeding expenditures of \$3.747 billion, \$3.651 billion, \$2.919 billion, \$4.640 billion and \$4.670 billion before discretionary and other transfers and expenditures for the 2011, 2010, 2009, 2008, 2007 and 2006 fiscal years, respectively. Discretionary and other transfers are included in Debt Service and for transit and other subsidies, including grants and payments to the TFA through fiscal year 2009, in All Other. Debt Service includes grants to the TFA of \$371 million and \$790 million in fiscal years 2010 and 2011, respectively, which were used by the TFA to pay debt service in the following fiscal year thereby increasing personal income tax revenues by a like amount in each of those fiscal years.
- (8) All Other includes grants to the TFA of \$546 million in each of fiscal years 2007 through 2009, which were used by the TFA for TFA funding requirements in each of fiscal years 2008 through 2010, and resulted in increased personal income tax revenues of \$546 million in each of fiscal years 2008 through 2010. 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 which resulted in increased personal income tax revenues of \$33 million, \$362 million and \$382 million in fiscal years 2008 through 2010, respectively. All Other includes deposits into a trust of \$1.5 billion in fiscal years 2007 to fund a portion of the future costs of OPEB for current and future retirees. All Other includes prepayments into the OPEB trust of \$460 million and \$225 million in fiscal years 2008 and 2009, respectively, resulting in lowered OPEB expense of \$235 million in fiscal year 2009 and \$225 million in fiscal year 2010.

Forecast of 2012 Results

The following table compares the forecast for the 2012 fiscal year contained in the June Financial Plan, which was submitted to the Control Board in June 2011 (the “June 2011 Forecast”), with the forecast contained in the Financial Plan, which was submitted to the Control Board on February 2, 2012 (the “February 2012 Forecast”). Each forecast was prepared on a basis consistent with GAAP except for the application of GASB 49. For information regarding recent developments, see “SECTION I: RECENT FINANCIAL DEVELOPMENTS.”

	<u>June 2011 Forecast</u>	<u>February 2012 Forecast</u>	<u>Increase/(Decrease) from June 2011 Forecast</u>
	(In Millions)		
REVENUES			
Taxes			
General Property Tax	\$17,625	\$17,812	187 ⁽¹⁾
Other Taxes	23,752	23,650	(102) ⁽²⁾
Tax Audit Revenue	660	700	40
Subtotal — Taxes	\$ 42,037	\$ 42,162	\$ 125
Miscellaneous Revenues	5,955	6,289	334 ⁽³⁾
Unrestricted Intergovernmental Aid	37	25	(12)
Less: Intra-City Revenues	(1,549)	(1,791)	(242)
Disallowances Against Categorical Grants	(15)	(15)	—
Subtotal – City Funds	\$ 46,465	\$ 46,670	\$ 205
Other Categorical Grants	1,193	1,046	(147) ⁽⁴⁾
Inter-Fund Revenues	549	551	2
Federal Categorical Grants	6,674	7,734	1,060 ⁽⁵⁾
State Categorical Grants	11,030	11,368	338 ⁽⁶⁾
Total Revenues	<u>\$ 65,911</u>	<u>\$ 67,369</u>	<u>\$1,458</u>
EXPENDITURES			
Personal Services			
Salaries and Wages	\$ 21,502	\$ 22,123	\$ 621 ⁽⁷⁾
Pensions	8,424	7,999	(425) ⁽⁸⁾
Fringe Benefits	7,985	8,005	20
Retiree Health Benefits Trust	(672)	(672)	—
Total – Personal Services	\$ 37,239	\$ 37,455	\$ 216
Other Than Personal Services			
Medical Assistance	\$ 6,217	\$ 6,275	58
Public Assistance	1,385	1,409	24
All Other	20,244	20,754	510 ⁽⁹⁾
Total – Other Than Personal Services	\$ 27,846	\$ 28,438	\$ 592
General Obligation, Lease and TFA Debt Service	5,813	5,612	(201) ⁽¹⁰⁾
FY 2011 Budget Stabilization & Discretionary Transfers	(3,738)	(3,742)	(4) ⁽¹¹⁾
FY 2012 Budget Stabilization	—	1,297	1,297 ⁽¹²⁾
General Reserve	300	100	(200)
Total Expenditures	\$ 67,460	\$ 69,160	\$1,700
Less: Intra-City Expenses	(1,549)	(1,791)	(242)
Net Total Expenditures	<u>\$ 65,911</u>	<u>\$ 67,369</u>	<u>\$1,458</u>

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- (1) The increase in General Property Tax is primarily due to lower than expected refunds payout of \$155 million and an increase in collections from prior year delinquencies of \$30 million.
- (2) The decrease in Other Taxes is due to decreases in general corporation tax of \$223 million, personal income tax of \$192 million, unincorporated business tax of \$77 million, utility tax of \$12 million and STAR Program aid of \$1 million offset by increases in banking corporation tax of \$109 million, mortgage recording tax of \$13 million, hotel tax of \$78 million, sales tax of \$70 million, real property transfer tax of \$88 million and all other taxes of \$45 million.
- (3) The increase in Miscellaneous Revenues is due to increases of \$20 million in licenses, permits and franchises, \$60 million in other miscellaneous revenues, \$23 million in rental income, \$34 million in charges for services and \$242 million in intra-city revenues offset by decreases of \$4 million in water and sewer payments, \$24 million in fines and forfeitures and \$17 million in interest income.
- (4) The decrease in Other Categorical Grants is due to a decrease of \$10.9 million in health and mental hygiene funding and the transfer of \$231.6 million in health and mental hygiene to Federal and State Categorical Grants as a result of the re-categorization of certain Medicaid funding, resulting in an increase of \$115.8 million in each such category, offset by an increase of \$95.5 million in other grants.
- (5) The increase in Federal Categorical Grants is due to the transfer of \$115.8 million in health and mental hygiene funding from Other Categorical Grants, other increases of \$53.6 million in health and mental hygiene funding, and increases of \$136.7 million in police department funding, \$131.8 million in million in housing preservation and development funding, \$119 million in education funding, \$95 million in social services funding, \$74.4 million in fire department funding, \$72.4 million in transportation funding, \$60 million in children's services funding, \$54.8 million in administrative services funding, \$29.3 million in homeless services funding, \$22.3 million in environmental protection funding, \$21.3 million in emergency management funding, \$19 million in information technology and telecommunications funding, \$18.8 million in parks and recreation funding, \$15.3 million in community development funding and \$20.5 million in other grants.
- (6) The increase in State Categorical Grants is due to the transfer of \$115.8 million in health and mental hygiene funding from Other Categorical Grants, other increases of \$19.9 million in health and mental hygiene funding, \$65.4 million in transportation funding, \$53 million in social services funding, \$50 million in children's services funding, \$10.8 million in police department funding and \$37.7 million in other grants offset by a decrease of \$14.6 million in miscellaneous agency funding.
- (7) The increase in Personal Services — Salaries and Wages is due to an increase of \$176 million in budget modifications reflecting increases in federal and categorical expenditures which are offset by federal and categorical grants and an increase of \$445 million in net agency expenditures.
- (8) The decrease in Personal Services — Pensions is primarily due to estimated lower expenditures as a result of changes in pension assumptions and methodology proposed by the Chief Actuary, certain components of which require legislative approval. For additional information see "SECTION I: RECENT FINANCIAL DEVELOPMENTS—2012-2016 Financial Plan" and "SECTION IX: OTHER INFORMATION—Pension Systems."
- (9) The increase in Other Than Personal Services—All Other is primarily due to an increase of \$1.035 billion in budget modifications reflecting increases in federal and categorical expenditures which are offset by federal and categorical grants, offset by decreases of \$25 million in net agency expenditures and \$500 million in prior year payables.
- (10) The decrease in General Obligation, Lease and TFA Debt Service is due to lower interest rates on floating rate debt.
- (11) FY 2011 Budget Stabilization & Discretionary Transfers reflects the discretionary transfer of \$2.784 billion into the General Debt Service Fund and \$790 million to the TFA in fiscal year 2011 for debt service due in fiscal year 2012, \$4 million equity contribution to a bond refunding and payments of \$164 million of other subsidies in fiscal year 2011 otherwise due in fiscal year 2012.
- (12) FY 2012 Budget Stabilization reflects the discretionary transfer of \$1.297 billion into the General Debt Service Fund in fiscal year 2012 for debt service due in fiscal year 2013.

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP, except for the application of GASB 49, for the 2012 through 2016 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)				
	2012	2013	2014	2015	2016
	(In Millions)				
REVENUES					
Taxes					
General Property Tax(3)	\$17,812	\$18,383	\$18,986	\$19,648	\$20,291
Other Taxes(4)(5)	23,650	24,751	25,373	26,643	27,624
Tax Audit Revenue	700	724	706	706	706
Subtotal – Taxes	<u>\$42,162</u>	<u>\$43,858</u>	<u>\$45,065</u>	<u>\$46,997</u>	<u>\$48,621</u>
Miscellaneous Revenues(6)	6,289	7,058	6,035	6,097	6,197
Unrestricted Intergovernmental Aid	25	—	—	—	—
Less: Intra-City Revenues	(1,791)	(1,531)	(1,533)	(1,537)	(1,542)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal – City Funds	<u>\$46,670</u>	<u>\$49,370</u>	<u>\$49,552</u>	<u>\$51,542</u>	<u>\$53,261</u>
Other Categorical Grants	1,046	913	909	906	892
Inter-Fund Revenues(7)	551	509	504	504	504
Federal Categorical Grants	7,734	6,592	6,491	6,414	6,412
State Categorical Grants	<u>11,368</u>	<u>11,341</u>	<u>11,449</u>	<u>11,586</u>	<u>11,705</u>
Total Revenues	<u>\$67,369</u>	<u>\$68,725</u>	<u>\$68,905</u>	<u>\$70,952</u>	<u>\$72,774</u>
EXPENDITURES					
Personal Services					
Salaries and Wages	\$22,123	\$21,730	\$21,796	\$21,759	\$22,002
Pension(8)	7,999	8,145	8,078	7,964	8,039
Fringe Benefits	8,005	8,335	8,920	9,499	10,123
Retiree Health Benefits Trust(9)	(672)	(1,000)	(1,000)	—	—
Subtotal – Personal Services	<u>\$37,455</u>	<u>\$37,210</u>	<u>\$37,794</u>	<u>\$39,222</u>	<u>\$40,164</u>
Other Than Personal Services					
Medical Assistance	\$ 6,275	\$ 6,321	\$ 6,458	\$ 6,638	\$ 6,735
Public Assistance	1,409	1,345	1,365	1,365	1,365
All Other(10)	<u>20,754</u>	<u>20,099</u>	<u>20,764</u>	<u>21,317</u>	<u>21,710</u>
Subtotal – Other Than Personal Services	<u>\$28,438</u>	<u>\$27,765</u>	<u>\$28,587</u>	<u>\$29,320</u>	<u>\$29,810</u>
General Obligation, Lease and TFA Debt Service(11)	5,612	6,278	6,797	7,163	7,436
FY 2011 Budget Stabilization & Discretionary Transfers(12)	(3,742)	—	—	—	—
FY 2012 Budget Stabilization(13)	1,297	(1,297)	—	—	—
General Reserve	100	300	300	300	300
Subtotal – Personal and Other Than Personal Services	<u>\$69,160</u>	<u>\$70,256</u>	<u>\$73,478</u>	<u>\$76,005</u>	<u>\$77,710</u>
Less: Intra-City Expenses	(1,791)	(1,531)	(1,533)	(1,537)	(1,542)
Total Expenditures	<u>\$67,369</u>	<u>\$68,725</u>	<u>\$71,945</u>	<u>\$74,468</u>	<u>\$76,168</u>
GAP TO BE CLOSED	<u>\$ —</u>	<u>\$ —</u>	<u>\$(3,040)</u>	<u>\$(3,516)</u>	<u>\$(3,394)</u>

(1) The four year financial plan for the 2012 through 2015 fiscal years, as submitted to the Control Board on June 29, 2011, contained the following projections for the 2012-2015 fiscal years: (i) for 2012, total revenues of \$65.911 billion and total expenditures of \$65.911 billion; (ii) for 2013, total revenues of \$67.036 billion and total expenditures of \$71.668 billion, with a gap to be closed of \$4.632 billion; (iii) for 2014, total revenues of \$68.266 billion and total expenditures of \$73.110 billion, with a gap to be closed of \$4.844 billion; and (iv) for 2015, total revenues of \$69.998 billion and total expenditures of \$74.920 billion, with a gap to be closed of \$4.922 billion.

The four year financial plan for the 2011 through 2014 fiscal years, as submitted to the Control Board on June 30, 2010, contained the following projections for the 2011-2014 fiscal years: (i) for 2011, total revenues of \$63.077 billion and total expenditures of \$63.077 billion; (ii) for 2012, total revenues of \$64.641 billion and total expenditures of \$68.357 billion, with a gap to be closed of \$3.716 billion; (iii) for 2013, total revenues of \$66.319 billion and total expenditures of \$70.883 billion, with a gap to be closed of \$4.564 billion; and (iv) for 2014, total revenues of \$68.105 billion and total expenditures of \$73.449 billion, with a gap to be closed of \$5.344 billion. The four year financial plans released in fiscal years prior to fiscal year 2011 did not include as revenues personal income tax revenues to be retained by the TFA and did not include as expenditures the funding requirements for TFA Future Tax Secured Bonds.

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The four year financial plan for the 2010 through 2013 fiscal years, as submitted to the Control Board on June 23, 2009, contained the following projections for the 2010-2013 fiscal years: (i) for 2010, total revenues of \$59.480 billion and total expenditures of \$59.480 billion; (ii) for 2011, total revenues of \$61.237 billion and total expenditures of \$66.162 billion, with a gap to be closed of \$4.925 billion; (iii) for 2012, total revenues of \$62.659 billion and total expenditures of \$67.653 billion, with a gap to be closed of \$4.994 billion; and (iv) for 2013, total revenues of \$65.024 billion and total expenditures of \$70.657 billion, with a gap to be closed of \$5.633 billion.

The four year financial plan for the 2009 through 2012 fiscal years, as submitted to the Control Board on June 30, 2008, contained the following projections for the 2009-2012 fiscal years: (i) for 2009, total revenues of \$59.169 billion and total expenditures of \$59.169 billion; (ii) for 2010, total revenues of \$60.285 billion and total expenditures of \$62.629 billion, with a gap to be closed of \$2.344 billion; (iii) for 2011, total revenues of \$63.240 billion and total expenditures of \$68.398 billion, with a gap to be closed of \$5.158 billion; and (iv) for 2012, total revenues of \$65.818 billion and total expenditures of \$70.926 billion, with a gap to be closed of \$5.108 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, 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 STAR Program, and other real estate tax assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—2. Real Estate Tax."
- (4) 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 to the extent necessary to provide statutory coverage. Other Taxes includes amounts that are expected to be retained by the TFA for its funding requirements associated with TFA Future Tax Secured Bonds.
- (5) For Financial Plan assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—3. Other Taxes."
- (6) 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."
- (7) Inter-Fund Revenues represents General Fund expenditures, properly includable in the Capital Budget, made on behalf of the Capital Projects Fund pursuant to inter-fund agreements.
- (8) Pension reflects assumed savings from the Governor's pension proposal of \$80 million in fiscal year 2015 and \$155 million in fiscal year 2016, which requires State legislation.
- (9) Retiree Health Benefits Trust reflects the reduction in contributions to the Trust of \$672 million, \$1 billion and \$1 billion in fiscal years 2012 through 2014, respectively. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*— 1. Personal Services Costs."
- (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) For a discussion of the debt service in General Obligation, Lease and TFA Debt Service, see "SECTION VII : FINANCIAL PLAN — Assumptions — *Expenditure Assumptions*—3. General Obligation, Lease and TFA Debt Service."
- (12) FY 2011 Budget Stabilization reflects the discretionary transfer of \$2.784 billion into the General Debt Service Fund and \$790 million to the TFA in fiscal year 2011 for debt service due in fiscal year 2012, \$4 million equity contribution to a bond refunding and payments of \$164 million of other subsidies in fiscal year 2011 otherwise due in fiscal year 2012.
- (13) FY 2012 Budget Stabilization reflects the discretionary transfer of \$1.297 billion into the General Debt Service Fund in fiscal year 2012 for debt service due in fiscal 2013.

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 thirty-one fiscal years, except for the application of GASB 49 with respect to fiscal years 2009 through 2011, and is projected to achieve balanced operating results for the 2012 and 2013 fiscal years, except for the application of GASB 49, 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; realization of projected 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 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 be substantial. No assurance can be given that these estimates and projections, which include actions the City expects will be taken but 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 modest growth in economic activity in calendar year 2012 compared to calendar year 2011. The following table presents a forecast of the key economic indicators for the calendar years 2011 through 2016. This forecast is based upon information available in January 2012.

FORECAST OF KEY ECONOMIC INDICATORS

	Calendar Years					
	2011	2012	2013	2014	2015	2016
U.S. ECONOMY						
<i>Economic Activity and Income</i>						
Real GDP (billions of 2005 dollars)	13,313	13,589	13,926	14,399	14,863	15,271
Percent Change	1.7	2.1	2.5	3.4	3.2	2.7
Non-Agricultural Employment (millions)	131.1	132.8	135.1	137.7	140.3	142.6
Percent Change	1.3	1.7	2.6	2.6	2.6	2.2
CPI-All Urban (1982-84=100)	224.9	228.3	232.2	237.3	242.5	247.3
Percent Change	3.1	1.5	1.7	2.2	2.2	2.0
Wage Rate (\$ per year)	50,606	51,622	52,952	54,517	56,143	57,790
Percent Change	2.5	2.0	2.6	3.0	3.0	2.9
Personal Income (\$ billions)	12,961	13,414	13,949	14,675	15,450	16,230
Percent Change	4.7	3.5	4.0	5.2	5.3	5.1
Pre-Tax Corp Profits (\$ billions)	1,909	1,999	2,213	2,299	2,218	2,210
Percent Change	4.9	4.7	10.7	3.9	(3.5)	(0.3)
Unemployment Rate (Percent)	8.9	8.9	8.6	7.9	7.1	6.7
10-Year Treasury Bond Rate	2.8	2.7	2.9	3.6	4.6	5.0
Federal Funds Rate	0.1	0.1	0.1	1.2	3.3	4.0
NEW YORK CITY ECONOMY						
Real Gross City Product (billions of dollars)	574.6	573.7	583.2	595.0	608.6	621.5
Percent Change	0.6	(0.2)	1.7	2.0	2.3	2.1
Non-Agricultural Employment (thousands)	3,741	3,768	3,815	3,860	3,914	3,955
Percent Change	33	27	46	45	54	41
CPI-All Urban NY-NJ Area (1982-84=100)	247.7	252.4	257.1	263.1	269.4	275.3
Percent Change	2.8	1.8	1.9	2.3	2.4	2.2
Wage Rate (\$ per year)	80,035	80,246	82,005	84,035	86,267	88,799
Percent Change	2.6	0.3	2.2	2.5	2.7	2.9
Personal Income (\$ billions)	440.9	450.4	464.2	483.1	503.0	523.9
Percent Change	4.2	2.1	3.1	4.1	4.1	4.2
NEW YORK REAL ESTATE MARKET						
<i>Manhattan Primary Office Market</i>						
Asking Rental Rate (\$ per square foot)	64.31	67.17	72.73	72.05	77.65	83.79
Percent Change	3.8	4.4	8.3	(0.9)	7.8	7.9
Vacancy Rate – Percent	9.9	9.5	8.1	9.7	9.3	9.1

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.”

Projections of real estate tax revenues include net revenues from the sale of real property tax liens of \$82 million, \$46 million, \$38 million, \$38 million and \$38 million in fiscal years 2012 through 2016, respectively. The authorization to sell such real estate tax liens was extended through December 31, 2014. Projections of real estate tax revenues include the effects of the STAR Program which will reduce the real estate tax revenues by an estimated \$212 million in fiscal year 2012. Projections of real estate tax revenues reflect the estimated cost of extending the current tax reduction for owners of cooperative and condominium apartments amounting to \$448 million, \$466 million, \$481 million, \$496 million and \$513 million in fiscal years 2012 through 2016, respectively.

The delinquency rate was 2.1% in fiscal year 2007, 1.8% in fiscal year 2008, 1.8% in fiscal year 2009, 1.9% in fiscal year 2010 and 2.2% in fiscal year 2011. The Financial Plan projects delinquency rates of 2.1% in each of fiscal years 2012 and 2014 and 2.0% in each of fiscal years 2015 and 2016. 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.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)				
Personal Income(1)	\$ 7,979	\$ 8,529	\$ 8,576	\$ 9,174	\$ 9,555
General Corporation	2,502	2,639	2,719	2,816	2,941
Banking Corporation	1,336	1,281	1,179	1,169	1,224
Unincorporated Business Income	1,722	1,804	1,876	1,949	2,022
Sales	5,867	6,066	6,327	6,600	6,839
Commercial Rent	622	642	663	686	710
Real Property Transfer	862	908	1,023	1,125	1,155
Mortgage Recording	513	572	670	739	759
Utility	401	417	432	453	465
Cigarette	70	69	67	65	64
Hotel(2)	476	464	481	506	529
All Other(3)	1,300	1,361	1,360	1,361	1,361
Total	<u>\$23,650</u>	<u>\$24,751</u>	<u>\$25,373</u>	<u>\$26,643</u>	<u>\$27,624</u>

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Note: Totals may not add due to rounding.

- (1) Personal Income includes \$720 million, \$1.719 billion, \$1.975 billion, \$2.173 billion and \$2.356 billion of personal income tax revenues projected to be retained by the TFA for debt service and other expenses in the 2012 through 2016 fiscal years, respectively. These projections reflect reductions in personal income tax revenues as a result of the State's STAR Program under law in effect at the date of the Financial Plan in the amount of \$578 million, \$647 million, \$645 million, \$645 million and \$645 million in the 2012 through 2016 fiscal years, respectively. The State will reimburse the City for reduced revenues resulting from the STAR Program.
- (2) Hotel includes the impact of an additional temporary hotel occupancy tax of 0.875 percent resulting in additional revenues of \$64 million, \$65 million, \$66 million, \$69 million and \$72 million in fiscal years 2012 through 2016, respectively.
- (3) All Other includes, among others, beer and liquor taxes and the automobile use tax. All Other also includes \$790 million, \$861 million, \$859 million, \$859 million and \$859 million in fiscal years 2012 through 2016, respectively, to be provided to the City by the State as reimbursement for the reduced property tax and personal income tax revenues resulting from the STAR Program.

The Financial Plan reflects the following assumptions regarding projected baseline revenues from Other Taxes: (i) with respect to the personal income tax, moderate growth in fiscal year 2012, reflecting wage growth coupled with continued recovery in non-wage income in calendar year 2011, offset by a decline in securities sector bonus payouts, stronger growth in fiscal year 2013 due to an increase in capital gains realizations in anticipation of the expiration of the Bush tax cuts at the end of calendar year 2012, and growth in fiscal years 2014 through 2016 reflecting the recovery of the national and local economies; (ii) with respect to the general corporation tax, growth slowing in fiscal year 2012 reflecting a decline in finance sector tax payments as a result of the sharp drop in calendar year 2011 Wall Street profitability and strength in non-finance sector tax payments from healthy corporate profits growth, moderate growth in fiscal year 2013 as Wall Street profitability returns to a more sustainable level in calendar year 2012 and non-finance sector payments parallel steady growth in the economy, and growth in fiscal years 2014 through 2016 reflecting a return to trend levels of Wall Street profitability and steady economic growth; (iii) with respect to the banking corporation tax, nearly flat growth in fiscal year 2012 reflecting a continuation of the high level of tax payments and averaging, a decline in growth for fiscal years 2013 through 2016 reflecting uncertainty over pending regulatory changes and the withdrawal of federal support; (iv) with respect to the unincorporated business tax, growth slowing in fiscal year 2012 reflecting a decline in finance sector tax payments due to the overall poor performance of the hedge fund industry in calendar year 2011 offset by tax payments in the non-finance sector, moderate growth in fiscal year 2013 reflecting improved performance by the hedge fund industry as well as economic growth, and moderate growth in fiscal years 2014 through 2016 reflecting steady economic growth; (v) with respect to the sales tax, moderate growth in fiscal year 2012 reflecting increased taxable consumption due to the local economic recovery and strong tourist consumption, growth slowing in fiscal year 2013 reflecting moderate growth in taxable consumption and subdued tourist spending, and moderate growth in fiscal years 2014 through 2016 reflecting steady economic growth; (vi) with respect to real property transfer tax, growth continuing in fiscal year 2012 for the second year after three years of decline from fiscal years 2008 through 2010, and growth continuing through fiscal year 2016, as both the volume and price of residential and commercial transactions rebound with the recovery of the local economy; (vii) with respect to the mortgage recording tax, growth continuing in fiscal year 2012 for the second year in row, after three years of decline from fiscal years 2008 through 2010, and growth continuing through fiscal year 2016, as both the volume and price of residential and commercial transactions rebound with the recovery of the local economy; (viii) with respect to the commercial rent tax, growth in fiscal year 2012, reflecting improving vacancy rates and asking rents as the local economy recovers from the impact of the national slowdown and contraction in office-using employment, and modest growth from fiscal year 2013 through 2016, as the local office market recovers with employment gains.

4. MISCELLANEOUS REVENUES

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)				
Licenses, Permits and Franchises	\$ 547	\$ 548	\$ 559	\$ 563	\$ 574
Interest Income	17	19	20	91	156
Charges for Services	829	863	860	861	861
Water & Sewer Payments (1)	1,435	1,415	1,436	1,444	1,467
Rental Income	280	282	290	293	293
Fines and Forfeitures	790	805	803	802	802
Other	600	1,595	534	506	502
Intra-City Revenues	<u>1,791</u>	<u>1,531</u>	<u>1,533</u>	<u>1,537</u>	<u>1,542</u>
	<u>\$6,289</u>	<u>\$7,058</u>	<u>\$6,035</u>	<u>\$6,097</u>	<u>\$6,197</u>

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

Rental Income reflects approximately \$102.7 million in each of fiscal years 2012 through 2016 for lease payments for the City’s airports.

Other reflects \$124.6 million, \$124.3 million, \$124.1 million, \$123.8 million and \$123.5 million of projected resources in fiscal years 2012 through 2016, respectively, from the receipt by the City of TSRs. 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. Other also reflects, in fiscal year 2013, \$1 billion from the sale of 2,000 taxi medallions which has been approved by the legislature but has not yet been signed by the Governor.

5. UNRESTRICTED INTERGOVERNMENTAL AID

Unrestricted Intergovernmental Aid consists of prior year claims settlements of \$25 million in fiscal year 2012. There is no Unrestricted Intergovernmental Aid anticipated in any of fiscal years 2013 through 2016.

6. FEDERAL AND STATE CATEGORICAL GRANTS

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)				
Federal					
Community Development	\$ 251	\$ 227	\$ 220	\$ 220	\$ 220
Social Services	3,322	3,123	3,120	3,120	3,120
Education	2,034	1,952	1,932	1,857	1,856
Other	2,127	1,290	1,219	1,217	1,216
Total	<u>\$ 7,734</u>	<u>\$ 6,592</u>	<u>\$ 6,491</u>	<u>\$ 6,414</u>	<u>\$ 6,412</u>
State					
Social Services	\$ 1,599	\$ 1,441	\$ 1,441	\$ 1,440	\$ 1,440
Education	8,116	8,352	8,420	8,495	8,495
Higher Education	213	214	214	213	214
Health and Mental Hygiene	571	534	532	532	532
Other	869	800	842	906	1,024
Total	<u>\$11,368</u>	<u>\$11,341</u>	<u>\$11,449</u>	<u>\$11,586</u>	<u>\$11,705</u>

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. Federal funds for education, primarily provided through the American Recovery and Reinvestment Act (“ARRA”) of \$98 million, \$96 million and \$76 million are reflected in fiscal years 2012 through 2014, respectively. In addition, the Financial Plan assumes increased federal Medicaid participation of \$124 million and \$32 million in fiscal years 2012 and 2013, respectively. 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 December 31, 2011, approximately 13.9% 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 and \$114 million in fiscal years 2007 and 2008, respectively. There were no disallowances in fiscal years 2009 and 2010. The amount of such disallowance was \$112 million in fiscal year 2011. As of June 30, 2011, the City had an accumulated reserve of \$1.2 billion for all disallowances of categorical aid.

Expenditure Assumptions

1. PERSONAL SERVICES COSTS

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	(In Millions)				
Wages and Salaries	\$22,041	\$21,566	\$21,473	\$21,219	\$21,206
Pensions	7,999	8,145	8,078	7,964	8,039
Other Fringe Benefits	8,005	8,335	8,920	9,499	10,123
Retiree Health Benefits Trust	(672)	(1,000)	(1,000)	—	—
Reserve for Collective Bargaining	82	164	323	540	796
Total	<u>\$37,455</u>	<u>\$37,210</u>	<u>\$37,794</u>	<u>\$39,222</u>	<u>\$40,164</u>

The Financial Plan projects that the authorized number of City-funded full-time and full-time equivalent employees whose salaries are paid directly from City funds, as opposed to federal or State funds or water and sewer funds, will decrease from an estimated level of 255,416 as of June 30, 2012 to an estimated level of 250,088 by June 30, 2016.

Other Fringe Benefits includes \$1.937 billion, \$2.109 billion, \$2.310 billion, \$2.506 billion and \$2.731 billion in fiscal years 2012 through 2016, respectively, for OPEB expenditures for current retirees, which costs are currently paid by the City on a pay-as-you-go basis. For information on deposits to the trust to fund a portion of the future cost of OPEB for current and future retirees, see “SECTION VI: FINANCIAL OPERATIONS—2007-2011 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.5.”

Retiree Health Benefits Trust reflects lowered expense of \$672 million in fiscal year 2012 and \$1 billion in each of fiscal years 2013 and 2014, as a result of drawing down the Retiree Health Benefits Trust Fund in those years.

The Reserve for Collective Bargaining contains funds for the cost of collective bargaining increases for wage increases for prevailing wage employees in the period through the 2008-2010 round of collective bargaining. The Reserve for Collective Bargaining assumes no wage increases for the first three years of the round of collective bargaining following the 2008-2010 round of collective bargaining, followed by annual wage increases of 1.25% thereafter. For additional information, see “SECTION V: CITY SERVICES AND EXPENDITURES — Employees 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.6. and Note F.”

2. OTHER THAN PERSONAL SERVICES COSTS

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
			(In Millions)		
Administrative OTPS and Energy	\$17,616	\$16,946	\$17,393	\$17,729	\$17,895
Public Assistance	1,409	1,345	1,365	1,365	1,365
Medical Assistance	6,275	6,321	6,458	6,638	6,735
HHC Support	201	166	165	164	164
Other	2,937	2,987	3,206	3,424	3,651
Total	<u>\$28,438</u>	<u>\$27,765</u>	<u>\$28,587</u>	<u>\$29,320</u>	<u>\$29,810</u>

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 the impact of agency gap-closing actions relating to such expenditures in the 2012 fiscal year. Thereafter, to account for inflation, administrative OTPS expenditures are projected to rise by 2.5% annually in fiscal years 2013 through 2016. Energy costs for each of the 2012 through 2016 fiscal years are assumed to increase annually, with total energy expenditures projected at \$1.07 billion in fiscal year 2012 and increasing to \$1.24 billion by fiscal year 2016.

Public Assistance

The number of persons receiving benefits under cash assistance programs is projected to average 361,000 per month in the 2012 fiscal year. Of total cash assistance expenditures in the City, the City-funded portion is projected to be \$554 million in fiscal year 2012, \$532 million in fiscal year 2013 and \$540 million in each of fiscal years 2014 through 2016, when the City assumes the local share of a State-initiated increase in the basic public assistance grant. The Financial Plan reflects the changes in public assistance funding formulas in the 2011-2012 State Budget including the increase in the City share of the Safety Net Assistance Program to 71 percent and fully funding the Family Assistance Program with TANF funds, which partially offsets the increase in the City share for the Safety Net Assistance Program.

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 \$6.1 billion for the 2012 fiscal year, which is lower than subsequent fiscal years as a result of a temporary increase in the federal share of Medicaid costs under ARRA. In preliminary discussions with the State, the United States Department of Health and Human Services (“HHS”), which administers the Medicaid program, has stated that it may disallow a claim for the federal share of certain Medicaid costs that HHS believes may have been submitted past the deadline for such claims. If it were disallowed, the City would be required to return approximately \$137 million that it previously received. Discussions concerning such possible disallowance are ongoing.

The City-funded portion of medical assistance payments is expected to increase to \$6.200 billion, \$6.337 billion, \$6.517 billion and \$6.614 billion in fiscal years 2013 through 2016, respectively. Such payments include, among other things, City-funded Medicaid payments, including City-funded Medicaid payments to HHC. 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 \$201 million in fiscal year 2012 decreasing to \$164 million in fiscal year 2016. City-funded expenditures include City subsidy, intra-City payments and grants and exclude prepayments.

On an accrual basis, HHC's total receipts before implementation of the HHC gap-closing program are projected to be \$7.1 billion, \$7.1 billion, \$7.2 billion, \$7.4 billion and \$7.5 billion in fiscal years 2012 through 2016, respectively. Total disbursements before implementation of the HHC gap-closing program are projected to be \$7.9 billion in fiscal year 2012 increasing to \$9.1 billion in fiscal year 2016. These projections assume increases in fringe benefits in fiscal years 2012 through 2016. 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 2011 through 2015 fiscal years was prepared in November 2011. The NYCT fiscal year coincides with the calendar year. The NYCT financial plan projects City assistance to the NYCT operating budget of \$345.5 million in 2011 increasing to \$405.9 million in 2015, in addition to real estate transfer tax revenue dedicated for NYCT use of \$381.6 million in 2011 increasing to \$527.1 million in 2015.

The NYCT financial plan includes operational and overtime reductions, updated inflation assumptions and other actions. After reflecting such revenues and actions, the NYCT financial plan projects \$8.4 billion in revenues and \$11.0 billion in expenses for 2012, leaving a budget gap of \$2.6 billion. After accounting for accrual adjustments and cash carried over from 2011, NYCT projects an operating budget gap of \$30.7 million in 2012. The NYCT financial plan forecasts operating budget gaps of \$0.4 billion in 2013, \$1.0 billion in 2014 and \$1.9 billion in 2015.

The MTA Board approved the 2010-2014 Capital Program in April 2010 and the State's Capital Program Review Board ("CPRB") approved it on June 2, 2010. The plan includes \$23.8 billion for all MTA agencies, including \$12.8 billion to be invested in the NYCT core system, \$1.7 billion for NYCT network expansion, and \$0.2 billion for security. To date, funding sources have been identified for only a portion of the 2010-2014 Capital Program. There can be no assurance that the 2010-2014 Capital Program will be fully funded. 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.

The 2010-2014 Capital Program follows the 2005-2009 Capital Program, which provided approximately \$17.1 billion for NYCT. In addition, the 2005-2009 Capital Program included 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"). See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Indebtedness of the City and Related Issuers.*"

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, 2011, the City expended \$664.1 million for judgments and claims, \$142.6 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of \$655.0 million, \$685.2 million, \$717.8 million, \$753.9 million and \$789.8 million for the 2012 through 2016 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 2012 through 2016. 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, 2011 amounted to approximately \$5.6 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, 2011 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2011, could amount to approximately \$938 million. Provision has been made in the Financial Plan for estimated refunds of \$282 million, \$435 million, \$445 million, \$389 million and \$395 million for the 2012 through 2016 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. GENERAL OBLIGATION, LEASE AND TFA DEBT SERVICE

Debt service estimates for fiscal years 2012 through 2016 include debt service on outstanding general obligation bonds and conduit debt, and the funding requirements associated with outstanding TFA Future Tax Secured Bonds, and estimates of debt service costs of, or funding requirements associated with, future general obligation, conduit and TFA Future Tax Secured debt issuances based on 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.

In July 2009, the State amended the New York City Transitional Finance Authority Act to expand the borrowing capacity of the TFA by providing that it may have outstanding \$13.5 billion of Future Tax Secured Bonds (excluding Recovery Bonds) and may issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, does not exceed the debt limit of the City. As a result of this change, the City currently expects to finance through the TFA approximately half of the capital program that was previously expected to be financed with general obligation debt. Consequently, in order to more accurately reflect the debt service costs of the City's capital program, the Financial Plan includes as a debt service expense the funding requirements associated with TFA Future Tax Secured Bonds. This expense is offset by personal income tax revenues retained by the TFA, which are now included in the Financial Plan.

The Financial Plan reflects general obligation debt service of \$3.86 billion, \$4.24 billion, \$4.50 billion, \$4.68 billion and \$4.76 billion in fiscal years 2012 through 2016, respectively, conduit debt

service of \$245 million, \$316 million, \$321 million, \$313 million and \$319 million in fiscal years 2012 through 2016, respectively, and TFA funding requirements of \$1.51 billion, \$1.72 billion, \$1.98 billion, \$2.17 billion and \$2.36 billion in fiscal years 2012 through 2016, respectively.

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 15, 2011, the City Comptroller released a report on the November Financial Plan. In his report, the City Comptroller identified net risks for fiscal years 2012 through 2015 which, when added to the results projected in the November Financial Plan, would result in gaps of \$1.70 billion, \$3.16 billion, \$4.40 billion and \$4.97 billion, respectively. The differences from the November Financial Plan projections result in part from the City Comptroller's expenditure projections, which exceed those in the November Financial Plan by \$1.53 billion, \$754 million, \$848 million and \$535 million in fiscal years 2012 through 2015, respectively, resulting from: (i) wage increases as a result of collective bargaining with the City's teacher and school administrator unions, which would result in increased costs of \$1.70 billion, \$897 million, \$900 million and \$900 million in fiscal years 2012 through 2015, respectively; (ii) increased overtime expenditures of \$42 million in fiscal year 2012 and \$100 million in each of fiscal years 2013 through 2015; (iii) uncertainty of receipt of increased Medicaid revenue for special education services of \$50 million in each of fiscal years 2013 through 2015; (iv) lower than budgeted costs of anticipated changes to pension methodologies and assumptions of \$213 million, \$257 million, \$137 million and \$415 million in fiscal years 2012 through 2015, respectively; and (v) lower estimates for judgments and claims expenditures of \$35 million, \$65 million and \$100 million in fiscal years 2013 through 2015, respectively. The differences from the November Financial Plan also result from the City Comptroller's revenue projections. The report estimates that (i) property tax revenues will be lower by \$39 million and \$17 million in fiscal years 2013 and 2014, respectively, and higher by \$14 million in fiscal year 2015; (ii) personal income tax revenues will be higher by \$15 million, \$12 million, \$338 million and \$249 million in fiscal years 2012 through 2015, respectively; (iii) business tax revenues will be lower by \$241 million and \$244 million in fiscal years 2012 and 2013, respectively, and higher by \$163 million in fiscal year 2015; (iv) sales tax revenues will be lower by \$65 million in fiscal year 2013 and higher by \$20 million and \$98 million in fiscal years 2014 and 2015, respectively; and (v) real-estate related tax revenues will be higher by \$53 million, \$167 million, \$133 million and \$127 million in fiscal years 2012 through 2015, respectively. The revenue projections result in lower net tax revenues of \$173 million and \$169 million in fiscal years 2012 and 2013, respectively, and higher net tax revenues of \$474 million and \$651 million in fiscal years 2014 and 2015, respectively.

The City Comptroller expects to issue a report in March 2012 which will comment on the Financial Plan released in February 2012. The report will present the Comptroller's evaluation of the assumptions and methodologies underlying the Financial Plan released in February 2012 and identify risks and offsets thereto.

On December 15, 2011, the staff of OSDC released a report on the November Financial Plan. The report states that the fiscal year 2012 budget relies on \$5 billion in nonrecurring resources, including the fiscal year 2011 surplus and a drawdown from the Retiree Health Benefits Trust. The report quantifies certain risks, partially offset by possible additional resources, to the November Financial Plan. The report identifies possible net risks to the November Financial Plan of \$1.3 billion, \$31 million and \$552 million in fiscal years 2013 through 2015, respectively. When combined with the results projected in the

November Financial Plan, the report estimates budget gaps of \$3.34 billion, \$4.26 billion and \$5.43 billion in fiscal years 2013 through 2015, respectively. The risks to the November Financial Plan identified in the report include (i) decreased tax revenues of \$300 million in each of fiscal years 2013 through 2015, (ii) decreased revenue of \$1 billion in fiscal year 2013 if the planned sale of additional taxi medallions is not approved by the State and (iii) decreased savings of \$131 million and \$252 million in fiscal years 2014 and 2015, respectively, as a result of failing to achieve pension reform. In addition to the adjustments to the November Financial Plan projections set forth above, the OSDC report identifies two additional risks that could have a significant impact on the City. First, the OSDC report identifies risks to the November Financial Plan resulting from increased costs as a result of collective bargaining with the teachers' union of \$900 million in each of fiscal years 2012 through 2015, respectively, excluding any retroactive costs. Second, if wages for all City employees were to increase at the projected rate of inflation without any offsetting savings, costs would increase by \$1.43 billion, \$1.54 billion, \$2.06 billion and \$2.52 billion in fiscal years 2012 through 2015, respectively.

The staff of OSDC expects to release a report on the Financial Plan on or about March 15, 2012.

On December 16, 2011, the staff of the Control Board issued a report on the November Financial Plan. The report states that the November Financial Plan shows only \$12 million in the Budget Stabilization Account, which is significantly less than the amount in the account at such time in prior fiscal years. While this amount is expected to increase during the course of the fiscal year, the Control Board states that it sees no potential for increased tax collections leading to a surprise surplus by the end of fiscal year 2012 and that it will be much more difficult for the City to continue its recent practice of prepaying succeeding year's debt service and other costs with current year surpluses. The report states that the City planned a conservative growth path and that most of the City's modest revenue goals are attainable. The report notes that the City's proposal to deplete the Retiree Health Benefits Trust by withdrawing \$1 billion in each of fiscal years 2013 and 2014 is a troubling sign for the City's finances, as the City's unfunded liability for post-retirement health benefits has grown to \$84.5 billion in fiscal year 2012 and has been growing at an average rate of about \$5 billion per year.

The report quantifies certain risks to the November Financial Plan. The report identifies possible net risks of \$1.13 billion, \$239 million and \$389 million in fiscal years 2013 through 2015, respectively. When combined with the results projected in the November Financial Plan, these net risks could result in estimated gaps of \$3.17 billion, \$4.07 billion and \$5.27 billion in fiscal years 2013 through 2015, respectively. The risks to the November Financial Plan identified in the report include (i) increased uniform services overtime expenses \$106 million, \$133 million and \$162 million in fiscal years 2013 through 2015, respectively; (ii) the failure to achieve planned Police Department overtime savings of \$50 million in each of fiscal years 2013 through 2015; (iii) decreased savings of \$131 million and \$252 million in fiscal years 2014 and 2015, respectively, as a result of failing to achieve pension reforms; and (iv) decreased revenue of \$1 billion in fiscal year 2014 as a result of failing to achieve the planned sale of taxi medallions.

The staff of the Control Board expects to release a report on the Financial Plan in early March 2012.

Long-Term Capital Program

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

The City utilizes a three-tiered capital planning process consisting of the Ten-Year Capital Strategy, the Four-Year Capital Plan and the current-year Capital Budget. The Ten-Year Capital Strategy is a long-term planning tool designed to reflect fundamental allocation choices and basic policy objectives. The Four-Year Capital Plan translates mid-range policy goals into specific projects. The Capital Budget defines specific projects and the timing of their initiation, design, construction and completion. On February 2, 2012, the City released the 2012-2015 Capital Commitment Plan (the "2012-2015 Capital Commitment Plan").

City-funded commitments, which were \$344 million in fiscal year 1979, are projected to reach \$9.0 billion in fiscal year 2012. City-funded expenditures are forecast at \$7.5 billion in fiscal year 2012; total expenditures are forecast at \$9.4 billion in fiscal year 2012. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2012 through 2021, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures."

The following table sets forth the major areas of capital commitment projected in the 2012-2015 Capital Commitment Plan.

2012-2015 CAPITAL COMMITMENT PLAN

	2012		2013		2014		2015		Totals	
	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)	\$ 194	\$ 252	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 494	\$ 552
Roadway, Bridges	728	1,293	786	1,127	416	591	316	450	2,245	3,462
Environmental Protection(2)	2,605	2,772	1,937	2,026	1,632	1,632	1,351	1,351	7,526	7,781
Education(3)	1,408	2,631	1,086	1,982	1,227	2,375	891	1,686	4,611	8,673
Housing	487	627	310	439	251	351	181	251	1,229	1,668
Sanitation	653	660	240	240	79	79	133	133	1,104	1,111
City Operations/Facilities	5,513	6,022	2,286	2,433	1,120	1,358	552	609	9,471	10,422
Economic and Port Development	847	996	338	338	29	29	40	40	1,254	1,403
Reserve for Unattained Commitments	(3,441)	(3,441)	436	436	254	254	540	560	(2,210)	(2,190)
Total Commitments(4)	<u>\$ 8,993</u>	<u>\$11,810</u>	<u>\$7,518</u>	<u>\$9,122</u>	<u>\$5,108</u>	<u>\$6,768</u>	<u>\$4,104</u>	<u>\$5,181</u>	<u>\$25,723</u>	<u>\$32,880</u>
Total Expenditures(5)	<u>\$ 7,463</u>	<u>\$ 9,410</u>	<u>\$6,872</u>	<u>\$8,725</u>	<u>\$6,758</u>	<u>\$8,584</u>	<u>\$6,165</u>	<u>\$7,844</u>	<u>\$27,258</u>	<u>\$34,563</u>

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 educational facilities in the form of financing of \$4.24 billion from the proceeds of bonds of the TFA that are 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 2011, 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 \$6.40 billion in capital investment would be needed for fiscal years 2013 through 2016 to bring the assets to a state of good repair. The report also estimated that \$379 million, \$181 million, \$226 million and \$205 million should be spent on maintenance in fiscal years 2013 through 2016, respectively.

The recommended capital investment for each inventoried asset is not readily comparable to the capital spending allocated by the City in the 2012-2015 Capital Commitment Plan and the Ten-Year Capital Strategy. Only a portion of the funding set forth in the 2012-2015 Capital Commitment 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 2012-2015 Capital Commitment 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 2011, concluded that the capital investment in the Four-Year Capital Plan, for fiscal years 2012 through 2015, for the specifically identified inventoried assets funded 48% of the total investment recommended in the preceding AIMS Report issued in December 2010. Capital investment allocated in the Ten-Year Capital Strategy published in May 2011 funded an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 71% 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 2012 through 2016 fiscal years to implement the 2012-2015 Capital Commitment Plan and fiscal year 2016 of the Ten-Year Capital Strategy. See “SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities.”

2012-2016 FINANCING PROGRAM						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
	(In Millions)					
City General Obligation Bonds(1)	\$2,725	\$2,500	\$2,570	\$2,400	\$2,140	\$12,335
TFA Future Tax Secured Bonds(1)	2,600	2,500	2,570	2,400	2,140	12,210
Water Authority Bonds(1)(2)	2,101	1,655	1,444	1,175	1,147	7,522
Total	<u>\$7,426</u>	<u>\$6,655</u>	<u>\$6,584</u>	<u>\$5,975</u>	<u>\$5,427</u>	<u>\$32,067</u>

Note: Totals may not add due to rounding.

(1) Figures exclude refunding bonds.

(2) Water Authority Bonds includes commercial paper.

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 Water Authority 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 2012 through 2021, projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately \$12.3 billion. The City's Capital Commitment Plan for fiscal years 2012 through 2015 reflects total anticipated City-funded water and sewer commitments of \$7.5 billion which are expected to be financed with the proceeds of Water Authority debt.

The TFA is authorized to have outstanding \$13.5 billion of Future Tax Secured Bonds (excluding Recovery Bonds) and may issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, do not exceed the debt limit of the City. Future Tax Secured Bonds are issued for general City capital purposes and are secured by the City's personal income tax revenues and, to the extent such revenues do not satisfy specified debt ratios, sales tax revenues. In addition, the TFA is authorized to have outstanding \$9.4 billion of Building Aid Revenue Bonds to pay for a portion of the City's five-year educational facilities capital plan. Building Aid Revenue Bonds are secured by State building aid, which the Mayor has assigned to the TFA. The TFA expects to issue \$950 million, \$1.076 billion, \$1.155 billion, \$1.058 billion and \$973 million of Building Aid Revenue Bonds in fiscal years 2012 through 2016, 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 2012 through 2021 totals \$54.1 billion, of which approximately 74% is to be financed with funds borrowed by the City and such other entities. See "INTRODUCTORY STATEMENT" and "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*" Congressional developments affecting federal taxation generally could reduce the market value of tax-favored investments and increase the debt-service costs of carrying out the major portion of the City's capital plan which is currently eligible for tax-exempt financing.

Interest Rate Exchange Agreements

In an effort to reduce its borrowing costs over the life of its bonds, the City began entering into interest rate exchange agreements commencing in fiscal year 2003. For a description of such agreements, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A.13." As of December 31, 2011, the aggregate notional amount of the City's interest rate exchange agreements was \$2,063,770,000 and the total marked-to-market value of such agreements was (\$220,036,965).

In addition, in connection with its Courts Facilities Lease Revenue Bonds (The City of New York Issue) Series 2005A and B, the Dormitory Authority of the State of New York ("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. Agreements with a notional amount of \$125,500,000, an effective date of May 15, 2013 and a termination date of May 15, 2032, which provided for DASNY to make payments based on the Securities Industry and Financial Markets Association Index ("SIFMA") and receive a fixed rate of 4.179% were terminated by DASNY as of September 23, 2011. Under other 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 December 31, 2011, the total marked-to-market value of the DASNY agreements was (\$32,991,714).

Seasonal Financing Requirements

The City since 1981 has fully satisfied its seasonal financing needs, when necessary, in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. The City has not issued short-term obligations to finance projected cash flow needs since fiscal year 2004. 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 2012. The Financial Plan reflects the issuance of short-term obligations in the amount of \$2.4 billion in each of fiscal years 2013 through 2016.

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 December 31, 2011. “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 PBCs: the Housing Authority, the New York City Educational Construction Fund (“ECF”), 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. or STAR Corp., 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)	\$41,642,126	
Less: Assets Held for Debt Service(2)	<u>(416,405)</u>	
Net City Long-Term Indebtedness		41,225,721
PBC Indebtedness		
Bonds Payable	426,362	
Capital Lease Obligations	<u>1,320,873</u>	
Gross PBC Indebtedness	1,747,234	
Less: Assets Held for Debt Service	<u>(225,532)</u>	
Net PBC Indebtedness		<u>1,521,702</u>
Combined Net City and PBC Indebtedness		<u><u>\$42,747,423</u></u>

(1) Reflects capital appreciation bonds at accreted values as of June 30, 2011.

(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 net City and PBC indebtedness as of June 30 of each of the fiscal years 2002 through 2011 and at December 31, 2011.

	<u>City Indebtedness</u>		<u>PBC</u>	<u>Total</u>
	<u>Long-Term</u>	<u>Short-Term</u>	<u>Indebtedness</u>	
	<u>(In Millions)</u>			
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
2008	33,129	—	1,558	34,687
2009	38,648	—	1,484	40,131
2010	41,490	—	1,395	42,885
2011	41,737	—	1,550	43,287
December 31, 2011	41,226		1,522	42,747

Rapidity of Principal Retirement

The following table details, as of December 31, 2011, the cumulative percentage of total City indebtedness that is scheduled to be retired in accordance with its terms in each prospective five-year period.

<u>Period</u>	<u>Cumulative Percentage of Debt Scheduled for Retirement</u>
5 years	22.43%
10 years	48.34
15 years	72.05
20 years	87.97
25 years	97.65
30 years	100.00

City and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of December 31, 2011, on City and PBC indebtedness.

<u>Fiscal Years</u>	<u>City Long-Term Debt</u>		<u>PBC</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Indebtedness</u>	
	<u>(In Thousands)</u>			
2012	\$ 2,173,615	\$ 1,787,858	\$ 75,165	\$ 4,036,638
2013	2,195,917	1,693,816	69,757	3,959,490
2014 through 2147	36,858,321	15,382,650	1,566,914	53,807,885
Total	<u>\$ 41,642,126</u>	<u>\$19,822,888</u>	<u>\$1,747,234</u>	<u>\$63,212,248</u>

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 2002 through 2011.

<u>Fiscal Year</u>	<u>City Long-Term Indebtedness</u> (In Millions)	<u>Percentage of Actual Taxable Value of Property(1)</u>	<u>Per Capita</u>
2002	\$28,465	29.20%	\$3,517
2003	29,679	28.90	3,652
2004	31,378	29.38	3,841
2005	33,903	30.73	4,128
2006	35,844	29.26	4,344
2007	34,506	27.03	4,152
2008	36,100	24.80	4,325
2009	39,991	26.31	4,765
2010	41,555	26.31	4,952
2011	41,785	26.17	4,979

Source: CAFR for the fiscal year ended June 30, 2011.

- (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 2002 through 2011. 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.

<u>Fiscal Year</u>	<u>General Obligation Bonds(1)</u>	<u>ECF</u>	<u>MAC(2)</u>	<u>TFA</u>	<u>TSASC</u>	<u>STAR</u>	<u>SFC(3)</u>	<u>PBC Indebtedness and Other(4)</u>	<u>IDA Stock Exchange</u>
	(In Millions)								
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
2008	36,100	109	—	14,828	1,297	2,339	—	2,025	101
2009	39,991	102	—	16,913	1,274	2,253	—	1,937	99
2010	41,555	150	—	20,094	1,265	2,178	—	1,859	99
2011	41,785	281	—	23,820	1,260	2,117	—	1,895	98

Source: CAFR for the fiscal year ended June 30, 2011.

- (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 \$116 million, \$64 million, \$52 million and \$39 million in fiscal years 2002 through 2005, respectively. All of such general obligation “mirror” bonds have been paid.

(Footnotes continued on next page)

(Footnotes continued from previous page)

- (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 December 31, 2011, approximately \$41 billion of City general obligation bonds were outstanding, of which \$5,588,515,000 are variable rate demand bonds. For further information regarding the City’s variable rate demand bonds, see Appendix D hereto.

As of December 31, 2011, \$3 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; and (iii) redemption of short-term indebtedness issued in anticipation of the collection of taxes or other revenues, such as tax anticipation notes (“TANs”) and revenue anticipation notes (“RANs”) which (with permitted renewals thereof) 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 previously 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 City TANs and RANs when outstanding. 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 bond anticipation notes (“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.

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 and BANs, and long-term indebtedness issued for specified purposes 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.

Water Authority and TSASC indebtedness and the City’s commitments with other PBCs or related issuers are not chargeable against the City’s constitutional debt limit. The TFA and TSASC were created to provide financing for the City’s capital program. 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 is permitted to have outstanding \$13.5 billion of Future Tax Secured Bonds (excluding Recovery Bonds) and may issue additional Future Tax Secured Bonds, provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, do not exceed the debt limit of the City. Future Tax Secured 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 TFA, as of January 31, 2012, has outstanding approximately \$18.0 billion of Future Tax Secured Bonds (excluding Recovery Bonds). The TFA may also have outstanding \$9.4 billion of Building Aid Revenue Bonds, which are secured by State building aid and are not chargeable against the City’s constitutional debt limit.

The following table sets forth the calculation of debt-incurring power as of January 31, 2012.

	(In Thousands)
Total City Debt-Incurring Power under General Debt Limit	\$76,096,693
Gross Debt-Funded	\$41,284,409
Less: Excluded Debt	(110,095)
	<u>41,174,314</u>
Less: Appropriations for Payment of Principal	(375,218)
	<u>40,799,095</u>
Contracts and Other Liabilities, Net of Prior Financings Thereof	8,237,149
Total City Indebtedness	49,036,245
TFA Debt Outstanding above \$13.5 billion	4,499,050
Debt-Incurring Power	<u>\$22,561,398</u>

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 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 December 31, 2011, \$281.2 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF’s leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

Dormitory Authority of the State of New York

As of December 31, 2011, \$574.9 million principal amount and \$728.3 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities and health

facilities, respectively, in the City were outstanding. The court facilities and health facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

City University Construction Fund

As of December 31, 2011, approximately \$283.3 million principal amount of DASNY bonds, relating to Community College facilities, subject to capital lease arrangements was outstanding. The City and the State are each responsible for approximately one-half of the CUCF's annual rental payments to DASNY for Community College facilities which are applied to the payment of debt service on the DASNY's bonds issued to finance the leased projects plus related overhead and administrative expenses of DASNY.

New York State Urban Development Corporation

As of December 31, 2011, \$25.8 million principal amount of UDC bonds subject to 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, 2010 consisted of approximately 366,000 active employees, of whom approximately 90,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there were approximately 299,000 retirees and beneficiaries currently receiving benefits and other vested members terminated but not receiving benefits. The City also contributes to three other actuarial systems, maintains a non-actuarial retirement system for retired individuals not covered by the five major actuarial systems, provides other supplemental benefits to retirees and makes contributions to certain union annuity funds.

Each of the City's five major actuarial pension systems is managed by a board of trustees which includes representatives of the City and the employees covered by such system. The City Comptroller is the custodian of, and has been delegated investment responsibilities for, the major actuarial systems, subject to the policies established by the boards of trustees of the systems and State law. The Mayor and the City Comptroller have proposed a consolidated investment strategy for the City's pension systems. To date the boards of trustees have not taken any action on the proposal which would also require legislative approval.

For fiscal year 2011, 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, 2009, plus the other pension expenditures, were approximately \$7 billion. The Financial Plan reflects pension expense projections of \$7.999 billion, \$8.145 billion, \$8.078 billion, \$7.964 billion and \$8.039 billion, for fiscal years 2012 through 2016, respectively.

Pension expense estimates in the Financial Plan reflect a revised set of funding assumptions and methods contained in draft reports prepared by the Chief Actuary in January 2012 following his review of independent external audits. The Actuary has indicated that he will be releasing the final reports in February 2012.

Highlights of the proposed changes include a lowering of the actuarial interest rate assumption from eight percent (gross of expenses) to seven percent (net of expenses), the use of updated mortality tables to account for longer life expectancy, and other modifications regarding rates of retirement and disability. The Actuary is also implementing a market value restart and switching funding methods to an

alternative, but commonly-used method known as the Entry Age Normal Cost Method. Under this method, discrete unfunded liabilities are recognized. The Actuary is proposing to amortize these liabilities over a 22 year period, approximately seven years more than under the current funding method. The release of the \$1 billion annual pension reserve that was previously set aside to address the potential impact of the Actuary's recommendations, the switch to this alternative funding method and other method changes more than offset the cost of the assumption changes over the Financial Plan period.

Certain components of the Actuary's proposals, such as a change to the actuarial interest rate assumption, require enactment into State law. The Financial Plan also reflects savings commencing in 2015 associated with the Governor's proposed pension reforms. These would impact only new City employees hired after legislative enactment of the proposals. Highlights of the Governor's reform proposals include: (i) all new non-uniform employees will be required to work until age 65 to retire and receive a pension; (ii) all new employees will contribute four to six percent of pay, based on salary; (iii) restrictions on overtime in the salary base used to calculate pensions; (iv) cost (or savings) sharing between the City and new employees if pension contributions fall outside of a set range; and (v) an optional defined contribution plan with a four percent employee contribution plus an employer match of up to an additional three percent. If enacted, the Governor's pension reform proposals will save the City approximately \$30 billion over the next 30 years.

The City accounts for its pensions consistent with the requirements of GASB, which has resulted in the City's pensions being reported as 99.9% funded, as of June 30, 2009, in the CAFR for the 2011 fiscal year. The funded status of the City's pension systems was also reported in the CAFR for the 2011 fiscal year under an alternative valuation method, the entry-age actuarial cost method, which resulted in assets being reported as less than liabilities by approximately \$44 billion, or 70.3% funded, as of June 30, 2009. For further information see APPENDIX B — FINANCIAL STATEMENTS — Notes to Financial Statements — Notes E.6. and F." Other measures of funded status would produce, in some cases, lower funded ratios of assets to liabilities and, in other cases, higher funded ratios of assets to liabilities, than the alternative valuation method shown in the CAFR.

In documents dated June 27, 2011, GASB issued an exposure draft indicating that it is considering significant changes to GAAP relating to pensions and indicated a deadline to the comment period of October 14, 2011. Proposed changes include, among many others, that governments would be required to report net pension liabilities on their financial statements when the fair value of pension assets falls short of actuarially calculated liabilities. Currently, GAAP requires that employers report net pension liabilities on their financial statements of net assets only when there is a shortfall in cumulative contributions compared to either actuarially determined annual contributions or contractually required contributions for certain cost-sharing employer plans. The impact on the City of such changes to GAAP, if ultimately implemented, is not certain at this time.

For the 2011 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 39% 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 by the City in accordance with GASB Statement No. 27, as amended by GASB Statement No. 50, 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 ("TRS") and the New York City Board of Education Retirement System ("BERS"). However, the failure by any one employer to make its required payment could increase the obligations of the other employers. Depending on the system and the defaulting participating employer, such increased obligation could be material.

For further information regarding the City's pension systems see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes E.6 and F."

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, 2011 amounted to approximately \$6.1 billion. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Services Costs—*Judgments and Claims*."

Taxes

1. Numerous real estate tax *certiorari* proceedings alleging overvaluation, inequality and illegality are pending against the City. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential future liability for outstanding *certiorari* proceedings to be \$938 million at June 30, 2011. For a discussion of the City's accounting treatment of its inequality and overvaluation exposure, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

2. Con Edison has challenged the City's method of valuation for determining assessments of certain of its properties in three separate actions. Con Edison has challenged the City's tax assessments on the Hudson Avenue steam plant located in Brooklyn for fiscal years 1995 through 2012 and the East River Generating Station located in Manhattan for fiscal years 1994 through 2012. Additionally, Con Edison has challenged the City's special franchise assessment on its electric grid located in the public right of way. The challenges could result in substantial real property tax refunds in fiscal years 2013 and 2014.

Miscellaneous

1. Numerous proceedings alleging respiratory or other injuries from alleged exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City and other entities involved in the post-September 11 rescue and recovery process. Plaintiffs include, among others, Department of Sanitation employees, firefighters, police officers, construction workers and building clean-up workers. Complaints on behalf of approximately 11,900 plaintiffs alleging similar causes of action have been filed naming the City or other defendants. The actions were either commenced in or have been removed to federal District Court pursuant to the Air Transportation and System Stabilization Act, which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions on immunity grounds was denied on October 17, 2006 by the District Court. On March 26, 2008, the Second Circuit upheld the District Court's decision, holding that determining whether the City had immunity for its actions requires developing the factual record. A not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the "WTC Insurance Company") has been formed to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of \$999,900,000. On June 10, 2010, the WTC Insurance Company announced that a settlement was reached with attorneys for the plaintiffs. On November 19, 2010, District Court Judge Hellerstein announced that more than the required 95% of plaintiffs agreed to the settlement, thus making it effective. Approximately \$637.5 million has been paid under the settlement, leaving residual funds of approximately \$400 million to insure and defend the City and its

contractors against claims that are not settled as part of the settlement and any new claims. There are still approximately 100 plaintiffs who have sued the City and who have not agreed to the terms of the settlement, or who were not eligible to participate in the settlement or have commenced actions subsequent to the completion of the settlement. The Court has not indicated how or when those cases will proceed. In addition, since the applicable statute of limitations runs from the time a person learns of his or her injury or should reasonably have been aware of the injury, additional plaintiffs may bring lawsuits in the future, which could result in substantial damages. No assurance can be given that the insurance will be sufficient to cover all liability that might arise from such claims.

2. In 1996, a class action was brought against the City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by the City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The lower court dismissed the case. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the lower court's ruling, dismissed the claims against the State, and remanded the matter for further proceedings. The trial court on remand has received extensive briefing from the parties on the issue of City liability. The State has advised the City that there are approximately 3,500 members of the class and has calculated potential damages, based on the difference in salary between a certified public school teaching position and an uncertified parochial or private school teaching position, of approximately \$455,000,000.

3. In 2006, a relator filed two lawsuits in the United States District Court for the Southern District of New York against the City's Department of Housing Preservation and Development ("HPD") and other defendants under the False Claims Act. The relator alleged that HPD was involved with the submission of false claims to the United States Department of Housing and Urban Development ("HUD") in connection with the federal government's Section 8 Enhanced Voucher program which provides rental subsidies to low and moderate income tenants payable to the landlord. These alleged false claims would have resulted in HUD's overpayment of subsidies to the defendant property owners, by virtue of the alleged improper removal of housing units from rent regulation. These lawsuits remained under seal pending completion of an investigation by the United States Department of Justice, which was completed in 2009. Following this investigation, the federal government elected to pursue common-law claims against the property owners, seeking a declaration that the properties are and should have remained subject to rent-regulation, and to recover any overpayments made as a result of the allegedly improper de-regulation. In May 2011, the property owners were granted summary judgment on all of the federal government's claims and the federal government's motion for reconsideration was denied on June 28, 2011. The federal government has not sought any relief against the City. The relator is pursuing the false claims actions against HPD and the defendant property owners, seeking treble damages of the alleged overpayments made by HUD on approximately 870 units, plus civil penalties of up to \$11,000 per claim for each violation of the False Claims Act. On July 2, 2010, the Court granted the City's motion to dismiss these actions. Subsequently, the relator filed an appeal which was dismissed as premature. In August 2011 the relator again filed an appeal.

4. In October 2010, The Building Industry Electrical Contractors Association and the United Electrical Contractors Association commenced an action in the United States District Court for the Southern District of New York against the City and The Building and Construction Trades Council of Greater New York and Vicinity (the "BCTC") challenging certain Project Labor Agreements (the "PLAs") entered into between the City and the BCTC and labor unions affiliated with the BCTC. The PLAs are contracts between the City and the BCTC that govern labor relations at certain City construction projects and cover matters such as work rules, dispute resolution, wages and benefits and collective bargaining representation. Plaintiffs allege that the PLAs violate the National Labor Relations Act and State competitive bidding statutes. They seek a declaratory judgment that the PLAs are unlawful and an injunction with respect to the application and enforcement of the PLAs. Defendants moved for summary judgment and on August 4, 2011 the motions were granted. On August 31, 2011 plaintiffs appealed the Court's decision. If plaintiffs were to ultimately prevail, the cost of the projects that are subject to PLAs could be increased substantially.

5. On January 7, 2011, the United States District Court for the Southern District of New York unsealed a qui tam lawsuit under the Federal False Claims Act. On January 11, 2011, the federal government filed a complaint in partial intervention concerning the provision of 24-hour home care. The suit brought by the federal government alleged that the City improperly administered certain areas of the Personal Care program. The suit alleged that the City failed to properly authorize and/or reauthorize services resulting in services being provided to individuals who were not eligible to receive services. The suit also alleged that since 2000 the City has improperly enrolled patients in the Personal Care program. The suit sought treble damages and penalties. A settlement, pursuant to which the City paid \$70 million to the federal government, was finalized on October 31, 2011.

6. The federal Department of Health and Human Services Office of Inspector General (“HHS OIG”) conducted a review of Medicaid Personal Care Services claims made by providers in the City from January 1, 2004 through December 31, 2006, and concluded that 18 out of 100 sampled claims by providers failed to comply with federal and State requirements. The Medicaid Personal Care Services program in the City is administered by the City’s Human Resources Administration. In its audit report issued in June 2009, the HHS OIG, extrapolating from the case sample, estimated that the State improperly claimed \$275.3 million in federal Medicaid reimbursement during the audit period and recommended to the Center for Medicare and Medicaid Services (“CMS”) that it seek to recoup that amount from the State. To the City’s knowledge, CMS has not taken any action to recover amounts from the State based on the findings in this audit, but no assurance can be given that it will not do so in the future.

Section 22 of Part B of Chapter 109 of the Laws of 2010 amended an earlier unconsolidated State law to set forth a process under which the State Department of Health may recover from a social services district, including the City, the amount of a federal Medicaid disallowance or recovery that the State Commissioner of Health “determines was caused by a district’s failure to properly administer, supervise or operate the Medicaid program.” Such a determination would require a finding that the local agency had “violated a statute, regulation or clearly articulated written policy and that such violation was a direct cause of the federal disallowance or recovery.” It is not clear whether the recovery process set out in the recent amendment can be applied to a federal disallowance against the State based upon a pre-existing audit; however, in the event that it does, and results in a final determination by the State Commissioner of Health against the City, such a determination could result in substantial liability for the City as a result of the audit.

7. A lawsuit has been brought against the City in the United States District Court for the Southern District of New York by School Safety Agents alleging violation of the federal Equal Pay Act, Title VII of the Civil Rights Act of 1964 and provisions of State law. Plaintiffs claim that School Safety Agents (who are predominantly female) earn less pay than Special Officers (who are predominantly male) although both jobs require substantially equal skill, effort and responsibility. The case has been certified as a class action. Although the case was commenced by three named plaintiffs in 2010, approximately 4,900 plaintiffs have recently opted into the lawsuit. Plaintiffs seek injunctive relief and damages. If plaintiffs were to ultimately prevail, the City could be subject to substantial liability.

Environmental Regulation

On March 2, 2010, following an earlier notice of proposed listing, the United States Environmental Protection Agency (“EPA”) listed the Gowanus Canal, a waterway located in Brooklyn, New York, as a federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”). While it was evaluating listing the Gowanus Canal, on November 5, 2009, EPA notified the City that EPA considers the City a potentially responsible party (“PRP”) under CERCLA for hazardous wastes in the Gowanus Canal. In its Gowanus PRP notice letter, EPA identified currently and formerly City-owned and operated properties, including an asphalt plant, an inactive incinerator, and waterfront properties historically leased to private entities, as sources of hazardous substances in the Gowanus Canal. On February 2, 2011, following an investigation of the location, concentrations, types, sources, and risks of contamination in the Gowanus Canal, EPA issued a Gowanus Canal Remedial Investigation Report. That report identified three former manufactured gas plants as the likely source of much of the contamination in the Gowanus Canal, but also identified combined sewer overflows as the likely source of some contamination. On December 30, 2011, EPA released its draft feasibility study for the Gowanus Canal, evaluating various alternatives to address the contamination identified in its report. DEP is currently undertaking a \$160 million capital project which will modernize a flushing tunnel to directly improve water quality and circulation within the Gowanus Canal. This work also includes up-sizing a pump station at the head of the Gowanus Canal to reduce the discharge of combined sewer overflows and dredging of a portion of the Gowanus Canal. Based on prior communications between DEP and EPA, these projects should not be impacted by the listing of the Gowanus Canal as a federal Superfund site.

On September 27, 2010, following an earlier notice of proposed listing, EPA listed Newtown Creek, the waterway on the border between Brooklyn and Queens, New York, along with its five tributaries, as a Superfund site. On April 6, 2010, EPA notified the City that EPA considers the City a PRP under CERCLA for hazardous wastes in Newtown Creek. In its Newtown Creek PRP notice letter, EPA identified historical City activities that filled former wetlands and low lying areas in and around Newtown Creek and releases from formerly City-owned and operated facilities, including municipal incinerators, as well as discharges from sewers and combined sewer overflow outfalls, as potential sources of hazardous substances in Newtown Creek. The City has agreed to participate with five companies that own or operate facilities adjacent to Newtown Creek in the investigation of conditions in Newtown Creek and the evaluation of feasible remedies. This investigation, which will be performed under an Administrative Settlement Agreement and Order on Consent with EPA jointly entered into by the five companies and the City, is expected to take approximately six to seven years and cost approximately \$25 million, with the City’s share being one quarter of the total, subject to reallocation. The settlement does not cover any remedy that may ultimately be chosen by EPA to address the contamination identified as a result of the investigation and evaluation.

Under CERCLA, a responsible party may be held responsible for monies expended for response actions at a Superfund site, including investigative, planning, removal, remedial and EPA enforcement actions. A responsible party may also be ordered by EPA to take response actions itself. Responsible parties include, among others, past or current owners or operators of a facility from which there is a release of a hazardous substance that causes the incurrence of response costs. The nature, extent, and cost of response actions at either Gowanus Canal or Newtown Creek, and the extent of the City’s liability, if any, for monies expended for such response actions, will likely not be determined for several years.

Tax Exemption

In General. In the opinion of Sidley Austin LLP, New York, New York, as Bond Counsel, interest on the Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

The City has covenanted to comply with applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), relating to the exclusion from gross income of the interest on the Bonds

for purposes of federal income taxation. In the opinion of Bond Counsel, assuming compliance by the City with such provisions of the Code, interest on the Bonds will not be included in the gross income of the owners thereof for purposes of federal income taxation. Failure by the City to comply with such applicable requirements may cause interest on the Bonds to be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds. Further, Bond Counsel will render no opinion as to the effect on the exclusion from gross income of interest on the Bonds of any action taken or not taken after the date of such opinion without the approval of Bond Counsel.

In the opinion of Bond Counsel, 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 no opinion will be rendered by Bond Counsel, 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.

Original Issue Discount. 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 that 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.

Premium. The excess, if any, of the tax basis of the Bonds purchased by 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, such amortizable 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.

Backup withholding. 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 beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service (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 Tax Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or cause interest on the Bonds to be subject, directly or indirectly, to State or local income taxation, or may otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or state tax exemption or the market value of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Bond Counsel expresses no opinion.

For example, based on a proposal by the President, the Senate Majority Leader introduced a bill, S. 1549 (the “Proposed Legislation”), which, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation in tax years beginning after December 31, 2012. The Proposed Legislation would also provide special rules for such bondholders that are also subject to the alternative minimum tax. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the Bonds to a tax or cause interest on the Bonds to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation on their individual situations.

ERISA Considerations

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between employee benefit plans under ERISA or tax qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. In addition, each fiduciary of a Plan (“Plan Fiduciary”) must give appropriate consideration to the facts and circumstances that are relevant to an investment in the Bonds, including the role that such an investment in the Bonds would play in the Plan’s overall investment portfolio. Each Plan Fiduciary, before deciding to invest in the Bonds, must be satisfied that such investment in the Bonds is a prudent investment for the Plan, that the investments of the Plan, including the investment in the Bonds, are diversified so as to minimize the risk of large losses and that an investment in the Bonds complies with the documents of the Plan and related trust, to the extent such documents are consistent with ERISA. All Plan Fiduciaries, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Bond.

Ratings

The Bonds have been rated “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”), “AA” by Standard & Poor’s Ratings Services (“Standard & Poor’s”) and “AA” by Fitch, Inc. (“Fitch”). 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 as set forth in Appendix C hereto for the matters covered by such opinion and the scope of Bond Counsel’s engagement in relation to the issuance of the Bonds. Such firm is also acting as counsel for and against the City in certain other unrelated matters.

Certain legal matters are being passed upon for the City by its Corporation Counsel.

Orrick, Herrington & Sutcliffe LLP, 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 for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, Counsel for the Underwriters.

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 E 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. LLC, Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Siebert Brandford Shank & Co., L.L.C. are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Bonds will be \$4,885,472.23. All of the Bonds will be purchased if any are purchased.

In addition, certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the City as Underwriters) for the distribution of the Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers, and such agreements may provide that the relevant Underwriter will share a portion of its underwriting compensation with such broker-dealers.

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 the Electronic Municipal Market Access system (“EMMA”) (www.emma.msrb.org) established by the Municipal Securities Rulemaking Board (the “MSRB”), 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 “2007-2011 Summary of Operations” in Section VI and “Pension Systems” in Section IX; and

(b) in a timely manner, not in excess of 10 Business Days after the occurrence of any event described below, notice to EMMA, of any of the following events with respect to the securities:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the City; which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets of business of the City, or if such jurisdiction has been assumed by leaving the existing

governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City;

- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating any such actions, other than pursuant to its terms, if material;
- (14) appointment of a successor or additional Fiscal Agent or the change of name of a Fiscal Agent, if material; and
- (15) 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.

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.

The City has complied, in all material respects, with its continuing disclosure undertakings pursuant to the Rule.

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, 2011 and 2010 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, 2011 and 2010, 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 at www.nyc.gov/omb. Copies of the published Comprehensive Annual Financial Reports of the Comptroller are available at www.comptroller.nyc.gov or upon written request to the Office of the Comptroller, Deputy Comptroller for Public Finance, Seventh Floor, Room 720, 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

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 but, in many cases, do not reflect the economic downturn that impacted the City from 2007 through the first half of 2010. 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 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 substantially in number 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. No single assessed property in the City accounts for more than .5% of the City's real property tax revenue.

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. Subsequently, Wall Street activity, tourism, and the real estate market drove a broad based economic recovery until the second half of 2007. A decrease in economic activity began in the second half of 2007 and continued through the first half of 2010. The Financial Plan assumes that the gradual increase in economic activity that began in the second half of 2010 will continue through 2012.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1999 to 2009 (the most recent year for which City personal income data are available). From 1999 to 2009, personal income in the City averaged 4.2% growth while personal income in the nation averaged 4.4% growth. After increasing by 2.0% in 2008, total personal income in the City decreased by 3.9% in 2009. The following table sets forth information regarding personal income in the City from 1999 to 2009.

PERSONAL INCOME(1)

<u>Year</u>	<u>Total NYC Personal Income (\$ billions)</u>	<u>Per Capita Personal Income NYC</u>	<u>Per Capita Personal Income U.S.</u>	<u>NYC as a Percent of U.S.</u>
1999	\$273.6	\$34,422	\$28,333	121.5%
2000	293.2	36,576	30,318	120.6
2001	299.0	37,078	31,145	119.0
2002	299.5	37,012	31,461	117.6
2003	305.7	37,621	32,271	116.6
2004	327.6	40,101	33,881	118.4
2005	351.6	42,805	35,424	120.8
2006	386.7	46,869	37,698	124.3
2007	416.5	50,124	39,461	127.0
2008	424.7	50,881	40,674	125.1
2009	408.0	48,620	39,635	122.7

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

The City is a leading center for the banking and securities industry, life insurance, communications, fashion design and retail fields. Over the past two decades the City has experienced a number of business cycles. From 1992 to 2000, the City added 453,600 private sector jobs (growth of 17%). From 2000 to 2003, the City lost 174,300 private sector jobs (decline of 6%). From 2003 to 2008, the City added 255,700 private sector jobs (growth of 9%). From 2008 to 2009, the City lost 103,800 private sector jobs (decline of 3%). From 2009 to 2011, the City added 68,400 private sector jobs (growth of 2%). All such changes are based on average annual employment levels through and including the years referenced.

As of December 2011, total employment in the City was 3,794,600 compared to 3,758,000 in December 2010, an increase of approximately 1.0%.

The table below shows the distribution of employment from 2001 to 2011.

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Goods Producing Sectors											
Construction	122	116	113	112	113	118	127	133	121	112	106
Manufacturing	156	139	127	121	114	106	101	96	82	77	73
Service Producing Sectors											
Trade, Transportation &											
Utilities	557	536	534	539	547	559	570	574	552	557	565
Information	200	177	164	160	163	165	167	170	165	164	161
Financial Activities	474	445	434	435	445	458	468	465	434	429	436
Professional & Business											
Services	582	550	537	542	556	571	592	603	569	577	596
Education & Health											
Services	627	646	658	665	679	695	705	719	735	754	771
Leisure & Hospitality	260	255	260	270	277	285	298	310	309	320	328
Other Services	149	150	149	151	153	154	158	161	160	161	158
Total Private	3,127	3,015	2,975	2,995	3,047	3,112	3,186	3,230	3,126	3,150	3,195
Total Government	562	566	557	554	556	555	559	564	567	558	546
Total	3,689	3,581	3,531	3,549	3,603	3,667	3,745	3,794	3,693	3,708	3,741

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 2009, the City's service producing sectors provided approximately 3.0 million jobs and accounted for approximately 80% 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 2009, the employment share for the financial activities and professional and business services sectors was approximately 27% while the earnings share for that same sector was approximately 46%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2009. 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 2009 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2009(1)

	<u>Employment</u>		<u>Earnings(2)</u>	
	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>
Goods Producing Sectors				
Mining	0.0%	0.6%	0.4%	1.4%
Construction	3.3	4.6	3.2	5.5
Manufacturing	<u>2.2</u>	<u>9.1</u>	<u>1.7</u>	<u>10.3</u>
Total Goods Producing	5.5	14.2	5.3	17.2
Service Producing Sectors				
Trade, Transportation and Utilities	15.0	19.0	8.6	15.3
Information	4.5	2.1	7.9	3.4
Financial Activities	11.8	5.9	25.2	8.7
Professional and Business Services	15.4	12.7	20.6	16.2
Education and Health Services	19.9	14.7	11.9	12.7
Leisure & Hospitality	8.4	10.0	4.6	4.1
Other Services	<u>4.3</u>	<u>4.1</u>	<u>3.1</u>	<u>3.7</u>
Total Service Producing	79.2	68.6	81.8	64.2
Total Private Sector	84.7	82.8	88.4	81.6
Government(3)	15.4	17.2	11.6	18.4

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 2009 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)

	<u>Employment</u>				<u>Earnings(2)</u>			
	<u>1980</u>		<u>2000</u>		<u>1980</u>		<u>2000</u>	
	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>
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 December 2011, the total unemployment rate in the City was 8.8%, compared to 8.6% in December 2010, based on data provided by the New York State Department of Labor, which is not seasonally adjusted. The annual unemployment rate of the City's resident labor force is shown in the following table.

ANNUAL UNEMPLOYMENT RATE(1)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
New York City	6.0%	8.0%	8.3%	7.1%	5.8%	5.0%	4.9%	5.4%	9.3%	9.5%	8.8%
United States	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%

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 December 2011, the number of persons receiving cash assistance in the City was 352,918 compared to 353,722 in December 2010. The following table sets forth the number of persons receiving public assistance in the City.

PUBLIC ASSISTANCE

(Annual Averages in Thousands)

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
492.8	434.0	424.7	434.8	416.9	393.1	360.8	341.8	346.9	350.5	351.7

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. Between 2000 and 2008, total taxable sales volume grew at a compounded growth rate averaging over 3.7%. The decline in total taxable sales in 2009 and 2010 reflects a decline in consumption, as a result of local employment losses and the local and national recessions. The following table illustrates the volume of sales and purchases subject to the sales tax from 2000 to 2010.

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

<u>Year(1)</u>	<u>Retail(2)</u>	<u>Utility & Communication Sales(3)</u>	<u>Services(4)</u>	<u>Manufacturing</u>	<u>Other(5)</u>	<u>All Total</u>
2000	\$29.9	\$ 9.8	\$19.4	\$2.1	\$15.4	\$ 76.6
2001	25.1	11.3	21.4	2.2	19.0	79.1
2002	25.6	11.9	20.7	2.0	15.2	75.5
2003	26.1	11.4	21.0	1.9	14.8	75.2
2004	32.3	11.6	21.7	1.9	14.8	82.3
2005	36.5	12.0	24.1	2.1	16.2	90.9
2006	35.9	13.2	26.3	2.2	17.9	95.5
2007	33.4	12.8	28.1	2.4	19.4	96.1
2008	33.3	13.5	31.5	2.8	20.7	101.8
2009	31.3	14.3	31.8	2.7	19.8	99.8
2010	31.1	13.7	30.0	2.3	18.0	95.1

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

- (1) The yearly data is for the period from 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.

Population

The City has been the most populous city in the United States since 1790. The City’s population is larger than the combined population of Los Angeles and Chicago, the next most populous cities in the nation.

POPULATION

<u>Year</u>	<u>Total Population</u>
1970	7,895,563
1980	7,071,639
1990	7,322,564
2000	8,008,278
2010	8,175,133

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 2000 and 2010.

DISTRIBUTION OF POPULATION BY AGE

<u>Age</u>	<u>2000</u>		<u>2010</u>	
		<u>% of Total</u>		<u>% of Total</u>
Under 5	540,878	6.8	517,724	6.3
5 to 14	1,091,931	13.6	941,313	11.5
15 to 19	520,641	6.5	535,833	6.6
20 to 24	589,831	7.4	642,585	7.9
25 to 34	1,368,021	17.1	1,392,445	17.0
35 to 44	1,263,280	15.8	1,154,687	14.1
45 to 54	1,012,385	12.6	1,107,376	13.5
55 to 64	683,454	8.5	890,012	10.9
65 and Over	937,857	11.7	993,158	12.1

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

Housing

In 2008, the housing stock in the City consisted of approximately 3,328,395 housing units, excluding certain special types of units primarily in institutions such as hospitals and universities (“Housing Units”) according to the 2008 Housing and Vacancy Survey released June 30, 2009. The 2008 housing inventory represented an increase of approximately 68,000 units, or 2.1%, since 2005. The 2008 Housing and Vacancy Survey indicates that rental housing units predominate in the City. Of all occupied housing units in 2008, approximately 31.4% were conventional home-ownership units, cooperatives or condominiums and approximately 64.4% were rental units. Due to the difference in the inventory basis for the 2002, 2005 and 2008 Housing and Vacancy Surveys, respectively, and previous Housing and Vacancy Surveys, it is not possible to accurately compare 2002, 2005 and 2008 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)									
<u>Ownership/Occupancy Status</u>	<u>1984</u>	<u>1987</u>	<u>1991</u>	<u>1993</u>	<u>1996</u>	<u>1999</u>	<u>2002</u>	<u>2005</u>	<u>2008</u>
Total Housing Units	2,803	2,840	2,981	2,977	2,995	3,039	3,209	3,261	3,328
Owner Units	807	837	858	825	858	932	997	1,032	1,046
Owner-Occupied	795	817	829	805	834	915	982	1,010	1,019
Vacant for Sale	12	19	29	20	24	17	15	21	26
Rental Units	1,940	1,932	2,028	2,040	2,027	2,018	2,085	2,092	2,144
Renter-Occupied	1,901	1,884	1,952	1,970	1,946	1,953	2,024	2,027	2,082
Vacant for Rent	40	47	77	70	81	64	61	65	62
Vacant Not Available for Sale or Rent(1)	56	72	94	111	110	89	127	137	138

Note: Details may not add up to totals due to rounding.
 Sources: U.S. Bureau of the Census, 1984, 1987, 1991, 1993, 1996, 1999, 2002, 2005 and 2008 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.

APPENDIX B

FINANCIAL STATEMENTS

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**Basic Financial Statements of the City of New York
June 30, 2011 and 2010**

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INDEPENDENT AUDITORS' REPORT

The People of The City of New York:

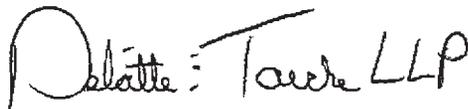
We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City of New York ("The City") as of and for the years ended June 30, 2011 and 2010, which collectively comprise The City's basic financial statements. 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 25 percent and 19 percent and 24 percent and 20 percent, as of and for the years ended June 30, 2011 and 2010 respectively, of the assets and revenues of the government-wide financial statements, 15 percent and 5 percent and 11 percent and 7 percent, as of and for the years ended June 30, 2011 and 2010 respectively, of the assets and revenues of the fund financial statements, 7 percent and 8 percent and 8 percent and 9 percent, as of and for the years ended June 30, 2011 and 2010 respectively, of the assets and net assets held in trust of the fiduciary fund financial statements, and 51 percent and 79 percent and 51 percent and 79 percent, as of and for the years ended June 30, 2011 and 2010 respectively, of the assets and revenues of the component unit 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.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

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, 2011 and 2010, 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.

As described in Note A.2 to the financial statements, in 2011, The City adopted Governmental Accounting Standards Board Statement (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The Management's Discussion and Analysis on pages B-4 through B-29 and the Required Supplementary Information on pages B-108 through B-110 are not a required part of the basic financial statements but are 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 as it relates to Management's Discussion and Analysis only, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2011 and 2010 supplementary information. However, we did not audit the information and express no opinion on it.



October 27, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of The City of New York (City) for the fiscal years ended June 30, 2011 and 2010. 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 (deficit)*. 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 are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB54) in fiscal year 2011. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are required to classify and report amounts in the appropriate fund balance classifications by applying accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. Governments are also required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. GASB54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the Notes to the Financial Statements. The objective of GASB54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The financial reporting impact resulting from the implementation of GASB54 is the restatement of the *Balance Sheet* to include classifications, in the Fund Balance section, based on the extent to which the City is bound to observe constraints imposed upon the resources in the governmental funds. Fund balance has been reported in Nonspendable and Spendable, which includes Restricted, Committed, Assigned or Unassigned Fund Balance, classifications.

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. The principal role of funds in the financial reporting model is to demonstrate fiscal accountability. 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 funds balance sheet and the governmental funds 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, Other Trust Funds, and the Agency Funds.

The New York City Other Postemployment Benefits Plan (the PLAN) is composed of The New York City Retiree Health Benefits Trust (the Trust) and OPEB paid for directly by the City out of its general resources rather than through the Trust. The Trust is used to accumulate assets to pay for some of the OPEB provided by The City to its retired employees. The PLAN is reported in the City's financial statements as an Other Employee Benefit Trust Fund. The PLAN 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" amounts necessary to provide current benefits to eligible retirees and their dependents. During fiscal year 2011, the City contributed approximately \$1.6 billion to the PLAN.

New York City Tax Lien Trusts (NYCTLT) is a series of tax lien trusts that were created to acquire certain tax liens securing unpaid real property taxes, assessments, sewer rents, sewer surcharges, water rents, and other charges payable to the City and the New York City Water Board from the City in exchange for the proceeds from bonds issued by NYCTLT, net of reserves funded by bond proceeds and bond issuance costs. The City is the sole beneficiary of the trusts and is entitled to receive distributions from the trusts after payments to bondholders and certain reserve requirements have been satisfied. The City is not entitled to cause the trusts to make distributions to it and consequently, NYCTLT is presented as Other Trust Funds in the City's financial statements.

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.

Financial Reporting Entity

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 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)
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' governing bodies and either 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:

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)

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

WTC Captive Insurance Company, Inc. (WTC Captive)
Brooklyn Navy Yard Development Corporation (BNYDC)
New York City Industrial Development Agency (IDA)
New York City Energy Efficiency Corporation (EEC)
The Trust for Governors Island (TGI)
Brooklyn Bridge Park Corporation (BBPC)
Business Relocation Assistance Corporation (BRAC)
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 increased the City's net deficit by \$9.6 billion during fiscal year 2011, and increased the net deficit by \$11.7 billion during fiscal year 2010, and increased the net deficit by \$7.0 billion (not including the restated opening fiscal year 2009 net deficit because of GASB49) during fiscal year 2009.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2011 governmental funds statement of revenues, expenditures, and changes in fund balances which reports an increase of \$540 million in fund balances and the increase in the net assets deficit reported in the government-wide statement of activities of \$9.6 billion, a difference of \$9.06 billion. A similar reconciliation is provided for fiscal year 2010 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/amortized) 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,		
	2011	2010	2009
	(in thousands)		
Revenues:			
Program revenues:			
Charges for services	\$ 4,236,030	\$ 4,540,775	\$ 4,339,456
Operating grants and contributions	19,951,270	20,403,783	18,858,998
Capital grants and contributions	538,015	586,080	854,646
General revenues:			
Taxes	40,803,751	38,058,116	34,904,930
Investment income	71,867	65,508	286,868
Other Federal and State aid	470,117	478,811	806,415
Other	301,505	216,516	284,528
Total revenues	<u>66,372,555</u>	<u>64,349,589</u>	<u>60,335,841</u>
Expenses:			
General government	3,692,689	4,298,065	3,770,291
Public safety and judicial	18,815,201	18,293,989	15,198,415
Education	25,604,277	24,749,134	21,534,177
City University	947,402	1,035,471	779,539
Social services	12,896,220	13,183,110	13,076,719
Environmental protection	3,744,521	4,374,543	2,947,939
Transportation services	2,073,164	2,184,078	2,060,043
Parks, recreation, and cultural activities	1,119,677	1,012,404	1,091,041
Housing	1,317,725	1,425,949	1,362,964
Health (including payments to HHC)	2,484,876	2,554,881	2,567,434
Libraries	343,395	249,423	402,299
Debt service interest	2,910,065	2,690,732	2,565,891
Total expenses	<u>75,949,212</u>	<u>76,051,779</u>	<u>67,356,752</u>
Change in net assets	<u>(9,576,657)</u>	<u>(11,702,190)</u>	<u>(7,020,911)</u>
Net deficit—beginning	(108,428,407)	(96,726,217)	(89,532,464)
Restatement of beginning net deficit	—	—	(172,842)
Net deficit—beginning of year, as restated	<u>(108,428,407)</u>	<u>(96,726,217)</u>	<u>(89,705,306)</u>
Net deficit—ending	<u><u>\$(118,005,064)</u></u>	<u><u>\$(108,428,407)</u></u>	<u><u>\$(96,726,217)</u></u>

In fiscal year 2011, the government-wide revenues increased from fiscal year 2010 levels by approximately \$2.0 billion, while government-wide expenses decreased by approximately \$102.6 million.

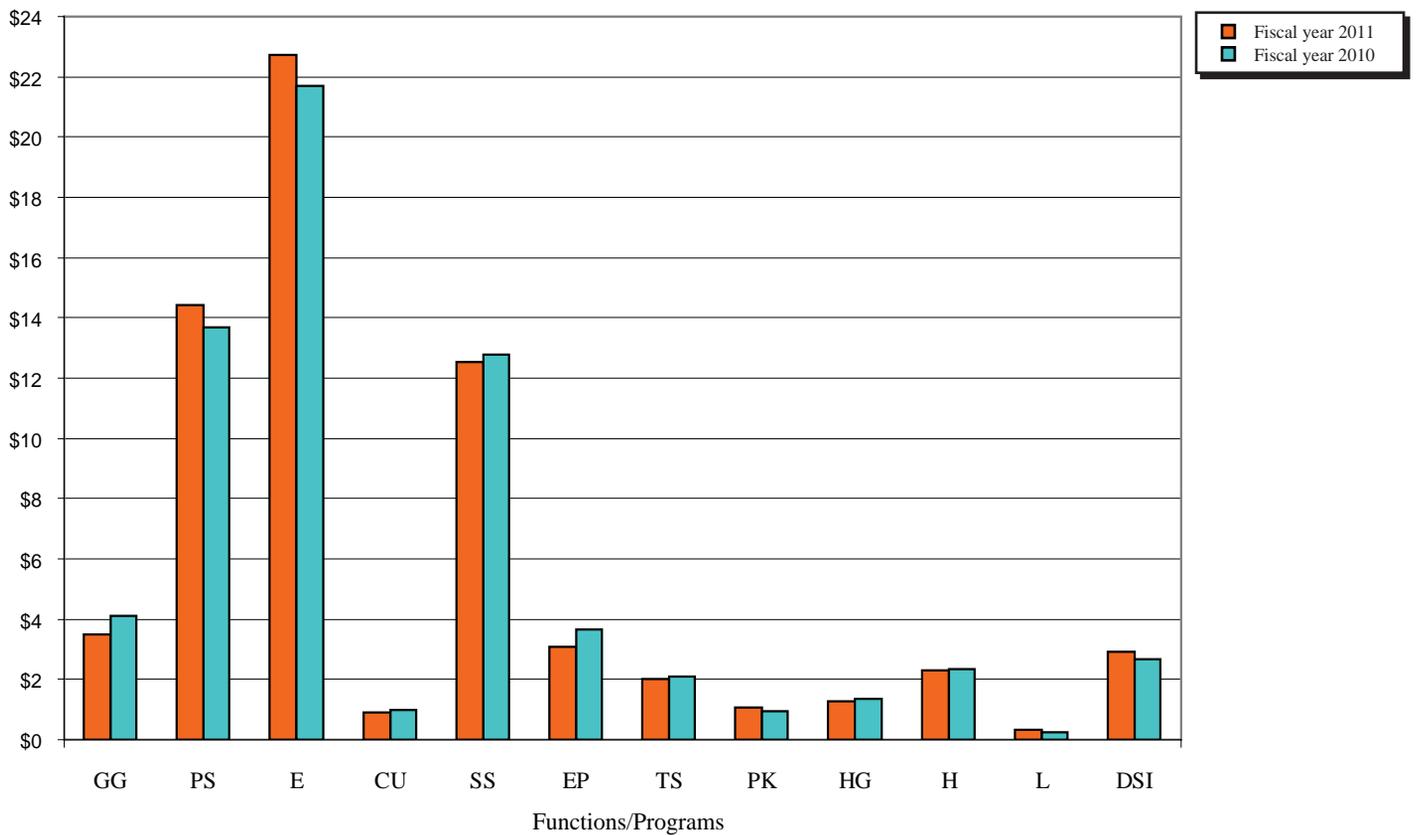
In fiscal year 2010, the increased costs of OPEB (i.e., the increase in the Net OPEB Obligation “NOO”) was approximately \$9.4 billion. In fiscal year 2011, the NOO increased by approximately \$8.9 billion. The most significant cause of the increase in fiscal year 2011 was changes in Actuarial Assumptions (reflecting primarily increased life expectancy of retirees). The bulk of the remaining increase is due to earned benefits and interest.

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 2011 and a comparison to fiscal year 2010:

Functions/Programs	Fiscal Year 2011		
	Expenses per Statement of Activities	GASB45 Expenses	Expenses excluding GASB45
	(in thousands)		
General government (GG)	\$ 3,692,689	\$ 186,503	\$ 3,506,186
Public safety and judicial (PS)	18,815,201	4,372,081	14,443,120
Education (E)	25,604,277	2,889,801	22,714,476
City University (CU)	947,402	38,669	908,733
Social services (SS)	12,896,220	376,101	12,520,119
Environmental protection (EP)	3,744,521	666,205	3,078,316
Transportation services (TS)	2,073,164	75,035	1,998,129
Parks, recreation, and cultural activities (PK) . . .	1,119,677	45,593	1,074,084
Housing (HG)	1,317,725	59,840	1,257,885
Health, including payments to HHC (H)	2,484,876	203,794	2,281,082
Libraries (L)	343,395	8,499	334,896
Debt service interest (DSI)	2,910,065	—	2,910,065
Total expenses	<u>\$75,949,212</u>	<u>\$8,922,121</u>	<u>\$67,027,091</u>

Functions/Programs	Fiscal Year 2010		
	Expenses per Statement of Activities	GASB45 Expenses	Expenses excluding GASB45
	(in thousands)		
General government (GG)	\$ 4,298,065	\$ 197,371	\$ 4,100,694
Public safety and judicial (PS)	18,293,989	4,626,870	13,667,119
Education (E)	24,749,134	3,056,610	21,692,524
City University (CU)	1,035,471	40,923	994,548
Social services (SS)	13,183,110	398,018	12,785,092
Environmental protection (EP)	4,374,543	705,029	3,669,514
Transportation services (TS)	2,184,078	79,408	2,104,670
Parks, recreation, and cultural activities (PK) . . .	1,012,404	48,250	964,154
Housing (HG)	1,425,949	63,327	1,362,622
Health, including payments to HHC (H)	2,554,881	215,671	2,339,210
Libraries (L)	249,423	8,994	240,429
Debt service interest (DSI)	2,690,732	—	2,690,732
Total expenses	<u>\$ 76,051,779</u>	<u>\$ 9,440,471</u>	<u>\$66,611,308</u>

**Expenses — Governmental Activities⁽¹⁾
for the fiscal years ended June 30, 2011 and 2010
(in billions)**



Functions/Programs	
GG	General government
PS	Public safety and judicial
E	Education
CU	City University
SS	Social services
EP	Environmental protection
TS	Transportation services
PK	Parks, recreation, and cultural activities
HG	Housing
H	Health, including payments to HHC
L	Libraries
DSI	Debt service interest

(1) Expenses exclude GASB45.

The major components of the changes in government-wide revenues were:

- Tax revenues, net of refunds, increased overall, as a result of the following:
 - The increase in real estate taxes results from growth in billable assessed value during the fiscal year.
 - The overall increase in sales and use taxes is driven primarily by a large increase in general sales tax which reflects growth in City private employment in calendar year 2010, an increase in consumption from the previous year’s depressed levels, and strong tourism consumption. Additional increases are also attributable to an increase in mortgage recording tax which reflects a rebound in mortgage originations from the prior year.
 - The increase in personal income taxes which resulted from growth in City private employment in calendar year 2010, an increased strength in Wall Street bonus payments, a rebound in non-wage income in calendar year 2010, and the elimination of the STAR rate cut for filers with NYS adjusted gross income greater than \$500,000.
 - The increase in other income taxes (which include general corporation, financial corporation, unincorporated business income, and non-resident personal income taxes) is mostly attributable to increases in the business taxes (general corporation, financial corporation, and unincorporated business taxes). Strong Wall Street profitability in calendar years 2009 and 2010 led to increases in finance sector firms’ payments. Additionally, the delayed withdrawal of federal support to financial corporations provided a boost to related taxes. Finally, a rebound in several non-finance related subsectors such as leisure and hospitality, retail trade, and health care, increased non-finance sector firms’ tax payments.
 - The increase in taxes associated with the conveyance of real property reflects a recovery in both the volume and average sale price for commercial transactions.
 - Investment income declined primarily due to declining market interest rates.

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

- Expenses for Public Safety and Judicial increased compared to the prior year because fiscal 2010 costs were partially offset by a write-off of previously estimated collective bargaining increases.
- Expenses for Education grew primarily due to further cost increases for special education and charter schools.
- Social Services expenses decreased due to declines in foster care and adoption caseloads. Additional decreases resulted from cuts in homecare services, declines in family shelter census and lower personnel costs associated with hiring delays and reductions.
- Environmental Protection expenses decreased primarily because fiscal 2010 costs were increased due to a large one-time collective bargaining settlement in the prior fiscal year and due to a decrease in pollution remediation costs.
- The increase in expenses for Libraries occurred primarily because of a significant “prepayment” of fiscal 2010 subsidies to Libraries that had been made in fiscal 2009, thereby reducing the fiscal 2010 expenses. Smaller prepayments of fiscal 2011 and fiscal 2012 subsidies were made in fiscal years 2010 and 2011, respectively.
- Debt Service interest expense increased as a result of increases in overall level of debt outstanding and conversions from floating rate to fixed rate debt.

In fiscal year 2010, the government-wide revenues increased from fiscal year 2009 by approximately \$4.0 billion, and government-wide expenses increased by approximately \$8.7 billion.

The major components of the changes in government-wide revenues were:

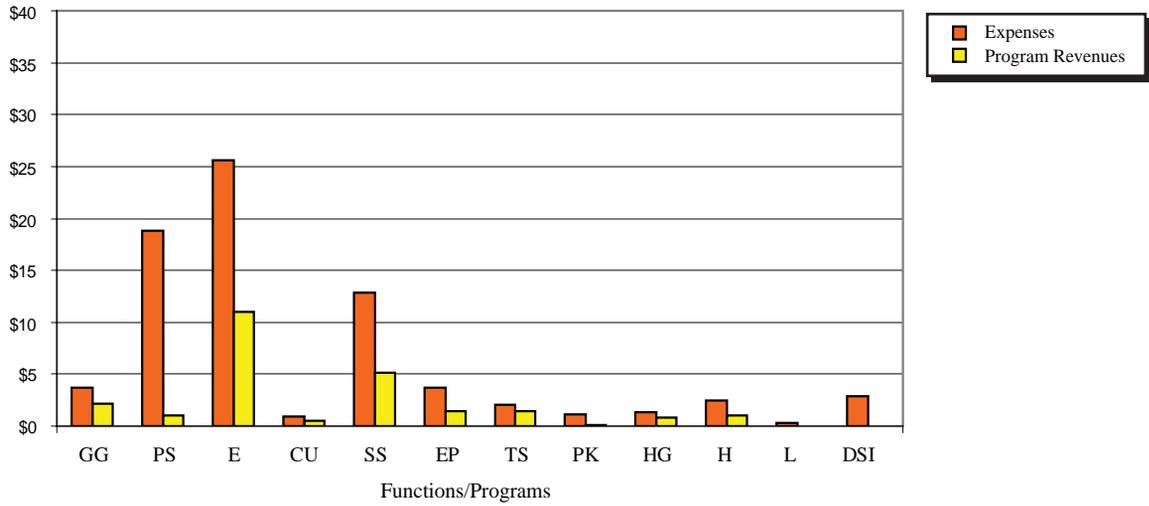
- Unrestricted Federal and State aid decreased primarily due to a significant reduction in New York State revenue sharing aid to the City.
- Tax revenues, net of refunds, increased overall, as a result of the following:
 - The increase in real estate taxes which is a result of growth during the fiscal year in billable assessed value combined with the full-year impact of the property tax rate increase.
 - The overall increase in sales and use taxes which is driven primarily by a large increase in general sales tax stemming from a sales tax increase and strong tourism consumption. This increase is tempered by a decrease in mortgage tax collections due to a slowdown in mortgage originations and tighter lending standards that required higher down payments.
 - The increase in personal income taxes which resulted from increased settlement payments on liability year 2009 which were paid in fiscal year 2010, the result of the expiration of the Middle Class STAR personal income tax credit, and the New York State offset of prior overpayments and subsequent one-time lump sum repayment in fiscal year 2009.
 - Other income taxes (which include general corporation, financial corporation, unincorporated business income, and non-resident personal income taxes) increased due to a decline in refund payouts as large overpayments from the private sector stemming from the fiscal crisis are liquidated.
- Investment income declined primarily due to declining market interest rates.

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

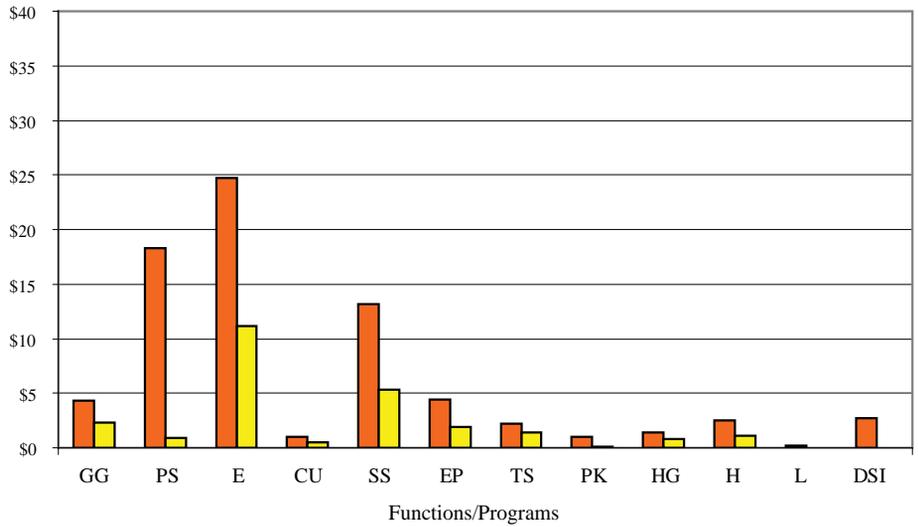
- The following have impacted virtually all functions and programs:
 - OPEB increased primarily as a result of changes in actuarial assumptions for increases to the overall assumed health care cost trend rate, including estimated impact of the National Health Care Reform.
 - Fringe benefits and other benefit payments increased due to growth in health insurance premium costs and one-time payments to welfare funds resulting from collective bargaining agreements.
- Expenses for Public Safety and Judicial increased primarily due to OPEB, as discussed above.
- Expenses for Education grew primarily due to increased costs for special education and charter schools, as well as OPEB and fringe benefits, as discussed above.
- Environmental Protection expenses increased primarily due to large collective bargaining settlements, increased pollution remediation costs, and increased OPEB costs, as discussed above.
- Expenses for Health and Hospitals Corporation decreased primarily due to a one-time subsidy made in fiscal year 2009 and not repeated in fiscal year 2010.
- The decline in expenses in Libraries occurred primarily because of a decrease in the prepayments made by the City from fiscal year 2009 to 2010 and a one-time funding increase in fiscal year 2009 that was not repeated in fiscal year 2010.

The following charts compare the amounts of expenses and program revenues for fiscal years 2011 and 2010:

**Expenses and Program Revenues — Governmental Activities⁽¹⁾
for the year ended June 30, 2011
(in billions)**



**Expenses and Program Revenues — Governmental Activities⁽¹⁾
for the year ended June 30, 2010
(in billions)**

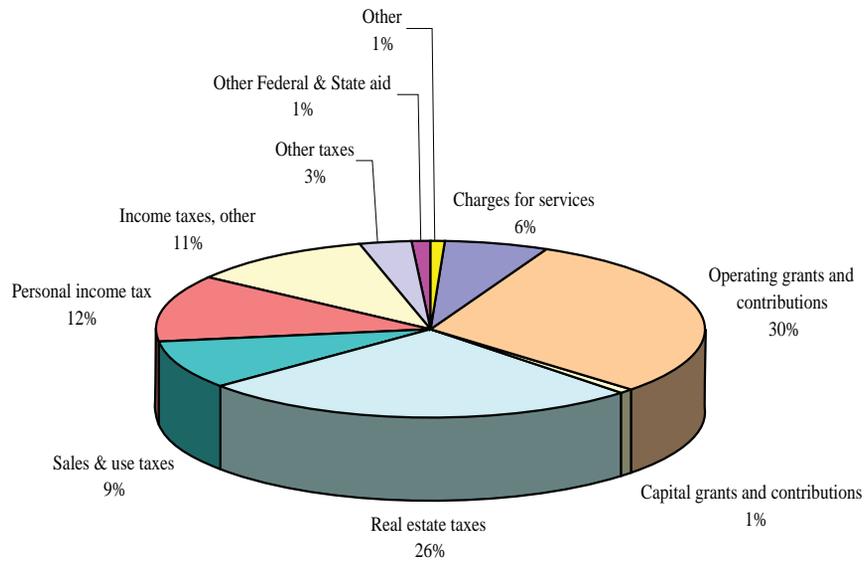


Functions/Programs	
GG	General government
PS	Public safety and judicial
E	Education
CU	City University
SS	Social services
EP	Environmental protection
TS	Transportation services
PK	Parks, recreation, and cultural activities
HG	Housing
H	Health, including payments to HHC
L	Libraries
DSI	Debt service interest

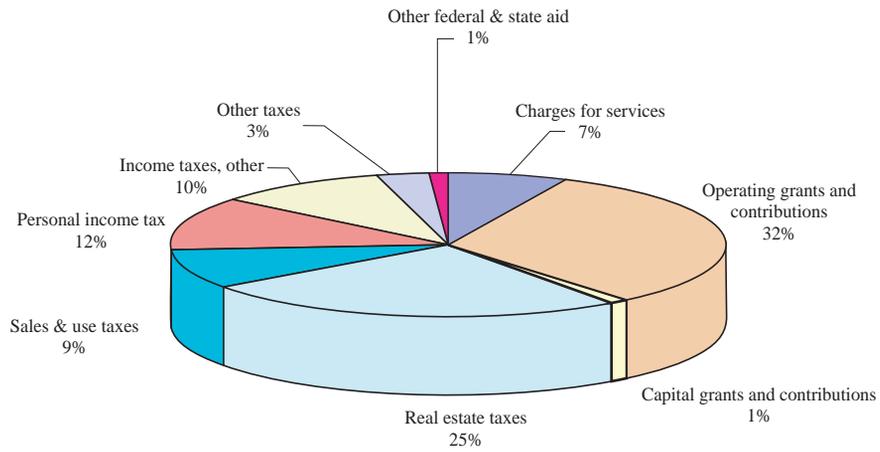
(1) Expenses include GASB45.

The following charts compare the amounts of program and general revenues for fiscal years 2011 and 2010:

**Revenues by Source — Governmental Activities
for the year ended June 30, 2011**



**Revenues by Source — Governmental Activities
for the year ended June 30, 2010**



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 \$118.0 billion at the close of the most recent fiscal year, an increase in the excess of liabilities over assets of \$9.6 billion from June 30, 2010, which in turn compares with the net deficit increase of \$11.7 billion (includes the restated opening fiscal year 2009 Net Assets because of GASB49) over the prior fiscal year 2009.

	Governmental Activities		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
		(in thousands)	
Current and other assets	\$ 31,804,446	\$ 31,358,012	\$31,320,893
Capital assets (net of depreciation/ amortization)	<u>46,468,237</u>	<u>43,474,065</u>	<u>39,881,603</u>
Total assets	<u>78,272,683</u>	<u>74,832,077</u>	<u>71,202,496</u>
Long-term liabilities	174,104,070	160,298,098	145,934,380
Other liabilities	<u>22,173,677</u>	<u>22,962,386</u>	<u>21,994,333</u>
Total liabilities	<u>196,277,747</u>	<u>183,260,484</u>	<u>167,928,713</u>
Net assets:			
Invested in capital assets, net of related debt	(9,998,046)	(6,899,623)	(5,502,516)
Restricted	6,641,084	6,883,624	7,093,369
Unrestricted (deficit)	<u>(114,648,102)</u>	<u>(108,412,408)</u>	<u>(98,317,070)</u>
Total net deficit	<u><u>\$(118,005,064)</u></u>	<u><u>\$(108,428,407)</u></u>	<u><u>\$(96,726,217)</u></u>

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, 2011 and 2010:

<u>Components of Net Deficit</u>	<u>2011</u>	<u>2010</u>
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable/amortizable 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/amortize more quickly than their related debt is paid, and they comprise one of the largest components of this difference	\$ (10.0)	\$ (6.9)
Net Assets Restricted for:		
Debt Service	5.3	5.0
Capital Projects	<u>1.3</u>	<u>1.9</u>
Total net assets restricted	<u>6.6</u>	<u>6.9</u>
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	(1.5)	(1.5)
STAR issued debt related to the defeasance of the MAC issued debt	(2.1)	(2.2)
The City has issued debt for the acquisition and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority (TA), NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end.	(12.2)	(14.1)
Certain long-term obligations do not require current funding:		
OPEB liability	(83.9)	(75.0)
Judgments and claims	(6.1)	(5.6)
Vacation and sick leave	(3.9)	(3.8)
Pension liability	(0.6)	(0.6)
Landfill closure and postclosure costs	(1.6)	(1.7)
Other:	<u>(2.7)</u>	<u>(3.9)</u>
Total unrestricted (deficit) net assets	<u>(114.6)</u>	<u>(108.4)</u>
Total net deficit	<u>\$(118.0)</u>	<u>\$(108.4)</u>

**Financial Analysis of the
Governmental Funds**

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

	Governmental Funds					Total
	General Fund	Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	
	(in thousands)					
Fund balances (deficit), June 30, 2009	\$ 437,008	\$ (2,106,564)	\$ 3,375,830	\$ 3,350,905	\$ —	\$ 5,057,179
Revenues	62,470,577	3,105,447	14,918	3,659,680	(3,207,719)	66,042,903
Expenditures	(58,885,814)	(10,535,856)	(3,424,507)	(4,933,833)	3,017,073	(74,762,937)
Other financing sources (uses)	<u>(3,579,621)</u>	<u>6,392,629</u>	<u>2,959,957</u>	<u>1,174,664</u>	<u>190,646</u>	<u>7,138,275</u>
Fund balances (deficit), June 30, 2010	442,150	(3,144,344)	2,926,198	3,251,416	—	3,475,420
Revenues	64,806,837	3,197,618	82,951	3,357,840	(2,882,579)	68,562,667
Expenditures	(59,788,636)	(9,098,807)	(3,684,423)	(4,336,233)	2,187,535	(74,720,564)
Other financing sources (uses)	<u>(5,013,079)</u>	<u>6,030,808</u>	<u>3,492,664</u>	<u>1,492,516</u>	<u>695,044</u>	<u>6,697,953</u>
Fund balances (deficit), June 30, 2011	<u>\$ 447,272</u>	<u>\$ (3,014,725)</u>	<u>\$ 2,817,390</u>	<u>\$ 3,765,539</u>	<u>\$ —</u>	<u>\$ 4,015,476</u>

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies 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 \$3.747 billion and \$3.651 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2011 and 2010, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of \$5 million in both fiscal years 2011 and 2010, 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, 2011, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling \$2.788 billion in fiscal year 2011 for fiscal year 2012 debt service. Similar transfers in fiscal year 2010 of \$2.892 billion for fiscal year 2011 debt service also primarily account for the General Debt Service Fund balance at June 30, 2010.

The 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 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, 2011 and 2010 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**

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB49). In addition to requiring recognition of pollution remediation obligations, GASB49 generally precludes costs incurred for pollution remediation from being reported as capital expenditures. Thus, the City's fiscal year 2011 General Fund expenditures include approximately \$286.7 million of pollution remediation expenditures associated with projects which were originally included in the City's capital program. In June 2010, the state amended the Financial Emergency Act to permanently waive the budgetary impact of GASB49. Thus, \$267.8 million of City bond proceeds and \$18.9 million of other revenues (New York City Municipal Water

Finance Authority bond proceeds transferred to the City) supporting the \$286.7 million of pollution remediation expenditures are also reported in the General Fund for fiscal year 2011. In fiscal year 2010, \$206 million of City bond proceeds and \$249.1 million of other revenues (New York City Municipal Water Finance Authority bond proceeds transferred to the City) supported the \$455.1 million of pollution remediation expenditures reported in the General Fund. Although amounts were not established in the Adopted Budget, a modification to the budget was made to accommodate the pollution remediation expenditure charge in the General Fund. These pollution remediation expenditures were incurred by various agencies, as follows:

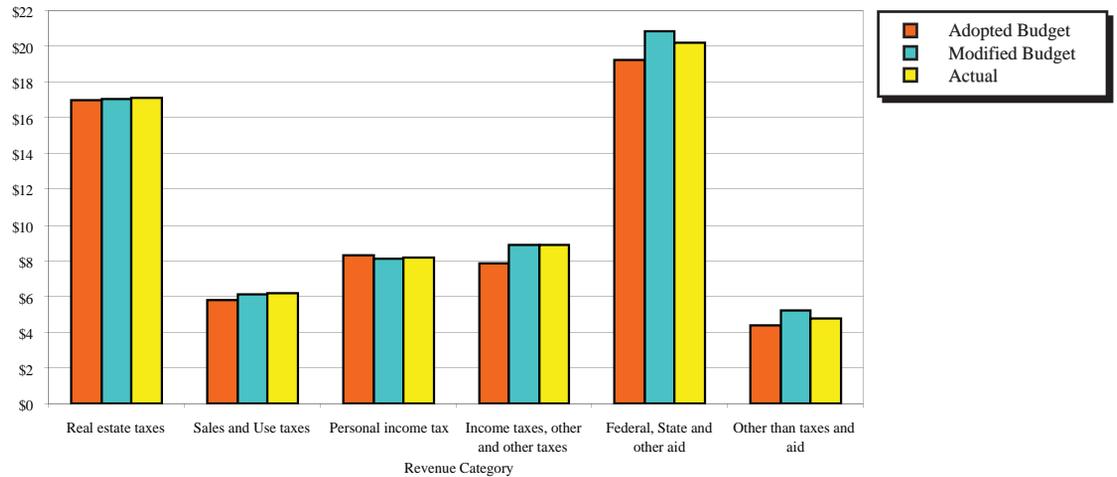
General Fund Pollution Remediation Expenditures Fiscal Year 2011		
	Modified Budget	Actual
(in thousands)		
General government	\$ 25,526	\$ 25,526
Public safety and judicial	6,025	6,025
Education	131,879	131,879
Social services	23	23
Environmental protection	20,444	20,444
Transportation services	74,002	74,002
Parks, recreation, and cultural activities	22,908	22,908
Housing	3,372	3,372
Health, including HHC	2,154	2,154
Libraries	369	369
Total expenditures	<u>\$286,702</u>	<u>\$286,702</u>

General Fund Pollution Remediation Expenditures Fiscal Year 2010		
	Modified Budget	Actual
(in thousands)		
General government	\$ 17,741	\$ 17,741
Public safety and judicial	3,432	3,432
Education	170,872	170,872
Social services	706	706
Environmental protection	250,729	250,729
Transportation services	5,087	5,087
Parks, recreation, and cultural activities	1,479	1,479
Housing	2,819	2,819
Health, including HHC	1,690	1,690
Libraries	507	507
Total expenditures	<u>\$455,062</u>	<u>\$455,062</u>

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.

The following charts and tables summarize actual revenues by category for fiscal years 2011 and 2010 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

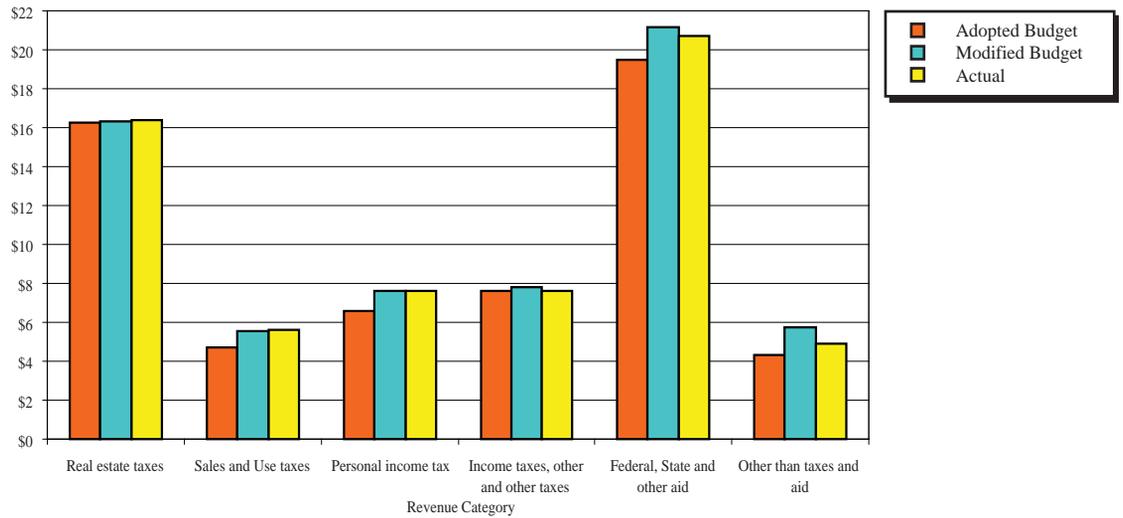
**General Fund Revenues
Fiscal Year 2011
(in billions)**



**General Fund Revenues
Fiscal Year 2011**

	<u>Adopted Budget</u>	<u>Modified Budget</u> (in millions)	<u>Actual</u>
Taxes (net of refunds):			
Real estate taxes	\$ 16,988	\$ 17,079	\$ 17,086
Sales and use taxes	5,768	6,115	6,190
Personal income tax	8,291	8,130	8,166
Income taxes, other	5,392	6,687	6,705
Other taxes	2,474	2,170	2,202
Taxes (net of refunds)	<u>38,913</u>	<u>40,181</u>	<u>40,349</u>
Federal, State and other aid:			
Categorical	19,201	20,781	20,145
Unrestricted	14	51	39
Federal, State and other aid	<u>19,215</u>	<u>20,832</u>	<u>20,184</u>
Other than taxes and aid:			
Charges for services	2,326	2,318	2,345
Other revenues	1,847	2,406	1,928
Bond proceeds	—	268	268
Transfer from Nonmajor Debt Service Fund	166	173	178
Transfer from General Debt Service Fund	52	68	68
Other than taxes and aid	<u>4,391</u>	<u>5,233</u>	<u>4,787</u>
Total revenues	<u>\$ 62,519</u>	<u>\$ 66,246</u>	<u>\$ 65,320</u>

**General Fund Revenues
Fiscal Year 2010
(in billions)**



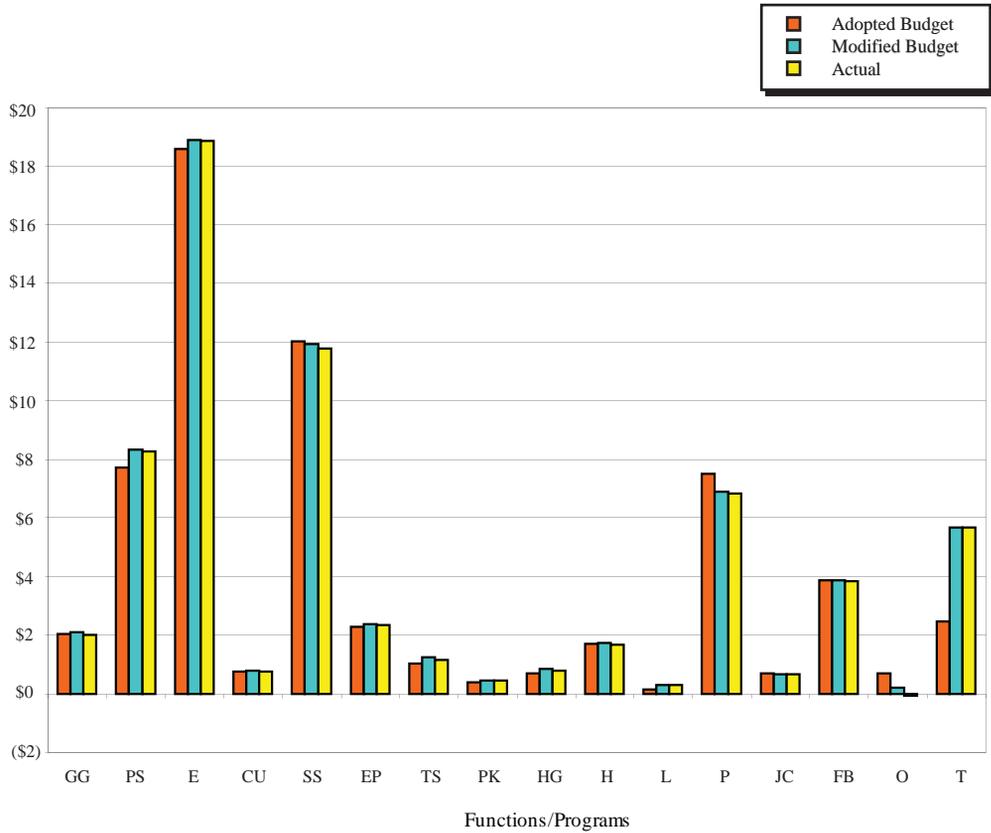
**General Fund Revenues
Fiscal Year 2010**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
		(in millions)	
Taxes (net of refunds):			
Real estate taxes	\$ 16,251	\$ 16,342	\$ 16,369
Sales and use taxes	4,714	5,570	5,611
Personal income tax	6,600	7,620	7,593
Income taxes, other	4,445	5,865	5,707
Other taxes	3,190	1,925	1,921
Taxes (net of refunds)	<u>35,200</u>	<u>37,322</u>	<u>37,201</u>
Federal, State and other aid:			
Categorical	19,150	21,008	20,718
Unrestricted	340	171	(18)
Federal, State and other aid	<u>19,490</u>	<u>21,179</u>	<u>20,700</u>
Other than taxes and aid:			
Charges for services	2,262	2,592	2,539
Other revenues	1,918	2,815	2,030
Bond proceeds	—	206	206
Transfer from Nonmajor Debt Service Fund	123	125	125
Transfer from General Debt Service Fund	—	12	12
Other than taxes and aid	<u>4,303</u>	<u>5,750</u>	<u>4,912</u>
Total revenues	<u>\$ 58,993</u>	<u>\$ 64,251</u>	<u>\$ 62,813</u>

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2011 and 2010 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

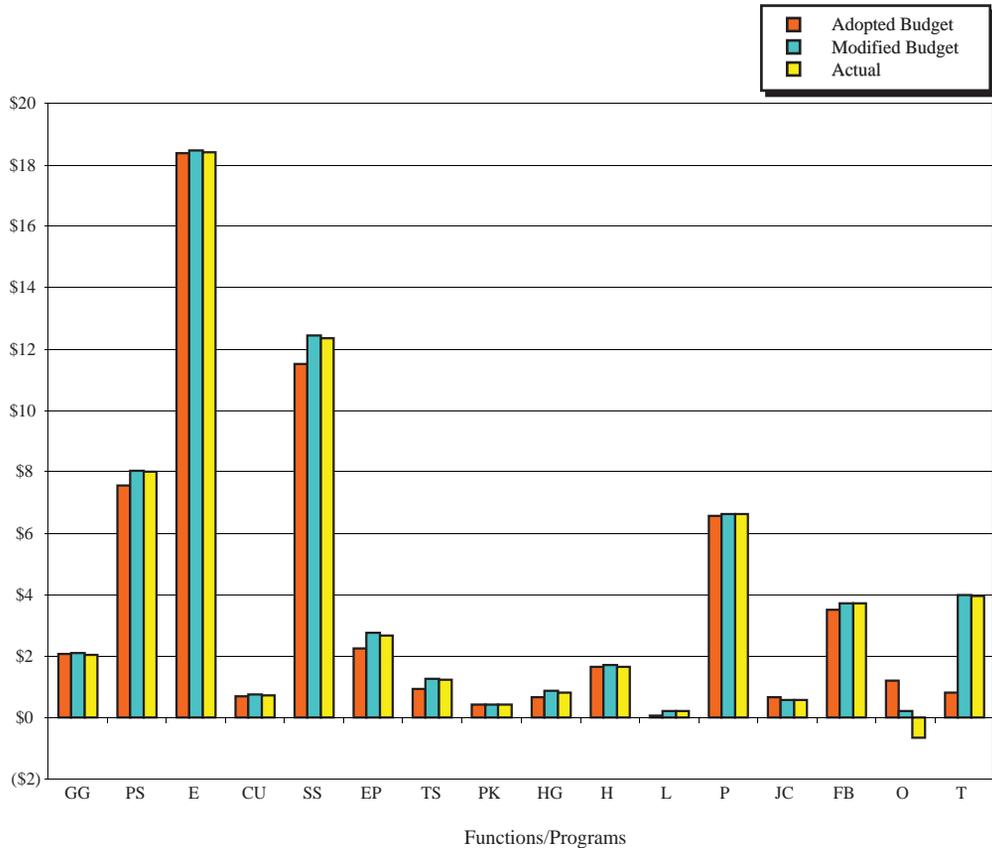
**General Fund Expenditures
Fiscal Year 2011
(in billions)**



**General Fund Expenditures
Fiscal Year 2011**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
		(in millions)	
General government (GG)	\$ 2,019	\$ 2,107	\$ 2,006
Public safety and judicial (PS)	7,713	8,336	8,281
Education (E)	18,590	18,912	18,862
City University (CU)	758	772	736
Social services (SS)	12,030	11,927	11,786
Environmental protection (EP)	2,292	2,367	2,340
Transportation services (TS)	1,016	1,224	1,160
Parks, recreation, and cultural activities (PK)	391	455	451
Housing (HG)	689	856	788
Health, including HHC (H)	1,686	1,735	1,667
Libraries (L)	144	297	296
Pensions (P)	7,488	6,877	6,843
Judgments and claims (JC)	686	664	664
Fringe benefits and other benefit payments (FB)	3,879	3,854	3,846
Other (O)	690	188	(82)
Transfers and other payments for debt service (T)	2,448	5,675	5,671
Total expenditures	<u>\$62,519</u>	<u>\$66,246</u>	<u>\$65,315</u>

**General Fund Expenditures
Fiscal Year 2010
(in billions)**



**General Fund Expenditures
Fiscal Year 2010**

	Adopted Budget	Modified Budget	Actual
		(in millions)	
General government (GG)	\$ 2,063	\$ 2,117	\$ 2,039
Public safety and judicial (PS)	7,571	8,045	8,000
Education (E)	18,372	18,473	18,411
City University (CU)	684	747	719
Social services (SS)	11,508	12,435	12,370
Environmental protection (EP)	2,258	2,774	2,667
Transportation services (TS)	938	1,273	1,224
Parks, recreation, and cultural activities (PK)	423	436	434
Housing (HG)	669	874	814
Health, including HHC (H)	1,652	1,702	1,661
Libraries (L)	58	211	211
Pensions (P)	6,575	6,636	6,631
Judgments and claims (JC)	663	578	568
Fringe benefits and other benefit payments (FB) . . .	3,521	3,737	3,733
Other (O)	1,215	215	(650)
Transfers and other payments for debt service (T) . .	824	3,998	3,976
Total expenditures	\$58,994	\$64,251	\$62,808

General Fund Surplus

The City had General Fund surpluses of \$3.747 billion, \$3.651 billion and \$2.919 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2011, 2010 and 2009, respectively. For the fiscal years 2011, 2010 and 2009, 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 2011, 2010 and 2009 budgets follow:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(in millions)		
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	\$ 356	\$ 766	\$1,043
Discretionary transfers to the General Debt Service Fund	2,428	2,122	244
Net equity contribution in bond refunding that accrued to future years debt service savings	4	4	3
Debt service prepayments for lease purchase debt service due in the fiscal year	—	—	95
Grant to HYIC	—	—	15
Grant to TFA	790	371	646
Advance cash subsidies to the Public Library system	164	164	264
Advance cash subsidies to the TA and Metropolitan Transportation Authority (MTA)	—	219	294
Advance cash subsidies to the HHC	—	—	85
Payment to the PLAN	—	—	225
Total expenditures and transfers (discretionary and other)	<u>3,742</u>	<u>3,646</u>	<u>2,914</u>
Reported surplus	<u>5</u>	<u>5</u>	<u>5</u>
Total surplus	<u>\$3,747</u>	<u>\$3,651</u>	<u>\$2,919</u>

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2011 Adopted Budget:

	<u>2011</u>
	(in millions)
Additional Resources:	
Federal Categorical Aid	\$1,081
Lower than expected pension expenditures	645
Greater than expected financial corporation tax collections	575
Greater than expected sales tax collections	445
Lower than expected Medicaid spending	324
Lower than expected supplies and materials costs	321
General Reserve	300
Lower than expected all other debt service costs	299
Non-governmental grants	289
Lower than expected health insurance expenditures	186
Greater than expected real property transfer tax collections	164
Lower than expected public assistance spending	134
Greater than expected real estate tax collections	98
Higher than expected unincorporated business tax collections	95
Greater than expected all other tax collections	85
Lower than expected all other general administrative OTPS Expenditures	85
Higher than expected all other miscellaneous revenue	84
Lower than expected all other personal services costs	69
Lower than expected lease purchase debt service costs	51
Greater than expected commercial rent tax collections	50
Greater than expected revenues from licenses, permits and privileges	44
Higher than expected utility tax collections	43
Greater than expected general corporation tax collections	40
Lower than expected judgments and claims costs	28
Unrestricted Federal and State Aid	25
Greater than expected charges for services	19
Lower than expected energy costs	14
Lower than expected subsidy payments to libraries	12
Greater than expected proceeds from asset sales	8
Total	<u>5,613</u>
Enabled the City to provide for:	
Additional prepayments for certain debt service costs and subsidies due in fiscal year 2012	3,738
Higher than expected contractual services costs	891
Greater than expected overtime costs	371
Higher than expected pollution remediation costs	137
Lower than expected personal income tax collections	134
Greater than expected provisions for disallowance reserve	97
Greater than expected all other social services (excluding Medicaid and public assistance)	54
Higher than expected all other fixed and miscellaneous charges	39
Greater than expected property and equipment costs	38
Lower than expected revenues from fines and forfeitures	28
Lower than expected interest income	27
State Categorical Aid	26
Lower than expected mortgage tax collections	20
Lower than expected tobacco settlement proceeds	8
Total	<u>5,608</u>
Reported Surplus	<u><u>\$ 5</u></u>

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2010 Adopted Budget:

	<u>2010</u>
	(in millions)
Additional Resources:	
Federal categorical aid	\$1,116
Greater than expected personal income tax collections	994
Lower than expected personal services spending accrued for prior years	884
Lower than expected all other personal services spending	619
Non-governmental grants	525
Greater than expected banking corporation tax collections	520
General reserve	300
Lower than expected all other general administrative OTPS spending	292
Higher than expected sales tax collections	267
Lower than expected supplies and materials costs	231
Greater than expected charges for services	277
Greater than expected all other miscellaneous revenues	165
State categorical aid	133
Greater than expected real estate tax collections	119
Greater than expected all other tax collections	113
Greater than expected unincorporated business tax collections	109
Lower than expected energy costs	109
Lower than expected judgments and claims costs	98
Greater than expected transfers to the capital fund	97
Greater than expected commercial rent tax collections	60
Lower than expected lease purchase debt service costs	59
Lower than expected provisions for the disallowance reserve	15
Lower than expected payments to libraries	10
Greater than expected proceeds from asset sales	10
Greater than expected revenues from licenses, permits and privileges	9
Lower than expected all other debt service costs	6
Greater than expected utility tax collections	4
Total	<u>7,141</u>
Enabled the City to provide for:	
Additional prepayments for certain debt service costs and subsidies due in fiscal year 2011	3,642
Higher than expected contractual services costs	1,121
Higher than expected pollution remediation costs	455
Lower than expected unrestricted Federal and State aid	357
Higher than expected Medicaid spending	332
Higher than expected overtime costs	328
Higher than expected health insurance expenditures	178
Greater than expected public assistance spending	168
Greater than expected all other fixed and miscellaneous charges	115
Lower than expected mortgage tax collections	109
Lower than expected general corporation tax collections	76
Greater than expected all other social services costs (excluding Medicaid and public assistance)	74
Lower than expected revenues from fines and forfeitures	66
Higher than expected pension expenditures	56
Higher than expected property and equipment costs	41
Higher than expected payments to HHC	9
Lower than expected interest income	7
All other net overspending and revenues below budget	2
Total	<u>7,136</u>
Reported Surplus	<u>\$ 5</u>

Capital Assets

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

	Governmental Activities		
	2011	2010 (in millions)	2009
Land*	\$ 1,569	\$ 1,240	\$ 1,147
Buildings	27,007	25,154	22,435
Equipment (including software)	2,153	1,979	1,898
Infrastructure**	10,842	10,284	9,539
Construction work-in-progress*	4,897	4,817	4,862
Total	<u>\$46,468</u>	<u>\$43,474</u>	<u>\$39,881</u>

* not depreciable/amortizable

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

The net increase in the City’s capital assets during fiscal year 2011 was \$2.994 billion, a 7% increase. Capital assets additions in fiscal year 2011 were \$8.515 billion, a decrease of \$1.065 billion from fiscal year 2010. In fiscal year 2011, 69% of the capital assets additions resulted from the addition of \$2.696 billion in the Education program and \$3.143 billion in new construction work-in-progress.

The net increase in the City’s capital assets during fiscal year 2010 was \$3.593 billion, a 9.0% increase. Capital assets additions in fiscal year 2010 were \$9.580 billion, an increase of \$459 million from fiscal year 2009. In fiscal year 2010, 76% of the capital assets additions resulted from the addition of \$3.545 billion in the Education program and \$3.752 billion in new construction work-in-progress.

Additional information on the City’s capital assets can be found in Note D.2 of the basic 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 2011, 2010 and 2009.

	New York City and City-Related Debt		
	2011	2010 (in millions)	2009
General Obligation Bonds ^(a)	\$41,785	\$41,555	\$39,991
TFA Bonds	17,624	14,407	11,140
TFA Recovery Bonds	1,466	1,466	1,522
TFA BARBs	4,730	4,221	4,251
TSASC Bonds	1,260	1,265	1,274
IDA Bonds	98	99	99
STAR Bonds	2,117	2,178	2,253
FSC Bonds	282	294	304
HYIC Bonds	2,000	2,000	2,000
HYIC Notes	—	—	33
ECF Bonds	281	150	102
Total bonds and notes payable	<u>\$71,643</u>	<u>\$67,635</u>	<u>\$62,969</u>

(a) Does not include capital contract liabilities.

General Obligation

On July 1, 2011, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled \$52.03 billion (compared with \$49.9 and \$47.2 billion as of July 1, 2010 and 2009, 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, 2011, the City's 10% general limitation was \$76.1 billion (compared with \$76.2 and \$74.9 billion as of July 1, 2010 and 2009 respectively). The City's remaining GO debt incurring power as of July 1, 2011, after providing for capital contract liabilities, totaled \$24.06 billion.

As of June 30, 2011, the City's outstanding GO variable and fixed rate debt totaled \$6.96 billion and \$34.82 billion, respectively. During fiscal year 2011, the City's GO tax exempt daily and weekly variable rate debt's interest rates averaged 0.27% and 0.24%, respectively. Of the \$4.18 billion in GO bonds issued by the City in fiscal year 2011, a total of \$2.0 billion was issued to refund certain outstanding bonds at a lower interest rate and a total of \$2.18 billion 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. These refundings produce budgetary dissavings of \$46.04 million in fiscal year 2011, and budgetary savings of \$173.48 million and \$1.08 million in 2012 and 2013, respectively. The refundings will generate approximately \$125.45 million in net present value savings throughout the life of the bonds.

In fiscal year 2011, the City issued \$1.68 billion of taxable Build America Bonds and \$668.40 million of traditional taxable fixed rate bonds. The traditional taxable bonds were sold on a competitive basis.

In addition, the City converted \$412.79 million of bonds between different interest rate modes.

During fiscal year 2011, Standard & Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) maintained the General Obligation rating at AA. Moody's Investors Service (Moody's) continued to rate General Obligation bonds at Aa2.

Short-term Financing

In fiscal year 2011, the City had no short-term borrowings.

Transitional Finance Authority

In 1997, in order to continue to fund the City's capital commitments in the face of an approaching General Obligation debt limit, the New York State Legislature created the New York City Transitional Finance Authority (TFA). The TFA, a bankruptcy-remote separate legal entity, was initially authorized to issue debt secured by the City's collections of personal income tax and, if necessary, sales tax. These TFA bonds are identified as Future Tax Secured Bonds. The TFA was initially authorized to issue up to \$7.5 billion of Future Tax Secured Bonds. In fiscal year 2000, the debt incurring authorization for these bonds was increased by \$4 billion to a total of \$11.5 billion, and in fiscal year 2006, by \$2 billion to a total of \$13.5 billion. As of June 30, 2009, TFA has exhausted its debt incurring authorization for these bonds. In July 2009, however, Chapter 182 of the Laws of New York, authorized the issuance of additional Future Tax Secured Bonds subject to certain limitations. First, the \$13.5 billion debt authorization was changed to be based on outstanding debt and not debt issued. Second, the new authorization provides that the further Future Tax Secured Bonds, together with the amount of indebtedness contracted by the City, will not exceed the debt limit of the City. As of July 1, 2011, the debt-incurring margin within the debt limit of the City was \$24.06 billion.

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 has issued \$2 billion in Recovery Bonds pursuant to this authorization.

As of June 30, 2011, the TFA Future Tax Secured Bond total debt outstanding, including Recovery Bonds and Subordinate Lien Bonds, totaled approximately \$19.09 billion.

TFA issued \$4.25 billion TFA bonds in fiscal year 2011, a total of \$3.60 billion was issued for new money capital purposes and \$649.43 million was issued to refund certain outstanding bonds at lower interest rates.

The proceeds of the refunding issues were placed in irrevocable escrow accounts to pay, when due, principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produce budgetary savings of \$13.76 million in fiscal year 2011, \$17.45 million and \$746.9 thousand in fiscal years 2012 and 2013, respectively. The refundings will generate approximately \$31.18 million in net present value savings throughout the life of the bonds.

Of the \$3.60 billion new money issued in fiscal year 2011, \$147.06 million were Qualified School Construction Bonds (QSCBs).

As of June 30, 2011, the TFA's outstanding variable rate debt, which included \$1.39 billion of TFA Recovery Bonds, totaled \$3.7 billion. During fiscal year 2011, TFA's variable rate debt traded at the following average interest rates:

	<u>Tax-Exempt</u>	<u>Taxable</u>
Dailies	0.21%	—
Weeklies	0.31%	0.39%
Auction Rate Securities—7 Day	0.49%	—
Index Floaters	1.10%	—
2-Day Mode	0.19%	—

In fiscal year 2011, S&P and Fitch maintained their respective ratings on both Senior Lien and Subordinate Lien TFA Bonds at AAA. Moody's maintained its rating on Senior Lien Bonds at AAA and Subordinate Lien Bonds at Aa1.

In fiscal year 2006, the New York State Legislature authorized the 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. The legislation further authorized the City to assign to the 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 TFA Building Aid Revenue Bond (TFA BARB) credit was created. The City assigned all the State Building Aid to the TFA.

In fiscal year 2011, the TFA issued \$650 million in new money TFA BARBs to finance a portion of the City's educational facilities capital plan. As of June 30, 2011, the TFA BARBs outstanding totaled \$4.73 billion.

During fiscal year 2011, S&P and Fitch maintained the TFA BARBs rating at AA- and Moody's maintained the TFA BARBs rating at Aa3.

TSASC, Inc.

TSASC, Inc. (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 2011. As of June 30, 2011, TSASC had approximately \$1.26 billion of bonds outstanding.

TSASC bond ratings vary by maturity. As of June 30, 2011, TSASC bonds were rated BBB by S&P, with the exception of June 1, 2042 bonds that were rated BBB-. Fitch rated TSASC bonds maturing on June 1, 2022 and June 1, 2026 at BBB+ and rated bonds maturing on June 1, 2034 and June 1, 2042 at BBB.

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 these payments and to use the proceeds to retire existing Municipal Assistance Corporation for the City of New York (MAC) debt, thereby saved the City approximately \$500 million per year for fiscal years 2004 through 2008.

As of June 30, 2011, STAR has \$2.12 billion bonds outstanding. It had no financing activity in fiscal year 2011.

The bonds are rated AAA by S&P, Aa2 by Moody's, and AA by Fitch.

Fiscal Year 2005 Securitization Corporation

In fiscal year 2005, \$498.85 million of taxable bonds were issued by the Fiscal Year 2005 Securitization Corporation (FSC), a bankruptcy-remote local development corporation, established to restructure an escrow fund that was previously funded with GO bonds proceeds.

As of June 30, 2011, FSC has \$282.39 million bonds outstanding. It had no financing activity in fiscal year 2011.

In fiscal year 2011, the bonds were rated Aaa by Moody's and AAA by S&P and Fitch.

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 is payable from revenues generated by the new development in the Hudson Yards District. 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. The interest support payments do not cover principal repayment of the bonds.

As of June 30, 2011, HYIC had \$2 billion bonds outstanding. HYIC did not sell bonds in fiscal year 2011.

The bonds are rated A by S&P, A2 by Moody's, and A by Fitch.

New York City Educational Construction Fund

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.

In fiscal year 2011, The ECF issued \$137.53 million in Revenue Bonds for new money capital purposes.

As of June 30, 2011, ECF has \$281.19 million bonds outstanding.

The bonds are rated AA- by S&P and Aa3 by Moody's.

Interest Rate Exchange Agreements

To lower 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 to enter into swaps at future dates. The City received specific authorization to enter into such agreements under Section 54.90 of the New York State Local Finance Law. No new swaps were initiated in fiscal year 2011. As of June 30, 2011, the outstanding notional amount on the City's various swap agreements was \$2.58 billion.

The Water Authority has also from time to time entered into interest rate exchange agreements in order to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio. In fiscal year 2011, it initiated no new swaps. As of June 30, 2011, the outstanding notional amount on the Water Authority's various swap agreements was \$621 million.

Additional information on the City's long-term debt can be found in Note D.4. of the Basic Financial Statements.

Subsequent Events

Subsequent to June 30, 2011, the City and TFA completed the following long-term financing:

Long-term Financing

City Debt: On August 9, 2011, The City of New York sold its Fiscal 2012 Series A General Obligation bonds of \$775 million for capital purposes.

On August 9, 2011, The City of New York sold its Fiscal 2012 Series B and C General Obligation bonds of \$199.715 million for refunding purposes.

On October 13, 2011, The City of New York sold its Fiscal 2012 Series D General Obligation bonds of \$720.305 million for capital purposes.

On October 13, 2011, The City of New York converted both its Fiscal 1994 Series E3 General Obligation bonds of \$25.895 million from Daily Mode and Fiscal 2004 Series H1, H2, H3 and H4 General Obligation bonds of \$119.660 million from Daily and Weekly Modes to Fixed Rate Mode.

TFA Debt: On August 23, 2011, TFA sold its Fiscal 2012 Series A Future Tax Secured Subordinate bonds of \$450 million for refunding purposes.

On August 23, 2011, TFA converted both its Fiscal 2003 Series B bonds of \$171.970 million from Adjustable Mode and Fiscal 2002 Series B bonds of \$424.145 million from Weekly Mode to Fixed Rate Mode.

Bond Ratings: Standard & Poor's downgraded FSC from AAA to AA+ on August 8, 2011. In addition, Fitch downgraded the TSASC bonds maturing on June 1, 2026 from BBB+ to BBB-, and the TSASC bonds maturing on June 1, 2034 and 2042 from BBB to BB.

Commitments

At June 30, 2011, the outstanding commitments relating to projects of the Capital Projects Fund amounted to approximately \$16.1 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 the Capital Projects Fund expenditures of \$54.1 billion over fiscal years 2012 through 2021. To help meet its capital spending program, the City and TFA borrowed \$6.43 billion in the public credit market in fiscal year 2011. The City and TFA plan to borrow \$5.36 billion in the public credit market in fiscal year 2012.

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 200 South, New York, New York 10007-2341.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2011
(in thousands)

	<u>Primary Government</u>	<u>Component</u>
	<u>Governmental</u>	<u>Units</u>
	<u>Activities</u>	<u>Units</u>
ASSETS:		
Cash and cash equivalents	\$ 4,457,031	\$2,787,599
Investments, including accrued interest	396,847	645,878
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$308,329)	490,450	—
Federal, State and other aid	8,434,007	—
Taxes other than real estate	5,007,542	—
Leases	—	1,705,667
Other	3,379,207	3,508,251
Mortgage loans and interest receivable, net	34	7,374,816
Inventories	297,303	40,708
Due from Primary Government	—	36,288
Due from Component Units	1,870,487	—
Restricted cash, cash equivalents and investments	6,128,917	5,650,424
Deferred charges	788,716	—
Other	488,207	608,096
Capital assets:		
Land and construction work-in-progress	6,465,717	10,496,720
Other capital assets (net of depreciation/amortization):		
Property, plant and equipment (including software)	29,160,271	23,342,686
Infrastructure	10,842,249	—
Deferred outflows of resources	65,698	59,876
Total assets	<u>78,272,683</u>	<u>56,257,009</u>
LIABILITIES:		
Accounts payable and accrued liabilities	12,031,069	2,770,310
Accrued interest payable	865,731	136,323
Unearned revenues:		
Prepaid real estate taxes	4,631,627	—
Other	3,284,194	289,355
Due to Primary Government	—	1,870,487
Due to Component Units	36,288	—
Estimated disallowance of Federal, State and other aid	1,184,574	—
Other	74,496	185,489
Derivative instruments — interest rate swaps	65,698	44,134
Noncurrent liabilities:		
Due within one year	5,301,669	1,642,283
Due in more than one year	168,802,401	45,105,912
Total liabilities	<u>196,277,747</u>	<u>52,044,293</u>
NET ASSETS:		
Invested in capital assets, net of related debt	(9,998,046)	7,237,912
Restricted for:		
Capital projects	1,254,669	65,243
Debt service	5,386,415	1,256,197
Loans/security deposits	—	62,443
Donor/statutory restrictions	—	70,095
Operations	—	257,499
Unrestricted (deficit)	(114,648,102)	(4,736,673)
Total net assets (deficit)	<u>\$(118,005,064)</u>	<u>\$ 4,212,716</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2010
(in thousands)

	Primary Government	Component
	Governmental	Units
	Activities	Units
ASSETS:		
Cash and cash equivalents	\$ 7,382,486	\$ 2,252,967
Investments, including accrued interest	1,130,353	1,174,497
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$269,985)	429,458	—
Federal, State and other aid	8,811,998	—
Taxes other than real estate	4,527,240	—
Lease	—	1,720,396
Other	1,282,900	3,881,989
Mortgage loans and interest receivable, net	46	6,658,243
Inventories	280,136	43,388
Due from Primary Government	—	88,241
Due from Component Units	2,106,115	—
Restricted cash, cash equivalents and investments	4,119,525	3,955,751
Deferred charges	754,078	—
Other	442,071	490,912
Capital assets:		
Land and construction work-in-progress	6,057,500	8,419,847
Other capital assets (net of depreciation/amortization):		
Property, plant and equipment (including software)	27,132,957	23,069,095
Infrastructure	10,283,608	—
Deferred outflows of resources	91,606	91,766
Total assets	74,832,077	51,847,092
LIABILITIES:		
Accounts payable and accrued liabilities	12,950,117	1,868,428
Accrued interest payable	810,916	120,630
Unearned revenues:		
Prepaid real estate taxes	4,568,550	—
Other	3,283,893	356,803
Due to Primary Government	—	2,106,115
Due to Component Units	88,241	—
Estimated disallowance of Federal, State and other aid	1,092,915	—
Other	76,148	357,927
Derivative instruments — interest rate swaps	91,606	74,866
Noncurrent liabilities:		
Due within one year	4,441,357	1,761,756
Due in more than one year	155,856,741	40,928,105
Total liabilities	183,260,484	47,574,630
NET ASSETS:		
Invested in capital assets, net of related debt	(6,899,623)	8,038,813
Restricted for:		
Capital projects	1,881,141	61,301
Debt service	5,002,483	908,789
Loans/security deposits	—	48,615
Donor/statutory restrictions	—	63,528
Operations	—	246,985
Unrestricted (deficit)	(108,412,408)	(5,095,569)
Total net assets (deficit)	\$(108,428,407)	\$ 4,272,462

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(in thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
					Governmental Activities	
Primary government:						
General government	\$ 3,692,689	\$ 943,558	\$ 1,179,330	\$ 67,299	\$ (1,502,502)	\$ —
Public safety and judicial	18,815,201	268,677	731,307	10,040	(17,805,177)	—
Education	25,604,277	68,252	10,977,840	5,399	(14,552,786)	—
City University	947,402	277,685	196,459	5,155	(468,103)	—
Social services	12,896,220	31,812	5,071,672	2,787	(7,789,949)	—
Environmental protection	3,744,521	1,365,139	38,999	32,377	(2,308,006)	—
Transportation services	2,073,164	874,345	257,183	298,207	(643,429)	—
Parks, recreation, and cultural activities	1,119,677	63,891	16,859	5,513	(1,033,414)	—
Housing	1,317,725	263,617	494,798	109,686	(449,624)	—
Health (including payments to HHC)	2,484,876	79,054	986,823	—	(1,418,999)	—
Libraries	343,395	—	—	1,552	(341,843)	—
Debt service interest	2,910,065	—	—	—	(2,910,065)	—
Total primary government	<u>\$75,949,212</u>	<u>\$ 4,236,030</u>	<u>\$19,951,270</u>	<u>\$ 538,015</u>	<u>(51,223,897)</u>	<u>—</u>
Component Units	<u>\$15,515,590</u>	<u>\$11,122,972</u>	<u>\$ 2,427,082</u>	<u>\$1,383,702</u>	—	<u>(581,834)</u>
 General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					17,064,641	—
Sales and use taxes					6,120,215	—
Personal income tax					8,095,972	—
Income taxes, other					7,313,299	—
Other taxes:						
Commercial Rent					634,221	—
Conveyance of Real Property					798,977	—
Hotel Room Occupancy					436,218	—
Payment in Lieu of Taxes					276,082	—
Other					64,126	—
Investment income					71,867	100,370
Other Federal and State aid					470,117	2,569
Other					301,505	419,149
Total general revenues					<u>41,647,240</u>	<u>522,088</u>
Change in net assets					(9,576,657)	(59,746)
Net assets (deficit) - beginning					<u>(108,428,407)</u>	<u>4,272,462</u>
Net assets (deficit) - ending					<u>\$(118,005,064)</u>	<u>\$4,212,716</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(in thousands)

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	
					<u>Governmental Activities</u>	<u>Component Units</u>
Primary government:						
General government	\$ 4,298,065	\$1,044,721	\$ 1,152,072	\$ 90,655	\$ (2,010,617)	\$ —
Public safety and judicial	18,293,989	264,316	636,638	15,021	(17,378,014)	—
Education	24,749,134	68,117	11,065,829	30,629	(13,584,559)	—
City University	1,035,471	276,792	188,196	—	(570,483)	—
Social services	13,183,110	32,420	5,303,353	6,278	(7,841,059)	—
Environmental protection	4,374,543	1,611,105	259,779	51,159	(2,452,500)	—
Transportation services	2,184,078	894,316	245,747	271,557	(772,458)	—
Parks, recreation, and cultural activities	1,012,404	58,972	15,579	30,167	(907,686)	—
Housing	1,425,949	220,757	511,398	88,102	(605,692)	—
Health (including payments to HHC)	2,554,881	69,259	1,025,192	1,520	(1,458,910)	—
Libraries	249,423	—	—	992	(248,431)	—
Debt service interest	2,690,732	—	—	—	(2,690,732)	—
Total primary government	<u>\$76,051,779</u>	<u>\$4,540,775</u>	<u>\$20,403,783</u>	<u>\$ 586,080</u>	<u>(50,521,141)</u>	<u>—</u>
Component Units	<u>\$15,126,326</u>	<u>\$9,920,348</u>	<u>\$ 2,083,551</u>	<u>\$1,308,567</u>	<u>—</u>	<u>(1,813,860)</u>
 General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					16,414,810	—
Sales and use taxes					5,628,398	—
Personal income tax					7,893,657	—
Income taxes, other					6,192,532	—
Other taxes:						
Commercial Rent					620,182	—
Conveyance of Real Property					616,157	—
Hotel Room Occupancy					374,902	—
Payment in Lieu of Taxes					262,351	—
Other					55,127	—
Investment income					65,508	171,882
Other Federal and State aid					478,811	7,087
Other					216,516	594,058
Total general revenues					<u>38,818,951</u>	<u>773,027</u>
Change in net assets					(11,702,190)	(1,040,833)
Net assets (deficit) - beginning					<u>(96,726,217)</u>	<u>5,313,295</u>
Net assets (deficit) - ending					<u>\$(108,428,407)</u>	<u>\$4,272,462</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2011
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 4,331,568	\$ 56,672	\$ —	\$ 68,791	\$ —	\$ 4,457,031
Investments, including accrued interest	422,352	—	—	37,582	—	459,934
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$308,329)	490,450	—	—	—	—	490,450
Federal, State and other aid	7,647,115	786,892	—	—	—	8,434,007
Taxes other than real estate	4,710,519	—	—	297,023	—	5,007,542
Other	2,316,125	—	960,582	78,001	—	3,354,708
Mortgage loans and interest receivable (less allowance for uncollectible amounts of \$322,011)	—	—	—	34	—	34
Due from other funds	2,664,275	300,718	—	512,215	(512,112)	2,965,096
Due from Component Units	1,061,891	682,345	—	—	—	1,744,236
Restricted cash and investments	—	484,842	1,862,964	3,781,111	—	6,128,917
Other	11,416	121,543	—	324,364	—	457,323
Total assets	<u>\$23,655,711</u>	<u>\$ 2,433,012</u>	<u>\$2,823,546</u>	<u>\$5,099,121</u>	<u>\$ (512,112)</u>	<u>\$33,499,278</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	\$ 9,515,405	\$ 1,855,086	\$ 6,156	\$ 654,422	\$ —	\$12,031,069
Accrued tax refunds:						
Real estate taxes	40,365	—	—	—	—	40,365
Personal income tax	38,015	—	—	107,023	—	145,038
Other	84,355	—	—	271,316	—	355,671
Accrued judgments and claims	428,114	91,980	—	—	—	520,094
Deferred revenues:						
Prepaid real estate taxes	4,631,627	—	—	—	—	4,631,627
Uncollected real estate taxes	375,655	—	—	—	—	375,655
Taxes other than real estate	3,702,862	—	—	—	—	3,702,862
Other	3,171,179	324,284	—	—	—	3,495,463
Due to other funds	—	3,176,387	—	300,821	(512,112)	2,965,096
Due to Component Units	36,288	—	—	—	—	36,288
Estimated disallowance of Federal, State and other aid	1,184,574	—	—	—	—	1,184,574
Total liabilities	<u>23,208,439</u>	<u>5,447,737</u>	<u>6,156</u>	<u>1,333,582</u>	<u>(512,112)</u>	<u>29,483,802</u>
Fund balances:						
Nonspendable	447,272	—	—	570	—	447,842
Spendable:						
Restricted	—	129,196	355,883	3,693,861	—	4,178,940
Committed	—	—	2,461,507	637	—	2,462,144
Assigned	—	—	—	70,535	—	70,535
Unassigned	—	(3,143,921)	—	(64)	—	(3,143,985)
Total fund balances (deficit)	<u>447,272</u>	<u>(3,014,725)</u>	<u>2,817,390</u>	<u>3,765,539</u>	<u>—</u>	<u>4,015,476</u>
Total liabilities and fund balances	<u>\$23,655,711</u>	<u>\$ 2,433,012</u>	<u>\$2,823,546</u>	<u>\$5,099,121</u>	<u>\$ (512,112)</u>	<u>\$33,499,278</u>

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, 2010
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 5,229,058	\$ 25,215	\$2,081,788	\$ 46,425	\$ —	\$ 7,382,486
Investments, including accrued interest	349,233	—	849,660	20,662	—	1,219,555
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$269,985)	429,458	—	—	—	—	429,458
Federal, State and other aid	8,100,203	711,795	—	—	—	8,811,998
Taxes other than real estate	4,213,493	—	—	313,747	—	4,527,240
Other	1,194,608	—	—	77,000	—	1,271,608
Mortgage loans and interest receivable (less allowance for uncollectible amounts of \$318,230)	—	—	—	46	—	46
Due from other funds	2,795,205	3,505	—	595,020	(594,926)	2,798,804
Due from Component Units	1,024,372	967,943	—	—	—	1,992,315
Restricted cash and investments	—	1,070,239	—	3,049,286	—	4,119,525
Other	14,857	92,338	—	306,974	—	414,169
Total assets	\$23,350,487	\$ 2,871,035	\$2,931,448	\$4,409,160	\$ (594,926)	\$32,967,204
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	\$ 9,792,485	\$ 2,392,234	\$ 5,250	\$ 760,148	\$ —	\$12,950,117
Accrued tax refunds:						
Real estate taxes	41,009	—	—	—	—	41,009
Personal income tax	55,610	—	—	52,747	—	108,357
Other	127,280	—	—	—	—	127,280
Accrued judgments and claims	353,270	206,935	—	—	—	560,205
Deferred revenues:						
Prepaid real estate taxes	4,568,550	—	—	—	—	4,568,550
Uncollected real estate taxes	357,699	—	—	—	—	357,699
Taxes other than real estate	3,285,073	—	—	—	—	3,285,073
Other	3,146,205	26,079	—	341,250	—	3,513,534
Due to other funds	—	3,390,131	—	3,599	(594,926)	2,798,804
Due to Component Units	88,241	—	—	—	—	88,241
Estimated disallowance of Federal, State and other aid	1,092,915	—	—	—	—	1,092,915
Total liabilities	22,908,337	6,015,379	5,250	1,157,744	(594,926)	29,491,784
Fund balances:						
Nonspendable	442,150	—	—	568	—	442,718
Spendable:						
Restricted	—	760,897	766,320	2,550,598	—	4,077,815
Committed	—	—	2,159,878	647	—	2,160,525
Assigned	—	—	—	699,621	—	699,621
Unassigned	—	(3,905,241)	—	(18)	—	(3,905,259)
Total fund balances (deficit)	442,150	(3,144,344)	2,926,198	3,251,416	—	3,475,420
Total liabilities and fund balances	\$23,350,487	\$ 2,871,035	\$2,931,448	\$4,409,160	\$ (594,926)	\$32,967,204

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, 2011
(in thousands)

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

Total fund balances—governmental funds	\$ 4,015,476
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds	297,303
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	46,468,237
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	5,197,049
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(72,866,304)
OPEB liability	(83,906,953)
Accrued interest payable	(865,731)
Capital lease obligations	(1,895,460)
Accrued vacation and sick leave	(3,929,073)
Pension liability	(592,200)
Landfill closure and post-closure care costs	(1,569,122)
Pollution Remediation	(226,223)
Other long-term liabilities	(8,132,063)
Net assets (deficit) of governmental activities	<u><u>\$(118,005,064)</u></u>

See accompanying notes to financial statements.

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

JUNE 30, 2010
(in thousands)

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

Total fund balances—governmental funds	\$ 3,475,420
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds	280,136
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	43,474,065
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	4,690,283
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(68,728,788)
OPEB liability	(74,984,832)
Accrued interest payable	(810,916)
Capital lease obligations	(1,859,213)
Accrued vacation and sick leave	(3,822,067)
Pension liability	(625,400)
Landfill closure and post-closure care costs	(1,659,727)
Pollution Remediation	(255,381)
Other long-term liabilities	(7,601,987)
Net assets (deficit) of governmental activities	<u><u>\$(108,428,407)</u></u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2011
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	\$17,086,484	\$ —	\$ —	\$ —	\$ —	\$17,086,484
Sales and use taxes	6,190,215	—	—	—	—	6,190,215
Personal income tax	8,165,972	—	—	695,044	(695,044)	8,165,972
Income taxes, other	6,705,299	—	—	—	—	6,705,299
Other taxes	2,201,835	—	—	—	—	2,201,835
Federal, State and other categorical aid	20,145,261	532,616	67,503	—	—	20,745,380
Unrestricted Federal and State aid	38,996	—	—	169,627	—	208,623
Charges for services	2,344,682	—	—	—	—	2,344,682
Tobacco settlement	—	—	—	183,531	—	183,531
Investment income	20,786	—	166	22,704	—	43,656
Interest on mortgages, net	—	—	—	2,096	—	2,096
Other revenues	1,907,307	2,665,002	15,282	2,284,838	(2,187,535)	4,684,894
Total revenues	<u>64,806,837</u>	<u>3,197,618</u>	<u>82,951</u>	<u>3,357,840</u>	<u>(2,882,579)</u>	<u>68,562,667</u>
EXPENDITURES:						
General government	2,006,167	950,271	—	346,426	—	3,302,864
Public safety and judicial	8,281,129	387,087	—	—	—	8,668,216
Education	18,862,234	2,015,322	—	2,238,075	(2,187,535)	20,928,096
City University	736,092	83,316	—	—	—	819,408
Social services	11,785,981	59,970	—	—	—	11,845,951
Environmental protection	2,339,955	3,057,878	—	—	—	5,397,833
Transportation services	1,160,122	1,015,948	—	—	—	2,176,070
Parks, recreation and cultural activities	451,184	865,941	—	—	—	1,317,125
Housing	787,671	330,399	—	—	—	1,118,070
Health (including payments to HHC)	1,666,942	265,936	—	—	—	1,932,878
Libraries	295,990	66,739	—	—	—	362,729
Pensions	6,842,573	—	—	—	—	6,842,573
Judgments and claims	664,073	—	—	—	—	664,073
Fringe benefits and other benefit payments	3,846,135	—	—	—	—	3,846,135
Administrative and other	(82,948)	—	88,204	55,440	—	60,696
Debt Service:						
Interest	—	—	1,744,653	1,158,781	—	2,903,434
Redemptions	—	—	1,851,566	537,511	—	2,389,077
Lease payments	145,336	—	—	—	—	145,336
Total expenditures	<u>59,788,636</u>	<u>9,098,807</u>	<u>3,684,423</u>	<u>4,336,233</u>	<u>(2,187,535)</u>	<u>74,720,564</u>
Excess (deficiency) of revenues over expenditures	<u>5,018,201</u>	<u>(5,901,189)</u>	<u>(3,601,472)</u>	<u>(978,393)</u>	<u>(695,044)</u>	<u>(6,157,897)</u>
OTHER FINANCING SOURCES (USES):						
Transfers from (to) General Fund	—	—	3,488,937	1,096,899	—	4,585,836
Transfers from (to) Nonmajor Capital Projects Funds	—	3,979,583	—	42,825	—	4,022,408
Transfers from Nonmajor Special Revenue Funds	—	—	—	22,136	—	22,136
Principal amount of bonds issued	267,801	1,912,199	—	4,387,525	—	6,567,525
Bond premium	—	—	187,351	128,122	—	315,473
Capitalized leases	—	139,026	—	—	—	139,026
Issuance of refunding debt	—	—	2,002,955	649,425	—	2,652,380
Transfers to Capital Projects Fund	—	—	—	(3,979,583)	—	(3,979,583)
Transfers from (to) General Debt Service Fund	(3,488,937)	—	—	5,170	—	(3,483,767)
Transfers from (to) Nonmajor Debt Service Funds	(1,791,943)	—	(5,170)	(64,961)	695,044	(1,167,030)
Payments to refunded bond escrow holder	—	—	(2,181,409)	(795,042)	—	(2,976,451)
Total other financing sources (uses)	<u>(5,013,079)</u>	<u>6,030,808</u>	<u>3,492,664</u>	<u>1,492,516</u>	<u>695,044</u>	<u>6,697,953</u>
Net change in fund balances	5,122	129,619	(108,808)	514,123	—	540,056
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	442,150	(3,144,344)	2,926,198	3,251,416	—	3,475,420
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 447,272</u>	<u>\$ (3,014,725)</u>	<u>\$ 2,817,390</u>	<u>\$ 3,765,539</u>	<u>\$ —</u>	<u>\$ 4,015,476</u>

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, 2010
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	\$16,369,447	\$ —	\$ —	\$ —	\$ —	\$16,369,447
Sales and use taxes	5,611,398	—	—	—	—	5,611,398
Personal income tax	7,592,657	—	—	190,646	(190,646)	7,592,657
Income taxes, other	5,706,532	—	—	—	—	5,706,532
Other taxes	1,920,938	—	—	—	—	1,920,938
Federal, State and other categorical aid	20,718,359	576,702	11,798	170,000	—	21,476,859
Unrestricted Federal and State aid	(17,563)	—	—	—	—	(17,563)
Charges for services	2,538,984	—	—	—	—	2,538,984
Tobacco settlement	—	—	—	193,580	—	193,580
Investment income	22,159	—	2,373	54,059	—	78,591
Interest on mortgages, net	—	—	—	2,319	—	2,319
Other revenues	2,007,666	2,528,745	747	3,049,076	(3,017,073)	4,569,161
Total revenues	<u>62,470,577</u>	<u>3,105,447</u>	<u>14,918</u>	<u>3,659,680</u>	<u>(3,207,719)</u>	<u>66,042,903</u>
EXPENDITURES:						
General government	2,038,518	1,338,855	—	322,359	—	3,699,732
Public safety and judicial	8,000,446	313,862	—	—	—	8,314,308
Education	18,411,207	2,953,167	—	3,066,272	(3,017,073)	21,413,573
City University	718,788	97,359	—	—	—	816,147
Social services	12,370,109	68,007	—	—	—	12,438,116
Environmental protection	2,667,041	2,972,147	—	—	—	5,639,188
Transportation services	1,223,867	1,155,504	—	—	—	2,379,371
Parks, recreation and cultural activities	434,345	833,164	—	—	—	1,267,509
Housing	813,885	428,856	—	—	—	1,242,741
Health (including payments to HHC)	1,661,164	284,737	—	—	—	1,945,901
Libraries	210,535	90,198	—	—	—	300,733
Pensions	6,631,325	—	—	—	—	6,631,325
Judgments and claims	568,246	—	—	—	—	568,246
Fringe benefits and other benefit payments	3,733,084	—	—	—	—	3,733,084
Administrative and other	(650,308)	—	79,615	49,437	—	(521,256)
Debt Service:						
Interest	—	—	1,654,292	994,660	—	2,648,952
Redemptions	—	—	1,690,600	501,105	—	2,191,705
Lease payments	53,562	—	—	—	—	53,562
Total expenditures	<u>58,885,814</u>	<u>10,535,856</u>	<u>3,424,507</u>	<u>4,933,833</u>	<u>(3,017,073)</u>	<u>74,762,937</u>
Excess (deficiency) of revenues over expenditures	<u>3,584,763</u>	<u>(7,430,409)</u>	<u>(3,409,589)</u>	<u>(1,274,153)</u>	<u>(190,646)</u>	<u>(8,720,034)</u>
OTHER FINANCING SOURCES (USES):						
Transfers from (to) General Fund	—	—	2,955,798	639,148	—	3,594,946
Transfers from (to) Nonmajor Capital Projects Funds	—	3,147,139	—	75,981	—	3,223,120
Transfers from Nonmajor Special Revenue Funds	—	—	—	374	—	374
Principal amount of bonds issued	205,971	3,211,849	—	3,618,810	—	7,036,630
Bond premium	—	18,664	182,145	203,606	—	404,415
Capitalized leases	—	14,977	—	—	—	14,977
Issuance of refunding debt	—	—	2,000,335	1,780,995	—	3,781,330
Transfers to Capital Projects Fund	—	—	—	(3,147,139)	—	(3,147,139)
Transfers from (to) General Debt Service Fund	(2,955,798)	—	—	6,096	—	(2,949,702)
Transfers from (to) Nonmajor Debt Service Funds	(829,794)	—	(6,096)	(76,355)	190,646	(721,599)
Payments to refunded bond escrow holder	—	—	(2,172,225)	(1,926,852)	—	(4,099,077)
Total other financing sources (uses)	<u>(3,579,621)</u>	<u>6,392,629</u>	<u>2,959,957</u>	<u>1,174,664</u>	<u>190,646</u>	<u>7,138,275</u>
Net change in fund balances	5,142	(1,037,780)	(449,632)	(99,489)	—	(1,581,759)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	437,008	(2,106,564)	3,375,830	3,350,905	—	5,057,179
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 442,150</u>	<u>\$ (3,144,344)</u>	<u>\$ 2,926,198</u>	<u>\$ 3,251,416</u>	<u>\$ —</u>	<u>\$ 3,475,420</u>

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, 2011
(in thousands)

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

Net change in fund balances—governmental funds		\$ 540,056
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization in the current period.</p>		
Purchases of capital assets	\$ 5,452,333	
Depreciation/amortization expense	<u>(2,333,170)</u>	3,119,163
<p>The net effect of various miscellaneous transactions involving capital assets and other (<i>i.e.</i> sales, trade-ins, and donations) is to decrease net assets</p>		
		(144,071)
<p>The issuance of long-term debt (<i>i.e.</i>, 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.</p>		
Proceeds from sales of bonds	(9,219,905)	
Principal payments of bonds	5,050,055	
Other	<u>26,953</u>	(4,142,897)
<p>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</p>		
		(533,067)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
		477,122
OPEB obligation		(8,922,121)
Pollution Remediation		<u>29,158</u>
Change in net assets—governmental activities		<u>\$ (9,576,657)</u>

See accompanying notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2010
(in thousands)

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

Net change in fund balances—governmental funds		\$ (1,581,759)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization in the current period.</p>		
Purchases of capital assets	\$ 5,783,049	
Depreciation/amortization expense	<u>(2,138,585)</u>	3,644,464
<p>The net effect of various miscellaneous transactions involving capital assets and other (<i>i.e.</i> sales, trade-ins, and donations) is to decrease net assets</p>		
		24,449
<p>The issuance of long-term debt (<i>i.e.</i>, 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.</p>		
Proceeds from sales of bonds	(10,817,960)	
Principal payments of bonds	5,886,367	
Other	<u>(78,234)</u>	(5,009,827)
<p>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</p>		
		(93,054)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
		833,853
OPEB obligation		(9,440,471)
Pollution Remediation		<u>(79,845)</u>
Change in net assets—governmental activities		<u>\$ (11,702,190)</u>

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, 2011
(in thousands)

	Budget		Actual	Better (Worse) Than Modified Budget
	Adopted	Modified		
REVENUES:				
Real estate taxes	\$16,988,083	\$17,078,571	\$17,086,484	\$ 7,913
Sales and use taxes	5,767,500	6,114,735	6,190,215	75,480
Personal income tax	8,291,000	8,130,200	8,165,972	35,772
Income taxes, other	5,391,600	6,687,070	6,705,299	18,229
Other taxes	2,473,907	2,170,251	2,201,835	31,584
Federal, State and other categorical aid	19,201,207	20,780,643	20,145,261	(635,382)
Unrestricted Federal and State aid	14,407	51,404	38,996	(12,408)
Charges for services	2,325,604	2,318,143	2,344,682	26,539
Investment income	47,800	22,225	20,786	(1,439)
Other revenues	1,799,132	2,384,538	1,907,307	(477,231)
Total revenues	<u>62,300,240</u>	<u>65,737,780</u>	<u>64,806,837</u>	<u>(930,943)</u>
EXPENDITURES:				
General government	2,019,403	2,107,537	2,006,167	101,370
Public safety and judicial	7,713,391	8,336,342	8,281,129	55,213
Education	18,589,649	18,911,938	18,862,234	49,704
City University	758,478	772,477	736,092	36,385
Social services	12,029,837	11,926,502	11,785,981	140,521
Environmental protection	2,291,842	2,366,764	2,339,955	26,809
Transportation services	1,015,976	1,224,416	1,160,122	64,294
Parks, recreation, and cultural activities	391,071	454,686	451,184	3,502
Housing	688,852	856,047	787,671	68,376
Health (including payments to HHC)	1,685,544	1,734,712	1,666,942	67,770
Libraries	144,368	296,825	295,990	835
Pensions	7,487,680	6,877,293	6,842,573	34,720
Judgments and claims	685,959	664,074	664,073	1
Fringe benefits and other benefit payments	3,878,688	3,853,833	3,846,135	7,698
Lease payments for debt service	169,487	145,336	145,336	—
Other	690,371	187,643	(82,948)	270,591
Total expenditures	<u>60,240,596</u>	<u>60,716,425</u>	<u>59,788,636</u>	<u>927,789</u>
Excess of revenues over expenditures	2,059,644	5,021,355	5,018,201	(3,154)
OTHER FINANCING SOURCES (USES):				
Principal amount of bonds issued	—	267,801	267,801	—
Transfers to Nonmajor Debt Service Funds	(1,221,206)	(1,969,698)	(1,969,698)	—
Transfer from Nonmajor Debt Service Fund	166,377	173,240	177,755	4,515
Transfers and other payments for debt service	(1,004,815)	(3,492,698)	(3,488,937)	3,761
Total other financing uses	<u>(2,059,644)</u>	<u>(5,021,355)</u>	<u>(5,013,079)</u>	<u>8,276</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES ..	<u>\$ —</u>	<u>—</u>	5,122	<u>\$ 5,122</u>
FUND BALANCE AT BEGINNING OF YEAR			442,150	
FUND BALANCE AT END OF YEAR			<u>\$ 447,272</u>	

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, 2010
(in thousands)

	Budget		Actual	Better (Worse) Than Modified Budget
	Adopted	Modified		
REVENUES:				
Real estate taxes	\$16,250,735	\$16,342,135	\$16,369,447	\$ 27,312
Sales and use taxes	4,714,000	5,570,035	5,611,398	41,363
Personal income tax	6,600,002	7,619,700	7,592,657	(27,043)
Income taxes, other	4,444,900	5,865,080	5,706,532	(158,548)
Other taxes	3,190,275	1,925,465	1,920,938	(4,527)
Federal, State, and other categorical aid	19,150,297	21,008,334	20,718,359	(289,975)
Unrestricted Federal and State aid	339,797	170,575	(17,563)	(188,138)
Charges for services	2,262,383	2,592,322	2,538,984	(53,338)
Investment income	29,640	22,010	22,159	149
Other revenues	1,888,438	2,792,863	2,007,666	(785,197)
Total revenues	<u>58,870,467</u>	<u>63,908,519</u>	<u>62,470,577</u>	<u>(1,437,942)</u>
EXPENDITURES:				
General government	2,062,442	2,116,879	2,038,518	78,361
Public safety and judicial	7,571,307	8,044,904	8,000,446	44,458
Education	18,372,287	18,473,213	18,411,207	62,006
City University	683,699	746,782	718,788	27,994
Social services	11,508,291	12,435,202	12,370,109	65,093
Environmental protection	2,258,409	2,773,650	2,667,041	106,609
Transportation services	937,612	1,273,026	1,223,867	49,159
Parks, recreation, and cultural activities	423,311	436,560	434,345	2,215
Housing	668,797	874,038	813,885	60,153
Health (including payments to HHC)	1,652,490	1,702,125	1,661,164	40,961
Libraries	58,294	211,240	210,535	705
Pensions	6,575,368	6,635,919	6,631,325	4,594
Judgments and claims	662,859	577,709	568,246	9,463
Fringe benefits and other benefit payments	3,520,621	3,736,973	3,733,084	3,889
Lease payments for debt service	89,778	55,764	53,562	2,202
Other	1,214,484	215,342	(650,308)	865,650
Total expenditures	<u>58,260,049</u>	<u>60,309,326</u>	<u>58,885,814</u>	<u>1,423,512</u>
Excess of revenues over expenditures	610,418	3,599,193	3,584,763	(14,430)
OTHER FINANCING SOURCES (USES):				
Principal amount of bonds issued	—	205,971	205,971	—
Transfers to Nonmajor Debt Service Funds	(382,955)	(954,762)	(954,762)	—
Transfer from Nonmajor Debt Service Fund	123,458	124,968	124,968	—
Transfer from General Debt Service Fund	—	11,797	11,797	—
Transfers and other payments for debt service	(350,921)	(2,987,167)	(2,967,595)	19,572
Total other financing uses	<u>(610,418)</u>	<u>(3,599,193)</u>	<u>(3,579,621)</u>	<u>19,572</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES ..	<u>\$ —</u>	<u>\$ —</u>	5,142	<u>\$ 5,142</u>
FUND BALANCE AT BEGINNING OF YEAR			437,008	
FUND BALANCE AT END OF YEAR			<u>\$ 442,150</u>	

See accompanying notes to financial statements.

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

JUNE 30, 2011
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Other Trust Funds	Agency Funds
ASSETS:			
Cash and cash equivalents	\$ 1,832,025	\$ 676	\$1,295,693
Receivables:			
Member loans	1,646,708	—	—
Investment securities sold	2,615,898	—	—
Accrued interest and dividends	444,730	—	—
Tax liens receivable (less allowance for doubtful accounts of \$209,183) ...	—	197,320	—
Other	309	—	—
Investments:			
Other short-term investments	9,207,821	—	—
Debt securities	26,468,231	—	695,872
Equity securities	59,169,862	—	—
Guaranteed investment contracts	3,851,911	—	—
Management investment contracts	41,898	—	—
Mutual funds	30,216,793	—	—
Collateral from securities lending transactions	9,814,616	—	—
Due from Pension Funds	6,234	—	—
Restricted investments	—	32,303	—
Other	139,416	1,252	—
Total assets	<u>145,456,452</u>	<u>231,551</u>	<u>1,991,565</u>
LIABILITIES:			
Accounts payable and accrued liabilities	1,047,440	8,242	725,263
Payable for investment securities purchased	8,378,740	—	—
Bonds payable, net of discounts	—	34,264	—
Accrued benefits payable	480,589	—	—
Payable to New York City Water Board	—	39,000	—
Due to VSFs	6,234	—	—
Securities lending transactions	9,841,431	—	—
Other	416	—	1,266,302
Total liabilities	<u>19,754,850</u>	<u>81,506</u>	<u>1,991,565</u>
Net Assets:			
Held in Trust for Benefit Payments	<u>\$125,701,602</u>	—	\$ —
Held in Trust for Fiduciary Net Assets		<u>\$150,045</u>	

See accompanying notes to financial statements.

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

JUNE 30, 2010
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Other Trust Funds	Agency Funds
ASSETS:			
Cash and cash equivalents	\$ 2,128,477	\$ 897	\$ 934,482
Receivables:			
Member loans	1,589,513	—	—
Investment securities sold	3,523,224	—	—
Accrued interest and dividends	475,917	—	—
Tax liens receivable (less allowance for doubtful accounts of \$181,579) ...	—	222,532	—
Other	256	—	—
Investments:			
Other short-term investments	5,601,160	—	—
Debt securities	24,815,399	—	709,285
Equity securities	49,149,241	—	—
Guaranteed investment contracts	3,439,965	—	—
Management investment contracts	47,658	—	—
Mutual funds	22,671,967	—	—
Collateral from securities lending transactions	9,097,294	—	—
Due from Pension Funds	4,156	—	—
Restricted investments	—	26,610	—
Other	302,400	1,762	—
Total assets	122,846,627	251,801	1,643,767
LIABILITIES:			
Accounts payable and accrued liabilities	889,813	8,052	671,060
Payable for investment securities purchased	8,715,845	—	—
Bonds payable, net of discounts	—	42,048	—
Accrued benefits payable	475,789	—	—
Payable to New York City Water Board	—	40,733	—
Due to VSFs	4,156	—	—
Securities lending transactions	9,143,927	—	—
Other	380	—	972,707
Total liabilities	19,229,910	90,833	1,643,767
Net Assets:			
Held in Trust for Benefit Payments	\$103,616,717	—	\$ —
Held in Trust for Fiduciary Net Assets		\$160,968	

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, 2011
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Other Trust Funds
	<u> </u>	<u> </u>
ADDITIONS:		
Contributions:		
Member contributions	\$ 1,656,318	\$ —
Employer contributions	9,584,162	—
Other employer contributions	56,138	—
Total contributions	<u>11,296,618</u>	<u>—</u>
Investment income:		
Interest income	1,661,023	—
Dividend income	1,728,026	—
Net appreciation in fair value of investments	21,584,352	—
Other	—	1
Investment expenses	(415,576)	—
Investment income, net	<u>24,557,825</u>	<u>1</u>
Securities lending transactions:		
Securities lending income	76,075	—
Securities lending fees	(11,140)	—
Unrealized income in fair value of securities lending collateral	813	—
Net securities lending income	<u>65,748</u>	<u>—</u>
Tax liens receivables	—	89,604
Payments from Pension Funds	12,357	—
Other	146,061	—
Total additions	<u>36,078,609</u>	<u>89,605</u>
DEDUCTIONS:		
Benefit payments and withdrawals	13,853,009	—
Bond interest expense	—	1,753
Distributions to The City of New York	—	48,939
Additional liability due to New York City Water Board	—	9,509
Payments to VSFs	12,357	—
Increase in allowance for doubtful accounts	—	27,603
Administrative expenses	123,942	6,859
Other	4,416	5,865
Total deductions	<u>13,993,724</u>	<u>100,528</u>
Increase (decrease) in plan net assets	22,084,885	(10,923)
NET ASSETS:		
Held in Trust for Benefit Payments:		
Beginning of Year	<u>103,616,717</u>	—
End of Year	<u>\$125,701,602</u>	—
Held in Trust for Fiduciary Net Assets:		
Beginning of Year		<u>160,968</u>
End of Year		<u>\$150,045</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Other Trust Funds</u>
ADDITIONS:		
Contributions:		
Member contributions	\$ 1,600,533	\$ —
Employer contributions	9,264,129	—
Other employer contributions	82,214	—
Total contributions	<u>10,946,876</u>	<u>—</u>
Investment income:		
Interest income	1,800,325	—
Dividend income	1,387,094	—
Net appreciation in fair value of investments	11,264,139	—
Other	—	4
Investment expenses	(442,959)	—
Investment income, net	<u>14,008,599</u>	<u>4</u>
Securities lending transactions:		
Securities lending income	70,488	—
Securities lending fees	(11,972)	—
Unrealized income in fair value of securities lending collateral	45,850	—
Net securities lending income	<u>104,366</u>	<u>—</u>
Tax liens receivables	—	137,235
Payments from Pension Funds	8,436	—
Other	81,080	—
Total additions	<u>25,149,357</u>	<u>137,239</u>
DEDUCTIONS:		
Benefit payments and withdrawals	12,889,122	—
Bond interest expense	—	3,675
Distributions to The City of New York	—	42,662
Additional liability due to New York City Water Board	—	19,643
Payments to VSFs	8,436	—
Increase in allowance for doubtful accounts	—	44,785
Administrative expenses	129,160	5,571
Other	5,383	10,101
Total deductions	<u>13,032,101</u>	<u>126,437</u>
Increase in plan net assets	12,117,256	10,802
NET ASSETS:		
Held in Trust for Benefit Payments:		
Beginning of Year	91,499,461	—
End of Year	<u>\$103,616,717</u>	—
Held in Trust for Fiduciary Net Assets:		
Beginning of Year		<u>150,166</u>
End of Year		<u>\$160,968</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2011
(in thousands)

		Housing Authority December 31, 2010	Housing Development Corporation October 31, 2010	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
ASSETS:							
Cash and cash equivalents	\$ 14,875	\$ 1,115,593	\$ 466,774	\$ 901,241	\$ 173,215	\$ 115,901	\$ 2,787,599
Investments, including accrued interest	24	952	66,075	113,739	29,493	435,595	645,878
Lease receivables	—	—	—	—	—	1,705,667	1,705,667
Other receivables	614,322	156,813	930,467	1,590,530	196,435	19,684	3,508,251
Mortgage loans and interest receivable, net ..	—	13	7,332,572	—	42,231	—	7,374,816
Inventories	—	10,943	—	29,765	—	—	40,708
Due from Primary Government	36,288	—	—	—	—	—	36,288
Restricted cash and investments	1,585,512	281,925	2,446,553	423,133	92,975	820,326	5,650,424
Other	215,139	102,144	55,138	11,379	144,360	79,936	608,096
Capital assets:							
Land and construction work-in-progress ..	7,804,563	2,005,027	—	555,858	108,443	22,829	10,496,720
Property, plant and equipment	26,316,560	10,457,346	4,748	6,295,065	8,550	361,119	43,443,388
Accumulated depreciation	(9,132,287)	(6,897,395)	(3,385)	(3,975,957)	(4,247)	(87,431)	(20,100,702)
Deferred outflows of resources	53,216	—	—	—	—	6,660	59,876
Total assets	<u>27,508,212</u>	<u>7,233,361</u>	<u>11,298,942</u>	<u>5,944,753</u>	<u>791,455</u>	<u>3,480,286</u>	<u>56,257,009</u>
LIABILITIES:							
Accounts payable and accrued liabilities ..	56,410	297,229	452,945	1,161,140	163,763	638,823	2,770,310
Accrued interest payable	50,260	7,348	62,072	16,643	—	—	136,323
Deferred revenues	61,517	17,690	162,329	—	14,340	33,479	289,355
Due to Primary Government	682,345	—	854,517	207,374	126,251	—	1,870,487
Other	64,367	38,155	—	—	5,127	77,840	185,489
Derivative instruments—interest rate swaps ..	37,474	—	—	—	—	6,660	44,134
Noncurrent Liabilities:							
Due within one year	830,452	158,333	481,566	151,396	—	20,536	1,642,283
Due in more than one year	26,078,275	3,274,541	7,992,648	5,258,080	170,608	2,331,760	45,105,912
Total liabilities	<u>27,861,100</u>	<u>3,793,296</u>	<u>10,006,077</u>	<u>6,794,633</u>	<u>480,089</u>	<u>3,109,098</u>	<u>52,044,293</u>
NET ASSETS:							
Invested in capital assets, net of related debt .	(215,322)	5,236,899	—	1,975,015	4,302	237,018	7,237,912
Restricted for:							
Capital projects	—	—	526,404	156,332	39,618	25,625	65,243
Debt service	573,461	—	—	—	—	—	1,256,197
Loans/security deposits	—	—	—	—	45,518	16,925	62,443
Statutory reserve	—	—	—	60,448	—	—	60,448
Donor restrictions	—	—	—	9,647	—	—	9,647
Operations	199,636	14,130	43,733	—	—	—	257,499
Unrestricted (deficit)	(910,663)	(1,810,964)	722,728	(3,051,322)	221,928	91,620	(4,736,673)
Total net assets (deficit)	<u>\$ (352,888)</u>	<u>\$ 3,440,065</u>	<u>\$ 1,292,865</u>	<u>\$ (849,880)</u>	<u>\$ 311,366</u>	<u>\$ 371,188</u>	<u>\$ 4,212,716</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2010
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2009	Housing Development Corporation October 31, 2009	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
ASSETS:							
Cash and cash equivalents	\$ 6,142	\$ 1,114,868	\$ 433,420	\$ 543,114	\$ 89,132	\$ 66,291	\$ 2,252,967
Investments, including accrued interest	1,466	1,460	105,434	112,922	31,768	921,447	1,174,497
Lease receivables	—	—	—	—	—	1,720,396	1,720,396
Other receivables	542,472	138,398	937,945	1,879,069	167,335	216,770	3,881,989
Mortgage loans and interest receivable, net ..	—	28	6,615,836	—	42,379	—	6,658,243
Inventories	—	12,965	—	30,423	—	—	43,388
Due from Primary Government	88,241	—	—	—	—	—	88,241
Restricted cash and investments	1,494,000	47,764	1,935,653	234,122	109,522	134,690	3,955,751
Other	204,437	86,738	54,795	14,744	46,940	83,258	490,912
Capital assets:							
Land and construction work-in-progress ..	6,112,362	1,696,732	—	502,310	108,443	—	8,419,847
Property, plant and equipment	25,460,641	10,218,121	4,676	6,072,145	7,423	286,783	42,049,789
Accumulated depreciation	(8,556,534)	(6,577,819)	(2,994)	(3,763,735)	(3,465)	(76,147)	(18,980,694)
Deferred outflows of resources	71,930	—	—	—	—	19,836	91,766
Total assets	<u>25,425,157</u>	<u>6,739,255</u>	<u>10,084,765</u>	<u>5,625,114</u>	<u>599,477</u>	<u>3,373,324</u>	<u>51,847,092</u>
LIABILITIES:							
Accounts payable and accrued liabilities ..	56,516	303,964	333,115	1,041,741	129,972	3,120	1,868,428
Accrued interest payable	45,081	6,611	54,142	14,796	—	—	120,630
Deferred revenues	57,329	117,538	152,080	10,373	10,373	19,483	356,803
Due to Primary Government	967,943	—	862,515	161,857	113,800	—	2,106,115
Other	64,710	34,118	—	191,500	6,689	60,910	357,927
Derivative instruments – interest rate swaps .	55,030	—	—	—	—	19,836	74,866
Noncurrent Liabilities:							
Due within one year	964,562	141,319	472,275	154,607	—	28,993	1,761,756
Due in more than one year	23,494,503	2,746,489	6,983,210	4,589,987	119,105	2,994,811	40,928,105
Total liabilities	<u>25,705,674</u>	<u>3,350,039</u>	<u>8,857,337</u>	<u>6,154,488</u>	<u>379,939</u>	<u>3,127,153</u>	<u>47,574,630</u>
NET ASSETS:							
Invested in capital assets, net of related debt .	920,728	5,060,566	—	1,871,925	3,958	181,636	8,038,813
Restricted for:							
Capital projects	—	—	—	—	61,301	—	61,301
Debt service	239,192	—	523,167	146,430	—	—	908,789
Loans/security deposits	—	—	—	—	45,545	3,070	48,615
Statutory reserve	—	—	—	52,835	—	—	52,835
Donor restrictions	—	—	—	10,693	—	—	10,693
Operations	191,772	14,289	40,924	—	—	—	246,985
Unrestricted (deficit)	<u>(1,632,209)</u>	<u>(1,685,639)</u>	<u>663,337</u>	<u>(2,611,257)</u>	<u>108,734</u>	<u>61,465</u>	<u>(5,095,569)</u>
Total net assets (deficit)	<u>\$ (280,517)</u>	<u>\$ 3,389,216</u>	<u>\$ 1,227,428</u>	<u>\$ (529,374)</u>	<u>\$ 219,538</u>	<u>\$ 246,171</u>	<u>\$ 4,272,462</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2010	Housing Development Corporation October 31, 2010	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
EXPENSES	\$ 3,359,976	\$3,595,746	\$ 182,215	\$ 7,418,490	\$ 780,716	\$ 178,447	\$15,515,590
PROGRAM REVENUES:							
Charges for services	3,068,306	870,977	208,859	6,594,750	321,946	58,134	11,122,972
Operating grants and contributions	—	2,163,495	—	212,180	29,040	22,367	2,427,082
Capital grants, contributions and other	—	561,992	—	200,270	516,425	105,015	1,383,702
Total program revenues	3,068,306	3,596,464	208,859	7,007,200	867,411	185,516	14,933,756
Net (expenses) program revenues	(291,670)	718	26,644	(411,290)	86,695	7,069	(581,834)
GENERAL REVENUES:							
Investment income	38,313	8,256	32,413	14,023	915	6,450	100,370
Unrestricted Federal and State aid	—	—	—	—	2,569	—	2,569
Other	180,986	41,875	6,380	76,761	1,649	111,498	419,149
General revenues, net	219,299	50,131	38,793	90,784	5,133	117,948	522,088
Change in net assets	(72,371)	50,849	65,437	(320,506)	91,828	125,017	(59,746)
Net assets (deficit)—beginning	(280,517)	3,389,216	1,227,428	(529,374)	219,538	246,171	4,272,462
Net assets (deficit)—ending	\$ (352,888)	\$3,440,065	\$1,292,865	\$ (849,880)	\$ 311,366	\$ 371,188	\$ 4,212,716

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010
(in thousands)

		Housing Development Corporation October 31, 2009	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
EXPENSES	\$ 3,503,650	\$ 177,786	\$ 7,188,343	\$ 808,373	\$ 199,218	\$ 15,126,326
PROGRAM REVENUES:						
Charges for services	2,758,073	201,529	5,886,042	206,721	37,835	9,920,348
Operating grants and contributions	—	—	219,404	38,157	—	2,083,551
Capital grants, contributions and other	—	—	262,488	575,126	27,416	1,308,567
Total program revenues	2,758,073	201,529	6,367,934	820,004	65,251	13,312,466
Net (expenses) program revenues	(745,577)	23,743	(820,409)	11,631	(133,967)	(1,813,860)
GENERAL REVENUES:						
Investment income	65,760	39,090	5,545	963	48,858	171,882
Unrestricted Federal and State aid	—	—	—	7,087	—	7,087
Other	128,110	2,972	335,225	1,507	107,080	594,058
General revenues, net	193,870	42,062	340,770	9,557	155,938	773,027
Change in net assets	(551,707)	65,805	(479,639)	21,188	21,971	(1,040,833)
Net assets (deficit)—beginning	271,190	1,161,623	(49,735)	198,350	224,200	5,313,295
Net assets (deficit)—ending	\$ (280,517)	\$ 1,227,428	\$ (529,374)	\$ 219,538	\$ 246,171	\$ 4,272,462

See accompanying notes to financial statements.

THE CITY OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010

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 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:

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 and to pay TFA’s administrative expenditures.

In addition to State legislative authorization to issue Future Tax Secured Bonds for capital purposes for which TFA had issued its statutory limit of \$13.5 billion as of June 30, 2007, in July 2009, authorizing legislation permits TFA to issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, does not exceed the debt limit of the City. As of July 1, 2011, the City’s and TFA’s combined debt-incurring capacity was approximately \$24.06 billion. TFA is also authorized to have outstanding Recovery Bonds of \$2.5 billion to fund the City’s costs related to and arising from events on September 11, 2001 at the World Trade Center. Further, legislation enacted in April 2006 enables TFA to have outstanding up to \$9.4 billion of Building Aid Revenue Bonds (BARBs), notes, or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system and TFA’s administrative expenditures. As of June 30, 2011, \$4.73 billion of BARBs have been issued and are outstanding.

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 and overhead 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 TSRs after payment of debt service, operating expenses, and certain other costs as set forth in the original Indenture.

Under the Amended and Restated Indenture dated January 1, 2006 (Indenture), the Residual Certificate represents the entitlement to receive all amounts in excess of specified percentages of TSRs and other revenues (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 Indenture provides that a specified percentage of Collections are pledged, and required to be applied to the payment of debt service 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 funded by appropriations made by the City which are guided by five-year capital plans, developed by the Department of Education (DOE) of the City. The City's appropriation for the five year capital plan for the fiscal years 2010 through 2014 is \$10.9 billion.

SCA carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter.

As SCA represents a pass-through entity, in existence for the sole purpose of capital projects, all expenditures are capitalized into construction-in-progress except for pollution remediation expenditures. Upon completion of construction-in-progress projects, the assets are transferred to DOE.

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 \$499 million of bonds issued in December 2004 was 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 and overhead based on its allocated share of personnel and overhead 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 (\$2.55 billion of bonds was issued in November 2004) to finance the payment of principal, interest, and redemption premium (if any), on all outstanding bonds of Municipal Assistance Corporation for The City of New York (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 and overhead based on its allocated share of personnel and overhead 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 thirteen 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 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 and overhead based on its allocated share of personnel and overhead 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. As of July 1, 2011, HHC dissolved the HHC Foundation of New York City, Inc. while continuing to coordinate and conduct activities consistent with the charitable purposes and mission of the Foundation.

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 Housing Development Corporation (HDC). HDC, a corporate governmental agency constituting a public benefit corporation 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. To accomplish its objectives, HDC is empowered to finance housing through new construction or rehabilitation and to provide permanent financing for multi-family residential housing. HDC finances significant amounts of its activities through issuance of 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.

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 losses result from the essential services that HA provides, and such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, HA receives subsidies from: (a) the Federal government, primarily the U.S. Department of Housing and Urban Development, in the form of annual grants for operating assistance, debt service payments, contributions for capital, and reimbursement of expenditures incurred for certain Federal housing programs; (b) New York State in the form of debt service and capital payments; and (c) the City in the form of debt service and capital 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 regularly 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). The participating organizations, in addition to satisfying legal requirements under IDA's governing laws, 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 tax that are less than full taxes; and exemption from City and State sales and use taxes as applied to construction materials, 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 was formed in 1991 as a result of the merger of two not-for-profit corporations that performed economic development services for the City. EDC is a local development corporation organized 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 component unit, 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.

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 consisted 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 for each business displaced. The funds were released to the displaced firm once eligible relocation had taken place.

Conversion contributions were deposited to the BRAC fund in the event that a displaced firm did not relocate within the City. In addition, if the space to be converted was vacant for less than five years, the conversion contribution was made directly 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 paid as reimbursement of moving costs after a firm completes its relocation. This program will continue to operate only with the current accumulated net assets now available.

In fiscal year 2007, BRAC had received \$1.5 million in contributions from EDC to administer the Greenpoint Relocation Program. This program is intended to help defray relocation costs for those manufacturing and industrial firms that may need to relocate due to the rezoning of the Greenpoint-Williamsburg area of Brooklyn by providing for maximum grants of \$50,000. As of June 30, 2011, the BRAC fund is valued at \$.07 million, and grants for both Industrial Relocation Grant and Greenpoint Relocation Program will be available until funds are exhausted.

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. That lease was amended and restated in 1996. 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. The physical operation and capital improvements of NYW are performed by the New York City Department of Environmental Protection (DEP) subject to contractual agreements with the Water Board and Water Authority.

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 with \$999.9 million in funds by the Federal Emergency Management Agency (FEMA) and used this funding to support issuance of a liability 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 Recovery Zone Facility Bonds, which were allocated to the City to spur construction projects that have been unable to get traditional financing due to the current capital market. The ability to issue tax-exempt Recovery Zone Facility Bonds expired December 31, 2010. Until January 2008, CRC issued tax-exempt bonds for not-for-profit organizations' capital projects through the Loan Enhanced Assistance Program (LEAP). LEAP's goal was 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. However, LEAP is not currently available due to the continued suspension of a portion of the State of New York law governing industrial development activities.

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.

Brooklyn Bridge Park Corporation (BBPC). BBPC is a not-for-profit corporation incorporated in the State of New York in 2010. BBPC was formed for the purposes of lessening the burdens of government by further developing and enhancing the economic vitality of the Brooklyn waterfront through the development, operation and maintenance of a renovated waterfront area, including a public park, which serves the people of the New York City region. BBPC is responsible for the planning, construction,

maintenance and operation of Brooklyn Bridge Park, an 85 acre sustainable park stretching 1.3 miles along Brooklyn's East River shoreline. The majority of BBPC's funding will come from a limited number of revenue-generating development sites while a small fraction of the required operations and maintenance funds will be collected from concessions located throughout the park. BBPC is governed by a 17-member Board of Directors appointed by the Mayor, the Governor of New York State and local elected officials.

Governors Island Corporation, doing business as **The Trust for Governors Island (TGI)**. TGI is a not-for-profit corporation incorporated in the State of New York in 2010. TGI was formed for the purposes of lessening the burdens of government by providing the planning, preservation, redevelopment and ongoing operations and maintenance of approximately 150 acres of Governors Island plus surrounding lands underwater, and is located in the Borough of Manhattan. TGI is responsible to insure that Governors Island is a resource for the people of the City today and in the future by expanding visitation and unique public programs, investment in infrastructure and stabilization by planning the construction of an ambitious park and public space area. TGI receives funding from the City and State of New York. TGI is governed by a 13-member Board of Directors appointed by the Mayor, the Governor of the State of New York and local elected officials.

New York City Energy Efficiency Corporation (EEC). EEC is a not-for-profit corporation incorporated in the State of New York in 2010 whose purpose is to further the City's greenhouse gas reduction plans by facilitating energy efficient investments across all building types in the five boroughs. EEC will develop and facilitate access to energy efficient financing products by offering loans and credit enhancement facilities. It will also seek to generate demand for retrofits through marketing and outreach initiatives, as well as coordinating with workforce development entities related to such energy efficient retrofit work. In addition, EEC will provide education, marketing and outreach services to communicate the value of energy efficient improvements, and to encourage greater investment in energy efficiency measures in buildings located in the City. EEC's activities will be funded through two Federal grants awarded to the City under the Energy Efficient and Conservation Block Grant provisions of the American Recovery and Reinvestment Act of 2009. NYCEEC will also generate income from application fees and financing fees relating to its financing products as well as from interest on loans and credit enhancement facilities. EEC is governed by a Board of Directors and its membership includes public officials and private business leaders. Each Director was appointed by the Mayor.

Note: These component units publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 200 South, 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, which include allocated indirect 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. The fund balance in the General Fund is reported as nonspendable.

Capital Projects Fund. This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. Resources of the 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 is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. 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.

Nonmajor Governmental Funds. The City reports the following blended component units within the nonmajor governmental funds: **TFA, TSASC, ECF, SCA, FSC, STAR, HYDC, and HYIC.** If a component unit is blended, the governmental fund types of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. Although the primary government's General Fund is usually the main operating fund of the reporting entity the General Fund of a blended component should be reported as a Special Revenue Fund. Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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)
- Teachers' Retirement System of the City of New York 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)
- New York City Transit Police Officers' Variable Supplements Fund (TPOVSF)
- New York City Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)
- New York City Housing Police Officers' Variable Supplements Fund (HPOVSF)
- New York City Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- New York City 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 Certain Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(a) Plan)
- New York City Employee Individual Retirement Account (NYCE IRA/408(q) IRA)
- The New York City Other Postemployment Benefits Plan (PLAN)

The **Other Trust Funds** account for the operations of:

- New York City Tax Lien Trust (NYCTLT 2010-A)
- New York City Tax Lien Trust (NYCTLT 2009-A)
- New York City Tax Lien Trust (NYCTLT 2008-A)
- New York City Tax Lien Trust (NYCTLT 1998-2)

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 200 South, 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 major component units consist of **HHC, HDC, HA, EDC** and **NYW**. The discretely presented nonmajor components units consist of **IDA, BRAC, BNYDC, WTC Captive, CRC, BBPC, TGI** and **EEC**. These activities are accounted for in a manner similar to private business enterprises, in which the focus is on the periodic determination of revenues, expenses, and net income.

New Accounting Standards Adopted

In fiscal year 2011, the City adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*
- Statement No. 59 *Financial Instruments Omnibus*

Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are required to classify and report amounts in the appropriate fund balance classifications by applying accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the Notes to Financial Statements is required. Governments are also required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. Statement No. 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the Notes to Financial Statements. The objective of Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

Fund balance reclassifications made to conform to the provisions of this Statement No. 54 have been applied retroactively by restating fund balances for fiscal year 2010.

The financial reporting impact resulting from the implementation of Statement No. 54 is the restatement of the *Balance Sheet* to include classifications, in the Fund Balance section, based on the extent to which the City is bound to observe constraints imposed upon the resources in the governmental funds. Fund balance has been reported in Nonspendable and Spendable, which includes Restricted, Committed, Assigned or Unassigned Fund Balance, classifications.

Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

Statement No. 59 includes the following guidance:

- Emphasizes the applicability of U.S. Securities and Exchange Commission requirements to certain external investment pools—known as 2a7-like pools—to provide users more consistent information on qualifying pools.
- Addresses the applicability of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting.

- Applies the reporting provisions for interest-earning investment contracts of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and OPEB plans.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 59.

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 and Other 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.

The average balances maintained during fiscal years 2011 and 2010 were approximately \$315 million and \$2,733 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 and Other 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 Fiduciary Funds securities lending activities in fiscal years 2011 and 2010 is included in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2011 and 2010, estimated at \$297 million and \$280 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 (including software), water distribution and sewage collection system, and other elements of the City's infrastructure having an initial minimum useful life of five years, having a cost of more than \$35 thousand, 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, piers, bulkheads 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 generally 25 to 50 years for new construction, 10 to 25 for betterments and/or reconstruction, 5 to 15 years for equipment (including software) and 15 to 40 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 \$322 million and \$318.2 million for fiscal years 2011 and 2010, respectively. The allowance is composed of the balance of refinanced first lien mortgages one or more years in arrears when payments to the City are expected to be completed between the years 2012 and 2021.

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. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2011 financial statements are as follows:

Item	Changes in Fair Value from June 30, 2010		Fair Value at June 30, 2011		Notional	
	Classification	Amount	Classification	Amount		
(in thousands)						
Governmental activities						
Cash flow hedges:						
A	Pay-fixed interest rate swap	Deferred Outflow	\$ 2,699	Debt	\$(23,351)	\$200,000
B	Pay-fixed interest rate swap	Deferred Outflow	899	Debt	(7,784)	66,667
C	Pay-fixed interest rate swap	Deferred Outflow	899	Debt	(7,784)	66,667
D	Pay-fixed interest rate swap	Deferred Outflow	899	Debt	(7,784)	66,667
H	Pay-fixed interest rate swap	Deferred Outflow	11,814	Debt	(32,456)	350,000
I	Pay-variable interest rate swap	Deferred Inflow	1,540	Debt	14,165	500,000
J	Pay-fixed interest rate swap	Deferred Outflow	2,539	Debt	(336)	50,000
L	Pay-fixed interest rate swap	Deferred Inflow	2,325	Debt	(368)	44,145
Investment derivative instruments:						
E	Pay-fixed interest rate swap	Investment Revenue	2,853	Investment	(15,422)	134,300
F	Pay-fixed interest rate swap	Investment Revenue	1,044	Investment	(1,250)	32,330
G	Basis Swap	Investment Revenue	10,245	Investment	(13,036)	567,555
K	Basis Swap	Investment Revenue	14,267	Investment	(33,379)	500,000

On January 3, 2011 the 2003 G-2 bonds associated with derivative instrument F were redeemed. As a result, the City determined that as of June 30, 2011 derivative instrument F listed as an investment derivative instrument under governmental activities no longer met the criteria for effectiveness. Accordingly, the increase in fair value of the swap from June 30, 2010 to June 30, 2011 of \$1.044 million is reported within the investment revenue classification for the year ended June 30, 2011.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

Hedging Derivative Instruments

The following table displays the objective and terms of the City's hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty. Regarding derivative instruments where the counterparty is unrated, the rating provided is of the counterparty's guarantor.

Item	Type	Objective	Notional Amount (in thousands)	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
A	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D, and E bonds	\$200,000	11/13/2002	8/1/2020	Pay 3.269%; receive 62.8% of USD-LIBOR-BBA	Aa1/AA-
B	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D, and E bonds	66,667	11/13/2002	8/1/2020	Pay 3.269%; receive 62.8% of USD-LIBOR-BBA	A2/A*
C	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D, and E bonds	66,667	11/13/2002	8/1/2020	Pay 3.269%; receive 62.8% of USD-LIBOR-BBA	A2/A*
D	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D, and E bonds	66,667	11/13/2002	8/1/2020	Pay 3.269%; receive 62.8% of USD-LIBOR-BBA	Aa3/A+
H	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series A and B bonds	350,000	7/14/2003	8/1/2031	Pay 2.964%; receive 61.85% of USD-LIBOR-BBA	Aa2/AA
I	Total Return Swap	Obtain Short-Term Variable Rate Funding in SIFMA Market	500,000	12/18/2003	12/15/2011	Pay SIFMA Index +.35%; receive adjusted fixed rates which are same as payments on corresponding bonds	A3/A*
J	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2005 Series A and B bonds	50,000	7/29/2004	8/1/2014	Pay 4.01%/4.12%; receive CPI +.80% for 2013 maturity/CPI +.90% for 2014 maturity	A2/A*
L	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2005 Series J, K, and L bonds	44,145	3/3/2005	8/1/2017	Pay 4.55%/4.63%/4.71%; receive CPI+1.50% for 2015 maturity; CPI +1.55% for 2016 maturity; CPI plus 1.60% for 2017 maturity	Aa1/AA-

* Counterparty is unrated. Ratings are of counterparty's guarantor.
LIBOR: London Interbank Offered Rate Index
SIFMA: Securities Industry and Financial Markets Association Index

Risks

Credit risk: The City is exposed to credit risk on hedging derivative instruments. To minimize its exposure to loss related to credit risk, it is the City's policy to require counterparty collateral posting provisions in its hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments (net of the effect of applicable threshold requirements and netting arrangements) should the counterparty's credit rating fall below the following:

Each of the counterparties with respect to derivative instruments B and D (or its respective guarantor) is required to post collateral if its credit rating goes below A3/A-. The counterparty with respect to derivative instruments C and J (or its respective guarantor) is required to post collateral if all of its credit ratings go below the double-A category and will also post collateral if it has at least one rating below A3 or A-. The counterparty with respect to derivative instruments A and L is required to post collateral if it has at least one rating below the double-A category. The counterparty with respect to derivative instrument H is required to post collateral if its credit ratings goes below A2/A. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. Swap I does not require the counterparty to post collateral. The City has never been required to access collateral.

It is the City's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The aggregate fair value of hedging derivative instruments requiring collateralization at June 30, 2011 was \$(65.698) million. Since a negative aggregate fair value means the City would have owed payments to the counterparties, the City had no aggregate counterparty credit exposure as of that date.

Interest rate risk: The City is exposed to interest rate risk on its swaps. On its pay-variable, received-fixed total return swap, as the SIFMA Index increases, the City's net payment on the swap increases. Alternatively, on its pay-fixed, receive-variable interest rate swaps, as LIBOR or the Consumer Price Index decreases, the City's net payment on the swaps increases.

Basis risk: The City is exposed to basis risk on its pay-fixed interest rate swaps because the variable-rate payments received by the City on these hedging derivative instruments are based on a rate or index other than interest rates the City pays on its hedged variable-rate debt, which is remarketed either daily or weekly. Under the terms of its synthetic fixed rate swap transactions, the City pays a variable rate on its bonds based on SIFMA but receives a variable rate on the swaps based on a percentage of LIBOR.

Tax risk: The City is at 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 and the total return swap.

Termination risk: The City or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The City is at 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). Derivative instrument I (the total return swap) has additional termination events in addition to those just described, including: the counterparty may terminate the swap on any such 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 subject to a floor by an amount equal to the movement of the AAA Municipal Market Data Index on a weekly basis since its previous reset. If at the time of termination, a hedging derivative instrument is in a liability position, the City would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements, if applicable.

Counterparty risk: The City is at 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.

Rollover risk: The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. Derivative instrument I exposes the City to rollover risk because the interest rate swap terminates prior to both the redemption date and the maturity date of the associated bonds.

Contingencies

All of the City's derivative instruments, except for derivative instrument I (the total return swap), include provisions that require the City to post collateral in the event its credit rating falls below Baa1 (Moody's) or BBB+ (Standard & Poor's) for derivative instruments A, B, C, D, E, F, G, J, K, and L; or below Baa3 (Moody's) or BBB- (Standard & Poor's) for derivative instrument H. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified Agency securities in the amount equal to (in the form of cash) or greater than (in the form of securities) the fair value of derivative instruments in liability positions net of the effect of applicable netting arrangements and applicable thresholds. If the City does not post collateral, the derivative instrument may be terminated by the counterparty. At June 30, 2011, the aggregate fair value of all derivative instruments with these collateral posting provisions is \$(128.8) million. If the collateral posting requirements were triggered at June 30, 2011, based on ratings of Baa3 or BBB-, the City would be required to post \$104.60 million in collateral to its counterparties based on posting cash. The collateral requirements would be \$143.1 million for ratings below Baa3 or BBB- based on posting securities. The City's credit rating as of June 30, 2011 was Aa2 (Moody's) and AA (Standard & Poor's); therefore, no collateral has been posted as of that date.

Swap Collateral Requirements upon a Rating Downgrade of the City⁽¹⁾

Counterparty/Swap	Fair Value ⁽²⁾ as of June 30, 2011	Collateral Threshold at Baa2/BBB to Baa3/BBB- ⁽³⁾	Collateral Amount ⁽⁴⁾ (in thousands)	Collateral Threshold below Baa3/BBB-	Collateral Amount ⁽⁵⁾
Citigroup Financial Products Inc	\$ 14,165	N/A	\$ N/A	N/A	\$ N/A
J.P. Morgan Chase Bank N.A.	(57,098)	3,000	54,100	—	57,100
Merrill Lynch Capital Services Inc	(7,784)	3,000	10,784	—	7,784
Morgan Stanley Capital Services Inc	(21,156)	3,000	18,200	—	21,200
UBS AG	(24,456)	3,000	21,500	—	24,500
Wells Fargo Bank, National Association	(32,456)	Infinity	—	—	32,500
Total Net Fair Value	<u>\$(128,785)</u>		<u>\$104,584</u>		<u>\$143,084</u>

(1) All of the City's swap counterparties (except Citigroup Financial Products Inc.) have agreements that collateral is to be posted by the City if the City were to owe a termination payment and its ratings fall below a certain level. The collateral amount is the counterparty's exposure, based on the market value of the swap, less a "threshold" amount. The threshold amount varies from infinity for higher rating levels to zero for lower rating levels. The collateral amount cannot be less than zero and a threshold amount of infinity would always result in no collateral being required regardless of the market value.

(2) A negative value means the City would owe a termination payment.

(3) A downgrade of the City to either Baa2 (Moody's) or BBB (S&P) is the first rating level at which the City would be required to post collateral.

(4) The swap counterparties, other than Merrill Lynch Capital Services Inc, round the collateral amount up or down to the nearest \$100,000. Merrill Lynch does not round the amount.

(5) Represents the total amount of required collateral for ratings below Baa3/BBB-. The amount of collateral required to be posted would be the amount shown below less any collateral previously posted.

N/A: Not Applicable.

14. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2011 were due July 1, 2010 and January 1, 2011 except that payments by owners of real property assessed at \$250,000 or less and cooperatives whose individual units on average are valued at \$250,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2011 taxes was June 29, 2010. 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% discount for the prepayment of real estate taxes for fiscal year 2011. For fiscal year 2012, a 1% discount on the full amount of a taxpayer's yearly property tax is being offered if the entire amount shown on their bill is paid by the July due date (or grace period due date), a 0.66% discount on the last three quarters if the taxpayer waits until the October due date to pay the entire amount due, or a 0.33% discount on the last six months of taxes when the taxpayer pays the balance by the January due date. Payment of real estate taxes before July 15, 2011, on properties with an assessed value of \$250,000 or less and before July 1, 2011, on properties with an assessed value over \$250,000 received the discount. Collections of these real estate taxes received on or before June 30, 2011 and 2010 were about \$4.6 billion each year. These amounts were recorded as deferred revenue.

The City sold approximately \$17 million of real property tax liens, fully attributable to fiscal year 2011, at various dates in fiscal year 2011. 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 \$3.9 million worth of liens sold in fiscal year 2011 will require refunding. The estimated refund accrual amount of \$4 million, including the surcharge and interest, resulted in fiscal year 2011 net sale proceeds of \$13 million.

In fiscal year 2011, there was \$14.2 million refunded for defective liens from the fiscal year 2010 sale. This resulted in an decrease to fiscal year 2011 revenue of \$10.2 million and consequently, the under estimated fiscal year 2010 accrual of \$4 million decreased the net sale proceeds of the fiscal year 2010 sale to \$24.8 million down from the original fiscal year 2010 net sale proceeds reported as \$35 million.

The City sold approximately \$39 million of real property tax liens, fully attributable to fiscal year 2010, at various dates in fiscal year 2010. 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 \$3.7 million worth of liens sold in fiscal year 2010 will require refunding. The estimated refund accrual amount of \$4 million, including the surcharge and interest, resulted in fiscal year 2010 net sale proceeds of \$35 million.

In fiscal year 2010, there were no refunds for defective liens from the fiscal year 2009 sale. This resulted in an increase to fiscal year 2010 revenue of \$4 million and consequently, the unused fiscal year 2009 accrual of \$4 million increased the net sale proceeds of the fiscal year 2009 sale to \$37.3 million up from the original fiscal year 2009 net sale proceeds reported as \$33.3 million.

In fiscal years 2011 and 2010, \$308 million and \$270 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, 2011 and 2010, excess amounts of \$356 million and \$766 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 the straight-line 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 fiscal year paid.

20. Fund Balance

In accordance with Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of Fund Balance is based on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable—includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints requiring such amounts to remain intact. As required by the New York State Financial Emergency Act, the City must prepare its budget covering all expenditures, other than capital items, balanced so that the results do not show a deficit when reported in accordance with generally accepted accounting principles. Therefore, the General Fund’s fund balance must legally remain intact and is classified as nonspendable.

Restricted—includes fund balance amounts that are constrained for specific purposes which are externally imposed by creditors, laws or regulations of other governments, or constrained due to constitutional provisions or enabling legislation.

Committed—includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government’s formal action at the highest level of decision making authority and does not lapse at year-end. In accordance with the New York City Charter, the City Council is the City’s highest level of decision-making authority and can, by legal resolution prior to the end of the fiscal year, approve to establish, modify or rescind a fund balance commitment.

Assigned—includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City does not have any assigned amounts in its major funds.

Unassigned—The City’s Capital Fund’s deficit is classified as unassigned.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

Below is the detail included in the fund balance classifications for the governmental funds at June 30, 2011 and 2010:

	Fiscal Year 2011				
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Funds	Total Governmental
	(in thousands)				
Nonspendable:					
General Fund balance	\$447,272	\$ —	\$ —	\$ —	\$ 447,272
Prepaid expenditures	—	—	—	570	570
Spendable:					
Restricted					
Capital projects	—	129,196	—	1,125,473	1,254,669
Debt service	—	—	355,883	2,568,388	2,924,271
Committed					
Debt service	—	—	2,461,507	637	2,462,144
Assigned					
Nonmajor operating funds	—	—	—	45,571	45,571
Arbitrage Rebate Payment	—	—	—	24,964	24,964
Unassigned					
Capital Projects Fund	—	(3,143,921)	—	—	(3,143,921)
Nonmajor Special Revenue Fund	—	—	—	(64)	(64)
Total Fund Balance	<u>\$447,272</u>	<u>\$(3,014,725)</u>	<u>\$2,817,390</u>	<u>\$3,765,539</u>	<u>\$4,015,476</u>

	Fiscal Year 2010				
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Funds	Total Governmental
	(in thousands)				
Nonspendable:					
General Fund balance	\$442,150	\$ —	\$ —	\$ —	\$ 442,150
Prepaid expenditures	—	—	—	568	568
Spendable:					
Restricted					
Capital projects	—	760,897	—	1,120,244	1,881,141
Debt service	—	—	766,320	1,430,354	2,196,674
Committed					
Debt service	—	—	2,159,878	647	2,160,525
Assigned					
Nonmajor operating funds	—	—	—	41,972	41,972
Arbitrage Rebate Payment	—	—	—	12,365	12,365
Debt Service	—	—	—	645,284	645,284
Unassigned					
Capital Projects Fund	—	(3,905,241)	—	—	(3,905,241)
Nonmajor Capital Projects Fund	—	—	—	(18)	(18)
Total Fund Balance	<u>\$442,150</u>	<u>\$(3,144,344)</u>	<u>\$2,926,198</u>	<u>\$3,251,416</u>	<u>\$3,475,420</u>

21. Pensions

Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Notes E.6. and the Required Supplementary Information (RSI) section immediately following the Notes to Financial Statements), 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.

22. 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.5.), 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.

23. 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.

24. Pronouncements Issued But Not Yet Effective

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued in November, 2010, establishes recognition, measurement and disclosure requirements for Service Concession Arrangements for both transferors and governmental operators. A Service Concession Arrangements is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and the operator collects and is compensated by fees from third parties.

A transferor reports the facility subject to a Service Concession Arrangement as its capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred flow of resources. Revenues are recognized by the transferor on a systematic and rational manner over the term of the arrangement. A governmental operator reports an intangible asset at costs for its right to access the facility and collect

third-party fees and amortizes the intangible asset over the term of the arrangement. For revenue sharing arrangements, operators must report all revenues and expenses and transferors must report their portion of the shared revenues.

The requirements of Statement No. 60 are effective for financial statements for periods beginning after December 15, 2011. The City has not completed the process of evaluating the impact of Statement No. 60 on its financial statements.

Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued in November 2010, improves financial reporting for a governmental financial reporting entity by modifying certain requirements for inclusion of component units in the financial reporting entity.

For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between primary government and the organization for it to be included in the reporting entity as a component unit. For organizations that do not meet the financial accountability criteria for inclusion as component units, but that should be included because the primary government's management determines that it would be misleading to exclude them, the Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. For Component Units that currently are blended based on "substantively the same governing body" criterion, the Statement required that the primary government and the component unit have a financial benefit or burden relationship or management of the primary government have operational responsibility of the activities of the Component Unit. New criteria also are added to require blending of Component Units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended Component Unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a Component Unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. The Statement requires a primary government to report its equity interest in a Component Unit as an asset.

The requirements of Statement No. 61 are effective for financial statements for periods beginning after June 15, 2012. The City has not completed the process of evaluating the impact of Statement No. 61 on its financial statements.

The objective of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010, is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

The Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Those entities who chose to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements can continue to apply those pronouncements as other accounting literature.

The requirements of Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 62 on its financial statements.

In June of 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period.

Statement No. 63 also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The requirements of Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 63 on its financial statements.

In June of 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*. This statement clarifies whether an effective hedge relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The requirements of Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The City has not completed the process of evaluating the impact of Statement No. 64 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 \$3.727 billion and \$5.257 billion subsequent to its original adoption in fiscal years 2011 and 2010, 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 Capital Projects Fund has cumulative deficits of \$3.0 billion and \$3.1 billion at June 30, 2011 and 2010, 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 New York City 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 at the Federal Deposit Insurance Corporation (FDIC) insured institutions have unlimited deposit insurance for noninterest bearing transaction accounts beginning December 31, 2010. This will cover the City's demand deposit accounts, including Central Treasury, Pool, and controlled disbursement accounts, at participating FDIC-insured institutions through December 31, 2012. Consequently, these noninterest-bearing transaction deposit accounts that are fully insured by FDIC's Transaction Account Guarantee Program do not need to be collateralized for fiscal year 2011.

At June 30, 2011 and 2010, the carrying amount of the City's unrestricted cash and cash equivalents was \$4.457 billion and \$7.382 billion, respectively, and the bank balances were \$4.044 billion and \$2.683 billion, respectively. Of the unrestricted bank balances, none of the June 30, 2011 or 2010 balances were exposed to custodial credit risk. At June 30, 2011 and 2010, the carrying amount of the restricted cash and cash equivalents was \$3.744 billion and \$2.098 billion, respectively, and the bank balances were \$1.856 billion and \$.101 million, respectively. Of the restricted bank balances, \$93 thousand and \$1 thousand 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, 2011 and 2010, respectively. TFA and FSC, blended component units, did not have a deposit policy for custodial credit risk as of June 30, 2011.

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, 2011 and 2010:

Governmental activities:

Investment Type	Investment Maturities					
	(in years)					
	2011			2010		
	Less than 1	1 to 5	More than 5	Less than 1	1 to 5	More than 5
	(in thousands)					
Unrestricted						
U.S. Government securities	\$ 184,772	\$ —	\$ —	\$ 1,006,811	\$ —	\$ —
U.S. Government agency obligations	132,874	67,377	—	50,692	62,365	—
Commercial paper	—	—	—	99,687	—	—
Corporate bonds	—	24,908	—	—	—	—
Certificates of Deposit	50,003	—	—	—	—	—
Investment derivative instruments	—	—	(63,087) ⁽¹⁾	—	—	(89,202) ⁽²⁾
Total unrestricted	<u>\$ 367,649</u>	<u>\$ 92,285</u>	<u>\$(63,087)</u>	<u>\$ 1,157,190</u>	<u>\$ 62,365</u>	<u>\$(89,202)</u>
Restricted						
U.S. Government securities	\$ 80,897	\$294,521	\$ —	\$ 92,720	\$ —	\$ —
U.S. Government agency obligations	611,569	157,864	—	334,916	463,561	—
Commercial paper	1,207,658	—	—	439,935	—	—
Municipal bonds	—	—	22,699	—	—	7,910
Repurchase agreements	9,764	—	—	681,516	—	—
Total restricted	<u>\$1,909,888</u>	<u>\$452,385</u>	<u>\$ 22,699</u>	<u>\$1,549,087</u>	<u>\$463,561</u>	<u>\$ 7,910</u>

(1) The City has two pay-fixed interest rate swaps (E and F) and two basis swaps (G and K) that are treated as investment derivative instruments (see Note A.13.). At June 30, 2011, the swaps had fair values of \$(15,422) thousand, \$(1,250) thousand, \$(13,036) thousand, and \$(33,379) thousand, respectively.

(2) The City had one pay-fixed interest rate swap (E) and two basis swaps (G and K) that were treated as investment derivative instruments. At June 30, 2010, the swaps had fair values of \$(18,275) thousand, \$(23,281) thousand, and \$(47,646) thousand, respectively.

Interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy limits the weighted average maturity to a period of less than 2 years. The City’s current weighted average maturity is less than 205 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, 2011 and 2010, 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.

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 counterparty, 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's investment policy related to custodial credit risk calls for limiting its investments to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the City.

Investment Derivative Instruments

Credit risk: The City is exposed to credit risk on investment derivative instruments. To minimize its exposure to loss related to credit risk, it is the City's policy to require counterparty collateral posting provisions in its investment derivative instruments. These terms require collateralization of the fair value of investment derivative instruments (net of the effect of applicable threshold requirements and netting arrangements) should the counterparty's credit rating fall below the following:

The counterparty with respect to derivative instruments E and F (or its respective guarantor) is required to post collateral if its credit rating goes below A3/A-. The counterparty with respect to derivative instrument G is required to post collateral if all of its credit ratings go below the double-A category and will also post collateral if it has at least one rating below A3 or A-. The counterparty with respect to derivative instrument K is required to post collateral if it has at least one rating below the double-A category. The City has never been required to access collateral.

It is the City's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The aggregate fair value of investment derivative instruments requiring collateralization at June 30, 2011 was \$(63,087) thousand. A negative aggregate fair value means the City would have owed payments to the counterparties. The City had no counterparty credit exposure to any of the investment derivative instrument counterparties as of that date.

Interest rate risk: The City is exposed to interest rate risk on its swaps. In derivative instruments E and F, pay-fixed, receive-variable interest rate swaps, as LIBOR decreases, the City's net payment on the swap increases.

Basis risk: The City is exposed to basis risk on derivative instruments E and F because the variable-rate payment received by the City is based on a rate or index other than the interest rate the City pays on its variable-rate debt. Under the terms of its derivative instrument F, the City pays a variable rate on the outstanding underlying bonds based on SIFMA, but receives a variable rate on the swap based on a percentage of LIBOR. In derivative instrument G, the City's variable payer rate is based on SIFMA times 1.36 and the City receives 100% of LIBOR in return. The City's net payments over time will be determined by both the absolute levels of interest rates and the relationship between SIFMA and LIBOR. In derivative instrument K, the City's variable payer rate is based on SIFMA and its variable receiver rate is based 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 rate decreases, the percentage of LIBOR received by the City increases.

Tax risk: The City is at 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 derivative instruments E and F and its variable payer rate in derivative instruments G and K.

Termination risk: The City or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The City is at 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). If at the time of termination, an investment derivative instrument is in a liability position, the City would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Counterparty risk: The City is at a 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.

The investment policies of the discretely presented component units included in the City's reporting entity generally conform to those of the City's. The criteria for the Pension and Other Employee Benefit Trust Funds' and Other 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 Law, 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, 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 2010, \$21.606 million was recovered as a distribution of bankruptcy proceeds and \$31.6 million was received as a partial settlement from litigation. In fiscal year 2011, there was no further recoupment as an ongoing distribution of bankruptcy proceeds.

During fiscal year 2009, the value of certain underlying securities became impaired because of the bankruptcy proceeding of the issuer. Accordingly, the carrying amount of the collateral reported in the *Deferred Compensation Plans for Employees of The City of New York and Related Agencies and Instrumentalities* (DCP) statements of fiduciary net assets was reduced by a total of \$24.3 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions. In October, 2010, DCP's Board had decided to terminate its securities lending program as soon as it was feasibly possible, sell the defaulted securities, and assess the participants in its various investment options based on the benefit of the yearly revenues derived from the securities lending program since 2003 in conjunction with the number of years that a participant had been active in its investment programs from 2003 through August 2008. DCP sold the issuer's securities in fiscal year 2011 at the prevailing market prices, recovering \$5.3 million. From September 2008, through November 2010, DCP continued to lend securities and the investment income earned was set aside in a reserve to offset the collateral shortfall. The balance of the shortfall, approximately \$10 million, was applied to participant accounts in November 2010 as a one-time assessment. In November 2010, cash collateral in the amount of \$24.3 was returned to DCP's custodian and DCP's securities lending program was closed.

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, 2010 and 2011:

<u>Primary Government</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
	(in thousands)						
Governmental activities:							
Capital assets, not being depreciated/amortized:							
Land	\$ 1,146,944	\$ 95,681	\$ 2,100	\$ 1,240,525	\$ 328,282	\$ —	\$ 1,568,807
Construction work-in-progress	<u>4,862,355</u>	<u>3,751,599</u>	<u>3,796,979</u>	<u>4,816,975</u>	<u>3,142,604</u>	<u>3,062,669</u>	<u>4,896,910</u>
Total capital assets, not being depreciated/amortized .	<u>6,009,299</u>	<u>3,847,280</u>	<u>3,799,079</u>	<u>6,057,500</u>	<u>3,470,886</u>	<u>3,062,669</u>	<u>6,465,717</u>
Capital assets, being depreciated/amortized:							
Buildings	37,617,511	3,796,979	195,688	41,218,802	3,062,669	127,415	44,154,056
Equipment (including software)	6,367,423	461,810	299,849	6,529,384	550,421	204,692	6,875,113
Infrastructure	<u>14,587,526</u>	<u>1,473,959</u>	<u>196,161</u>	<u>15,865,324</u>	<u>1,431,026</u>	<u>400,189</u>	<u>16,896,161</u>
Total capital assets, being depreciated/amortized	<u>58,572,460</u>	<u>5,732,748</u>	<u>691,698</u>	<u>63,613,510</u>	<u>5,044,116</u>	<u>732,296</u>	<u>67,925,330</u>
Less accumulated depreciation/amortization:							
Buildings	15,182,587	1,032,577	150,780	16,064,384	1,180,230	97,829	17,146,785
Equipment (including software)	4,469,452	376,249	294,856	4,550,845	371,482	200,214	4,722,113
Infrastructure	<u>5,048,117</u>	<u>729,759</u>	<u>196,160</u>	<u>5,581,716</u>	<u>781,458</u>	<u>309,262</u>	<u>6,053,912</u>
Total accumulated depreciation/amortization ...	<u>24,700,156</u>	<u>2,138,585⁽¹⁾</u>	<u>641,796</u>	<u>26,196,945</u>	<u>2,333,170⁽¹⁾</u>	<u>607,305</u>	<u>27,922,810</u>
Total capital assets, being depreciated/amortized, net	<u>33,872,304</u>	<u>3,594,163</u>	<u>49,902</u>	<u>37,416,565</u>	<u>2,710,946</u>	<u>124,991</u>	<u>40,002,520</u>
Governmental activities capital assets, net	<u>\$39,881,603</u>	<u>\$7,441,443</u>	<u>\$3,848,981</u>	<u>\$43,474,065</u>	<u>\$6,181,832</u>	<u>\$3,187,660</u>	<u>\$46,468,237</u>

⁽¹⁾ Depreciation/amortization expense was charged to functions/programs of the City for the fiscal years ended June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
	(in thousands)	
Governmental activities:		
General government	\$ 318,023	\$ 333,941
Public safety and judicial	158,776	151,428
Education	826,383	674,218
City University	6,473	7,266
Social services	64,988	71,670
Environmental protection	103,629	97,423
Transportation services	521,313	495,134
Parks, recreation and cultural activities	287,482	264,590
Housing	7,443	1,750
Health	29,131	31,682
Libraries	<u>9,529</u>	<u>9,483</u>
Total depreciation/amortization expense—governmental activities	<u>\$2,333,170</u>	<u>\$2,138,585</u>

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2011 and 2010. Sources of funding for capital assets are not available prior to fiscal year 1987.

	<u>2011</u>	<u>2010</u>
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	\$ 6,364,253	\$ 6,821,547
City bonds	64,128,194	59,165,429
Federal grants	616,490	521,829
State grants	144,331	115,443
Private grants	563,607	561,403
Capitalized leases	<u>2,574,172</u>	<u>2,485,359</u>
Total funding sources	<u>\$74,391,047</u>	<u>\$69,671,010</u>

At June 30, 2011 and 2010, 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, 2011 and 2010 are leased properties that have elements of ownership. These assets are recorded as capital assets as follows:

	<u>Capital Leases</u>	
	<u>2011</u>	<u>2010</u>
	(in thousands)	
Governmental activities:		
Capital asset:		
Buildings, gross	\$2,574,172	\$2,485,359
Less accumulated amortization	<u>678,712</u>	<u>626,145</u>
Buildings, net	<u>\$1,895,460</u>	<u>\$1,859,214</u>

Capital Commitments

At June 30, 2011, the outstanding commitments relating to projects of the Capital Projects Fund amounted to approximately \$16.1 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 the Capital Projects Fund expenditures of \$54.1 billion over the remaining fiscal years 2012 through 2021. To help meet its capital spending program, the City and TFA borrowed \$6.43 billion in the public credit market in fiscal year 2011. The City and TFA plan to borrow \$5.36 billion in the public credit market in fiscal year 2012.

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, 2011 and 2010 were approximately \$772.6 million and \$737.8 million, respectively.

As of June 30, 2011, 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:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
Governmental activities:			
Fiscal year ending June 30:			
2012	\$ 194,565	\$ 478,133	\$ 672,698
2013	192,467	444,584	637,051
2014	186,234	415,930	602,164
2015	180,907	387,716	568,623
2016	174,487	370,073	544,560
2017-2021	773,884	1,535,197	2,309,081
2022-2026	551,815	883,283	1,435,098
2027-2031	351,141	359,889	711,030
2032-2036	139,782	62,260	202,042
2037-2041	56,551	33,168	89,719
2042-2046	—	11,727	11,727
2047-2051	—	8,991	8,991
Future minimum payments	<u>2,801,833</u>	<u>\$4,990,951</u>	<u>\$7,792,784</u>
Less interest	<u>906,373</u>		
Present value of future minimum payments	<u>\$1,895,460</u>		

The present value of future minimum lease payments includes approximately \$1.346 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, 2011 and 2010 was approximately \$253 million and \$234 million, respectively. As of June 30, 2011, the following future minimum rentals are provided for by the leases:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
Governmental activities:			
Fiscal year ending June 30:			
2012	\$ 1,990	\$ 183,375	\$ 185,365
2013	2,091	180,713	182,804
2014	2,244	178,817	181,061
2015	2,415	170,467	172,882
2016	2,507	149,713	152,220
2017-2021	12,938	713,876	726,814
2022-2026	11,835	667,565	679,400
2027-2031	12,813	631,504	644,317
2032-2036	11,561	626,137	637,698
2037-2041	2,157	589,983	592,140
2042-2046	2,019	577,153	579,172
2047-2051	1,824	520,852	522,676
2052-2056	1,800	54,137	55,937
2057-2061	1,800	51,137	52,937
2062-2066	1,800	49,137	50,937
2067-2071	1,800	48,500	50,300
2072-2076	1,800	47,012	48,812
2077-2081	1,260	35,261	36,521
2082-2086	—	31,737	31,737
Thereafter until 2106	—	3,176	3,176
Future minimum lease rentals	<u>76,654</u>	<u>\$5,510,252</u>	<u>\$5,586,906</u>
Less interest	<u>45,220</u>		
Present value of future minimum lease rentals	<u>\$31,434</u>		

4. Long-Term Liabilities

Changes in Long-term liabilities

In fiscal years 2010 and 2011, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010 <small>(in thousands)</small>	Additions	Deletions	Balance June 30, 2011	Due Within One Year
Governmental activities:								
Bonds and notes payable:								
General obligation bonds	\$ 39,991,375	\$ 5,418,155	\$ 3,853,990	\$ 41,555,540	\$ 4,182,955	\$ 3,953,711	\$ 41,784,784	\$ 1,990,405
TFA bonds	16,913,360	5,345,995	2,165,705	20,093,650	4,899,425	1,173,300	23,819,775	662,115
TSASC bonds	1,273,690	—	8,385	1,265,305	—	5,015	1,260,290	—
IDA bonds	98,650	—	—	98,650	—	750	97,900	2,600
STAR bonds	2,252,820	—	74,920	2,177,900	—	61,445	2,116,455	10,910
FSC bonds	304,160	—	9,915	294,245	—	11,860	282,385	12,150
HYIC bonds	2,000,000	—	—	2,000,000	—	—	2,000,000	—
HYIC notes	33,334	—	33,334	—	—	—	—	—
ECF bonds	102,060	53,810	6,135	149,735	137,525	6,075	281,185	6,750
Total before premiums/discounts (net)	62,969,449	10,817,960	6,152,384	67,635,025	9,219,905	5,212,156	71,642,774	2,684,930
Less (premiums)/discounts (net)	(847,154)	157,806	404,415	(1,093,763)	201,267	331,034	(1,223,530)	—
Total bonds and notes payable	63,816,603	10,660,154	5,747,969	68,728,788	9,018,638	4,881,122	72,866,304	2,684,930
Capital lease obligations	1,937,173	14,977	92,936	1,859,214	139,026	102,780	1,895,460	80,605
Other tax refunds	2,043,245	235,637	387,245	1,891,637	500,709	293,637	2,098,709	500,709
Judgments and claims	5,506,244	1,186,295	1,120,258	5,572,281	1,736,683	1,226,865	6,082,099	1,243,893
Real estate tax certiorari	851,008	182,299	134,535	898,772	181,153	141,998	937,927	160,579
Vacation and sick leave	3,682,537	433,499	293,969	3,822,067	431,223	324,217	3,929,073	324,217
Pension liability	658,600	52,700	85,900	625,400	50,000	83,200	592,200	—
OPEB liability	65,544,361	11,021,425	1,580,954	74,984,832	10,494,993	1,572,872	83,906,953	—
Landfill closure and postclosure care costs	1,719,073	1,589	60,935	1,659,727	21,554	112,159	1,569,122	85,428
Pollution remediation obligations	175,536	273,825	193,980	255,381	219,477	248,635	226,223	221,308
Total changes in governmental activities long-term liabilities	\$145,934,380	\$24,062,400	\$9,698,681	\$160,298,099	\$22,793,456	\$8,987,485	\$174,104,070	\$5,301,669

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 at June 30, 2011 and 2010, summarized by type of issue are as follows:

Primary Government	2011			2010		
	General Obligations*	Revenue*	Total	General Obligations*	Revenue*	Total
<small>(in thousands)</small>						
Governmental activities:						
Bonds and notes payable:						
General obligation bonds	\$41,784,784	\$ —	\$41,784,784	\$41,555,540	\$ —	\$41,555,540
TFA bonds	19,089,925	4,729,850	23,819,775	15,872,495	4,221,155	20,093,650
TSASC bonds	1,260,290	—	1,260,290	1,265,305	—	1,265,305
IDA bonds	97,900	—	97,900	98,650	—	98,650
STAR bonds	2,116,455	—	2,116,455	2,177,900	—	2,177,900
FSC bonds	282,385	—	282,385	294,245	—	294,245
HYIC bonds	—	2,000,000	2,000,000	—	2,000,000	2,000,000
HYIC notes	—	—	—	—	—	—
ECF bonds	—	281,185	281,185	—	149,735	149,735
Total bonds and notes payable	\$64,631,739	\$7,011,035	\$71,642,774	\$61,264,135	\$6,370,890	\$67,635,025

* The City issues General Obligation and Revenue bonds for capital projects which include construction, acquisition, repair or maintenance of the City's infrastructure. These include, but are not limited to, sidewalk installations, improvements to City's schools, fire stations, parks, bridges and tunnels, and acquisition of any furnishings, machinery, apparatus or equipment for any public purpose.

The following table summarizes future debt service requirements as of June 30, 2011:

Primary Government	Governmental Activities			
	General Obligation Bonds		Revenue Bonds and Notes	
	Principal	Interest ⁽¹⁾	Principal	Interest
	(in thousands)			
Fiscal year ending June 30:				
2012	\$ 2,606,990	\$ 2,762,588	\$ 77,940	\$ 351,458
2013	3,012,386	2,683,741	16,270	350,902
2014	3,022,955	2,561,401	97,395	349,965
2015	3,168,376	2,431,493	102,355	346,153
2016	3,187,415	2,294,815	107,755	341,919
2017-2021	15,793,558	9,425,544	639,565	1,630,792
2022-2026	14,755,278	6,148,474	799,260	1,465,141
2027-2031	10,491,588	3,233,142	1,022,735	1,217,286
2032-2036	6,231,112	1,317,827	1,316,955	915,578
2037-2041	1,803,008	293,618	830,805	577,481
2042-2046	559,028	28,666	2,000,000	585,000
2047-2051	4	15	—	—
Thereafter until 2147	41	141	—	—
	<u>64,631,739</u>	<u>33,181,465</u>	<u>7,011,035</u>	<u>8,131,675</u>
Less interest component	—	<u>33,181,465</u>	—	<u>8,131,675</u>
Total future debt service requirements	<u>\$64,631,739</u>	<u>\$ —</u>	<u>\$7,011,035</u>	<u>\$ —</u>

⁽¹⁾ Includes interest for general obligation bonds estimated at 2% rate on tax-exempt adjustable rate bonds and at 3% 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 June 30, 2011 and 2010, were 4.4% and both ranged from 0% to 10%. The last maturity of the outstanding City debt is in the year 2147.

Since the City has variable rate debt outstanding, the terms by which interest rates change for variable rate debt are as follows: For Auction Rate Securities, an interest rate is established periodically by an auction agent at the lowest clearing rate based upon bids received from broker-dealers. Variable Rate Demand Bonds (VRDBs) are long-term bonds that have a daily or weekly “put” feature backed by a bank Letter of Credit or Stand By Bond Purchase Agreement. VRDBs are repriced daily or weekly and provide investors with the option to tender the bonds at each repricing. A broker, called a Remarketing Agent, is responsible for setting interest rates and reselling to new investors any securities that have been tendered. CPI Bonds pay the holder a floating interest rate tied to the consumer price index. The rate is a fixed spread plus a floating rate equal to the change in the Consumer Price Index-Urban (CPI-U) for a given period. LIBOR Bonds pay the holder a floating interest rate calculated as a percentage of the London Interbank Offering Rate (LIBOR). Direct Funding Bonds are fixed rate bonds that through a derivative pay the holder an adjusted rate based on the movement in the AAA Municipal Market Data (MMD) Index.

In fiscal years 2011 and 2010, the City issued \$2 billion and \$2 billion, respectively, of general obligation bonds to advance refund general obligation bonds of \$2.10 billion and \$2.16 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of \$57.10 million and \$61.87 million, respectively, were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the government-wide financial statements. In fiscal year 2011, the refunding transactions will decrease the City’s aggregate debt service payments by \$152.61 million and provide an economic gain of \$125.45 million. In fiscal year 2010, the refunding transactions decreased the City’s aggregate debt service payments by \$209.36 million and provided an economic gain of \$182.14 million. At June 30, 2011 and 2010, \$16.25 billion and \$15.11 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 GO 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, 2011, the 10% general limitation was approximately \$76.097 billion (compared with \$76.224 billion as of July 1, 2010). Also, as of July 1, 2011, the City's remaining GO debt-incurring power totaled \$24.064 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 2011, discretionary and other transfers of \$2.78 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2012 debt service. In addition, in fiscal year 2011, discretionary transfer of \$789.7 million was made for a transfer to a component unit of the Debt Service Funds. In fiscal year 2010, discretionary and other transfers of \$2.89 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2011 debt service. In addition, in fiscal year 2010, discretionary transfers of \$370.5 million were made for lease purchase debt service and for a transfer to a component unit of the Debt Service Funds.

Hedging derivative instrument payments and hedged debt

The table that follows represents debt service payments on certain general obligation variable-rate bonds and net receipts/payments on associated hedging derivative instruments (see Note A.13.), as of June 30, 2011. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2011 will remain the same for their term.

Primary Government	Governmental Activities			
	General Obligation Bonds		Hedging Derivative Instruments, Net	Total
	Principal	Interest		
	(in thousands)			
Fiscal year ending June 30:				
2012	\$ —	\$ 31,230	\$ (1,917)	\$ 29,313
2013	—	31,230	(1,917)	29,313
2014	44,115	29,923	(1,153)	72,885
2015	67,835	27,192	157	95,184
2016	36,445	24,762	1,383	62,590
2017-2021	519,920	96,554	(3,800)	612,674
2022-2026	243,270	61,008	(6,607)	297,671
2027-2031	345,465	26,936	(2,874)	369,527
2032-2034	87,095	2,994	(2,238)	87,851
Total	<u>\$1,344,145</u>	<u>\$331,829</u>	<u>\$(18,966)</u>	<u>\$1,657,008</u>

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 constitutional violations; torts; breaches of contract; other violations of law; and condemnation proceedings.

As of June 30, 2011 and 2010, claims in excess of \$613 billion and \$633 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be \$6.1 billion and \$5.6 billion, respectively.

As explained in Note A.11., the estimate of the liability for all judgments and claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by using the probable exposure information provided by the New York City Law Department (Law Department), and supplemented by information provided by the 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. Complaints on behalf of approximately 11,900 plaintiffs alleging similar causes of action have been filed naming the City or other defendants. Approximately 5,000 of these plaintiffs have to date named the City as a defendant. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to Federal District Court pursuant to the Air Transportation and System Stabilization Act, which grants exclusive Federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions on immunity grounds was denied on October 17, 2006 by the District Court. On March 26, 2008, the Second Circuit upheld the District Court's decision, holding that determining whether the City had immunity for its actions requires developing the factual record. A not-for-profit "captive" insurance company, WTC Captive 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 \$999.9 million. Most of the claims against the City and its private contractors set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Captive. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims. On June 10, 2010, the WTC Captive announced that a settlement was reached with attorneys for the plaintiffs. Under the settlement, the WTC Captive would pay up to approximately \$712.5 million, leaving residual funds to insure and defend the City and its contractors against claims that are not settled as part of the settlement and any new claims. In order for the settlement to take effect, at least 95 percent of the plaintiffs must accept its terms. On November 19, 2010, District Court Judge Hellerstein announced that more than the required 95% of plaintiffs have agreed to the settlement, thus making it effective, subject to the correction of certain deficiencies in some releases by the WTC Captive. There are still approximately 400 plaintiffs who have sued the City and who have not agreed to the terms of the settlement or who were not eligible to participate in the settlement. The Court has not indicated how or when those cases will proceed.

In 1996, a class action was brought against the City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by the City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The lower court dismissed the case. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the lower court's ruling, dismissed the claims against the State, and remanded the matter for further proceedings. The trial court on remand has received extensive briefing from the parties on the issue of City liability and on the City's motion to decertify the class based on the United States Supreme Court's decision in *Wal-Mart Stores, Inc. v. Dukes*, 131 S. Ct. 2541 (2011). The State has advised the City that there are approximately 3,500 members of the class and has calculated potential damages, based on the difference in salary between a certified public school teaching position and an uncertified parochial or private school teaching position, of approximately \$455 million.

In 2006, a relator filed two lawsuits in the United States District Court for the Southern District of New York against the City's Department of Housing Preservation and Development (HPD) and other defendants under the False Claims Act. The relator alleged that HPD was involved with the submission of false claims to the United States Department of Housing and Urban Development (HUD) in connection with the Federal government's Section 8 Enhanced Voucher program which provides rental subsidies to low and moderate income tenants payable to the landlord. These alleged false claims would have resulted in HUD's overpayment of subsidies to the defendant property owners, by virtue of the alleged improper removal of housing units from rent regulation. These lawsuits remained under seal pending completion of an investigation by the United States Department of Justice, which was completed in 2009. Following this investigation, the Federal government elected to pursue common-law claims against the property owners, seeking a declaration that the properties are and should have remained subject to rent-regulation, and to recover any overpayments made as a result of the allegedly improper de-regulation. In May 2011, the property owners were granted summary judgment on all of the Federal government claims and the Federal government's motion for reconsideration was denied on June 28, 2011. The Federal government has not sought any relief against the City. The relator is pursuing the false claims actions against HPD and the defendant property owners, seeking treble damages of the alleged overpayments made by HUD on approximately 870 units, plus civil penalties of up to \$11,000 per claim for each violation of the False Claims Act. On July 2, 2010, the Court granted the City's motion to dismiss these actions. Subsequently, the relator filed an appeal, which was dismissed as premature. In August 2011 the realtor again filed an appeal.

In October 2010, The Building Industry Electrical Contractors Association and the United Electrical Contractors Association commenced an action in the United States District Court for the Southern District of New York against the City and The Building and Construction Trades Council of Greater New York and Vicinity (the "BCTC") challenging certain Project Labor Agreements (the "PLAs") entered into between the City and the BCTC and labor unions affiliated with the BCTC. The PLAs are contracts between the City and the BCTC that govern labor relations at certain City construction projects and cover matters such as work rules, dispute resolution, wages and benefits and collective bargaining representation. Plaintiffs allege that the PLAs violate the National Labor Relations Act and State competitive bidding statutes. They seek a declaratory judgment that the PLAs are unlawful and an

injunction with respect to the application and enforcement of the PLAs. Defendants moved for summary judgment and on August 4, 2011 the motions were granted. On August 31, 2011 plaintiffs appealed the courts decision. If plaintiffs were to ultimately prevail, the cost of the projects that are subject to PLAs could be increased substantially.

On January 7, 2011, the United States District Court for the Southern District of New York unsealed a *qui tam* lawsuit under the Federal False Claims Act. On January 11, 2011, the Federal government filed a complaint in partial intervention concerning the provision of 24-hour home care. The suit brought by the Federal government alleges that the City has improperly administered certain areas of the Personal Care program. The suit alleges that the City failed to properly authorize and/or reauthorize services resulting in services being provided to individuals who were not eligible to receive services. The suit also alleges that since 2000 the City has improperly enrolled patients in the Personal Care program. The exact amount of the claim has not been stated, but the Federal government has alleged that the City has over billed Medicaid by tens of millions of dollars. The suit seeks treble damages and penalties. The City believes it has meritorious defenses. However, if the Federal government were to ultimately prevail and the damages were tripled, the cost to the City could be substantial.

The Federal Department of Health and Human Services Office of Inspector General (“HHS OIG”) conducted a review of Medicaid Personal Care Services claims made by providers in the City from January 1, 2004 through December 31, 2006, and concluded that 18 out of 100 sampled claims by providers failed to comply with Federal and State requirements. The Medicaid Personal Care Services program in the City is administered by the City’s Human Resources Administration. In its audit report issued in June 2009, the HHS OIG, extrapolating from the case sample, estimated that the State improperly claimed \$275.3 million in Federal Medicaid reimbursement during the audit period and recommended to the Center for Medicare and Medicaid Services (“CMS”) that it seek to recoup that amount from the State. To the City’s knowledge, CMS has not taken any action to recover amounts from the State based on the findings in this audit, but no assurance can be given that it will not do so in the future.

Section 22 of Part B of Chapter 109 of the Laws of 2010 amended an earlier unconsolidated State law to set forth a process under which the State Department of Health may recover from a social services district, including the City, the amount of a Federal Medicaid disallowance or recovery that the State Commissioner of Health “determines was caused by a district’s failure to properly administer, supervise or operate the Medicaid program.” Such a determination would require a finding that the local agency had “violated a statute, regulation or clearly articulated written policy and that such violation was a direct cause of the Federal disallowance or recovery.” It is not clear whether the recovery process set out in the recent amendment can be applied to a Federal disallowance against the State based upon a pre-existing audit; however, in the event that it does, and results in a final determination by the State Commissioner of Health against the City, such a determination could result in substantial liability for the City as a result of the audit.

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. 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 \$937.9 million and \$898.8 million at June 30, 2011 and 2010, 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 the Required Supplementary Information (RSI) section immediately following the Notes to Financial Statements).

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 when the related liability is incurred and payment is due.

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, 2011 which equates to the total estimated current cost is \$1.278 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 2011, expenditures for landfill closure and postclosure care costs totaled \$116.9 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 18, 2011, by the City's Chief Financial Officer placing in the Fresh Kills landfill operating record representations in satisfaction of the Local Government Financial Test. As of June 30, 2011, the financial assurance cost estimate for the Fresh Kills Landfill is \$1.141 billion.

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

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

	<u>Amount</u> (in thousands)
Landfill	\$1,277,714
Hazardous waste sites	291,408
Total landfill and hazardous waste sites liability	<u>\$1,569,122</u>

Pollution Remediation Obligations

The pollution remediation obligations (PROs) at June 30, 2011 and June 30, 2010 summarized by obligating event and pollution type, respectively, are as follows:

<u>Obligating Event</u>	<u>Fiscal Year 2011</u>		<u>Fiscal Year 2010</u>	
	<u>Amount</u> (in thousands)	<u>Percentage</u>	<u>Amount</u> (in thousands)	<u>Percentage</u>
Imminent endangerment	\$ 32,089	14.2%	\$ 51,000	20.0%
Violation of pollution prevention-related permit or license ..	3,007	1.4	4,002	1.6
Named by regulator as a potentially responsible party	30,155	13.3	3,148	1.2
Named in a lawsuit	3,692	1.6	—	—
Voluntary commencement	157,280	69.5	197,231	77.2
Total	<u>\$226,223</u>	<u>100.0%</u>	<u>\$255,381⁽¹⁾</u>	<u>100.0%</u>

<u>Pollution Type</u>	<u>Fiscal Year 2011</u>		<u>Fiscal Year 2010</u>	
	<u>Amount</u> (in thousands)	<u>Percentage</u>	<u>Amount</u> (in thousands)	<u>Percentage</u>
Asbestos removal	\$114,800	50.7%	\$106,144	41.5%
Lead paint removal	58,146	25.7	77,253	30.3
Soil remediation	22,828	10.1	68,611	26.9
Water remediation	26,263	11.6	2,137	.8
Other	4,186	1.9	1,236	.5
Total	<u>\$226,223</u>	<u>100.0%</u>	<u>\$255,381⁽¹⁾</u>	<u>100.0%</u>

⁽¹⁾ There are no expected recoveries deemed not yet realized or realizable to reduce the liability.

The PRO liability is derived from registered multi-year contracts which offsets cumulative expenditures (liquidated/unliquidated) against original encumbered contractual amounts. The potential for changes to existing PRO estimates is recognized due to such factors as: additional remediation work arising during the remediation of an existing pollution project; remediation activities may find unanticipated site conditions resulting in necessary modifications to work plans; changes in methodology during the course of a project may cause cost estimates to change, e.g., the new ambient air quality standard for lead considered a drastic change will trigger the adoption of new/revised technologies for compliance purposes; and changes in the quantity which is paid based on actual field measured quantity for unit price items measured in cubic meters, linear meters, etc. Consequently, changes to original estimates are processed as change orders. Further, regarding pollution remediation liabilities that are not yet recognized because they are not reasonably estimable, the Law Department relates that we have approximately 20 cases involving hazardous substances, including spills from above and underground storage tanks, and other condemnation on, or caused by facilities on City-owned property. There are also three cases involving environmental land review, two cases involving polychlorinated biphenyls caulk in the public schools and one case involving clean-up in a public park. Due to the uncertainty of the legal proceedings we cannot estimate a future liability.

On March 2, 2010, following up on an earlier notice of proposed listing, the United States Environmental Protection Agency (EPA) listed the Gowanus Canal, a waterway located in Brooklyn, New York, as a Federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). While it was evaluating listing the Gowanus Canal, on November 5, 2009, EPA notified the City that EPA considers the City a potential responsible party (PRP) under CERCLA for hazardous wastes in the Gowanus Canal. In its Gowanus PRP notice letter, EPA identified currently and formerly City-owned and operated properties, including an asphalt plant, an inactive incinerator, and waterfront properties historically leased to private entities, as sources of hazardous substances in the Gowanus Canal. On February 2, 2011, following an investigation of the location, concentrations, types, sources, and risks of contamination in the Gowanus Canal, EPA issued a Gowanus Canal Remedial Investigation Report. That report identified three former manufactured gas plants as the likely source of much of the contamination in the Gowanus Canal, but also identified combined sewer overflows as the likely source of some contamination. EPA is currently studying feasible alternatives to address the contamination identified in its report.

On September 27, 2010, following an earlier notice of proposed listing, EPA listed Newtown Creek, the waterway on the border between Brooklyn and Queens, New York, along with its five tributaries, as a Superfund site. On April 6, 2010, EPA notified the City that EPA considers the City a PRP under CERCLA for hazardous wastes in Newtown Creek. In its Newtown Creek PRP notice letter, EPA identified historical City activities that filled former wetlands and low lying areas in and around Newtown Creek and releases from formerly City-owned and operated facilities, including municipal incinerators, as well as discharges from sewers and combined sewer overflow outfalls, as potential sources of hazardous substances in Newtown Creek. The City has agreed to participate with five companies that own or operate facilities adjacent to Newtown Creek in the investigation of conditions in Newtown Creek and the evaluation of feasible remedies. On July 7, 2011, EPA, the City of New York and the NCG entered into an Administrative Settlement Agreement and Order on Consent (AOC) to complete a comprehensive study of the Newtown Creek and its tributaries. The study, called a Remedial Investigation and Feasibility Study, will be completed according to CERCLA. Under the AOC, the City is required to establish and maintain financial security in the amount of \$25 million for the benefit of EPA in order to secure the full and final completion of the work required to be performed under the AOC by the City and the NCG. The City has made its demonstration of financial assurance pursuant to the Resource Conservation and Recovery Act, 40 C.F.R. §258.74(f). This assurance was most recently provided, on August 17, 2011, to the EPA in satisfaction of the AOC. The AOC does not cover any remedy that may ultimately be chosen by EPA to address the contamination identified as a result of the investigation and evaluation.

Under CERCLA, a responsible party may be held responsible for monies expended for response actions at a Superfund site, including investigative, planning, removal, remedial, and EPA enforcement actions. A responsible party may also be ordered by EPA to take response actions itself. Responsible parties include, among others, past or current owners or operators of a facility from which there is a release of a hazardous substance that causes the incurrence of response costs. The nature, extent, and cost of response actions at either Gowanus Canal or Newtown Creek, and the extent of the City's liability, if any, for monies expended for such response actions, will likely not be determined for several years.

5. Interfund Receivables, Payables, and Transfers

At June 30, 2011 and 2010, primary government and discretely presented component unit receivable and payable balances and interfund transfers were as follows:

Governmental activities:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2011</u>	<u>2010</u>
(in thousands)			
General Fund	Capital Projects Fund	\$2,664,275 ⁽¹⁾	\$2,795,205 ⁽¹⁾
Capital Projects Fund	TFA—Capital Projects Fund	286,727	3,505
	HYIC—Capital Projects Fund	13,991	—
HYDC—Capital Projects Fund	HYIC—Capital Projects Fund	103	94
Total due from/to other funds		<u>\$2,965,096</u>	<u>\$2,798,804</u>

Component Units:

Due from/to primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>		
Primary government—General Fund	Component units—HDC	\$ 854,517	\$ 862,515
	HHC	207,374	161,857
		<u>1,061,891</u>	<u>1,024,372</u>
Primary government—Capital Projects Fund	Component unit—Water Authority	682,345	967,943
	EDC	126,251	113,800
		<u>808,596</u>	<u>1,081,743</u>
Total due from component units		<u>\$1,870,487</u>	<u>\$2,106,115</u>
Component unit—Water Board	Primary government—General Fund	36,288	88,241
Total due to component units		<u>\$ (36,288)</u>	<u>\$ (88,241)</u>

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

Note: During both fiscal years 2011 and 2010, the Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

Governmental activities:
Interfund transfers

	Fiscal Year 2011					
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total
From General Fund	\$ —	\$ —	\$3,488,937	\$ 1,096,899	\$ —	\$4,585,836
From (to) General Debt Service	(3,488,937)	—	—	5,170	—	(3,483,767)
To Capital Projects	—	—	—	(3,979,583)	—	(3,979,583)
From (to) Nonmajor Debt Service	(1,791,943)	—	(5,170)	(64,961)	695,044	(1,167,030)
From Nonmajor Capital Projects	—	3,979,583	—	42,825	—	4,022,408
From Nonmajor Special Revenue	—	—	—	22,136	—	22,136
Total	<u><u>\$(5,280,880)</u></u>	<u><u>\$3,979,583</u></u>	<u><u>\$3,483,767</u></u>	<u><u>\$(2,877,514)</u></u>	<u><u>\$ 695,044</u></u>	<u><u>\$ —</u></u>

	Fiscal Year 2010					
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total
From General Fund	\$ —	\$ —	\$2,955,798	\$ 639,148	\$ —	\$ 3,594,946
From (to) General Debt Service	(2,955,798)	—	—	6,096	—	(2,949,702)
To Capital Projects	—	—	—	(3,147,139)	—	(3,147,139)
From (to) Nonmajor Debt Service	(829,794)	—	(6,096)	(76,355)	190,646	(721,599)
From Nonmajor Capital Projects	—	3,147,139	—	75,981	—	3,223,120
From Nonmajor Special Revenue	—	—	—	374	—	374
Total	<u><u>\$(3,785,592)</u></u>	<u><u>\$3,147,139</u></u>	<u><u>\$2,949,702</u></u>	<u><u>\$(2,501,895)</u></u>	<u><u>\$ 190,646</u></u>	<u><u>\$ —</u></u>

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 fiscal year ended June 30, 2011, the City made the following one-time transfer:
A transfer from the General Fund of an unrestricted grant of \$790 million on June 29, 2011 to TFA. These funds will be used to fund debt service requirements for tax secured debt during the fiscal year ending June 30, 2012.

In the fiscal year ended June 30, 2010, the City made the following one-time transfer:
A transfer from the General Fund of an unrestricted grant of \$371 million on June 29, 2010 to TFA. These funds were used to fund debt service requirements for tax secured debt during the fiscal year ending June 30, 2011.

E. OTHER INFORMATION

1. Audit Responsibility

In fiscal years 2011 and 2010, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than Deloitte & Touche LLP are the New York City Transitional Finance Authority, TSASC, Inc., New York City School Construction Authority, New York City Health and Hospitals 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, Deferred Compensation Plan, WTC Captive Insurance Company, Inc., New York City Capital Resource Corporation, New York City Educational Construction Fund, Sales Tax Asset Receivable Corporation, Fiscal Year 2005 Securitization Corporation, NYCTL Trusts, New York City Housing Authority. In addition in fiscal year 2011, auditors other than Deloitte & Touche LLP audited Hudson Yards Infrastructure Corporation, Hudson Yards Development Corporation and newly created component units—Brooklyn Bridge Park Corporation, The Trust for Governors Island and The New York City Energy Efficient Corporation.

The following describes the proportional percentage (%) of certain key financial information that is audited by other auditors in fiscal years 2011 and 2010:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Fiduciary Funds	
	2011	2010	2011	2010	2011	2010	2011	2010
Total assets	7%	5%	51%	51%	100%	79%	7%	8%
Revenues, other financing sources and net assets held in trust	5	7	79	79	100	99	8	9

2. Subsequent Events

The following events occurred subsequent to June 30, 2011:

Long-term Financing

City Debt: On August 9, 2011, The City of New York sold its Fiscal 2012 Series A General Obligation bonds of \$775 million for capital purposes.

On August 9, 2011, The City of New York sold its Fiscal 2012 Series B and C General Obligation bonds of \$199.715 million for refunding purposes.

On October 13, 2011, The City of New York sold its Fiscal 2012 Series D General Obligation bonds of \$720.305 million for capital purposes.

On October 13, 2011, The City of New York converted both its Fiscal 1994 Series E3 General Obligation bonds of \$25.895 million from Daily Mode and Fiscal 2004 Series H1, H2, H3 and H4 General Obligation bonds of \$119.660 million from Daily and Weekly Modes to Fixed Rate Mode.

TFA Debt: On August 23, 2011, TFA sold its Fiscal 2012 Series A Future Tax Secured Subordinate bonds of \$450 million for refunding purposes.

On August 23, 2011, TFA converted both its Fiscal 2003 Series B bonds of \$171.970 million from Adjustable Mode and Fiscal 2002 Series B bonds of \$424.145 million from Weekly Mode to Fixed Rate Mode.

Bond Ratings: Standard & Poor’s downgraded FSC from AAA to AA+ on August 8, 2011. In addition, Fitch downgraded the TSASC bonds maturing on June 1, 2026 from BBB+ to BBB-, and the TSASC bonds maturing on June 1, 2034 and 2042 from BBB to BB.

3. Other Employee Benefit Trust Funds

Deferred Compensation Plans For Employees of The City of New York and Related Agencies and Instrumentalities (DCP) and the New York City Employee Individual Retirement Account (NYCE IRA)

DCP offers employees of The City of New York and Related Agencies and Instrumentalities two defined contribution plans in accordance with Internal Revenue Code Sections 457 and 401(k). DCP permits employees to defer a portion of their salary on either a pre-tax (traditional) or after-tax (Roth) basis until future years. Funds may not be withdrawn until termination, retirement, death, Board-approved unforeseen emergency or hardship (as defined by the Internal Revenue Code) or, if still working for the City, upon attainment of age 70½ in the 457 Plan or upon age 59½ in the 401(k). A 401(a) defined contribution plan is available to certain employees of the Lieutenant's Benevolent Association of The City of New York Police Department.

The NYCE IRA is a deemed Individual Retirement Account (IRA) in accordance with Internal Revenue Code Section 408(q) and 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. Funds may be withdrawn from the NYCE IRA at any time, however, certain conditions must be met for withdrawals to be considered Qualified Distributions (penalty-free).

Amounts maintained under a deferred compensation plan and an IRA by a state or local government are held in trust (or in a custodial account) for the exclusive benefit of participants and their beneficiaries. Consequently, each plan and IRA is presented as an Other Employee Benefit Trust Fund in the City's financial statements.

Participants in DCP or NYCE IRA can choose among seven investment options, or one of twelve pre-arranged portfolios consisting of varying percentages of those investment options. Participants can also invest a portion of their assets in a self-directed brokerage option.

The New York City Other Postemployment Benefits Plan (PLAN)

PLAN is a fiduciary component unit of the City and is composed of: (1) the New York City Retiree Health Benefits Trust (RHBT) which is used to receive, hold, and disburse assets accumulated to pay for some of the postemployment benefits other than pensions (OPEB) provided by the City to its retired employees and (2) OPEB paid for directly by the City out of its general resources rather than through RHBT. RHBT was established for the exclusive benefit of the City's retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with the City's various collective bargaining agreements and the City's Administrative Code. 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, PLAN is presented as an Other Employee Benefit Trust Fund in the City's financial statements. The separate annual financial statements of PLAN are available at: Office of the Comptroller, Bureau of Accountancy — Room 200 South, 1 Centre Street, New York, New York 10007.

Summary of Significant Accounting Policies:

Basis of Accounting. The measurement focus of PLAN is on the flow of economic resources. This focus emphasizes the determination of changes in the PLAN's 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.

The Schedule of Funding Progress of OPEB valuations appears in the RSI Section, immediately following the Notes to Financial Statements.

4. Other Trust Funds

New York City Tax Lien Trusts (NYCTLT)

NYCTLT is a series of tax lien trusts (2010-A; 2009-A; 2008-A; 1998-2) that were created to acquire certain tax liens securing unpaid real property taxes, assessments, sewer rents, sewer surcharges, water rents, and other charges payable to the City and the Water Board from the City in exchange for the proceeds from bonds issued by NYCTLT, net of reserves funded by bond proceeds and bond issuance costs. The City is the sole beneficiary of the trusts and is entitled to receive distributions from the trusts after payments to bondholders and certain reserve requirements have been satisfied. The City is not entitled to cause the trusts to make distributions to it and consequently, NYCTLT is presented as Other Trust Funds in the City’s financial statements. NYCTLT (2009-A and 2008-A) entered into an agreement dated June 30, 2011 to transfer all of their rights and obligations to NYCTLT (1998-2). Although, the Trusts continue to legally exist, they have no assets or liabilities at June 30, 2011. In accordance with agreement, NYCTLT (1998-2) will pay all administrative expenses incurred after June 30, 2011 and any costs associated with the transfer. The separate annual financial statements of NYCTLT are available at: Office of the Comptroller, Bureau of Accountancy—Room 200 South, 1 Centre Street, New York, New York 10007.

5. Other Postemployment Benefits

Program Description. The New York City Health Benefits Program (Program) is a single-employer defined benefit healthcare plan funded by PLAN, 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 Premium reimbursements and welfare fund contributions. PLAN issues a publicly available financial report that includes financial statements and required supplementary information for funding PLAN’s OPEB and the report is available at: Office of the Comptroller, Bureau of Accountancy—Room 200 South, 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 Premium Reimbursements; Welfare Fund Benefits stem from the City’s various collective bargaining agreements. The City is not required by law or contractual agreement to provide funding for the Program other than the pay-as-you-go amounts necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal year ended June 30, 2011, the City paid \$1.6 billion on behalf of the Program. 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. Program 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 (ARC) of the employer, 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 Program, and changes in the City’s net OPEB obligation to the Program for the year ended June 30, 2011:

	<u>Amount</u> (in thousands)
Annual required contribution	\$ 85,479,826
Interest on net OPEB obligation	2,999,394
Adjustment to annual required contribution	(77,984,227)
Annual OPEB cost (expense)	10,494,993
Payments made	1,572,872
Increase in net OPEB obligation	8,922,121
Net OPEB obligation—beginning of year	74,984,832
Net OPEB obligation—end of year	<u>\$ 83,906,953</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Program, and the net OPEB obligation for the fiscal years ended June 30, 2011, 2010, 2009, 2008, 2007 and 2006 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Paid</u>	<u>Net OPEB Obligation</u>
	(in thousands)		
6/30/11	\$10,494,993	15.0%	\$83,906,953
6/30/10	11,021,425	14.3	74,984,832
6/30/09	3,937,583	42.8	65,544,361
6/30/08	7,419,205	25.5	63,290,218
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, 2010, the most recent actuarial valuation date, the funded status was 3.7%. The actuarial accrued liability for benefits was \$82.0 billion, and the actuarial value of assets was \$3.0 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$79.0 billion. The covered payroll (annual payroll of active employees covered) was \$19.7 billion, and the ratio of the UAAL to the covered payroll was 400.6%. 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 incorporated the use of demographic and salary increase assumptions among others as reflected below. Amounts determined regarding the funded status 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 in the RSI section immediately following the Notes to Financial Statements, disclosures required by GASB43 for OPEB Plan reporting, presents GASB45 results of OPEB valuations as of June 30, 2010, 2009, 2008, 2007, 2006, and 2005 and the schedule provides a six year information trend 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, 2010 and 2009 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 (NYCERS); (ii) Teachers’ Retirement System of the City of New York Qualified Pension Plan (TRS); (iii) New York City Board of Education Retirement System Qualified Pension Plan (BERS); (iv) New York City Police Pension Fund (POLICE); and (v) New York City Fire Department Pension Fund (FIRE). 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, 2009 OPEB actuarial valuation but have been supplemented by (1) probabilities of retirement adopted by the Retirement Board of TRS and applicable to active participants in the optional 55/25 Plan established under Chapter 19 of the Laws of 2008, (2) additional actuarial assumptions adopted by the Board of Trustees of POLICE for valuing the Benefits payable to Tier III active members of POLICE, (3) revised post-retirement mortality assumptions to reflect more recent experience and the Actuary’s updated estimates of future experience.

The OPEB-specific actuarial assumptions used in the June 30, 2010 OPEB actuarial valuation of the Plan are as follows:

Valuation Date	June 30, 2010.
Discount Rate	4.0% per annum. ⁽¹⁾
Per Capita Claims Costs	HIP HMO and GHI/EBCBS benefit costs reflect age adjusted premiums. Age adjustments from assumed average age of covered population for non-Medicare retirees and HIP HMO Medicare retirees. Age adjustment based on actual age distribution of the GHI/EBCBS Medicare covered population. Insured premiums without age adjustment for other coverage. Premiums assumed to include administrative costs.

Employer premium contribution schedules for the month of July 2010 and January 2011 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 date and by specific Plan option. These variations are the result of differing Medicare Advantage reimbursements. The various monthly rates were blended by proportion of enrollment. For other rates, where the January 2011 premium rate was different than the July 2010 premium rate, the valuation assumed that the January 2011 rate was more representative of the long-range cost of the arrangement.

⁽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:

Plan	Monthly Rate	
	FY '11 ⁽¹⁾	FY '10 ⁽²⁾
HIP HMO		
Non-Medicare Single	\$ 462.43	\$ 415.62
Non-Medicare Family	1,132.93	1,018.26
Medicare	132.40	88.78
GHI/EBCBS		
Non-Medicare Single	418.94	380.95
Non-Medicare Family	1,087.56	987.91
Medicare	166.00	153.69
Others		
Non-Medicare Single	462.43	415.32
Non-Medicare Family	1,132.93	1,017.52
Medicare	166.00	153.69

⁽¹⁾ Used in June 30, 2010 actuarial valuation.

⁽²⁾ Used in June 30, 2009 actuarial valuation.

Welfare Funds Welfare Fund contributions reflect a three year trended average of reported annual contribution amounts for current retirees. A trended average is used instead of a single reported Welfare Fund amount to smooth out negotiated variations. The Welfare Fund rates reported for the previous two valuations were trended to current levels based on a historic increase rate of 2.4% for fiscal year 2010 and 3.9% for fiscal year 2009 and earlier, approximating overall recent growth of Welfare Fund contributions.

For the June 30, 2009 and the June 30, 2010 OPEB actuarial valuations, certain lump-sum amounts have been included in calculating the three-year trended average. Furthermore, for the June 30, 2010 OPEB actuarial valuation, retroactive adjustments to Welfare Fund contribution rates were used in the trended average as of the dates they were effective (i.e., using the retroactive date).

Reported annual contribution amounts for the last three years shown in Appendix B, Tables 2a to 2e of the Report on the Sixth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program dated September 21, 2011, for fiscal year 2011 used for current retirees.

Weighted average annual contribution rates used for future retirees:

	Annual Rate	
	FY'11	FY'10
NYCERS	\$1,789	\$1,790
TRS	1,871	1,835
BERS	1,782	1,792
POLICE	1,734	1,677
FIRE	1,764	1,744

Contributions were assumed to increase by Medicare Plans trend rates.

For Welfare Fund contribution amounts reflected in the June 30, 2009 actuarial valuation for current retirees, see Report on the Fifth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program dated September 23, 2010.

Medicare Part B Premiums

<u>Calendar Year</u>	<u>Monthly Premium</u>
2008	\$ 96.40
2009	96.40
2010 (<i>announced</i>)	110.50
2010 (<i>used</i>)	100.21
2011 (<i>announced</i>)	115.40*
2011 (<i>used</i>)	101.53*

* Reflected only in the June 30, 2010 OPEB actuarial valuation.

2011 Medicare Part B Premium assumed to increase by Medicare Part B trend rates.

Medicare Part B Premium reimbursement amounts have been updated to reflect actual premium rates announced for calendar years through 2011. The actual 2012 Medicare Part B Premium was not announced at the time these calculations were prepared and thus, was not reflected in the valuation.

Due to the fact that there were no cost-of-living increases in Social Security benefits for Calendar Years 2010 and 2011, most Medicare Part B participants will not actually be charged the Medicare Part B Premium announced for 2011.

For anyone having their standard Medicare Part B Premium paid out of their Social Security check in 2009, the Medicare Part B Premium is frozen at the 2009 level. Individuals first collecting Social Security in 2010, or who first pay Medicare Part B Premiums in 2010 (e.g., turning age 65) would pay the full base 2010 premium of \$110.50. This will continue for 2011.

Individuals first collecting Social Security in 2011, or who first pay Medicare Part B Premiums in 2011 would pay the full base premium of \$115.40, while those who first were covered in 2010 would pay \$110.50 throughout 2011 as well. Individuals whose Medicare Part B Premiums are paid directly by other entities (e.g., Medicaid for individuals in a nursing home) would have \$110.50 paid on their behalf during 2010, and \$115.40 paid on their behalf during 2011.

Individuals who pay the Medicare Part B Income Related Monthly Adjustment Amount (“IRMAA”) are not subject to the freeze, and paid higher amounts during 2010 that are predicted on the \$110.50. For 2011 they will pay higher amounts predicated on the \$115.40. The Federal government estimates that about 3/4 of Medicare retirees will owe only \$96.40 or \$110.50 per month during 2011.

For the June 30, 2009 OPEB actuarial valuation (i.e., Fiscal Year 2010), the annual premium used (i.e., \$1,179.64) equaled 6 months of the Calendar Year 2009 premium plus 6 months of:

- 73% of the Calendar Year 2009 monthly premium (i.e., \$96.40), representing the approximate percentage of the overall U.S. Medicare population that will pay the frozen amount, and
- 27% of the Calendar Year 2010 monthly premium (i.e., \$110.50), representing the approximate percentage of the overall U.S. Medicare population that will pay the Calendar Year 2010 amount.

For the June 30, 2010 OPEB actuarial valuation (i.e., Fiscal Year 2011), the annual premium used (i.e., \$1,210.44) equals 6 months of the Calendar Year 2010 premium (i.e., 73% of \$96.40 + 27% of \$110.50) plus 6 months of:

- 73% of the Calendar Year 2009 monthly premium (i.e., \$96.40), representing the approximate percentage of the overall U.S. Medicare population that will pay the frozen amount, and
- 27% of the Calendar Year 2010 monthly premium (i.e., \$110.50), representing the approximate percentage of the overall U.S. Medicare population that will pay the Calendar Year 2010 amount.

These blended premiums reflect an approximation of the overall amount collected for Medicare Part B and are a better measure upon which to base future projections.

Overall Medicare Part B Premium amounts assumed to increase by the following percentages to reflect the income-related increases in Medicare Part B Premiums for high income individuals:

Fiscal Year	Income-related Medicare Part B Increase	
	June 30, 2010 Valuation	June 30, 2009 Valuation
2010	N/A	3.3%
2011	3.4%	3.4
2012	3.5	3.5
2013	3.6	3.6
2014 and later	Increasing by .1% per year to a maximum of 5.0%	Increasing by .1% per year to a maximum of 5.0%

N/A: Not Applicable.

Medicare Part B Premium

Reimbursement Assumption For the June 30, 2010 OPEB actuarial valuation, 90% of Medicare participants are assumed to claim reimbursement (unchanged from last year).

Health Care Cost Trend Rate (HCCTR) . . Covered medical expenses are assumed to increase by the following percentages (unchanged from last valuation):

Year Ending ⁽¹⁾	Pre-Medicare Plans	Medicare Plans	Medicare Part B Premium
2011 ⁽²⁾	9.5%	5.0%	8.0%
2012	9.5	5.0	7.5
2013	9.5	5.0	7.0
2014	9.5	5.0	6.5
2015	9.0	5.0	6.0
2016	8.5	5.0	5.5
2017	8.0	5.0	5.0
2018	7.5	5.0	5.0
2019	7.0	5.0	5.0
2020	6.5	5.0	5.0
2021	6.0	5.0	5.0
2022	5.5	5.0	5.0
2023 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, 2010 OPEB actuarial valuation, rates shown for 2011 were not reflected since actual values for the fiscal year 2011 per capita costs, fiscal year 2011 Welfare Fund contributions, and calendar year 2011 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.

<u>Age</u>	<u>Annual Increase</u>
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. The age adjustments were based on assumed age 40 for non-Medicare-eligible retirees and assumed age 73 for HIP HMO Medicare-eligible retirees. An actual age distribution based on reported census information was used for Medicare-eligible GHI/EBCBS retirees and dependents.

The age adjustment for the non-Medicare GHI/EBCBS premium reflects a 5% (unchanged) reduction in the GHI portion of the premium for the estimated margin anticipated to be returned. GHI represents \$200.57 of the \$418.94 single non-Medicare GHI/EBCBS monthly rate for the June 30, 2010 OPEB actuarial valuation and \$183.55 of the \$380.95 single non-Medicare GHI/EBCBS monthly rate for the June 30, 2009 OPEB actuarial valuation.

In addition to age adjustment, the premiums for HIP HMO Medicare-eligible retirees were multiplied by the following factors to reflect actual calendar year 2011 premiums and future anticipated changes in Medicare Advantage reimbursement rates. As of June 30, 2009, the factors had been updated to reflect that Medicare Advantage reimbursement rates are expected to be significantly reduced over the next several years. The reductions in the reimbursement rates were part of the National Health Care Reform (NHCR) legislation and are likely to be most significant in areas where medical costs are greater, such as New York City. In developing the adjustment factors for the June 30, 2009 and the June 30, 2010 OPEB actuarial valuations, it was assumed that the cost of HIP coverage would not be allowed to exceed the cost of GHI/EBCBS coverage for Medicare retirees. The adjustment factors used as of June 30, 2009 are shown for comparative purposes:

<u>Fiscal Year</u>	<u>Factor*</u>	
	<u>6/30/10 Valuation</u>	<u>6/30/09 Valuation</u>
2010	N/A	1.0000
2011	1.0000	1.5000
2012	1.0250	1.5800
2013	1.0850	1.6700
2014	1.1500	1.7200
2015	1.2000	1.7200
2016	1.2300	1.7200
Thereafter	1.2300	1.7200

* Includes anticipated impact of National Health Care Reform.
N/A: Not Applicable.

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 OPEB actuarial valuations for the following portion of retirees:

	Valuation as of June 30	
	2010	2009
NYCERS	35%	35%
TRS	45	45
BERS	45	45
POLICE	15	15
FIRE	20	20

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 table:

Benefits	Plan Participation Assumptions				
	June 30, 2010 and June 30, 2009 Valuations				
	NYCERS	TRS	BERS	POLICE	FIRE
<u>Pre-Medicare</u>					
-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
<u>Medicare</u>					
-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
<u>Post-Medicare Migration</u>					
-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

Waivers are assumed to include participants who do not qualify for coverage because they were working less than 20 hours a week at termination.

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 to children (coverage to age 26 based on legislative mandates under recently enacted National Health Care Reform) of uniformed members of the Police or Fire Departments who die 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.
- (iii) Effective August 31, 2010 surviving spouses of retired uniformed members of the Departments of Correction and Sanitation 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), and for all survivors of uniformed members of the Departments of Correction and Sanitation, 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. This assumption was applied only to the survivors of POLICE and FIRE who died other than in the Line of Duty in last year's valuation. Effective for the June 30, 2010 OPEB actuarial valuation, the valuation includes an estimate of the value of benefits provided to existing survivors of POLICE and FIRE retirees who died other than in the Line of Duty, who qualified for lifetime continuation coverage prior to the valuation date, based on the assumptions outlined above. The valuation includes the entire cost of additional surviving spouse benefits for basic coverage and Medicare Part B Premium reimbursement for Line of Duty survivors, although the OA 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 26. Child dependents of future retirees assumed to receive coverage for eight years after retirement.

Group	Dependent Coverage Assumptions				
	June 30, 2010 and June 30, 2009 Valuations				
	NYCERS	TRS	BERS	POLICE	FIRE
<u>Male</u>					
-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	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
<u>Female</u>					
-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	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

For accidental death, 80% 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 the NYCERS for determining employer contributions for fiscal years beginning 2006 adopted by the Boards of Trustees (see the GOLD BOOKS), with the addition of supplemental assumptions adopted by TRS to value the optional TRS 55/25 Plan and supplemental assumptions adopted by POLICE to value Tier III benefits. For the June 30, 2010 OPEB actuarial valuation, the probabilities of death after service retirement and the probabilities of death after disability retirement have been revised to reflect the Actuary's updated estimates of future experience.

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 who enroll in community-rated HMO's, including HIP, since these individuals pay their full community rate. However, the City's costs under the experience-rated GHI/EBCBS coverage are 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, 2010 OPEB actuarial valuation of a lump-sum COBRA cost of \$675 for terminations during fiscal year 2011 (\$625 lump-sum cost during fiscal year 2010 was assumed in the June 30, 2009 actuarial valuation). The \$675 (\$625) lump-sum amount is increased by the Pre-Medicare HCCTR for future years but is not adjusted for age-related morbidity.

Cadillac Tax	Effective with the June 30, 2009 OPEB actuarial valuation, a load is applied to all Pre-Medicare, Medicare, and Medicare Part B Premium liabilities to estimate the impact of the high cost plan excise tax (Cadillac Tax) that will be imposed beginning in 2018 under NHCR. The additional Cadillac Tax due to the riders is assumed to be reflected in the contribution required for the rider. The additional Cadillac Tax due to amounts provided by Welfare Fund benefits is assumed to be absorbed by the Welfare Fund or by lower net Welfare Fund contribution amounts. For both the June 30, 2009 and the June 30, 2010 OPEB actuarial valuations the load was 1/2%.
Active/Inactives Liabilities	For the June 30, 2010 OPEB actuarial valuation it was assumed that the liability for the Active/Inactive members should be 40% of the measured liability of the Active/Inactive population. This is roughly equivalent to assuming 60% of the Active/Inactive members will terminate membership prior to vesting and not receive OPEB.
Stabilization Fund	A 0.6% load is applied on all City GASB45 obligations (3/4% in last valuation). The same loads apply to the GASB43 obligations in the current and preceding valuation. The load is not applicable to Component Units.
Educational Construction Fund	The actuarial assumptions used for determining obligations for ECF are shown in Appendix E of the Report on the Sixth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated September 21, 2011. The Report was prepared as of June 30, 2010, in accordance with GASB43 and 45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 200 South, 1 Centre Street, New York, New York 10007.
CUNY TIAA	The actuarial assumptions used for determining obligations for CUNY TIAA are shown in Appendix F of the Report on the Sixth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated September 21, 2011. The Report was prepared as of June 30, 2010 in accordance with GASB43 and 45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 200 South, 1 Centre Street, New York, New York 10007.

6. 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 Department 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 Department Pension Fund as set forth in ACNY Section 13-313.1.

The NYCRS provide pension benefits to retired employees based on salary, length of service, member contributions, Plan and Tier. In addition, the 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 (10 years for certain members who joined TRS and BERS beginning Calendar Year 2010). Except for NYCERS and BERS, permanent, full-time employees are generally required to become members of a NYCRS upon employment. Permanent full-time employees who are eligible to participate in NYCERS and BERS are generally 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.

Currently there are four Tiers, referred to as Tier I, Tier II, Tier III and Tier IV. Members are assigned a Tier based on Plan and membership date. The Tier II Plan provisions have expired as of June 30, 2009. This affects new hires into the uniformed forces of Police and Fire (new members of POLICE and FIRE) and Detective Investigators who become new members of NYCERS. Absent new legislation, benefits for these future members are subject to Tier III or Tier IV Plan provisions that, in general, are at a lesser level than Tier II benefits.

Chapter 504 of the Laws of 2009 (Chapter 504/09) modified some of the Plan provisions for certain members who first joined TRS or BERS after Calendar Year 2009. These modifications are expected to reduce future employer pension contributions.

Plan Membership

As of June 30, 2010, June 30, 2009 and June 30, 2008, the membership of NYCERS¹ consisted of:

	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
Plan Membership at June 30, 2010:						
Retirees and Beneficiaries Receiving Benefits	132,487	72,356	13,969	44,634	17,140	280,586
Terminated Vested Members Not Yet						
Receiving Benefits	8,941	8,170	199	848	33	18,191
Other Inactives*	19,332	10,803	3,661	1,836	23	35,655
Active Members	<u>184,982</u>	<u>111,647</u>	<u>23,324</u>	<u>34,597</u>	<u>11,080</u>	<u>365,630</u>
Total Plan Membership	<u>345,742</u>	<u>202,976</u>	<u>41,153</u>	<u>81,915</u>	<u>28,276</u>	<u>700,062</u>

* Represents members no longer on payroll, including pending withdrawals, members on leaves of absence, 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, 2008 (Lag) valuation date was used for determining the Fiscal Year 2010 Employer Contributions.

	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
Plan Membership at June 30, 2009:						
Retirees and Beneficiaries Receiving Benefits	131,031	70,825	13,641	44,285	17,263	277,045
Terminated Vested Members Not Yet						
Receiving Benefits	8,867	7,486	229	843	34	17,459
Other Inactives*	21,513	8,689	3,673	1,998	30	35,903
Active Members	<u>186,284</u>	<u>113,132</u>	<u>23,303</u>	<u>35,608</u>	<u>11,460</u>	<u>369,787</u>
Total Plan Membership	<u>347,695</u>	<u>200,132</u>	<u>40,846</u>	<u>82,734</u>	<u>28,787</u>	<u>700,194</u>

* Represents members no longer on payroll, including pending withdrawals, members on leaves of absence, members awaiting refunds of contributions or benefit determinations, etc.

	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
Plan Membership at June 30, 2008:						
Retirees and Beneficiaries Receiving Benefits	130,664	69,775	13,196	44,290	17,404	275,329
Terminated Vested Members Not Yet						
Receiving Benefits	8,774	7,080	283	813	32	16,982
Other Inactives*	24,265	10,890	3,999	2,168	53	41,375
Active Members	<u>183,654</u>	<u>112,472</u>	<u>22,729</u>	<u>35,337</u>	<u>11,574</u>	<u>365,766</u>
Total Plan Membership	<u>347,357</u>	<u>200,217</u>	<u>40,207</u>	<u>82,608</u>	<u>29,063</u>	<u>699,452</u>

* Represents members no longer on payroll, including pending withdrawals, members on leaves of absence, members awaiting refunds of contributions or benefit determinations, etc.

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 NYCERS, 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 basic 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, TRS 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.

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 (OYLM) 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).

Annual Pension Costs

Beginning Fiscal Year 2006 the NYCERS annual pension costs and the City's Statutory Contributions are determined under OYLM on the basis of revised actuarial assumptions, the Frozen Initial Liability Actuarial Cost Method (unchanged) and a revised Actuarial Asset Valuation Method (AAVM).

The annual pension costs for the NYCERS, for the Fiscal Years ended June 30, 2011, 2010 and 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
		(in millions)	
NYCERS	\$2,387.2	\$2,197.7	\$2,150.4
TRS	2,469.0	2,484.1	2,223.6
BERS	180.2	147.3	134.2
POLICE	2,057.6	1,954.7	1,905.4
FIRE	883.6	867.4	837.0
Total annual pension costs	<u>\$7,977.6</u>	<u>\$7,651.2</u>	<u>\$7,250.6</u>

For Fiscal Year 2011, the City's Statutory Contributions for the NYCERS, based on the actuarial valuations performed as of June 30, 2009 (Lag), plus other pension expenditures, were approximately \$7,008.9 million.

For Fiscal Years 2011, 2010 and 2009, 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 2011, 2010 and 2009, 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.

The City's Statutory Contributions for the Fiscal Years ended June 30, 2011, 2010 and 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
		(in millions)	
NYCERS*	\$1,320.4	\$1,205.6	\$1,186.4
TRS*	2,427.7	2,450.7	2,196.2
BERS*	170.5	139.5	127.8
POLICE	2,083.6	1,981.0	1,932.2
FIRE	890.7	874.3	843.8
OTHER**	116.0	104.5	102.8
Total Statutory Contributions	<u>\$7,008.9</u>	<u>\$6,755.6</u>	<u>\$6,389.2</u>

* 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 for all employers participating in NYCERS, TRS, and BERS

for Fiscal Years ended June 30, 2011, 2010 and 2009 were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
NYCERS	55.31%	54.86%	55.17%
TRS	98.33	98.66	98.77
BERS	94.62	94.69	95.22

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 the NYCERS. 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 2011 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 2011 are as follows:

	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
		(in millions)	
(1) Annual Required Contribution	\$2,083.6	\$890.7	\$2,974.3
(2) Interest on Net Pension Obligation	34.6	15.4	50.0
(3) Adjustment to Annual Required Contribution	60.7	22.5	83.2
(4) Annual Pension Cost=(1)+(2)-(3)	2,057.5	883.6	2,941.1
(5) Statutory Contribution	2,083.6	890.7	2,974.3
(6) Change in Net Pension Obligation=(4)-(5)	(26.1)	(7.1)	(33.2)
(7) Net Pension Obligation Beginning of Year	432.4	193.0	625.4
(8) Net Pension Obligation End of Year=(6)+(7)	<u>\$ 406.3</u>	<u>\$185.9</u>	<u>\$ 592.2</u>

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

	<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>Of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
		(in millions)		
POLICE	6/30/11	\$2,057.5	101%	\$406.3
	6/30/10	1,954.7	101	432.4
	6/30/09	1,905.4	101	458.7
FIRE	6/30/11	883.6	101	185.9
	6/30/10	867.4	101	193.0
	6/30/09	837.0	101	199.9

Additional information as of the latest actuarial valuation follows:

	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>
Valuation Date ⁽¹⁾	June 30, 2009 (Lag)				
Actuarial Cost Method ⁽²⁾ . .	Frozen Initial Liability (Aggregate)	Frozen Initial Liability (Aggregate)	Frozen Initial Liability (Aggregate)	Frozen Initial Liability (Aggregate)	Frozen Initial Liability (Frozen Entry Age)
Amortization Method Initial Unfunded	Increasing Dollar				
Remaining Amortization Period Initial Unfunded	N/A	N/A	N/A	N/A	N/A
Asset Valuation Method . .	6-Year Smoothed Market				

N/A: Not Applicable.

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 ended June 30, 2011 and 2010 are as follows:

	2011	2010
<i>Valuation Date</i>	<i>June 30, 2009 (Lag).</i> ⁽¹⁾	<i>June 30, 2008 (Lag).</i> ⁽¹⁾
<i>Actuarial Cost Method</i>	<i>Frozen Initial Liability.</i> ⁽²⁾	<i>Frozen Initial Liability.</i> ⁽²⁾
<i>Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)</i>	<i>Not Applicable.</i> ⁽³⁾	<i>Increasing dollar for FIRE.</i> ⁽³⁾ <i>All outstanding components of UAAL are being amortized over closed periods.</i>
<i>Remaining Amortization Period</i> . .	<i>Not Applicable.</i> ⁽³⁾	<i>1 year for FIRE</i> ⁽³⁾ .
<i>Actuarial Asset Valuation Method</i>	<i>Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.</i>	<i>Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.</i>
<i>Investment Rate of Return</i>	<i>8.0% per annum</i> ⁽⁴⁾ <i>(4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>	<i>8.0% per annum</i> ⁽⁴⁾ <i>(4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>
<i>Post-Retirement Mortality</i>	<i>Tables adopted by Boards of Trustees during Fiscal Year 2006.</i>	<i>Tables adopted by Boards of Trustees during Fiscal Year 2006.</i>
<i>Active Service: Withdrawal Death, Disability, Retirement</i>	<i>Tables adopted by Board of Trustees during Fiscal Year 2006.</i> ⁽⁴⁾⁽⁵⁾	<i>Tables adopted by Board of Trustees during Fiscal Year 2006.</i> ⁽⁴⁾
<i>Salary Increases</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.</i> ⁽⁶⁾	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.</i> ⁽⁶⁾
<i>Cost-of-Living Adjustments</i>	<i>1.3% per annum.</i> ⁽⁶⁾	<i>1.3% per annum.</i> ⁽⁶⁾

- ⁽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, BERS and POLICE, the financial results for Fiscal Years 2010 and 2011 using this Frozen Initial Liability Actuarial Cost Method are identical to those that would be produced using the Aggregate Actuarial Cost Method. For FIRE for Fiscal Years 2010 and 2011 the financial results using this Frozen Initial Liability Actuarial Cost Method are the same as those that would be produced using the Frozen Entry Age Actuarial Cost Method.
- ⁽³⁾ In conjunction with Chapter 85 of the Laws of 2000 (Chapter 85/00), there is an amortization method. However, the initial UAAL of the five NYCERS equal \$0 and no amortization periods are required.
- ⁽⁴⁾ Supplemental probabilities of retirement were adopted by the TRS Retirement Board applicable to benefits payable under Chapter 19 of the Laws of 2008.
- ⁽⁵⁾ Additional assumptions were adopted by the POLICE Board of Trustees for valuing the benefits payable to Tier III active members.
- ⁽⁶⁾ 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 NYCERS are conducted by an independent actuarial firm every two years.

The most recent actuarial study analyzed experience for Fiscal Years 2008 and 2009. In a draft report dated June 2011 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 NYCERS 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 NYCERS 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 NYCERS 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 (ie., 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 180 of the Laws of 2011 extended the Actuarial Interest Rate (AIR) for one year, through June 30, 2012.

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 the 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 the 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.

NYCERS 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 the 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. As a result of insufficient fund assets to pay benefits as of June 30, 2011, NYCERS has commenced the transfer of assets to pay benefits of the fund.
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 after Calendar Year 2005.

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 2011 and 2010, 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, 2011 and June 30, 2010, respectively.

For Fiscal Years 2011 and 2010, required transfers from NYCERS of approximately \$2.4 million and \$2.4 million, respectively, were made to HPOVSF.

For Fiscal Years 2011 and 2010, required transfers from NYCERS of approximately \$2.8 million and \$3.0 million, respectively, were made to HPSOVSF.

For Fiscal Year 2011, a required transfer from NYCERS of approximately \$4.0 million was made to TPOVSF. No transfer from NYCERS was required to TPOVSF for Fiscal Year 2010.

For Fiscal Years 2011 and 2010, required transfers from NYCERS of approximately \$3.2 million and \$3.2 million, respectively, were made to TPSOVSF.

As of June 30, 2011, NYCERS has accrued approximately \$1.2 million, \$1.4 million, \$2.1 million and \$1.6 million toward the amounts expected to be transferred to HPOVSF, HPSOVSF, TPOVSF and TPSOVSF, respectively, to meet the December 2011 benefit obligations of those funds.

The funded status of each NYCERS as of June 30, 2009, the date of the most recent actuarial valuation under One-Year Lag Methodology, where the Actuarial Accrued Liability is defined using the Entry Age Actuarial Cost Method, is as follows:

	Funded Status					UAAAL as a Percentage of Covered Payroll
	Entry Age Accrued Liability Basis					
Actuarial Value of Assets	Actuarial Liability (AAL) —Entry Age	Unfunded AAL (UAAAL)	Funded Ratio	Covered Payroll		
(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)	
(in millions)						
NYCERS	\$41,710.2	\$53,052.7	\$11,342.5	78.6%	\$11,881.0	95.5%
TRS	30,775.0	47,988.5	17,213.5	64.1	8,016.6	214.7
BERS	1,963.7	2,858.1	894.4	68.7	910.6	98.2
POLICE	22,676.2	31,822.0	9,145.8	71.3	3,261.1	280.5
FIRE	7,304.8	12,865.0	5,560.2	56.8	1,079.7	515.0

The schedule of funding progress in the RSI section, immediately following the Notes to Financial Statements, provides information about whether the Actuarial Asset Values are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (determined in a manner consistent with the Plan's funding method).

THE CITY OF NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

A. Schedule of Pension Funding Progress

The schedule of funding progress presents the following information for each of the past twelve consecutive Fiscal Years for each of the NYCERS. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

	(1)	(2)	(3)	(4)	(5)	(6)	
	Actuarial Valuation Date	Actuarial Asset Value (AAV)	Actuarial Accrued Liability (AAL)*	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(a) & (b)	(2) - (1)	(1) ÷ (2)	(1) ÷ (2)	(3) ÷ (5)	
			(in millions)				
NYCERS	6/30/09(Lag)	\$41,710.2	\$41,710.2	\$0.0	100.0%	\$11,881.0	0.0%
	6/30/08(Lag)	40,722.2	40,722.2	0.0	100.0	11,306.0	0.0
	6/30/07(Lag)	38,925.7	38,959.1	33.4	99.9	10,762.0	0.3
	6/30/06(Lag)	38,367.1	38,431.3	64.2	99.8	10,127.8	0.6
	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	40,786.7	148.1	99.6	9,361.2**	1.6
	6/30/04	40,088.2	40,236.3	148.1	99.6	9,157.4	1.6
	6/30/03	42,056.0	42,244.1	188.1	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	6/30/09(Lag)	30,775.0	30,775.0	0.0	100.0	8,016.6	0.0
	6/30/08(Lag)	32,227.4	32,227.4	0.0	100.0	7,926.6	0.0
	6/30/07(Lag)	33,854.2	33,856.7	2.5	100.0	7,222.5	0.0
	6/30/06(Lag)	32,405.6	32,410.6	5.0	100.0	6,978.7	0.1
	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	33,182.7	13.5	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	36,147.6	5.2	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	6/30/09(Lag)	1,963.7	1,963.7	0.0	100.0	910.6	0.0
	6/30/08(Lag)	2,084.1	2,084.1	0.0	100.0	852.1	0.0
	6/30/07(Lag)	1,983.7	1,985.6	1.9	99.9	777.6	0.2
	6/30/06(Lag)	1,830.3	1,834.0	3.7	99.8	750.0	0.5
	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	6/30/09(Lag)	22,676.2	22,676.2	0.0	100.0	3,261.1	0.0
	6/30/08(Lag)	21,393.2	21,393.2	0.0	100.0	3,095.9	0.0
	6/30/07(Lag)	19,800.6	19,800.6	0.0	100.0	2,961.6	0.0
	6/30/06(Lag)	18,689.5	18,689.5	0.0	100.0	2,816.9	0.0
	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

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited), Continued

		(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial Valuation Date	Actuarial Asset Value (AAV)	Actuarial Accrued Liability (AAL)*	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(a) & (b)	(2) - (1)	(1) ÷ (2)		(3) ÷ (5)
				(in millions)			
FIRE	6/30/09(Lag)	\$7,304.8	\$7,327.6	\$22.8	99.7%	\$1,079.7	2.1%
	6/30/08(Lag)	6,943.0	6,986.2	43.2	99.4	1,051.6	4.1
	6/30/07(Lag)	6,459.1	6,520.7	61.6	99.1	1,000.4	6.2
	6/30/06(Lag)	6,174.1	6,252.0	77.9	98.8	932.7	8.4
	6/30/05(Lag)	6,169.2	6,261.6	92.4	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	6,290.9	105.1	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	6,660.8	135.1	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) Beginning with the June 30, 2004 (Lag) actuarial valuation the Actuarial Asset Valuation Method (“AAVM”) was changed to a method that reset 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 revised AAVM, any Unexpected Investment Returns (“UIR”) for Fiscal Years 2000 and later are phased into the AAV beginning the following June 30 at rates 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.

This revised AAVM was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the Fiscal Year 2006 Employer Contributions in conjunction with the One-Year Lag Methodology and the revised economic and noneconomic assumptions. 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 (or 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 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.

B. Schedule of Employer Contributions

Total Employer Contributions to the NYCERS										
Fiscal Year Ended June 30	NYCERS		TRS		BERS		POLICE		FIRE	
	Annual Required Contribution	Percentage Contributed								
(in millions)										
2011	\$2,387.2	100.0%	\$2,469.0	100.0%	\$180.2	100.0%	\$2,083.6	100.0%	\$890.7	100.0%
2010	2,197.7	100.0	2,484.1	100.0	147.3	100.0	1,981.0	100.0	874.3	100.0
2009	2,150.4	100.0	2,223.6	100.0	134.2	100.0	1,932.2	100.0	843.8	100.0
2008	1,874.2	100.0	1,916.5	100.0	143.1	100.0	1,797.8	100.0	780.2	100.0
2007	1,471.0	100.0	1,600.9	100.0	129.8	100.0	1,544.3	100.0	683.2	100.0
2006	1,024.4	100.0	1,316.6	100.0	90.8	100.0	1,337.7	100.0	608.8	100.0
2005	1,020.4	80.6	1,304.0	94.2	106.4	90.9	1,123.9	91.9	518.4	94.4
2004	542.2	57.3	1,015.3	90.6	95.0	88.5	917.7	88.5	427.7	91.8
2003	197.8	54.6	805.8	79.4	87.9	79.9	821.4	76.1	389.5	81.4
2002	105.7	100.0	607.8	83.9	66.7	84.8	636.5	84.0	346.2	87.3
2001	100.0	100.0	572.0	77.8	52.1	75.3	543.8	76.0	298.9	80.7
2000	68.6	100.0	181.8	100.0	9.5	100.0	250.0	100.0	182.9	100.0

C. Schedule of Funding Progress for the New York City Other Postemployment Benefits Plan

The schedule of funding progress presents GASB45 results of OPEB valuations as of fiscal years ended June 30, 2010, 2009, 2008, 2007, 2006, and 2005. The schedule provides a six year information trend 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)	(2)	(3)	(4)	(5)	(6)
	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
			(2)-(1)	(1)÷(2)		(3)÷(5)
(in thousands)						
6/30/10	\$3,022,624	\$82,063,852	\$79,041,228	3.7%	\$19,731,127	400.6%
6/30/09	3,103,186	73,674,157	70,570,971	4.2	19,469,182	362.5
6/30/08	3,186,139	65,164,503	61,978,364	4.9	18,721,681	331.1
6/30/07	2,594,452	62,135,453	59,541,001	4.2	17,355,874	343.1
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.



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March 8, 2012

HONORABLE JOHN C. LIU
COMPTROLLER
The City of New York
Municipal Building
New York, New York 10007

Dear Comptroller Liu:

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 2012 Series E and F (the “Bonds”).

The Bonds are issued pursuant to 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. In rendering the opinions set forth herein, we reviewed certificates of the City and such other agreements, documents and matters to the extent we deemed necessary to render our opinions. We have not undertaken an independent audit or investigation of the matters described or contained in the foregoing certificates, agreements and documents. We have assumed, without undertaking to verify, the genuineness of all documents and signatures presented to us; the due and legal execution and delivery thereof by, and validity against, any parties other than the City; and the accuracy of the factual matters represented, warranted or certified therein.

Based on the foregoing and our examination of existing law, 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. The City has covenanted to comply with applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), relating to the exclusion from gross income of the interest on the Bonds for purposes of federal income taxation. Assuming compliance by the City with such provisions of the Code, interest on the Bonds will not be included in the gross income of the owners thereof for purposes of federal income taxation. Failure by the City to comply with such applicable requirements may cause interest on the Bonds to be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds. Further, we render no opinion as to the effect on the exclusion from gross income of interest on the Bonds of any action taken or not taken after the date of this opinion without our approval.

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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 to the public 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 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,

APPENDIX D

VARIABLE RATE DEMAND BONDS

<u>Series</u>	<u>Outstanding Principal Amount</u>	<u>Provider</u>	<u>Facility Type</u>	<u>Expiration or Optional Termination by Provider</u>
1994A-4	\$ 36,750,000	BayernLB	LOC ⁽¹⁾	November 30, 2015
1994A-5	25,000,000	KBC Bank, N.V.	LOC	August 6, 2012
1994A-6	30,000,000	Landesbank Hessen-Thüringen Girozentrale	LOC	July 13, 2012
1994A-7	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
1994A-8	25,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994A-9	24,600,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994A-10	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994B-2	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994B-3	10,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994C	25,300,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994E-2	40,700,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994E-4	50,000,000	BNP Paribas	LOC	November 1, 2014
1994E-5	67,100,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994H-2 ⁽²⁾	50,000,000	Wells Fargo Bank, N.A.	SBPA ⁽³⁾	March 12, 2012
1994H-3	90,000,000	State Street Bank and Trust Company	SBPA	October 14, 2013
1994H-6	32,800,000	Dexia Crédit Local	SBPA	March 12, 2013
1995B-4	50,000,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	July 15, 2012
1995B-5	12,500,000	JPMorgan Chase Bank, N.A.	SBPA	March 12, 2013
1995B-7	21,000,000	JPMorgan Chase Bank, N.A.	SBPA	March 12, 2013
1995B-8	50,000,000	BayernLB	LOC	November 30, 2015
1995B-9	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
1995F-3	35,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1995F-4	50,000,000	Landesbank Hessen-Thüringen Girozentrale	LOC	July 13, 2012
1995F-5	50,000,000	BayernLB	LOC	November 30, 2015
1995F-6	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1996J-2	32,900,000	WestLB AG	LOC	January 8, 2013
1996J-3	32,800,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
2002A-6	70,000,000	Dexia Crédit Local	SBPA	November 1, 2017
2002A-10	60,000,000	Dexia Crédit Local	SBPA	November 1, 2017
2003C-2	100,000,000	BayernLB	LOC	November 1, 2012
2003C-3A	60,000,000	Bank of Nova Scotia	SBPA	November 1, 2013
2003C-3B	30,000,000	Lloyds TSB Bank PLC	SBPA	November 1, 2013
2003C-4	110,000,000	Bank of Tokyo-Mitsubishi UFJ, LTD.	LOC	November 1, 2013
2003C-5	100,000,000	The Bank of New York Mellon	LOC	November 1, 2013
2003G-3	8,865,000	WestLB AG	LOC	January 1, 2013
2004A-2	75,000,000	Bank of America, N.A.	LOC	June 30, 2012
2004A-3	100,000,000	Morgan Stanley Bank, N.A.	LOC	June 27, 2014
2004A-4	25,000,000	Bank of Nova Scotia	LOC	August 30, 2013
2004A-5	50,000,000	Bank of Nova Scotia	LOC	August 30, 2013
2004A-6	100,000,000	Mizuho Corporate Bank, Ltd.	LOC	June 20, 2014
2004H-1	40,300,000	The Bank of New York Mellon	LOC	October 31, 2014
2004H-2	60,455,000	The Bank of New York Mellon	LOC	October 31, 2014
2004H-3	60,455,000	The Bank of New York Mellon	LOC	October 31, 2014
2004H-4	40,300,000	The Bank of New York Mellon	LOC	October 31, 2014

(1) Letter of Credit

(2) These bonds will be refunded with the proceeds of the Bonds.

(3) Standby Bond Purchase Agreement

<u>Series</u>	<u>Outstanding Principal Amount</u>	<u>Provider</u>	<u>Facility Type</u>	<u>Expiration or Optional Termination by Provider</u>
2004H-5	\$ 39,315,000	Dexia Crédit Local	LOC	February 2, 2022
2004H-6	78,610,000	Bank of America, N.A.	LOC	March 1, 2013
2004H-7	39,315,000	KBC Bank, N.V.	LOC	December 31, 2014
2004H-8	78,610,000	Bank of America, N.A.	LOC	March 1, 2013
2006E-2	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006E-3	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006E-4	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006F-3	75,000,000	Sumitomo Mitsui Banking Corporation	LOC	September 20, 2013
2006F-4A	40,000,000	Sumitomo Mitsui Banking Corporation	LOC	September 20, 2013
2006F-4B	35,000,000	Union Bank, N.A.	LOC	September 20, 2013
2006H-1	67,100,000	Dexia Crédit Local	LOC	January 1, 2014
2006H-2	67,100,000	Dexia Crédit Local	LOC	January 1, 2014
2006I-3	50,000,000	Bank of America, N.A.	LOC	May 12, 2014
2006I-4	125,000,000	The Bank of New York Mellon	LOC	April 1, 2013
2006I-5	75,000,000	California Public Employees' Retirement System	LOC	April 1, 2013
2006I-6	75,000,000	California State Teachers' Retirement System	LOC	April 1, 2013
2006I-7	50,000,000	Bank of America, N.A.	LOC	May 12, 2014
2006I-8	50,000,000	State Street Bank and Trust Company	LOC	May 12, 2014
2008D-3	50,000,000	Crédit Agricole CIB	SBPA	December 4, 2014
2008D-4	50,000,000	Crédit Agricole CIB	SBPA	December 4, 2014
2008J-3	150,000,000	Barclays Bank, PLC	SBPA	January 31, 2014
2008J-4	100,000,000	Bank of America, N.A.	SBPA	April 1, 2013
2008J-5	101,405,000	Dexia Crédit Local	SBPA	April 1, 2015
2008J-6	111,225,000	Landesbank Hessen-Thüringen Girozentrale	LOC	April 1, 2013
2008J-7	84,400,000	Landesbank Baden-Württemberg	LOC	April 1, 2013
2008J-8	84,385,000	Landesbank Baden-Württemberg	LOC	April 1, 2013
2008J-9	100,000,000	Bank of Nova Scotia	SBPA	April 1, 2014
2008J-10	100,000,000	Bank of Tokyo-Mitsubishi UFJ, LTD.	LOC	March 31, 2014
2008J-11	100,000,000	KBC Bank, N.V.	SBPA	April 1, 2014
2008J-12	103,160,000	Dexia Crédit Local	SBPA	April 1, 2015
2008L-3	80,000,000	Bank of America, N.A.	SBPA	April 23, 2014
2008L-4	100,000,000	US Bank, N.A.	LOC	December 20, 2014
2008L-5	145,400,000	Dexia Crédit Local	SBPA	April 23, 2015
2008L-6	150,000,000	Wells Fargo Bank, N.A.	SBPA	April 23, 2014
2009B-3	100,000,000	TD Bank, N.A.	LOC	January 1, 2015
2010G-4	150,000,000	Barclays Bank, PLC	SBPA	March 29, 2013
2012A-3	25,000,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	July 15, 2012
2012A-4	100,000,000	KBC Bank, N.V.	LOC	August 8, 2014
2012A-5	50,000,000	Bank of Nova Scotia	SBPA	August 8, 2014
2012D-3	126,665,000	The Bank of New York Mellon	LOC	October 31, 2014
	<u>\$5,588,515,000</u>			

APPENDIX E

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 Series E and Series F Bonds (the “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 Bonds.

The Bonds To Be Redeemed are being redeemed in whole or in part as indicated in the notes. The 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) to the extent applicable, the exclusion from gross income for federal income tax purposes of interest on the Bonds and the Bonds To Be Redeemed.

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>
	May 1, 1972	November 1, 2012	6.000%	November 1, 2012	\$ 580,000(p)
	July 15, 1972	January 15, 2013	5.000	January 15, 2013	250,000(p)
	September 15, 1972	March 15, 2013	4.500	March 15, 2013	420,000(p)
	May 1, 1973	November 1, 2012	3.250	November 1, 2012	620,000(p)
	August 1, 1973	February 1, 2013	4.500	February 1, 2013	720,000(p)
	November 1, 1973	May 1, 2013	3.500	May 1, 2013	660,000(p)
	February 1, 1974	August 1, 2012	3.500	August 1, 2012	1,000,000(p)
	March 1, 1974	September 1, 2012	5.000	September 1, 2012	1,195,000(p)
	August 1, 1974	February 1, 2013	6.500	February 1, 2013	500,000(p)
	October 15, 1974	April 15, 2013	6.250	April 15, 2013	970,000(p)
1989E	June 14, 1989	December 1, 2012	6.500	June 1, 2012	60,000(a)
		December 1, 2013	6.500	June 1, 2012	60,000(a)
		December 1, 2014	6.500	June 1, 2012	50,000(a)
		December 1, 2015	6.500	June 1, 2012	90,000(a)
		December 1, 2016	6.500	June 1, 2012	40,000(a)
		December 1, 2017	6.000	June 1, 2012	90,000(a)
		December 1, 2018	6.000	June 1, 2012	20,000(a)
1991D	February 1, 1991	August 1, 2015	8.000	August 1, 2012	15,000(a)
		August 1, 2016	8.000	August 1, 2012	10,000(a)
		August 1, 2017	8.000	August 1, 2012	5,000(a)
1992D	February 1, 1992	February 1, 2016	7.500	April 9, 2012	5,000(a)
		February 1, 2017	7.500	April 9, 2012	5,000(a)
		February 1, 2018	7.500	April 9, 2012	5,000(a)
		February 1, 2019	7.500	April 9, 2012	5,000(a)
1992E	February 1, 1992	February 1, 2015	7.625	April 9, 2012	25,000(a)
		February 1, 2022	7.500	April 9, 2012	15,000(a)
1992F	February 1, 1992	February 1, 2014	7.625	April 9, 2012	5,000(a)
1992G	February 1, 1992	February 1, 2021	7.500	April 9, 2012	10,000(a)
1992H	June 1, 1992	February 1, 2015	7.200	April 9, 2012	5,000(a)
1993A	August 26, 1992	August 1, 2014	6.500	April 9, 2012	5,000(a)
1993E	May 27, 1993	May 15, 2014	5.750	April 9, 2012	50,000(a)
1993F	May 27, 1993	May 15, 2019	6.000	April 9, 2012	15,000(a)
1994H-2	April 12, 1994	August 1, 2013	Variable	March 9, 2012	30,700,000(a)
		August 1, 2014	Variable	March 9, 2012	19,300,000(a)
1995C	January 1, 1995	August 15, 2012	7.125	April 9, 2012	5,000(a)
		August 15, 2024	7.250	April 9, 2012	25,000(p)(t)
1996J	February 15, 1996	February 15, 2024	6.000	April 9, 2012	260,000(p)(t)
		February 15, 2026	5.500	April 9, 2012	405,000(p)(t)

See notes on page E-5

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>		
1997C	August 15, 1996	February 1, 2016	5.875%	April 9, 2012	\$ 5,000(a)(t)		
		February 1, 2022	6.000	April 9, 2012	35,000(p)(t)		
1997F	November 21, 1996	August 1, 2024	5.875	April 9, 2012	5,000(a)(t)		
1997H	January 28, 1997	August 1, 2013	6.000	April 9, 2012	5,000(a)		
		August 1, 2014	6.000	April 9, 2012	5,000(a)		
		August 1, 2017	6.000	April 9, 2012	35,000(a)(t)		
		August 1, 2025	6.125	April 9, 2012	40,000(p)(t)		
		August 1, 2012	6.125	April 9, 2012	5,000(a)		
1997J	April 24, 1997	August 1, 2017	6.000	April 9, 2012	5,000(a)(t)		
		August 1, 2021	6.000	April 9, 2012	15,000(a)(t)		
		November 15, 2027	5.375	April 9, 2012	5,000(a)(t)		
1998C	November 18, 1997	November 15, 2037	5.500	April 9, 2012	55,000(p)(t)		
		August 1, 2017	5.375	April 9, 2012	25,000(a)(t)		
1998D	November 18, 1997	August 1, 2021	5.250	April 9, 2012	30,000(a)(t)		
		August 1, 2012	5.250	April 9, 2012	10,000(a)		
1998F	January 6, 1998	August 1, 2013	5.125	April 9, 2012	20,000(a)		
		August 1, 2014	5.250	April 9, 2012	15,000(a)		
		August 1, 2015	5.250	April 9, 2012	10,000(a)		
		August 1, 2016	5.250	April 9, 2012	25,000(a)		
		August 1, 2017	5.250	April 9, 2012	10,000(a)		
		August 1, 2019	5.375	April 9, 2012	10,000(a)(t)		
		August 1, 2023	5.000	April 9, 2012	25,000(a)(t)		
		August 1, 2024	5.250	April 9, 2012	5,000(a)		
		1998G	February 18, 1998	August 1, 2012	5.000	April 9, 2012	10,000(a)
				August 1, 2013	5.000	April 9, 2012	10,000(a)
				August 1, 2015	5.000	April 9, 2012	10,000(a)
August 1, 2018	5.000			April 9, 2012	20,000(a)(t)		
August 1, 2022	5.000			April 9, 2012	10,000(a)(t)		
1998J	June 1, 1998	August 1, 2025	5.125	April 9, 2012	5,000(a)(t)		
		August 1, 2012	5.000	April 9, 2012	5,000(a)		
1999A	July 23, 1998	August 1, 2012	5.000	April 9, 2012	5,000(a)		
		August 1, 2012	5.300	April 9, 2012	5,000(a)		
		August 1, 2013	5.100	April 9, 2012	5,000(a)		
		August 1, 2013	5.375	April 9, 2012	10,000(a)		
		August 1, 2014	5.375	April 9, 2012	5,000(a)		
		August 1, 2015	5.200	April 9, 2012	5,000(a)		
		August 1, 2015	5.375	April 9, 2012	5,000(a)		
		August 1, 2016	5.000	April 9, 2012	20,000(a)		
		August 1, 2016	5.200	April 9, 2012	5,000(a)		
		August 1, 2017	5.000	April 9, 2012	15,000(a)		
		August 1, 2018	5.000	April 9, 2012	10,000(a)		
		August 1, 2018	5.200	April 9, 2012	10,000(a)		
		August 1, 2021	5.200	April 9, 2012	30,000(a)(t)		
		1999D	August 20, 1998	August 1, 2012	5.000	April 9, 2012	10,000(a)
				August 1, 2013	5.000	April 9, 2012	10,000(a)
				August 1, 2017	5.000	April 9, 2012	5,000(a)
		1999E	January 7, 1999	August 1, 2018	5.000	April 9, 2012	5,000(a)
August 1, 2012	4.600			April 9, 2012	10,000(a)		
August 1, 2013	4.700			April 9, 2012	15,000(a)		
August 1, 2014	4.750			April 9, 2012	15,000(a)		
August 1, 2015	4.800			April 9, 2012	10,000(a)		
August 1, 2016	4.875			April 9, 2012	10,000(a)		
1999F	January 26, 1999	August 1, 2017	4.900	April 9, 2012	5,000(a)		
		August 1, 2022	5.000	April 9, 2012	10,000(p)(t)		
1999H	March 18, 1999	March 15, 2029	5.000	April 9, 2012	5,000(a)(t)		

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>
2000B	June 1, 2000	August 1, 2012	5.750%	April 9, 2012	\$ 5,000(a)
2000C	June 1, 2000	August 1, 2013	5.800	April 9, 2012	10,000(a)
2001C	October 10, 2000	August 1, 2014	5.300	April 9, 2012	10,000(a)
		August 1, 2015	5.400	April 9, 2012	10,000(a)
		August 1, 2016	5.875	April 9, 2012	5,000(a)
		August 1, 2018	5.375	April 9, 2012	5,000(a)
		August 1, 2020	5.500	April 9, 2012	5,000(a)
		August 1, 2021	5.500	April 9, 2012	10,000(a)
2001G	February 9, 2001	August 1, 2012	4.500	April 9, 2012	5,000(a)
		August 1, 2012	5.250	April 9, 2012	5,000(a)
		August 1, 2013	5.250	April 9, 2012	15,000(a)
		August 1, 2014	5.250	April 9, 2012	10,000(a)
		August 1, 2015	4.875	April 9, 2012	15,000(a)
		August 1, 2015	5.250	April 9, 2012	10,000(a)
		August 1, 2016	4.900	April 9, 2012	10,000(a)
		August 1, 2016	5.250	April 9, 2012	5,000(a)
		August 1, 2017	5.250	April 9, 2012	10,000(a)
		August 1, 2018	5.000	April 9, 2012	15,000(a)
		August 1, 2020	5.000	April 9, 2012	5,000(a)
2002C	March 21, 2002	March 15, 2018	5.625	April 9, 2012	5,000(a)
2002D	June 3, 2002	June 1, 2013	4.875	June 1, 2012	2,600,000(p)
		June 1, 2013	5.625	June 1, 2012	5,850,000(p)
		June 1, 2014	5.000	June 1, 2012	3,845,000(p)
		June 1, 2014	5.625	June 1, 2012	5,060,000(p)
		June 1, 2015	5.000	June 1, 2012	9,300,000(p)
		June 1, 2016	5.000	June 1, 2012	1,585,000(p)
		June 1, 2016	5.100	June 1, 2012	8,265,000(p)
		June 1, 2017	5.000	June 1, 2012	5,910,000(p)
		June 1, 2017	5.125	June 1, 2012	4,440,000(p)
		June 1, 2018	5.125	June 1, 2012	7,675,000(p)
		June 1, 2018	5.200	June 1, 2012	3,200,000(p)
		June 1, 2019	5.250	June 1, 2012	3,830,000(p)
		June 1, 2019	5.875	June 1, 2012	7,610,000(p)
		June 1, 2020	5.250	June 1, 2012	2,450,000(p)
		June 1, 2020	5.875	June 1, 2012	9,380,000(p)
		June 1, 2021	5.250	June 1, 2012	3,690,000(p)
		June 1, 2021	5.875	June 1, 2012	8,295,000(p)
		June 1, 2022	5.250	June 1, 2012	13,460,000(p)
		June 1, 2024	5.500	June 1, 2012	28,985,000(p)(t)
		June 1, 2027	5.250	June 1, 2012	43,575,000(p)(t)
		June 1, 2028	5.500	June 1, 2012	11,800,000(p)
		June 1, 2032	5.375	June 1, 2012	54,690,000(p)(t)
2003F	January 22, 2003	January 15, 2026	5.300	January 15, 2013	525,000(p)(t)
		January 15, 2028	5.250	January 15, 2013	8,485,000(p)(t)
		January 15, 2033	5.250	January 15, 2013	14,230,000(p)(t)
2003I	March 6, 2003	March 1, 2013	4.400	March 1, 2013	10,175,000(p)
		March 1, 2025	5.000	March 1, 2013	30,650,000(a)
		March 1, 2028	5.200	March 1, 2013	23,835,000(a)
		March 1, 2029	5.000	March 1, 2013	26,405,000(p)
		March 1, 2030	5.000	March 1, 2013	28,985,000(a)
		March 1, 2033	5.000	March 1, 2013	86,945,000(p)(t)
2003J	June 4, 2003	June 1, 2013	5.250	June 1, 2013	2,180,000(p)
		June 1, 2023	4.600	June 1, 2013	10,175,000(p)
		June 1, 2024	4.750	June 1, 2013	18,010,000(a)

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>
2004A	July 14, 2003	August 1, 2015	4.250%	August 1, 2013	\$ 335,000(p)
		August 1, 2016	4.375	August 1, 2013	1,020,000(p)
		August 1, 2017	4.500	August 1, 2013	1,295,000(p)
		August 1, 2018	4.000	August 1, 2013	3,920,000(p)
		August 1, 2019	4.000	August 1, 2013	4,375,000(p)
		August 1, 2022	4.750	August 1, 2013	290,000(p)
2004B	July 14, 2003	August 1, 2012	5.000	August 1, 2012	2,820,000(p)
2004C	September 25, 2003	September 15, 2016	4.625	September 15, 2013	8,385,000(a)
		September 15, 2017	4.750	September 15, 2013	7,345,000(a)
		September 15, 2019	4.875	September 15, 2013	715,000(a)
		September 15, 2021	4.875	September 15, 2013	2,130,000(p)
		September 15, 2022	5.000	September 15, 2013	11,145,000(a)
		September 15, 2023	5.000	September 15, 2013	11,700,000(a)
2004D	October 15, 2003	September 15, 2028	5.000	September 15, 2013	30,445,000(p)(t)
		October 15, 2012	3.625	October 15, 2012	3,605,000(a)
		October 15, 2016	4.300	October 15, 2013	16,620,000(a)
		October 15, 2017	4.500	October 15, 2013	8,170,000(p)
		October 15, 2019	4.625	October 15, 2013	1,175,000(a)
		October 15, 2021	5.250	October 15, 2013	2,465,000(a)
2004F	December 18, 2003	October 15, 2022	4.875	October 15, 2013	2,750,000(a)
		October 15, 2022	5.250	October 15, 2013	11,350,000(a)
2004I	April 1, 2004	October 15, 2027	5.000	October 15, 2013	13,120,000(p)(t)
		December 15, 2012	5.500	December 15, 2012	11,110,000(p)
2004J	May 20, 2004	August 1, 2015	5.000	August 1, 2014	230,000(p)
		August 1, 2018	5.000	August 1, 2014	260,000(p)
		August 1, 2020	5.000	August 1, 2014	175,000(p)
		May 15, 2015	4.400	May 15, 2014	7,440,000(p)
		May 15, 2016	4.500	May 15, 2014	4,450,000(p)
		May 15, 2016	5.250	May 15, 2014	15,490,000(p)
		May 15, 2017	4.600	May 15, 2014	3,580,000(p)
		May 15, 2017	5.250	May 15, 2014	18,750,000(p)
		May 15, 2018	5.250	May 15, 2014	27,400,000(p)
		May 15, 2020	5.000	May 15, 2014	12,405,000(p)
		May 15, 2022	5.150	May 15, 2014	2,685,000(p)
		May 15, 2022	5.250	May 15, 2014	37,835,000(p)
		May 15, 2023	5.000	May 15, 2014	8,265,000(p)
		May 15, 2023	5.200	May 15, 2014	1,410,000(a)
		May 15, 2024	5.250	May 15, 2014	15,775,000(p)
		May 15, 2025	5.250	May 15, 2014	1,720,000(p)
2005C	August 18, 2004	May 15, 2026	5.250	May 15, 2014	6,615,000(a)
		August 15, 2012	4.000	August 15, 2012	135,000(p)
		August 15, 2014	3.875	August 15, 2014	270,000(p)
		August 15, 2015	5.250	August 15, 2014	8,235,000(p)
		August 15, 2016	5.250	August 15, 2014	12,600,000(p)
		August 15, 2018	5.250	August 15, 2014	24,655,000(p)
		August 15, 2019	5.250	August 15, 2014	11,785,000(p)
		August 15, 2020	5.000	August 15, 2014	6,825,000(p)
2005D	November 10, 2004	August 15, 2020	5.250	August 15, 2014	14,940,000(p)
		August 15, 2026	5.250	August 15, 2014	4,995,000(p)
2005E	November 10, 2004	November 1, 2018	5.000	November 1, 2014	21,050,000(p)
		November 1, 2012	5.000	November 1, 2012	3,055,000(p)
2005G	December 21, 2004	November 1, 2018	5.000	November 1, 2014	2,300,000(p)
		December 1, 2013	5.000	December 1, 2013	9,800,000(p)
		December 1, 2014	4.000	December 1, 2014	7,435,000(p)

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>
2005H	December 21, 2004	August 1, 2015	5.000%	August 1, 2014	\$12,110,000(p)
		August 1, 2018	5.000	August 1, 2014	9,160,000(p)
		August 1, 2020	5.000	August 1, 2014	9,160,000(p)
2005M	April 28, 2005	April 1, 2013	5.000	April 1, 2013	6,355,000(p)
2005N	April 28, 2005	August 1, 2012	3.800	August 1, 2012	2,630,000(p)
		August 1, 2012	5.000	August 1, 2012	1,470,000(p)
2005Q	June 2, 2005	August 1, 2012	5.000	August 1, 2012	1,520,000(p)
2006C	August 3, 2005	August 1, 2012	4.000	August 1, 2012	1,630,000(p)
		August 1, 2012	5.000	August 1, 2012	5,320,000(p)
		August 1, 2014	5.000	August 1, 2014	6,860,000(p)
2006E	August 17, 2005	August 1, 2012	5.000	August 1, 2012	150,000(p)
		August 1, 2013	5.000	August 1, 2013	1,075,000(p)
2006J	June 6, 2006	June 1, 2013	4.000	June 1, 2013	13,775,000(p)
		June 1, 2013	4.500	June 1, 2013	3,680,000(p)
2007D	January 9, 2007	February 1, 2013	5.000	February 1, 2013	8,555,000(p)
2008C	October 4, 2007	October 1, 2012	5.000	October 1, 2012	525,000(p)
2008F	December 4, 2007	August 1, 2012	4.000	August 1, 2012	1,975,000(p)
2008J	April 1, 2008	August 1, 2012	5.000	August 1, 2012	2,305,000(p)
2008L	April 23, 2008	April 1, 2013	4.000	April 1, 2013	21,020,000(a)
2009F	November 26, 2008	November 15, 2012	4.000	November 15, 2012	8,000,000(a)
		November 15, 2012	5.000	November 15, 2012	4,510,000(a)
2009J	June 4, 2009	May 15, 2013	3.000	May 15, 2013	6,340,000(a)

(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 defeased bonds will be credited against the following redemptions:

1995C 2024 Term Bond	
<u>August 15</u>	<u>Amount</u>
2016	\$5,000
2019	5,000
2020	5,000
2023	5,000
2024	5,000

1996J 2024 Term Bond	
<u>February 15</u>	<u>Amount</u>
2023	\$260,000

1996J 2026 Term Bond	
<u>February 15</u>	<u>Amount</u>
2025	\$195,000
2026	210,000

1997C 2016 Term Bond	
<u>February 1</u>	<u>Amount</u>
2013	\$5,000

**1997C
2022 Term Bond**

<u>February 1</u>	<u>Amount</u>
2017	\$10,000
2019	10,000
2020	5,000
2021	5,000
2022	5,000

**1997F
2024 Term Bond**

<u>August 1</u>	<u>Amount</u>
2023	\$5,000

**1997H
2017 Term Bond**

<u>August 1</u>	<u>Amount</u>
2016	\$20,000
2017	15,000

**1997H
2025 Term Bond**

<u>August 1</u>	<u>Amount</u>
2018	\$10,000
2020	10,000
2021	10,000
2023	5,000
2024	5,000

**1997J
2017 Term Bond**

<u>August 1</u>	<u>Amount</u>
2014	\$5,000

**1997J
2021 Term Bond**

<u>August 1</u>	<u>Amount</u>
2019	\$5,000
2020	5,000
2021	5,000

**1998C
2027 Term Bond**

<u>November 15</u>	<u>Amount</u>
2027	\$5,000

**1998C
2037 Term Bond**

<u>November 15</u>	<u>Amount</u>
2033	\$55,000

**1998D
2017 Term Bond**

<u>August 1</u>	<u>Amount</u>
2016	\$15,000
2017	10,000

**1998D
2021 Term Bond**

<u>August 1</u>	<u>Amount</u>
2018	\$15,000
2019	5,000
2020	10,000

**1998F
2019 Term Bond**

<u>August 1</u>	<u>Amount</u>
2018	\$10,000

**1998F
2023 Term Bond**

<u>August 1</u>	<u>Amount</u>
2020	\$10,000
2021	10,000
2022	5,000

**1998G
2018 Term Bond**

<u>August 1</u>	<u>Amount</u>
2017	\$ 5,000
2018	15,000

**1998G
2022 Term Bond**

<u>August 1</u>	<u>Amount</u>
2021	\$5,000
2022	5,000

**1998G
2025 Term Bond**

<u>August 1</u>	<u>Amount</u>
2023	\$5,000

**1999A
2021 Term Bond**

<u>August 1</u>	<u>Amount</u>
2019	\$10,000
2020	10,000
2021	10,000

**1999F
2022 Term Bond**

<u>August 1</u>	<u>Amount</u>
2019	\$10,000

**1999H
2029 Term Bond**

<u>March 15</u>	<u>Amount</u>
2029	\$5,000

**2002D
2024 Term Bond**

<u>June 1</u>	<u>Amount</u>
2023	\$14,040,000
2024	14,945,000

**2002D
2027 Term Bond**

<u>June 1</u>	<u>Amount</u>
2025	\$15,765,000
2026	16,595,000
2027	11,215,000

**2002D
2032 Term Bond**

<u>June 1</u>	<u>Amount</u>
2029	\$12,450,000
2030	13,345,000
2031	14,070,000
2032	14,825,000

**2003F
2026 Term Bond**

<u>January 15</u>	<u>Amount</u>
2025	\$255,000
2026	270,000

**2003F
2028 Term Bond**

<u>January 15</u>	<u>Amount</u>
2027	\$8,225,000
2028	260,000

**2003F
2033 Term Bond**

<u>January 15</u>	<u>Amount</u>
2029	\$5,295,000
2031	3,425,000
2032	2,800,000
2033	2,710,000

**2003I
2033 Term Bond**

<u>March 1</u>	<u>Amount</u>
2031	\$26,735,000
2032	26,655,000
2033	33,555,000

**2004C
2028 Term Bond**

<u>September 15</u>	<u>Amount</u>
2024	\$12,285,000
2025	12,900,000
2027	5,260,000

**2004D
2027 Term Bond**

<u>October 15</u>	<u>Amount</u>
2025	\$7,815,000
2026	5,305,000

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