NEW ISSUE

In the opinion of Bond Counsel, interest on the Series 2007 S-2 Bonds will be exempt from personal income taxes imposed by the State of New York (the "State") or any political subdivision thereof, including The City of New York (the "City"), and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series 2007 S-2 Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "Section VII: Tax Matters" herein for further information.

NYC TFA Building Aid Revenue Bonds

$650,000,000
New York City Transitional Finance Authority
Building Aid Revenue Bonds
Fiscal 2007 Series S-2

Dated: Date of Delivery — Due: January 15, as shown on inside cover page

The Building Aid Revenue Bonds, Fiscal 2007 Series S-2 (the "Series 2007 S-2 Bonds"), are being issued by the New York City Transitional Finance Authority (the "Authority") pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act") and Chapter 16 of the Laws of New York, 1997, as amended (together with the School Financing Act, the "Act"), and the Amended and Restated Original Indenture, dated November 16, 2006, as supplemented (the "Indenture"), by and between the Authority and The Bank of New York, New York, New York, as trustee (the "Trustee").

Provided certain statutory and contractual conditions are met, other Bonds of the Authority on a parity with the Series 2007 S-2 Bonds may be issued. The Series 2007 S-2 Bonds together with all other series of Building Aid Revenue Bonds issued under the Indenture are referred to as "Building Aid Revenue Bonds." See "Section II: Sources of Payment and Security for the Building Aid Revenue Bonds—Additional Building Aid Revenue Bonds."

Pursuant to the School Financing Act, the Building Aid Revenue Bonds are payable from the State Building Aid (as defined herein) payable by the State to the City and assigned to the Authority. The payment of State Building Aid and any other State education aid to the City or the Authority is subject to annual appropriation by the State, is subject and subordinate to certain prior statutory and State constitutional claims and is dependent in part upon the financial condition of the State. See "Section II: Sources of Payment and Security for the Building Aid Revenue Bonds—Financial Condition of the State" and "Appendix C—Information Concerning the State of New York."

The application of State Building Aid to the payment of the Building Aid Revenue Bonds is subordinate to the payment of (i) obligations of the Authority issued prior to the issuance of the Authority's Building Aid Revenue Bonds Fiscal 2007 Series S-1 dated November 16, 2006 and (ii) certain operating expenses of the Authority (collectively, the "Pre-07 S-1 Obligations"). State Building Aid shall only be applied to payment of the Pre-07 S-1 Obligations in the event that other revenues of the Authority, consisting primarily of Personal Income Taxes and Sales Taxes, are insufficient to pay the Pre-07 S-1 Obligations and other Authority obligations payable from Tax Revenues. The Authority expects that Personal Income Taxes and Sales Taxes will be sufficient to pay the Pre-07 S-1 Obligations and other obligations payable from Tax Revenues. The Building Aid Revenue Bonds are not secured by Personal Income Taxes or Sales Taxes. See "Section II: Sources of Payment and Security for the Building Aid Revenue Bonds."

Pursuant to Section 99-b of the State Finance Law, as amended by the School Financing Act, the State Comptroller shall deduct and withhold State education aid or assistance due to the City in an amount required to pay the principal of and interest on any Building Aid Revenue Bonds in default.

The Series 2007 S-2 Bonds will be issued only as fully registered bonds, registered in the nominee name of The Depository Trust Company ("DTC"). Purchasers will not receive physical delivery of the Series 2007 S-2 Bonds.

Interest on the Series 2007 S-2 Bonds accrues from their dated date, and is payable on each January 15 and July 15, commencing July 15, 2007.

The Series 2007 S-2 Bonds are subject to redemption prior to maturity as described herein.

Payment of regularly scheduled principal of and interest on the Series 2007 S-2 Bonds maturing January 15, 2013 through January 15, 2020, inclusive will be insured by a municipal bond insurance policy to be issued by Financial Security Assurance Inc. simultaneously with the delivery of such Series 2007 S-2 Bonds. Payment of regularly scheduled principal of and interest on the Series 2007 S-2 Bonds maturing January 15, 2021 through January 15, 2037, inclusive will be insured by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of such Series 2007 S-2 Bonds.

THE BUILDING AID REVENUE BONDS ARE PAYABLE FROM AND SECURED BY A LIEN ON STATE BUILDING AID SUBORDINATE TO PAYMENT OF THE PRE-07 S-1 OBLIGATIONS. THE BUILDING AID REVENUE BONDS ARE NOT A DEBT OF EITHER THE STATE OR THE CITY, AND NEITHER THE STATE NOR THE CITY SHALL BE LIABLE THEREON. PAYMENT OF STATE BUILDING AID AND ANY OTHER STATE EDUCATION AID TO THE CITY OR THE AUTHORITY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE. THE BUILDING AID REVENUE BONDS DO NOT CONSTITUTE "STATE SUPPORTED DEBT" (COMMONLY KNOWN AS "STATE APPROPRIATION DEBT") WITHIN THE MEANING OF THE STATE FINANCE LAW. THEREFORE, THE STATE WILL NOT BE ENTERING INTO ANY FINANCING AGREEMENT OR SERVICE CONTRACT IN CONNECTION WITH THE BUILDING AID REVENUE BONDS.

The Series 2007 S-2 Bonds are being offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of legality of the Series 2007 S-2 Bonds and certain other matters by Sidley Austin LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority and the City by the New York City Corporation Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York. It is expected that the Series 2007 S-2 Bonds will be available for delivery to DTC in New York, New York, on or about March 15, 2007.

Citigroup

Bear, Stearns & Co. Inc.		**Goldman, Sachs & Co.**
Banc of America Securities LLC	**First Albany Capital, Inc.**	**JPMorgan**
Lehman Brothers	**Loop Capital Markets LLC**	**M.R. Beal & Company**
Merrill Lynch & Co.	**Morgan Stanley**	**Prager, Sealy & Co., LLC**
Ramirez & Co., Inc.	**Roosevelt and Cross Incorporated**	**Siebert Brandford Shank & Co., LLC**
UBS Investment Bank		**Wachovia Bank, National Association**
A.G. Edwards & Sons, Inc.	**Jackson Securities Inc.**	**Raymond James & Associates, Inc.**
RBC Capital Markets	**Ryan Beck & Co., Inc.**	**Southwest Securities**

March 7, 2007

$650,000,000
New York City Transitional Finance Authority
Building Aid Revenue Bonds,
Fiscal 2007 Series S-2

Due January 15	Principal Amount	Interest Rate	Yield
2009	$ 9,415,000	3½%	3.48%
2010	9,740,000	3½	3.52
2011	3,465,000	3¾	3.57
2011	6,615,000	5	3.57
2012	5,230,000	4	3.60
2012	7,300,000	5	3.60
2013(1)	8,350,000	3.60	3.63
2013(1)	4,750,000	5	3.63
2014(1)	5,645,000	4¼	3.67
2014(1)	7,995,000	5	3.67
2015(1)	1,115,000	4¼	3.71
2015(1)	700,000	4½	3.71
2015(1)	12,465,000	5	3.71
2016(1)	3,580,000	4	3.73
2016(1)	11,400,000	5	3.73
2017(1)	3,510,000	3¾	3.80
2017(1)	12,185,000	5	3.80
2018(1)(3)	16,435,000	5	3.83
2019(1)(3)	17,260,000	5	3.85
2020(1)(3)	18,120,000	5	3.87
2021(2)(3)	19,025,000	5	3.89
2022(2)(3)	19,980,000	5	3.91
2023(2)(3)	20,975,000	5	3.94
2024(2)(3)	22,025,000	5	3.96
2025(2)(3)	23,125,000	5	3.98
2026(2)(3)	24,285,000	5	4.00
2027(2)(3)	25,495,000	5	4.02
2028(2)(3)	26,770,000	5	4.04
2031(2)	6,150,000	4¼	4.33

$82,035,000 4½% Fiscal 2007 Series S-2 Term Bonds due January 15, 2031 — yield 4.33%(2)(3)

$100,335,000 4¼% Fiscal 2007 Series S-2 Term Bonds due January 15, 2034 — yield 4.40%(2)

$114,525,000 5% Fiscal 2007 Series S-2 Term Bonds due January 15, 2037 — yield 4.07%(2)(3)

(1) Insured by Financial Security Assurance Inc.
(2) Insured by Financial Guaranty Insurance Company
(3) Priced to first call on January 15, 2017

Certain of the information in this Official Statement has been provided by the City and other sources considered by the Authority to be reliable, and includes publicly available information concerning the State. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized. No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation with respect to the Series 2007 S-2 Bonds, other than those contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion 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 affairs of the parties referred to above since the date hereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Series 2007 S-2 Bonds, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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 and the State and the amount of State Building Aid and Tax Revenues (as defined herein), the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Authority 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 Authority. These forward-looking statements speak only as of the date of this Official Statement. The Authority 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 Authority’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

ALTHOUGH CERTAIN INFORMATION RELATING TO THE FINANCIAL CONDITION OF THE STATE IS INCLUDED IN THIS OFFICIAL STATEMENT, THE STATE HAS NOT REVIEWED OR APPROVED THIS OFFICIAL STATEMENT, NOR IS IT PASSING UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT.

THE SERIES 2007 S-2 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY BODY. 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 CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007 S-2 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY OF TERMS

The following is qualified in its entirety by reference to the information appearing elsewhere in this Official Statement. Terms used in this Official Statement and not defined herein are defined in "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT."

Issuer	The New York City Transitional Finance Authority (the "Authority") is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State").
Statutory Authorization	The Authority was created by Chapter 16 of the Laws of New York, 1997 (the "Enabling Act"). The Enabling Act became effective March 5, 1997, and provided for the issuance of bonds for general capital purposes of The City of New York (the "City"), the payment of bonds from Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)), and statutory and contractual covenants of the Authority, the City and the State. The Enabling Act was amended in 2000 and 2006 to, among other things, increase the debt-incurring capacity of the Authority for general City capital purposes to a total of $13.5 billion. In 2001, the Enabling Act was amended to permit the Authority to have outstanding up to $2.5 billion of Bonds and Notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Obligations"). In 2006, the Enabling Act was also amended pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act"). The School Financing Act authorizes the Authority to issue Bonds, Notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's five-year educational facilities capital plan (the "Five-Year Plan") and authorizes the City to assign to the Authority all or any portion of the State aid payable to the City or its school district pursuant to subdivision 6 of Section 3602 of the State Education Law, or any successor provision of State law ("State Building Aid").
Purpose of Issue	The proceeds of the $650,000,000 Building Aid Revenue Bonds, Fiscal 2007 Series S-2 (the "Series 2007 S-2 Bonds") will be used to pay a portion of the costs of one or more of the Five-Year Plans approved in accordance with Section 2590-p of the State Education Law, as amended (the "Education Law").
Securities Offered	The Series 2007 S-2 Bonds are being issued by the Authority pursuant to the School Financing Act and the Enabling Act, as amended (collectively, the "Act"), and the Amended and Restated Original Indenture, dated November 16, 2006, as supplemented (the "Indenture"), by and between the Authority and the Trustee. The Series 2007 S-2 Bonds (along with all other Building Aid Revenue Bonds issued under the Indenture, the "Building Aid Revenue Bonds") are payable by the Authority from the State Building Aid, subject to annual appropriation by the State, assigned by the City to the Authority and by the Authority to the Trustee. The Indenture permits the Authority to issue Notes and to enter into other obligations on a parity with the Building Aid Revenue Bonds (the "School Obligations").

See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS."

Not Debt of State or City . . . .

The Series 2007 S-2 Bonds are not a debt of either the State or the City, and neither the State nor the City shall be liable thereon. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State supported debt" (commonly known as "State appropriation debt") within the meaning of the State Finance Law. Therefore, the State will not be entering into any financing agreement or service contract, the principal terms of which would require the State to seek an annual appropriation and govern payments pursuant to such appropriation, in connection with the Building Aid Revenue Bonds.

Based on State and federal constitutional, statutory and case law and the terms of the Indenture, the Assignment and the Agreement (herein defined), Bond Counsel is of the opinion that the Authority is not eligible for protection from its creditors pursuant to Title II (the "Bankruptcy Code") of the United States Code; and if the debts of the City were adjusted under the Bankruptcy Code and the City or its creditors were to assert a right to the State Building Aid equal or prior to the rights of the Bondholders, such assertion would not succeed.

Security for Authority Indebtedness . . . .

Recovery Obligations and Subordinate Bonds issued on a parity with Recovery Obligations (together, "Parity Debt"), Senior Bonds and other series of bonds and notes issued by the Authority secured by Tax Revenues are referred to herein as "Future Tax Secured Bonds." Pursuant to the Indenture, Future Tax Secured Bonds issued prior to the date of issuance of the Authority's Building Aid Revenue Bonds Fiscal 2007 Series S-1 dated November 16, 2006 (the "Series 2007 S-1 Bonds") will be payable in the first instance from Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)) and, to the extent that Tax Revenues are insufficient, from State Building Aid. Future Tax Secured Bonds issued after the date of issuance of the Series 2007 S-1 Bonds, operating expenses allocable thereto and ancillary and swap contracts related thereto ("Post-07 S-1 Obligations") are secured only by Tax Revenues and will have no claim to State Building Aid. The payment of the Building Aid Revenue Bonds is subordinate to (i) the payment of debt service on Future Tax Secured Bonds issued prior to the date of issuance of the Series 2007 S-1 Bonds and (ii) operating expenses allocable thereto (collectively, the "Pre-07 S-1 Obligations").

Building Aid Revenue Bonds do not constitute Future Tax Secured Bonds, are not secured by Tax Revenues and are payable from State Building Aid subordinate to the payment of the Pre-07 S-1 Obligations. If Tax Revenues are not sufficient to pay the Pre-07 S-1 Obligations as well as Post-07 S-1 Obligations, State Building Aid will be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for payment of the Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and Post-07 S-1 Obligations. See "SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS—Debt Service Coverage."

The Authority has Outstanding $12,357,855,000 of Future Tax Secured Bonds issued as Pre-07 S-1 Obligations (including bonds that have been economically defeased and the maturity value of capital appreciation bonds), $1,500,000,000 of Future Tax Secured Bonds issued as Post-07 S-1 Obligations and $650 million of Building Aid Revenue Bonds.

The Authority has no source of payment for the Building Aid Revenue Bonds other than State Building Aid, which is subject to annual appropriation of the State.

State Building Aid . . . . The Series 2007 S-2 Bonds (along with all other Building Aid Revenue Bonds) are payable from the State Building Aid subject to annual appropriation by the State, assigned by the City to the Authority, and by the Authority to the Trustee. State Building Aid is paid in support of education facilities in the State for the benefit of elementary and/or secondary school students.

Under the Assignment (herein defined), the City has assigned to the Authority all State Building Aid payable to the City since the date of the Assignment and all State Building Aid to be received in the future by the City. Under the Indenture, State Building Aid consists of Confirmed Building Aid and Incremental Building Aid. "Confirmed Building Aid" consists of State Building Aid statutorily required to be paid to the Authority with respect to projects approved by the New York State Education Department (the "SED"), subject to appropriation, but not to any other statutory or administrative conditions or approvals (other than annual State appropriation), and which shall be calculated in accordance with the State Covenant and with the building aid ratios applicable to such projects at the date of calculation. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—State Building Aid." "Incremental Building Aid" consists of State Building Aid to be received in the future by the Authority for City educational building projects that are approved by the SED in the future. Requests for Incremental Building Aid are made on behalf of the City by application of the New York City School Construction Authority ("SCA") to the SED. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—State Building Aid."

State Appropriation . . . . Payment of State Building Aid is subject to annual appropriation by the State. If there is not sufficient money appropriated by the State to enable the Authority to pay the Building Aid Revenue Bonds on a timely basis, the State will not be liable to the Authority, the City or the Bondholders for any deficiency. There is no contractual relationship between the Authority and the State. The State has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State" and "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

Financial Condition of the State . . . . The payment of State Building Aid to the Authority is dependent in part upon the financial condition of the State. Future State budgetary restrictions could result in delays in the payment of or reductions in the amount of State Building Aid payable to the Authority. In the event that State education aid or assistance is reduced by the State in the future, such reduction could result in a diminished flow of State Building Aid to the Authority. In addition, State Building Aid is payable by the State from amounts held in the State's General Fund, upon which there are potential prior constitutional and statutory claims. Intercept of amounts held in the State's General Fund could result in a diminished flow of State Building Aid to the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State" and "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

Assignment . . . . Under an Assignment of State Aid (the "Assignment") dated October 19, 2006 as amended, the City, acting through the Mayor, has assigned to the Authority all of the State Building Aid. Pursuant to the School Financing Act, the State Building Aid and the right to receive the State Building Aid are now the property of the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Assignment of State Building Aid."

Competing Claims to State Aid . . . . The Authority's receipt of State Building Aid is expressly subject and subordinate under the School Financing Act to prior statutory claims on State education aid and assistance (1) under Section 99-b of the State Finance Law for the benefit of the holders of any defaulted bonds of the City issued for school purposes, (2) for the Municipal Bond Bank Agency for the payment of its bonds issued to satisfy prior claims of the City for amounts owed to the City under the Education Law and (3) for the New York City Educational Construction Fund to restore its Debt Service Reserve Fund relating to its outstanding bonds. In addition, the State may withhold or recover State education aid or assistance payable to the City for the City's failure to provide certain educational services (e.g., courses in special areas, certain number of instructional days, certain health services, services for handicapped students, administrative practices or willful disobedience of certain laws or directives), or to otherwise correct errors or omissions in apportionments of State education aid or assistance pursuant to subdivision 5 of Section 3604 of the Education Law as statutorily mandated. The foregoing statutory claims to State education aid and assistance and withholding or recovery of State education aid or assistance payable to the City are collectively referred to as "Competing Claims." The Authority does not expect that any such Competing Claims will materially reduce State Building Aid payable to the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Competing Claims to State Aid."

Memorandum of Understanding . . . . Each year the State annually appropriates money to the City to pay for educational needs of the City's students ("Education Aid") pursuant to Section 3602 of the Education Law. A portion of such Education Aid constitutes State Building Aid apportioned pursuant to subdivision 6 of Section 3602 of the Education Law which is paid, together with certain other Education Aid, payable pursuant to Section 3609-a of the Education Law (the "General Education Aid Payments"). The City, the Authority, the SED and the New York State Comptroller (the "State Comptroller") entered into a Memorandum of Understanding dated as of October 26, 2006 (the "MOU") to determine the amount included in each General Education Aid Payment that is attributable to State Building Aid (the "Building Aid Payment"). Under the MOU, prior to each General Education Aid Payment, the Authority will calculate and certify to the SED, the State Comptroller and the Director of the Division of the Budget of the State the amount of the Building Aid Payment included in each General Education Aid Payment. In addition, the MOU provides that if permitted by applicable law, the State Comptroller shall satisfy any Competing Claims to Education Aid from Education Aid other than State Building Aid ("Other School Aid") first and, thereafter, from State Building Aid if the expected sources of funds for the payment of the Competing Claims from Other School Aid are unavailable or insufficient. Although the MOU sets forth the understanding of the City, the Authority, the SED and the State Comptroller as to the payment of State Building Aid and Other School Aid, the MOU will not be assigned to the Trustee or pledged as security for the Building Aid Revenue Bonds. While no assurance can be given that the MOU will be legally enforceable, the School Financing Act authorizes the assignment of State Building Aid by the City to the Authority and requires the payment of State Building Aid to the Authority following such assignment. See "— Competing Claims to State Aid" and "SECTION II—SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Memorandum of Understanding" and "— Competing Claims to State Aid."

99-b State Aid Intercept. . . . . Section 99-b of the State Finance Law, as amended by the School Financing Act, provides that in the event a holder or owner of any Building Aid Revenue Bond shall file with the State Comptroller a verified statement describing such bond and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and serve a copy thereof by registered mail upon the Comptroller of the City, the Chancellor of the school district of the City (the "Chancellor") and the chief fiscal officer of the Authority. Upon the filing of such a certificate in the office of the State Comptroller, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of Education Aid due to the City or its school district such amount thereof as may be required to pay the principal of and interest on the Building Aid Revenue Bonds then in default. Education Aid so withheld shall be transferred by the State Comptroller to the paying agent for the Building Aid Revenue Bonds so in default.

Education Aid so applied pursuant to State Finance Law Section 99-b secures only Bonds or Notes issued for school purposes and does not secure other obligations of the Authority.

Section 99-b of the State Finance Law contains the covenant of the State with the Bondholders that it will not repeal, revoke or rescind the provisions of Section 99-b of the State Finance Law or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby; but nothing in Section 99-b of the State Finance Law shall be deemed or construed as requiring the State to

	continue the payment of Education Aid or as limiting or prohibiting the State from repealing or amending any law relating to such State education aid or assistance, the manner and timing of payment or apportionment thereof, or the amount thereof. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—99b—State Aid Intercept."
State and City Covenants	The Act and the Indenture contain the covenant of the State with the Bondholders (the "State Covenant") that the State shall not limit or alter the rights vested in the Authority by the Act to fulfill the terms of the Indenture, or in any way impair the rights and remedies of such holders or the security for the Bonds until such Bonds, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders of the Bonds, are fully paid and discharged. The State Covenant does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes relating to State Building Aid subject to the Assignment. However, the State, under the School Financing Act and under the Indenture, covenants that State Building Aid shall in all events (i) continue to be so payable, as assigned to the Authority, so long as the State Building Aid is paid and (ii) continue to be calculated in accordance with the same formula used for such calculation, and otherwise on the same basis as such aid is calculated, on the date that an applicable project is approved for reimbursement from State Building Aid. For more information regarding covenants of the State and City, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Agreements of the State and the City."
Additional Building Aid Revenue Bonds	The Authority expects that it will issue other Building Aid Revenue Bonds in the future. The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds by providing to the Trustee, among other documents, an Officer's Certificate setting forth: (i) Annual School Bond Debt Service, including debt service on such Series of Building Aid Revenue Bonds in each Series Fiscal Year; and (ii) the Confirmed Building Aid payable in the Fiscal Year preceding each Series Fiscal Year, which shall be at least equal to the amount set forth in clause (i) for each Series Fiscal Year. For purposes of the above certificate, each interest rate on Outstanding and proposed variable-rate Building Aid Revenue Bonds (if not economically fixed or otherwise offset by a Qualified Swap, a liquidity account, or otherwise with Rating Confirmation) shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."
Interest and Principal	Interest on the Series 2007 S-2 Bonds will accrue from their dated date at the rates set forth on the inside cover page hereof and will be payable semiannually on January 15 and July 15 of each year, commencing July 15, 2007. The record date for payment of interest on the

	Series 2007 S-2 Bonds is the last business day of the calendar month immediately preceding the interest payment date. Principal will be due as shown on the inside cover page and herein. Interest on and principal of the Building Aid Revenue Bonds will be paid by the Authority from State Building Aid on deposit in the School Bond Account. State Building Aid shall be deposited into the School Bond Account in accordance with the retention schedule as described in "Retention Procedures" below.
Optional Redemption	The Series 2007 S-2 Bonds maturing on or before January 15, 2017, are not subject to optional redemption prior to maturity. The Series 2007 S-2 Bonds maturing after January 15, 2017 are subject to optional redemption prior to maturity on 30 days' notice, beginning on January 15, 2017 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date. See "SECTION IV: THE SERIES 2007 S-2 BONDS—Optional Redemption."
Mandatory Redemption	The Series 2007 S-2 Bonds maturing on January 15, 2031 and bearing a 4½% rate of interest and the Series 2007 S-2 Bonds maturing on January 15, 2034 and maturing on January 15, 2037 are subject to mandatory redemption, in part, prior to maturity as described herein. See "SECTION IV: THE SERIES 2007 S-2 BONDS—Mandatory Redemption."
Collection Account	All Revenues (consisting primarily of Tax Revenues and State Building Aid) received by the Authority shall be promptly deposited into the Collection Account within which there are created a Tax Revenue Subaccount and a Building Aid Subaccount. Any Tax Revenues received by the Authority shall be promptly deposited into the Tax Revenue Subaccount. Tax Revenues do not secure the Building Aid Revenue Bonds. The City has assigned all of the State Building Aid to the Authority pursuant to the Assignment, and the Authority and the City have requested the State Comptroller to make payments of State Building Aid to the Trustee. Any State Building Aid received by the Authority or the Trustee shall be promptly deposited in the Building Aid Subaccount.
Application of State Building Aid	State Building Aid in the Building Aid Subaccount of the Collection Account shall be applied in the following order of priority, as implemented in part by the Retention Procedures: first, to Pre-07 S-1 Senior Debt; second, to the Authority's operating expenses, which may include reserves but excluding operating expenses properly allocable to Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt; third, to Pre-07 S-1 Parity Debt and then to the payment of Building Aid Revenue Bonds and other School Obligations; and fourth, daily or as soon as practicable but no later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.
Retention Procedures	To provide for the timely payment of School Obligations subject to the rights of the Holders of Pre-07 S-1 Obligations, money in the Building Aid Subaccount shall be retained therein until transferred as follows: (1) at any time, to the Pre-07 S-1 Senior Subaccount or the Pre-07 S-1 Parity Subaccount, in that order of priority, to pay Pre-07 S-1 Senior

Bonds or Pre-07 S-1 Parity Debt then due and not otherwise provided for;

(2) in the first month of each Collection Quarter,

(a) to the School Bond Account, beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the month and (y) the day when the Unfunded Balance is zero; and

(b) to the order of the City, if no transfer to the School Bond Account is required, beginning the first day when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and continuing until the end of the month; and

(3) in the second and third months of each Collection Quarter,

(a) to the School Bond Account, beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their Full Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the Collection Quarter and (y) the day when the Unfunded Balance is zero;

(b) to the order of the City, if no transfer to the School Bond Account is required, beginning when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount are funded to their Full Requirements and continuing until the end of the Collection Quarter; and

(c) on the last Business Day of the Collection Quarter, to the Pre-07 S-1 Senior Subaccount and then the Pre-07 S-1 Parity Subaccount until both of them have been funded to their Full Requirements; then to the School Bond Account, if the Remaining Building Aid is not more than 110% of the Unfunded Balance, until the Unfunded Balance is zero; and then to the order of the City.

Defeasance . . . . The Authority will have the ability to defease any Bonds under the Indenture by depositing Defeasance Collateral with a trustee to provide for payment of principal, interest and premium, if any, thereon.

Tax Matters . . . . In the opinion of Sidley Austin LLP, Bond Counsel to the Authority, interest on the Series 2007 S-2 Bonds will be exempt from personal income taxes imposed by the State 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 Series 2007 S-2 Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION VII: TAX MATTERS."

Ratings . . . . The Series 2007 S-2 Bonds have been rated "AA-" by Standard & Poor's Ratings Services ("Standard & Poor's"), "A1" by Moody's

Investors Services, Inc. ("Moody's") and "A+" by Fitch Ratings ("Fitch"). The Authority expects that the Series 2007 S-2 Bonds maturing January 15, 2013 through January 15, 2037, inclusive will be rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "AAA" by Fitch based on a municipal bond insurance policy to be issued by Financial Security Assurance Inc. with respect to Series 2007 S-2 Bonds maturing on January 15, 2013 through January 15, 2020, inclusive and a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company with respect to the Series 2007 S-2 Bonds maturing on January 15, 2021 through January 15, 2037, inclusive. See "SECTION VIII: RATINGS."

Trustee . . . . The Bank of New York, New York, New York, acts as the Authority's trustee.

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SECTION I: INTRODUCTION

General

This Official Statement of the New York City Transitional Finance Authority (the "Authority") sets forth information concerning the Authority, The City of New York (the "City") and the State of New York (the "State") in connection with the sale of the Authority's $650,000,000 Building Aid Revenue Bonds, Fiscal 2007 Series S-2 (the "Series 2007 S-2 Bonds").

Provided certain statutory and contractual conditions are met, other series of Bonds on a parity with the Series 2007 S-2 Bonds may be issued. The Series 2007 S-2 Bonds together with other series of Building Aid Revenue Bonds issued under the Indenture are referred to as "Building Aid Revenue Bonds." In addition, the Indenture permits the Authority to issue Notes and to enter into other obligations on a parity with the Building Aid Revenue Bonds (collectively, the "School Obligations"). See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State. The Authority was created by Chapter 16 of the Laws of New York, 1997 (the "Enabling Act"). The Enabling Act became effective March 5, 1997, and provided for the issuance of Bonds for general capital purposes of the City, the payment of Bonds from the Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)), and statutory and contractual covenants of the Authority, the City and the State. The Enabling Act was amended in June 2000 and September 2001 to, among other things, increase the capacity of the Authority to issue Bonds for general City capital purposes. The amendment in September 2001 permitted the Authority to issue Bonds and Notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Obligations"). The Enabling Act was further amended in 2006 to increase the Authority's $11.5 billion statutory capacity to issue Bonds for general City capital purposes by $2 billion to $13.5 billion.

In 2006, the Enabling Act was further amended pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act"). The School Financing Act authorizes the Authority to issue bonds, notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's five-year educational facilities capital plan (the "Five-Year Plan") and authorizes the City to assign to the Authority all or any portion of the State aid payable to the City or its school district pursuant to subdivision 6 of Section 3602 of the State Education Law, or any successor provision of State law ("State Building Aid"). The City has assigned all the State Building Aid to the Authority.

The Series 2007 S-2 Bonds are being issued by the Authority pursuant to the School Financing Act and the Enabling Act, as amended (collectively, the "Act"), and the Amended and Restated Original Indenture, dated November 16, 2006, as supplemented (the "Indenture"), by and between the Authority and The Bank of New York, as Trustee (the "Trustee"). The Series 2007 S-2 Bonds (along with all other Building Aid Revenue Bonds hereafter issued under the Indenture) are payable from the State Building Aid, subject to annual appropriation by the State, assigned by the City to the Authority and by the Authority to the Trustee. The payment of State education aid of which State Building Aid is a part is subject and subordinate to certain prior statutory claims. Payment of State revenues of which State education aid is a part is also subject and subordinate to State constitutional claims. The payment of State Building Aid is dependent in part upon the financial condition of the State. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State" and "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

Recovery Obligations and Subordinate Bonds issued on a parity with Recovery Obligations (together, "Parity Debt"), Senior Bonds and other series of bonds and notes issued by the Authority secured by Tax Revenues are referred herein as "Future Tax Secured Bonds." Pursuant to the Indenture, Future Tax Secured Bonds issued prior to the date of issuance of the Authority's Building Aid Revenue Bonds Fiscal Series 2007 S-1 dated November 16, 2006 (the "Series 2007 S-1 Bonds") will be payable in the first instance from Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)) and to the extent that Tax Revenues are insufficient, from State Building Aid. Future Tax Secured Bonds issued after the date of issuance of the Series 2007 S-1 Bonds, operating expenses allocable thereto and ancillary and swap contracts related thereto ("Post-07 S-1 Obligations") are secured only by Tax Revenues and will have no claim on State Building Aid. The payment of the Building Aid Revenue Bonds is subordinate to (i) the payment of debt service on Future Tax Secured Bonds issued prior to the date of issuance of the Series 2007 S-1 Bonds and (ii) operating expenses allocable thereto (collectively, the "Pre-07 S-1 Obligations").

Building Aid Revenue Bonds do not constitute Future Tax Secured Bonds, are not secured by Tax Revenues and are payable from State Building Aid subordinate to the payment of Pre-07 S-1 Obligations. If Tax Revenues are not sufficient to pay the Pre-07 S-1 Obligations as well as Post-07 S-1 Obligations, State Building Aid will be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for payment of the Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and Post-07 S-1 Obligations. See "SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS—Debt Service Coverage."

Pursuant to an Assignment of State Aid (the "Assignment") dated October 19, 2006, as amended, the City, acting through the Mayor, has assigned to the Authority all of the State Building Aid, and, pursuant to the School Financing Act, State Building Aid and the right to receive the State Building Aid are now the property of the Authority. State Building Aid constitutes a portion of State education aid and assistance annually appropriated by the State of New York (the "State") to the City. Pursuant to a Memorandum of Understanding (the "MOU") dated as of October 26, 2006, among the City, the Authority, the New York State Education Department (the "SED") and the New York State Comptroller (the "State Comptroller"), the Authority will calculate and certify to the SED the amount of each payment of State education aid and assistance that is attributable to State Building Aid. In addition, the State Comptroller has agreed under the MOU, if permitted under applicable law, to pay competing claims from State education aid and assistance other than State Building Aid. A summary of certain provisions of the Indenture, the Assignment and the Agreement, together with certain defined terms used therein and in this Official Statement, is contained in "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT."

The factors affecting the Authority and the Building Aid Revenue Bonds described throughout this Official Statement are complex and are not intended to be described in this Introduction. This Official Statement should be read in its entirety. Capitalized terms not otherwise defined in this Official Statement are defined in "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT."

SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS

General

The Series 2007 S-2 Bonds are to be issued by the Authority as Building Aid Revenue Bonds. Interest on and principal of the Building Aid Revenue Bonds are payable from the State Building Aid assigned to the Authority, subordinate to the payment of the Pre-07 S-1 Obligations. State Building Aid shall only be applied to make payment of the Pre-07 S-1 Obligations in the event that Tax Revenues consisting of Personal Income Taxes and Sales Taxes are insufficient therefor. Building Aid Revenue Bonds are not secured by Tax Revenues. If Tax Revenues are not sufficient to pay Pre-07 S-1 Obligations as well as Post-07 S-1 Obligations, State Building Aid will be applied to the payment of Pre-07 S-1 Obligations and the amount of State Building Aid available for the payment of the Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and Post-07 S-1 Obligations. See "SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS—Tax Revenues and Debt Service Coverage."

The Authority has Outstanding $12,357,855,000 of Future Tax Secured Bonds issued as Pre-07 S-1 Obligations (including bonds that have been economically defeased and the maturity value of capital appreciation bonds), $1,500,000,000 of Future Tax Secured Bonds issued as Post-07 S-1 Obligations and $650 million of Building Aid Revenue Bonds.

The Authority does not have any significant assets or sources of funds other than Tax Revenues and State Building Aid and amounts on deposit pursuant to the Indenture. The Authority has no other source of payment for the Building Aid Revenue Bonds other than State Building Aid. See "— Financial Condition of the State."

Payment of State Building Aid is subject to annual appropriation by the State. If there is not sufficient money appropriated to enable the Building Aid Revenue Bonds to be paid on a timely basis, the State will not be liable to the Authority, the City or the Bondholders for any deficiency. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State Supported Debt" (commonly known as "State Appropriation Debt") within the meaning of the State Finance Law, therefore, the State will not be entering into any financing agreement or service contract in connection with the Building Aid Revenue Bonds.

Bonds of the Authority are not guaranteed by the City or the State. The Authority's bonds are not debt of the State or the City and neither the State nor the City shall be liable thereon.

Pursuant to Section 99-b of the State Finance Law, as amended by the School Financing Act, in the event a holder or owner of any Building Aid Revenue Bond shall file with the State Comptroller a verified statement describing such bond and alleging default in its payment, the State Comptroller shall immediately investigate the default and prepare and file in his office a certificate setting forth his determinations with respect thereto. Upon the filing of such a certificate, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of State education aid or assistance due to the City or its school district such amount thereof as may be required to make the payment of the principal of and interest on the Building Aid Revenue Bonds then in default. State education aid or assistance so withheld shall be transferred by the State Comptroller to the paying agent for the Building Aid Revenue Bonds. See "—99-b State Aid Intercept."

The Authority is not authorized by State law to file a petition in bankruptcy pursuant to Title 11 (the "Bankruptcy Code") of the United States Code. Based on State and federal constitutional, statutory and case law and the terms of the Indenture, the Assignment and the Agreement, Bond Counsel is of the opinion that if the debts of the City were adjusted under the Bankruptcy Code and the City or its creditors were to assert a right to the State Building Aid equal or prior to the rights of the Bondholders, such assertion would not succeed.

Assignment of State Building Aid

Pursuant to the School Financing Act, the State authorized the Authority to issue bonds, notes and other obligations in an amount outstanding up to $9.4 billion to finance a portion of the Five-Year Plan and authorized the City to assign to the Authority all or any portion of the State Building Aid. The City, acting through the Mayor, pursuant to the Assignment has assigned to the Authority all of the State Building Aid and, pursuant to the School Financing Act, the State Building Aid and the right to receive the State Building Aid are now the property of the Authority.

Under the provisions of the Assignment, the City has covenanted to preserve, protect and confirm the interest of the Authority and the Trustee (for the benefit of Bondholders) in the State Building Aid. Furthermore, under the Assignment, the City has covenanted to comply and cause the SCA (herein defined) to comply with the State Education Law (the "Education Law") in all respects material to State Building Aid, or in the event of a claim by Bondholders pursuant to Section 99-b of the State Finance Law, to State education aid or assistance. See "—State Building Aid" and "—99-b State Aid Intercept," herein. The City has also agreed under the Assignment to file or cause to be filed timely and appropriate claims of State Building Aid in respect of all material aidable outlays and diligently prosecute such claims on behalf of the Authority. Furthermore, under the Assignment, the City has agreed to cooperate with the Authority and the Trustee in contesting any competing claim to any portion of the State Building Aid, or the Bondholders (if proceeding under Section 99-b of the State Finance Law) against any competing claim based (i) under the Education Law, (ii) on disallowance regarding prior aid funds distributed to the City or (iii) the City's failure to make any payments or comply with other constitutional or statutory mandate. The City has also agreed to promptly pay over to the Trustee any State Building Aid received by the City and any material amount of State Building Aid diverted from the Authority on account of certain competing claims. See "— Competing Claims to State Aid," herein and see "Appendix A—Summary of Indenture, Assignment and Agreement."

Memorandum of Understanding

Each year the State annually appropriates money to pay for educational needs of the City's students ("Education Aid") pursuant to Section 3602 of the Education Law. A portion of such Education Aid constitutes State Building Aid apportioned pursuant to subdivision 6 of Section 3602 of the Education Law which is paid, together with certain other Education Aid, pursuant to Section 3609-a of the Education Law (the "General Education Aid Payments"). The City, the Authority, New York State Education Department (the "SED") and the State Comptroller have entered into the MOU to determine the amount included in each General Education Aid Payment that is attributable to State Building Aid (the "Building Aid Payment").

Under the MOU, the SED shall provide to the Authority, on each date that the SED provides vouchers to the State Comptroller for a General Education Aid Payment to the City (the date of such payment being a "Payment Date"), a schedule (the "Schedule") setting forth the apportionment of Education Aid calculated by the SED pursuant to the opening paragraph of Section 3609-a of the Education Law ("Money Apportioned"), the total apportionment of State Building Aid for the then-current school year and the amount of the General Education Aid Payment payable to the City or the Authority on the Payment Date. Upon receipt of the Schedule, the Authority shall deliver to the SED, the State Comptroller and the Director of the Division of the Budget of the State, a certification (the "TFA Certification") specifying the amount of the Building Aid Payment attributable to the then-current school year to be paid to the Authority on the Payment Date. As provided in the MOU, the first TFA Certification in the 2007 school year specified the amount of the General Education Aid Payment(s) paid to the City in the 2007 school year prior to the date of the Assignment that constituted Building Aid Payment(s), based on the information provided in the first schedule (the "Pre-Assignment Building Aid Payment").

For each General Education Aid Payment payable to the City prior to June 1 of the then-current school year, the Authority shall determine the amount of the Building Aid Payment due on any Payment Date by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority during such school year prior to such Payment Date (plus, for the 2007 school year only, the Pre-Assignment Building Aid Payment) from an amount calculated by multiplying (x) the percentage that total annual State Building Aid bears to the Money Apportioned for such school year by (y) the total of the General Education Aid Payments payable to the City or the Authority for the then-current school year paid and payable to the Authority and the City during such school year up to and including such Payment Date. The calculations described in the previous sentence will be based on the information provided by the SED in the Schedule. For the General Education Aid Payment payable to the City in June of the then-current school year, the Authority shall determine the amount of the Building Aid Payment attributable to the then-current school year due on such Payment Date by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority during such school year prior to such Payment Date (plus, for the 2007 school year only, the Pre-Assignment Building Aid Payment) from the State Building Aid for such school year.

After the Authority delivers the TFA Certification to the SED, the SED shall deliver to the State Comptroller the Certification together with a written certificate (the "SED Certification") (i) that the sum of the Building Aid Payments attributable to the then-current school year paid or to be paid to the Authority through the Payment Date (plus, for the 2007 school year only, the Pre-Assignment Building Aid Payment) as set forth in the TFA Certification, does not exceed the total amount of State Building Aid apportioned on account of City educational facilities for the then-current school year and (ii) that the Building Aid Payment has been calculated in a manner consistent with the above paragraph. If the SED is unable to make the SED Certification, it will deliver an alternative written certification (the "SED Alternate Certification") to the State Comptroller specifying the amount of such State Building Aid payable for the then-current school year by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority prior to such Payment Date (plus, for the 2007 school year only, the Pre-Assignment Building Aid Payment) from the State Building Aid for such school year (the "Remaining Building Aid Payment").

Upon receipt at least one business day prior to the Payment Date of (i) the TFA Certification and the Adjustment Certification (if any) described below and (ii) the SED Certification or SED Alternative Certification, and if funds are available and payment is authorized by law, such Building Aid Payment or Remaining Building Aid Payment, as the case may be, adjusted in accordance with the Adjustment Certificate, if any, shall be paid by the

State Comptroller to the Authority's trustee, and the State Comptroller shall provide notice of such payment to the SED. If the TFA Certification and either the SED Certification or the SED Alternative Certification are not received prior to the Payment Date, then the entire amount of the General Education Aid Payment (less any adjustments unrelated to the MOU) shall be paid to the City.

If at the end of any school year, Building Aid Payments calculated to be payable to the Authority remain unpaid, such Building Aid Payments shall be paid from the next General Education Aid Payment.

After final review by the SED of the City's apportionment for State Building Aid for any school year, the SED shall notify the City and the Authority of the amount of such State Building Aid for such School Year.

If unpaid Building Aid Payments for a school year are payable in the next school year or if the amount specified by the SED pursuant to the preceding paragraph is not equal to the amount of total annual State Building Aid verified to the Authority in June of such school year, the Authority shall deliver a certification to the SED (the "Adjustment Certification") stating the amount of increase or decrease in the next Building Aid Payment calculated for the then-current school year necessary to reflect such change, and shall identify the school year to which each such increase or decrease is attributable. The SED shall deliver to the State Comptroller, at least one business day prior to the next Payment Date, the Adjustment Certification together with a SED Certification that the increase or decrease in the Building Aid Payment set forth in the Adjustment Certification has been calculated in a manner that is consistent with the MOU.

In addition, the MOU will provide that if permitted by applicable law, the State Comptroller shall satisfy any Competing Claims to Education Aid from Education Aid other than State Building Aid ("Other School Aid") first and, thereafter, from State Building Aid if the expected sources of funds for the payment of the competing claims from Other School Aid are unavailable or insufficient. "Competing Claims" include all claims to, and diversions, reductions and withholdings of, Education Aid adverse to the Authority, such as: (x) claims of (i) holders of general obligation bonds of the City issued for school purposes; (ii) holders of the State of New York Municipal Bond Bank Agency Special School Purpose Revenue Bonds; and (iii) holders of the New York City Educational Construction Fund Revenue Bonds; and (y) State withholdings or recoveries of Education Aid for the City's failure to provide certain educational services (e.g., courses in special areas, a certain number of instructional days, certain health services, services for handicapped students, administrative practices or willful disobedience of certain laws or directives) or to otherwise correct errors or omissions in the apportionments of Education Aid pursuant to subdivision 5 of section 3604 of the Education Law, as statutorily mandated. See "—Competing Claims to State Aid."

Although the MOU sets forth the understanding of the City, the Authority, the SED and the State Comptroller as to the payment of State Building Aid, the MOU will not be assigned to the Trustee or pledged as security for the Building Aid Revenue Bonds. While no assurance can be given that the MOU will be legally enforceable, the School Financing Act authorizes the assignment of State Building Aid by the City to the Authority and requires the payment of State Building Aid to the Authority following such assignment.

State Building Aid

General

Pursuant to Article XI of the New York State Constitution, the State is obligated to provide for maintenance and support of a system of free common schools, wherein all the children of the State may be educated.

State Building Aid is provided, in accordance with subdivision 6 of Section 3602 of the Education Law, as a means for assisting local school districts with the cost of constructing and improving suitable and adequate elementary and/or secondary education facilities. To this end, new facilities, additions and major alterations eligible for State Building Aid must meet specific standards pertaining to functionality, building code requirements, and health and safety regulations.

The following table shows the City's historic State Building Aid for fiscal years 1997 through 2006:

HISTORIC STATE BUILDING AID

Fiscal Years	State Building Aid
1997	$163,252,183
1998	217,870,419
1999	216,214,452
2000	249,698,471
2001	391,494,195[(1)]
2002	425,227,373[(1)]
2003	389,681,770
2004	410,785,177
2005	440,124,844
2006	499,317,025

(1) The increase in State Building Aid in fiscal years 2001 and 2002 is largely attributable to the City's use of pay-as-you-go capital in fiscal years 2000 through 2002, the full amount of which was aided in fiscal years 2001 and 2002. Subsequently, the Education Law was changed to provide that projects paid for with pay-as-you-go capital would be aided over a 30-year period rather than in one fiscal year.

Aidable Debt Service

The City, acting through the SCA, submits projects from its educational facilities capital plan to the SED for review and approval on a project-by-project basis. The SED approval process establishes the amount of project costs that qualify for State Building Aid reimbursement and establishes, for approved projects, a schedule of "Aidable Debt Service" based on an assumed amortization schedule. For projects that are funded from bond financing or "pay-as-you-go" capital, the Aidable Debt Service schedule represents an amortization of the qualified project cost over a 30-year period with level annual debt service payments based upon an assumed interest rate. For leased facilities, the Aidable Debt Service schedule represents the actual lease payments for the actual term of the lease. No later than September 1st of each year, the City Comptroller provides to the SED the average interest rate on all capital debt incurred by the City for school purposes (or the Authority if no such capital debt is incurred by the City) during the prior fiscal year. Upon approval of the Commissioner of SED, this rate serves as the final assumed interest rate used by the SED to recalculate the Aidable Debt Service for projects approved in the prior fiscal year, as well as the preliminary assumed interest rate used to calculate Aidable Debt Service for projects approved in the then-current fiscal year.

The SED determines the amount of State Building Aid apportioned and payable to the City every year for approved projects by multiplying the applicable building aid ratio (the "Selected Building Aid Ratio") for such year, as described below, by such projects' Aidable Debt Service for such year. The Selected Building Aid Ratios vary depending on when particular groups of projects were approved by the Chancellor of Education of the City (the "Chancellor"). Various factors are taken into account by the SED in determining the Selected Building Aid Ratios, including the Calculated Building Aid Ratio and the Incentive Aid Ratio as described below.

Building Aid Ratios

Calculated Building Aid Ratio. Pursuant to subdivision 6 of Section 3602 of the State Education Law, the SED calculates a new building aid ratio for every year for each school district in the State (the "Calculated Building Aid Ratio"). The Calculated Building Aid Ratio determined every year is derived from a formula based largely upon school district wealth factors that are determined based on a school district's property value per pupil in relation to the Statewide property value per pupil. Wealth equalizing features of the formula cause a school district's Calculated Building Aid Ratio to increase as its property value per pupil decreases. As detailed in the following table, the City's Calculated Building Aid Ratio has historically been stable.

Fiscal Year	Calculated Building Aid Ratio
1999	54.0%
2000	52.6
2001	53.2
2002	52.3
2003	52.2
2004	51.7
2005	50.8
2006	52.2
2007	52.7
2008	50.5(1)

(1) Projected

Projects may also qualify each year for additional apportionment of State Building Aid in the form of Incentive Aid and/or through the application of a High Need Building Aid Ratio depending upon when such projects were first approved by the Chancellor.

Incentive Aid Ratio. All projects approved by the Chancellor on or after July 1, 1998 are eligible for an additional apportionment of State Building Aid ("Incentive Aid"). Incentive Aid equals the product of Aidable Debt Service and an incentive decimal computed for use in the year in which a project was approved. The incentive decimal (the "Incentive Aid Ratio") for the City is currently 10%.

High Need Building Aid Ratio. Projects approved by the Chancellor on or after July 1, 2005 qualify for additional apportionment of State Building Aid through the application of a high-need supplemental building aid ratio (the "High Need Building Aid Ratio"). The High Need Building Aid Ratio is equal to the lesser of (i) the product (computed to three decimals without rounding) of the Selected Building Aid Ratio (as described below) multiplied by five percent, or (ii) the positive remainder of ninety-eight one hundredths less the Selected Building Aid Ratio. For the City, the High Need Building Aid Ratio is equal to the product of the Selected Building Aid Ratio multiplied by five percent.

Selected Building Aid Ratio. Although the Calculated Building Aid Ratio is determined by the SED every year, the specific Selected Building Aid Ratio utilized to compute State Building Aid payable to the City in each year for projects is the higher of the Calculated Building Aid Ratio for such year (plus the Incentive Aid Ratio, if applicable) or a prior year building aid ratio applicable to the City (plus the Incentive Aid Ratio, if applicable). The particular prior year building aid ratio applicable to projects is dependent upon the year in which such projects were first approved by the Chancellor.

For projects approved by the Chancellor prior to fiscal year 1999, the Selected Building Aid Ratio applied every year is currently the higher of the City's Calculated Building Aid Ratio and the City's highest Calculated Building Aid Ratio since fiscal year 1982, which is 54.7%. The Selected Building Aid Ratio for such projects for fiscal year 2007 is 54.7%.

Projects approved by the Chancellor on or after July 1, 1998 qualify for an additional State Building Aid apportionment in the form of Incentive Aid, which is currently calculated each year by multiplying the Incentive

Aid Ratio by Aidable Debt Service for such projects for such year. The Selected Building Aid Ratio currently applied every year for projects approved by the Chancellor in fiscal years 1999 and 2000 is the higher of (i) the City's Calculated Building Aid Ratio for such year plus the Incentive Aid Ratio and (ii) the City's highest Calculated Building Aid Ratio since fiscal year 1982 plus the Incentive Aid Ratio, which is 64.7%. The Selected Building Aid Ratio for such projects for fiscal year 2007 is 64.7%.

For projects approved by the Chancellor on or after July 1, 2000, the building aid ratio currently applied in each year to such projects is the higher of (i) the City's Calculated Building Aid Ratio for the year plus the Incentive Aid Ratio and (ii) the building aid ratio applied for the City's apportionment in fiscal year 2000, not including the additive Incentive Aid Ratio, which is 54.7%. The Selected Building Aid Ratio for such projects for fiscal year 2007 is 62.7%. The projected Selected Building Aid Ratio for such projects for fiscal year 2008 is 60.5%

For projects approved by the Chancellor on or after July 1, 2005, the High Needs Building Aid Ratio will be applied to the Selected Building Aid Ratio. The Selected Building Aid Ratio for such projects for fiscal year 2007 is 65.3%.

Confirmed Building Aid

State Building Aid for projects not subject to any further statutory or administrative conditions or approvals (other than annual State appropriation), and which shall be calculated in accordance with the State covenant and the building aid ratios applicable to such projects at the date of calculation, constitutes "Confirmed Building Aid."

State Building Aid to be received for projects that are approved by the SED in the future constitutes "Incremental Building Aid." Pursuant to the Assignment, the City has assigned to the Authority Confirmed Building Aid and the right to receive Incremental Building Aid, and both Confirmed Building Aid and the right to receive Incremental Building Aid are now property of the Authority. The Authority receives, subject to annual State appropriation, State Building Aid regardless of the financing mechanism utilized to fund an eligible educational facility project. The City's financing of educational facilities eligible for State Building Aid is not restricted solely to the issuance of Building Aid Revenue Bonds.

The amount of Confirmed Building Aid payable to the Authority will vary in the future depending on, among other factors, the Selected Building Aid Ratio. Confirmed Building Aid for fiscal years 2007 to 2036 is shown in the following table and is calculated based on the assumption that State Building Aid for the fiscal year 2007 will be computed using the Selected Building Aid Ratios for the 2007 fiscal year and that State Building Aid for fiscal year 2008 through fiscal year 2036 will be computed using the projected Selected Building Aid Ratio for 2008. In addition, the preliminary assumed interest rate for projects approved in the 2007 fiscal year is subject to change which would change the amount of Confirmed Building Aid. In fiscal year 2005, the final assumed interest rate was 4.375% and, in fiscal year 2006, the final assumed interest rate increased to 6.5%. The 6.5% interest rate is the preliminary assumed interest rate used to calculate Confirmed Building Aid for projects approved in 2007 and is reflected in confirmed Building Aid shown below. In the event the Calculated Building Aid Ratio for projects approved on or after July 1, 2000 is less than 50.5% for fiscal years 2009 and thereafter, the Incentive Aid Ratio is reduced or eliminated, or the interest rate used to calculate Confirmed Building Aid for projects approved in 2007 is lower than 6.5%, Confirmed Building Aid may be less than the amounts shown on the following table.

CONFIRMED BUILDING AID

Fiscal Year Ending June 30	Confirmed Building Aid (millions)
2007	$516.79[1]
2008	591.12
2009	585.39
2010	577.91
2011	573.59
2012	571.49
2013	568.24
2014	567.42
2015	567.06
2016	566.79
2017	565.10
2018	561.96
2019	557.14
2020	554.18
2021	529.89
2022	504.54
2023	488.05
2024	472.97
2025	463.95
2026	449.31
2027	440.43
2028	423.65
2029	387.29
2030	341.02
2031	285.85
2032	225.51
2033	199.75
2034	196.19
2035	178.53
2036	148.36

(1) Approximately $82.3 million was received by the City in fiscal year 2007 prior to execution of the Assignment and therefore is not included in 2007 Confirmed Building Aid.

Payment of State Building Aid

State Building Aid for all projects is aggregated by the State and paid to the City in accordance with Section 3609-a of the Education Law. The State does not distinguish payments of State Building Aid from General Education Aid Payments payable to the City. Pursuant to Section 3609-a of the Education Law, 25% of the lesser of (i) the General Education Aid Payments estimated by the SED to be payable to the City at the time of adoption of the State budget or (ii) the General Education Aid Payments estimated by the SED to be payable to the City at the time of payment are required to be paid by the State to the City no later than December 15 of each fiscal year, and the remaining amount of General Education Aid Payments must be paid to the City no later than the first business day of June of such fiscal year. The General Education Aid Payments are conditioned upon the filing by the City of certain reports required under the Education Law. The City has covenanted in the Assignment to comply with the requirements of the Education Law in all respects material to the State Building Aid, which include the requirement to file such reports.

The amount of State Building Aid payable in each year to the Authority will vary depending on, among other factors, the Selected Building Aid Ratio. In addition, although the State has covenanted to continue to calculate State Building Aid in accordance with the formula used on the date an applicable project is approved for reimbursement, no assurance can be given that the Calculated Building Aid Ratio will remain stable in accordance with historic levels or that the Incentive Aid Ratio or the High Need Building Aid Ratio will continue. In addition, payment of State Building Aid is dependent in part upon the financial condition of the State. See "— Financial Condition of the State" and "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

The following table shows debt service coverage for Building Aid Revenue Bonds by Confirmed Building Aid.

DEBT SERVICE COVERAGE FOR BUILDING AID REVENUE BONDS BY CONFIRMED BUILDING AID

Fiscal Year Ending June 30	Confirmed Building Aid (millions)	Debt Service[1] (millions)	Coverage
2007	$516.79[2]	$62.21	8.31x
2008	591.12	80.80	7.32
2009	585.39	80.79	7.25
2010	577.91	80.75	7.16
2011	573.59	84.72	6.77
2012	571.49	84.73	6.74
2013	568.24	84.70	6.71
2014	567.42	84.68	6.70
2015	567.06	84.65	6.70
2016	566.79	84.64	6.70
2017	565.10	84.60	6.68
2018	561.96	84.57	6.64
2019	557.14	84.55	6.59
2020	554.18	84.55	6.55
2021	529.89	84.51	6.27
2022	504.54	84.48	5.97
2023	488.05	84.45	5.78
2024	472.97	84.42	5.60
2025	463.95	84.40	5.50
2026	449.31	84.37	5.33
2027	440.43	84.34	5.22
2028	423.65	84.30	5.03
2029	387.29	84.27	4.60
2030	341.02	84.24	4.05
2031	285.85	84.20	3.40
2032	225.51	84.16	2.68
2033	199.75	84.12	2.37
2034	196.19	84.08	2.33
2035	178.53	84.03	2.12
2036	148.36	83.96	1.77

(1) Reflects actual debt service on Outstanding Building Aid Revenue Bonds and Series 2007 S-2 Bonds. Debt service is shown in the year retained, rather than in the year paid.

(2) Approximately $82.3 million was received by the City in fiscal year 2007 prior to execution of the Assignment and therefore is not included in 2007 Confirmed Building Aid.

Additional Building Aid Revenue Bonds

The School Financing Act authorizes the issuance of Bonds, Notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of one or more of the Five-Year Plans. The Authority expects that it will issue other Building Aid Revenue Bonds in the future. The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds by providing to the Trustee, among other documents, an Officer's Certificate setting forth:

(i) Annual School Bond Debt Service, including debt service on such Series of Building Aid Revenue Bonds in each Series Fiscal Year; and

(ii) the Confirmed Building Aid payable in the fiscal year preceding each Series Fiscal Year, which shall at least be equal to the amount set forth in clause (i) for each Series Fiscal Year.

For purposes of the above certificate, each interest rate on Outstanding and proposed variable-rate Building Aid Revenue Bonds (if not economically fixed by a Qualified Swap, a liquidity account, or otherwise with Rating Confirmation) shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

Incremental Building Aid

General

Additional Building Aid Revenue Bonds will be payable as described herein from State Building Aid assigned to the Authority by the City under the Assignment. It is anticipated that the City will continue adopting Five-Year Plans and making expenditures thereunder that are eligible for State Building Aid in the future. It is also anticipated that the City, through SCA, will continue to make application to the SED for Incremental Building Aid, and that Incremental Building Aid will be approved by the SED as future projects under the current and future Five-Year Plans are undertaken.

Eligibility for State Building Aid

Projects eligible for State Building Aid must be included in the Five-Year Plan. Eligible projects include, among others, new construction, building additions, major modernizations, rehabilitations, and system replacements. Such projects must relate to educational instructional facilities or facilities otherwise related to educational instruction. Project costs eligible for State Building Aid funding may include direct construction and equipment acquisition costs as well as incidental project costs, including site purchase, preparation and development costs and professional service fees and insurance. Such costs may relate to facilities either owned or leased by the City. In addition, lease payments relating to such facilities are also eligible for State Building Aid.

SED Approval and Calculation of State Building Aid

The SED reviews each project and calculates the maximum amount of project costs that are eligible for State Building Aid (the "Maximum Cost Allowance" or "MCA"). Calculation of the MCA begins with a determination of a preliminary cost allowance, which is the product of the number of students the project will accommodate and State per pupil cost amounts by student type. To account for variations in construction labor costs throughout the State, the SED then applies a regional cost factor to each project. For certain projects in the City started after July 1, 2004, the MCA then receives an additional upward adjustment called the "Urban Cost Factor," which is designed to reflect the higher costs of construction in a dense urban environment, as well as an extraordinary site acquisition cost adjustment. Once the MCA is calculated, the SED determines the aidable cost ("Aidable Cost") of a project as the lesser of the MCA and the approved project cost.

Every year, the SED determines the amount of State Building Aid payable for projects as described above under "State Building Aid."

The following table shows Confirmed Building Aid, Incremental Building Aid and total State Building Aid based upon planned expenditures under the Five-Year Plan for the fiscal years 2005 through 2009 (the "Current Five-Year Plan").

TOTAL BUILDING AID RELATING TO EXPENDITURES FOR THE CURRENT FIVE-YEAR PLAN THROUGH JUNE 30, 2009

Fiscal Year Ending June 30	Confirmed Building Aid (millions)	Incremental Building Aid[1] (millions)	Total Building Aid[2] (millions)
2007	$516.79[3]	$ 10.79	$527.58
2008	591.12	100.62	691.74
2009	585.39	187.70	773.09
2010	577.91	255.38	833.29
2011	573.59	255.38	828.97
2012	571.49	255.38	826.87
2013	568.24	255.38	823.63
2014	567.42	255.38	822.80
2015	567.06	255.38	822.44
2016	566.79	255.38	822.17
2017	565.10	255.38	820.48
2018	561.96	255.38	817.35
2019	557.14	255.38	812.52
2020	554.18	255.38	809.56
2021	529.89	255.38	785.27
2022	504.54	255.38	759.93
2023	488.05	255.38	743.43
2024	472.97	255.38	728.35
2025	463.95	255.38	719.33
2026	449.31	255.38	704.69
2027	440.43	255.38	695.82
2028	423.65	255.38	679.03
2029	387.29	255.38	642.67
2030	341.02	255.38	596.40
2031	285.85	255.38	541.24
2032	225.51	255.38	480.90
2033	199.75	255.38	455.13
2034	196.19	255.38	451.57
2035	178.53	255.38	433.91
2036	148.36	255.38	403.74

(1) Based on projections by SCA for the Current Five-Year Plan.

(2) Subject to annual change in the Selected Building Aid Ratio and assumed interest rate. See "— *Confirmed Building Aid*", herein. Total State Building Aid may not add due to rounding.

(3) Approximately $82.3 million was received by the City in fiscal year 2007 prior to execution of the Assignment and therefore is not included in 2007 Confirmed Building Aid.

Five-Year Plan

The Five-Year Plan is the mechanism by which the City plans, funds and manages all capital investments in its public school facilities. The rules governing the preparation and maintenance of each Five-Year Plan are established pursuant to the Education Law. The Current Five-Year Plan covers fiscal years 2005 though 2009 and totals over $13.4 billion. The next Five-Year Plan is expected to be adopted by July 1, 2009.

The school system of the State is divided into school districts. The school district of the City is known as the Department of Education, which is a corporate body separate from the City (the "DOE"). The DOE is overseen by the Panel for Educational Policy, which is chaired by the Chancellor and includes seven additional members who are appointed by the Mayor of the City and five additional members, each appointed by one of the Borough Presidents of the City. Each Five-Year Plan, which is amended from time to time, is prepared by the Chancellor and contains the following categories of work: new construction; building additions; major modernization and rehabilitation; athletic fields, playgrounds and pools; system replacements; security and educational enhancements; and emergency, unspecified and miscellaneous. The Five-Year Plan must describe each of these categories and estimate the cost of each category, the capital funding required each year and the expected sources of such funding. The Five-Year Plan must also set forth an estimate of the cost of each project identified in the Five-Year Plan and state the year in which each such project is to be initiated.

Each Five-Year Plan is managed and administered by the SCA pursuant to the New York State Public Authorities Law. The SCA has the duty to: design, construct, reconstruct, improve, rehabilitate, maintain, furnish, repair, equip and otherwise provide for educational facilities as defined under State Education Law and acquire property through purchase or condemnation therefor. The three-member SCA Board consists of the Chancellor and two other members appointed by the Mayor.

All State Building Aid is payable by the State, subject to annual appropriation, regardless of how approved project costs are financed. Capital expenditures under the Five-Year Plan may be financed using different obligations, such as (i) general obligation bonds issued by the City, (ii) bonds or notes issued by the Authority for general City capital purposes or (iii) Building Aid Revenue Bonds issued by the Authority. Pursuant to the Assignment, all State Building Aid payable in respect of all approved education projects is payable to the Authority regardless of whether such projects are financed through general obligation bonds of the City, bonds of the Authority for general City capital purposes, Building Aid Revenue Bonds, or any other method.

99-b State Aid Intercept

Section 99-b of the State Finance Law provides that in the event a holder or owner of any Building Aid Revenue Bond shall file with the State Comptroller a verified statement describing such bond and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and serve a copy thereof by registered mail upon the Comptroller of the City, the Chancellor and the chief fiscal officer of the Authority. Such investigation by the State Comptroller shall cover the current status with respect to the payment of principal of and interest on all outstanding Building Aid Revenue Bonds, and the statement prepared and filed by the State Comptroller pursuant to the foregoing shall set forth a description of all Building Aid Revenue Bonds of the Authority found to be in default and the amount of principal and interest thereon past due. Upon the filing of such a certificate in the office of the State Comptroller, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of Education Aid due to the City or its school district such amount thereof as may be required to pay the principal of and interest on the Building Aid Revenue Bonds then in default. Education Aid so withheld shall be transferred by the State Comptroller to the paying agent for the Building Aid Revenue Bonds so in default.

In the event such Education Aid so withheld shall be insufficient to pay all of the principal of and interest on the Building Aid Revenue Bonds so in default, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such Education Aid due the City or its school district, such amount or amounts thereof as may be required to pay all of the principal of and interest on the Building Aid Revenue Bonds then in default and to cure such default. Allotments, apportionments and payments of such Education Aid so deducted or withheld by the State Comptroller shall be forwarded promptly to the Trustee as paying agent for the sole purpose of the payment of defaulted principal of and interest on Building Aid Revenue Bonds; provided, however, that in the event any such allotment, apportionment or payment of such Education Aid so deducted or withheld shall be less than the total amount of all principal and interest on the Building Aid Revenue Bonds in default with respect to which the same was so deducted or withheld, then the State Comptroller shall forward to the paying agent an amount in the proportion that the amount of such Building Aid Revenue Bonds in default bears to the total amount of principal of and interest then in default on such bonds.

Total Education Aid to the City was $6,366,884,334 in fiscal year 2006. Education Aid so applied pursuant to Section 99-b of the State Finance Law secures only the Bonds or Notes issued for school purposes and does not secure other obligations of the Authority. The payment of Education Aid to the City is subject to annual appropriation by the State. In addition, no assurance can be given that, in the event of the State's failure to appropriate Education Aid in amounts sufficient to pay State Building Aid, that Education Aid would be sufficient to cure a deficiency pursuant to Section 99-b of State Finance Law.

The State covenants with the Holders of the Building Aid Revenue Bonds that it will not repeal, revoke or rescind the provisions of Section 99-b or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby; but nothing in Section 99-b shall be deemed or construed as requiring the State to continue the payment of Education Aid to the City or as limiting or prohibiting the State from repealing or amending any law relating to Education Aid, the manner and time of payment or apportionment thereof, or the amount thereof.

Set forth is the total amount of Education Aid paid to the City for fiscal years 1997 through 2006.

Fiscal Year	Education Aid
1997	$3,682,211,064
1998	3,899,364,196
1999	4,276,615,016
2000	4,659,619,793
2001	5,170,289,234
2002	5,491,684,438
2003	5,215,812,293
2004	5,366,785,148
2005	5,851,170,972
2006	6,366,884,334

Competing Claims to State Aid

Prior Claims Under the Act. The Authority's receipt of Education Aid, of which State Building Aid is a part, is expressly subject and subordinate under the School Financing Act to payment of Education Aid to the State of New York Municipal Bond Bank Agency (the "MBBA") for certain MBBA bonds payable directly from Education Aid due to the City and to the payment of contingent statutory claims of (i) the holders of any defaulted bonds of the City issued for school purposes and (ii) the New York City Educational Construction Fund.

Direct Claims

MBBA Bonds. Bonds have been issued by the MBBA pursuant to the State of New York Municipal Bond Bank Agency Act, Title 18 of Article VIII of the Public Authorities Law of the State of New York, as amended (the "MBBA Act"), to fund the cost of making a payment to the City in satisfaction of prior year claims owed to the City under Section 3604 of the Education Law. Pursuant to the MBBA Act, the Chairman of the MBBA is required to deliver annually a certificate to the State Comptroller and the Director of the Budget of the State, certifying the amount of public funds apportioned or otherwise made payable by the State to the City as provided in Article 73 of the Education Law necessary for payment of (i) interest, principal and redemption premium, if any, maturing or otherwise becoming due during the subsequent State fiscal year on the MBBA Bonds; (ii) the amounts required to be deposited to the Debt Service Reserve Fund with respect to the MBBA Bonds; and (iii) any and all amounts required for the purpose of satisfying any rebate obligation to the Federal government. Upon receipt of such certification, the State Comptroller is required to transfer to the MBBA such Education Aid to the extent so stated in such certificate. The payments of Education Aid to the MBBA are not dependent upon annual appropriation by the City. Principal of the MBBA Bonds is amortized over the period beginning June 1, 2006, and ending December 1, 2023. The maximum annual debt service on the MBBA Bonds is approximately $41 million.

Expenses for Handicapped Children. In addition, the State Comptroller deducts from Education Aid to the City amounts required by statute to reimburse the State for certain expenditures made by the State for the education of certain blind, deaf and handicapped children in the City. Such expenditures for the City's 2006 fiscal year were approximately $10 million.

Contingent Claims

City General Obligation Bonds. The State Finance Law Section 99-b provides protection against any default on debt issued for school purposes by the Authority and any city, city school district or school district of the State up to the limits of that entity's Education Aid. If a city, city school district or school district of the State defaults in the payment of the principal of its bonds and notes issued for school purposes, the State is to withhold from the next payment of Education Aid made to such entity, an amount required to cure such default in the payment of such bonds. The City issues bonds for school purposes as part of bond issues that also finance many other purposes of the City. If the City should default on any bond issue that includes financing for school purposes, there would be withheld from the Education Aid payable to the City an amount sufficient to cure such default on the bonds issued for school purposes, and any such amount so withheld could reduce the amount of available Education Aid (of which State Building Aid is a part) to pay the Building Aid Revenue Bonds. Projected debt service for fiscal year 2007 on City bonds issued for school purposes outstanding as of June 30, 2006, is approximately $711 million, without reflecting prepayments by the City.

New York City Educational Construction Fund. Bonds have been issued by the New York City Educational Construction Fund (the "ECF") pursuant to Article 10 of the Education Law (the "ECF Act") to fund the cost of combined occupancy structures consisting of improvements to real property containing school accommodations or other facilities of the DOE with compatible and lawful non-school uses. Bonds of the ECF are secured by a debt service reserve fund (the "ECF Debt Service Reserve Fund") in an amount equal to the maximum amount of principal and sinking fund installments of and interest on outstanding bonds issued by the ECF becoming due in the then-current or any succeeding calendar year.

To further assure maintenance of the ECF Debt Service Reserve Fund, the ECF Act requires the DOE to pay to the ECF for deposit in the ECF Debt Service Reserve Fund such sum, if any, as has been certified by the Chairman of the ECF to the DOE, the Mayor and the Director of Management and Budget of the City as necessary to restore the ECF Debt Service Reserve Fund to the ECF Debt Service Reserve Requirement. Such sum is to be paid from moneys appropriated and paid by the City to the DOE or from moneys otherwise lawfully available to the DOE for such purpose. The Chairman of the ECF annually, not later than February 1 in each calendar year, is to make and deliver to the DOE, the Mayor and the Director of Management and Budget of the City a certificate stating the amount, if any, required to restore the ECF Debt Service Reserve Fund to the required amount, and the amount so stated is to be paid to the ECF by the DOE during the then-current fiscal year of the ECF. In the event of the failure or inability of the DOE to pay over the stated amount to the ECF on or before August 1 of the same calendar year, the Chairman of the ECF is to make and deliver to the State Comptroller a further certificate restating the amount so required and, after the State Comptroller has given written notice to the Commissioner of Education of the State, the Mayor and the Director of Management and Budget of the City, such amount is to be paid over to the ECF by the State Comptroller out of the next payment of Education Aid apportioned to the City for the support of common schools or such other aid or assistance payable in support of common schools as may have superseded or supplemented such State aid for the support of common schools, including federal moneys apportioned by the State to the City for the support of common schools. The maximum annual debt service on outstanding ECF Bonds is approximately $18.85 million.

Other Competing Claims

Certain State programs provide for statutory application or withholding of State aid and local assistance as security for the repayment of obligations of, or the repayment of financial assistance provided to, the City including but not limited to the following relating to: loan agreements with the Environmental Facilities Corporation ("EFC") for water pollution control projects under Section 1285-j(11) of the Public Authorities Law; financing agreements with the EFC with respect to the Drinking Water Revolving Fund program under Section 1285-m of the Public Authorities Law; the MBBA under Section 2436 of the Public Authorities Law; the New York State Sports Authority under Section 2473 of the Public Authorities Law; acquisition, construction or maintenance costs of alternative correctional facilities under Section 89-h of the Corrections Law; and failure of the City to make a payment due to the Design and Construction Account of the Hazardous Waste Remedial Fund under Section 97-b of the State Finance Law. The City does not currently participate in the foregoing programs and does not currently expect to participate in such programs in the future. Also, Section 54-a of the State Finance Law provides that, if the City levies or causes to be levied taxes upon real property in excess of constitutional limitations, the State Comptroller may withhold local assistance by the State to the City to the extent of such excess.

In addition, the State may withhold or reduce Education Aid, and in certain cases must withhold or reduce such aid, upon the City's failure to provide statutorily mandated courses of instruction in a number of special areas, upon the City's failure to provide the statutorily required number of instructional days, upon the City's failure to provide certain health services, upon the City's failure to provide certain statutorily mandated services for handicapped students, upon the City's failure to make any required payment for the maintenance or operation of charter schools in the City, upon the City's noncompliance with certain other statutorily mandated administrative practices or upon the City's willful disobedience of certain laws or directives. During the last 10 years, no Education Aid has been withheld from the City for failure to meet the above-mentioned requirements.

The Authority's receipt of the State Building Aid could also be affected by withholding of Education Aid, of which State Building Aid is a part, in satisfaction of any disallowance regarding prior aid funds distributed to the City. The City and the Authority expect that any assertion of a disallowance that might otherwise materially affect the Education Aid would be satisfied either by the State's withholding of aid payments other than the State Building Aid or by repayment by the City to the State of the amount of the disallowance.

On June 16, 2005, the Office of the Inspector General of the United States Department of Health and Human Services ("HHS") issued its audit report on claims for the 1993-2001 period submitted to the New York State Medicaid program by the DOE with respect to speech services for students with disabilities. The audit states generally that the State improperly billed HHS nearly $436 million in Federal Financial Participation ("FFP") for State Medicaid expenditures for speech services that were not sufficiently supported by documentation establishing the provision of such services in accordance with applicable standards. The State Department of Health has formally submitted a response to the Centers for Medicare and Medicaid Services raising objections, based in law and policy, to the audit findings and requesting that the Centers for Medicare and Medicaid Services take no action to disallow Medicaid funding on the basis of the audit report of the Office of the Inspector General of HHS. The Centers for Medicare and Medicaid Services have not yet responded to the response of the State Department of Health. In addition, on September 15, 2005, the Office of the Inspector General of HHS issued its audit report on claims submitted to the New York State Medicaid program by the DOE with respect to transportation services for students with disabilities for the period 1993 through 2001. The audit states that none of the claims in the statistical sample of 120 claims complied with laws and regulations generally relating to documentation of services; it concludes that approximately $96 million in claims improperly billed to HHS should be refunded, and that the State should work with the Centers for Medicare and Medicaid Services to resolve approximately $12 million in additional claims. The State Department of Health and the City have formally submitted responses to the transportation audit to the Centers of Medicare and Medicaid Services; the responses take the position that the audit was flawed and unlawfully conducted and, as in the case of the speech audit, request that the Centers for Medicare and Medicaid Services take no further action with respect to the audit. The Centers for Medicare and Medicaid Services have not yet responded to the responses of the State Department of Health and the City. Both the speech and transportation audits may be the subject of further administrative or judicial review that may result in changes in amounts alleged to be owed by the State. In the event that FFP is ultimately disallowed and found to be owed by the State to HHS, the State may in turn seek to collect amounts received by the DOE for services that are the subject of such disallowances, or may offset payments of Education Aid, including State Building Aid, payable to the City or the Authority.

On November 3, 2006, the inspector general of the United States Department of Education released an audit of the federal Reading First program which found that SED had improperly awarded more than $118 million in federal grants under that program, $106 million of which was awarded to the City. SED is disputing the inspector general's findings. The inspector general recommended that the $118 million be recovered from the State. In the event that such amount is recovered from the State, the State may in turn seek to recover the $106 million received by the City under the Reading First program, or may offset payments of Education Aid, including State Building Aid, payable to the City or the Authority.

Effect of Claims on State Building Aid

Statutory application and intercept of Education Aid for any of the above purposes or any other purpose could have the result of diminishing the amount of State Building Aid paid to the Authority as well as diminishing Education Aid subject to intercept by the State Comptroller under Section 99-b of the State Finance Law. Furthermore, the City may in the future participate in financing programs incorporating procedures for the application or withholding of Education Aid for the repayment of obligations of, or the repayment of financial assistance provided to, the City. In addition, the State may institute, with or without the consent of the City or the Authority, programs for the diversion or withholding of Education Aid otherwise payable to the City. Any such future application or diversion of Education Aid could also affect the flow of State Building Aid to the Authority. Notwithstanding the foregoing, pursuant to the MOU, the State Comptroller has agreed, if permitted by applicable law, to apply Competing Claims, if any are exercised, against Education Aid payable to the City rather than against State Building Aid payable to the Authority. No assurance can be given that the MOU will be legally enforceable. The City has also agreed under the Assignment to promptly pay any material amount of State Building Aid diverted from the Authority on account of the Competing Claims described under the headings "*Direct Claims*" and "*Contingent Claims*" above and in the last two paragraphs under the heading "*Other Competing Claims*." See "—Assignment of State Building Aid."

Financial Condition of the State

The State Legislature completed action on the budget for fiscal year 2006-2007 on April 26, 2006 (the "Enacted Budget"). The State released its Annual Information Statement on June 12, 2006 (the "AIS"), which reflected the State Legislature's modifications, gubernatorial vetoes and legislative overrides to the Enacted Budget through May 12, 2006, the date of the State financial plan. In the AIS, the State Division of the Budget (the "State DOB") noted that the Enacted Budget was balanced in fiscal year 2006-2007, but projected a closing fund balance in the General Fund of $3.3 billion, and gaps of approximately $3.7 billion in fiscal year 2007-2008 and $4.3 billion in fiscal year 2008-2009.

The State has released updates to its AIS dated August 4, 2006, November 6, 2006 and February 7, 2007 (the "February AIS Update" and, together with the August 4, 2006 update and the November 6, 2006 update, the "AIS Updates"). The AIS Updates contain information regarding the financial condition of the State, revisions to the State financial plan projections for fiscal years 2007-2008 through 2010-2011, State retirement system information, an economic forecast for the nation and State and the status of certain litigation with the potential to adversely affect the State's finances. The February AIS Update reflects the Governor's Executive Budget and Financial Plan for fiscal years 2007-2008 that were presented to the State Legislature on January 31, 2007. The State financial plan, as updated in the February AIS Update, projects a $1.5 billion surplus on a cash basis for fiscal year 2006-2007, with a closing balance in the General Fund of $3.6 billion. The State financial plan also contains projected gaps of $2.3 billion in fiscal year 2008-2009, $4.5 billion in fiscal year 2009-2010 and $6.3 billion in fiscal year 2010-2011, assuming the implementation of the Executive Budget recommendations (including the use in equal installments of a $1.2 billion spending stabilization reserve, funded with the expected fiscal year 2006-2007 net surplus, to lower the projected budget gaps to the indicated projected levels).

The Governor's Executive Budget contains a number of proposals noted in the February AIS Update, including Medicaid and health care cost containment; $7 billion of increased school aid by fiscal year 2011; the restructuring of the Aid and Incentives for Municipalities local government aid program to increase such aid to distressed municipalities while eliminating such aid for the City and other high-wealth municipalities; $1.5 billion in additional property tax relief, including an income based benefit targeted to numerous homeowners state-wide (the first phase of a three-year plan to provide $6 billion in property tax relief); a reduction in economic development initiatives; a reform of certain State tax laws that allow taxpayers to shelter income from taxation; and a deposit of $125 million to the State's new Rainy Day Reserve fund that may be used to respond to an economic downturn or catastrophic event. The February AIS Update includes information from a report prepared by the State's independent actuarial consultant on liabilities for retiree health care costs that will be reported starting with fiscal year 2007-2008 under Governmental Accounting Standards Board Statement 45. According to that report, the present value of the State's actuarial accrued liability for benefits to date would be approximately $47 billion. The State expects to disclose its total unfunded liability in its fiscal year 2007-2008 basic financial statements.

The AIS and the AIS Updates identify a number of risks inherent in the implementation of the State financial plan. Such risks include court actions affecting the receipts and disbursements included in the Executive Budget; costs that could materialize as a result of adverse rulings in pending litigation; federal disallowances, federal rule changes or other federal actions that could produce adverse effects on the State's projections of receipts and disbursements; costs that may materialize in connection with the State's negotiation of future collective bargaining agreements with the State's employee unions; payments from the City that are subject to ongoing negotiations; and risks relating to the national and local economies, including large increases in energy prices, national security concerns and financial sector performances.

The State Legislature and State Comptroller will review the Governor's Executive Budget and are expected to comment on it. There can be no assurance that the State Legislature will enact the Executive Budget into law, or that the State's adopted budget projections will not differ materially or adversely from the projections set forth in the Executive Budget.

In addition to the February AIS Update, financial information relating to the State is also contained in the Comprehensive Annual Financial Report for Fiscal Year Ended March 31, 2006 of the New York State Comptroller dated September 2006 (the "CAFR"). The CAFR is included herein by specific reference. Copies of the CAFR may be obtained from the Office of the New York State Comptroller, 110 State Street, Albany, NY 12236 or from the New York State Comptroller's web site (www.osc.state.ny.us).

The Authority did not prepare the information contained in the AIS, the AIS Updates or the CAFR. The State is not expected to certify to the Authority the accuracy of the information contained or included by specific reference herein.

For additional information, see "APPENDIX C—INFORMATION CONCERNING THE STATE OF NEW YORK."

Agreements of the State and the City

The Act and the Indenture contain the covenant of the State with the Bondholders that the State shall not limit or alter the rights vested in the Authority by the Act to fulfill the terms of the Indenture or in any way impair the rights and remedies of such holders or the security for the Bonds until such Bonds, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders of the Bonds, are fully paid and discharged. This covenant does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes relating to State Building Aid subject to the Assignment. However, the State, under the School Financing Act and under the Indenture, covenants that State Building Aid shall in all events (i) continue to be so payable, as assigned to the Authority, so long as the State Building Aid is paid, and (ii) continue to be calculated in accordance with the same formula used for such calculation, and otherwise on the same basis as such aid is calculated, on the date that an applicable project is approved for reimbursement from State Building Aid.

The Bonds are not a debt of either the State or the City, and neither the State nor the City is liable thereon. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State supported debt" within the meaning of the State Finance Law. The State will not be entering into a continuing disclosure agreement with respect to the Building Aid Revenue Bonds.

The covenants of the City and the State described above shall be of no force and effect with respect to any State Building Aid Bond if there is on deposit in trust with a bank or trust company sufficient cash or Defeasance Collateral to pay when due all principal of, applicable redemption premium, if any, for and interest on, such State Building Aid Bond.

Application of Revenues

Upon receipt of (i) Personal Income Tax Revenues, (ii) Sales Tax Revenues, if any are required to be paid to the Authority, and (iii) State Building Aid, the Trustee must deposit such amounts into the Collection Account held by the Trustee.

Tax Revenue shall be deposited in the Tax Revenue Subaccount of the Collection Account and applied upon receipt by the Trustee in the following order of priority: first, to the Bond Account to pay Senior Debt Service in accordance with the Retention Procedures described below; second, to the Authority's operating expenses, including deposits to the Redemption Account for optional redemption of the Senior Bonds, if any, and any reserves held by the Authority for payment of operating expenses; third, pursuant to Supplemental Indentures to the Recovery and Parity Debt Account or otherwise for the benefit of Noteholders, Subordinate Bondholders and parties to ancillary and swap contracts (other than Senior Agreements), to the extent such Supplemental Indentures may require application of Revenues to pay items after payments of Senior Debt Service and operating expenses; fourth, pursuant to each Officer's Certificate making reference to this level of priority in accordance with the Indenture; and fifth, to the City as soon as available but not later than the last day of each month, excess Revenues, free and clear of the lien of the Indenture.

State Building Aid shall be deposited in the Building Aid Subaccount of the Collection Account and applied in the following order of priority, as implemented in part by the Retention Procedures (set forth below); first, to Pre-07 S-1 Senior Debt; second, to the Authority's operating expenses, which may include reserves but excluding operating expenses properly allocable to Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt; third, to Pre-07 S-1 Parity Debt and then to the payment of Building Aid Revenue Bonds and other School Obligations; and fourth, daily or as soon as practicable but not later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.

Retention Procedures

A quarterly retention mechanism has been adopted by the Authority to provide for payment of debt service on Future Tax Secured Bonds.

For each three-month period commencing August, November, February and May (each such period, a "Collection Quarter"), the Trustee shall begin on the first business day of the first month of each Collection Quarter to transfer Tax Revenues from the Tax Revenue Subaccount to each subaccount of the Bond Account in proportion to the unfunded balance of each First-Month Requirement, and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement. On the first day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount.

After all payments are made to the Bond Account, as described above, and for Authority operating expenses, money on deposit in the Tax Revenue Subaccount will be applied in accordance with a quarterly retention method adopted by the Authority to provide for payment of debt service on Parity Debt. The Pre-07 S-1 Parity Subaccount and the Post-07 S-1 Parity Subaccount are subaccounts in the Recovery Account. At the beginning of each Collection Quarter, the Trustee shall begin to transfer Tax Revenues to each subaccount in the Recovery Account in proportion to the unfunded balance of each First-Month Requirement and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement and on the first Business Day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount.

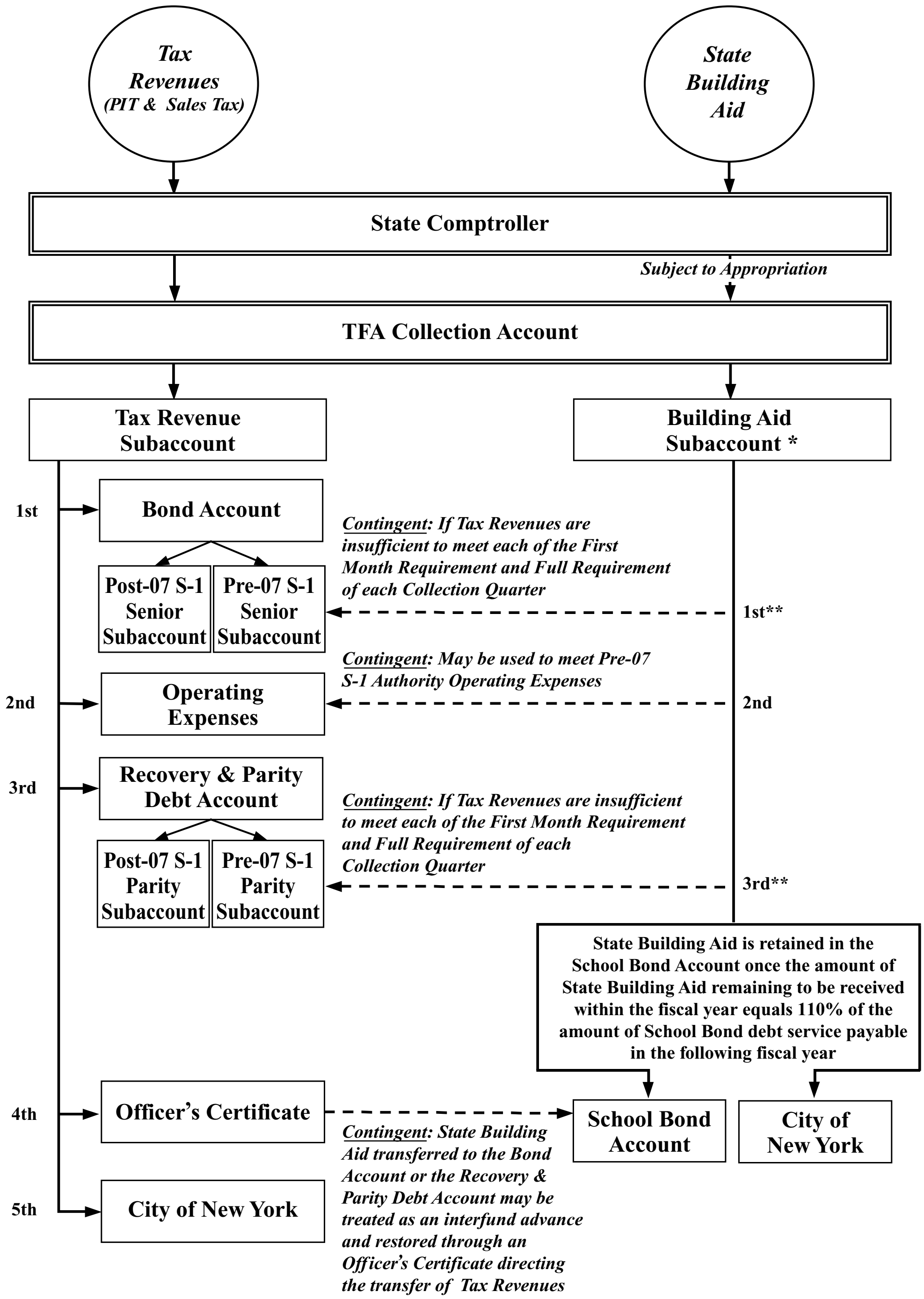
To provide for the timely payment of School Obligations subject to the rights of the Holders of Pre-07 S-1 Senior Debt and Pre-07 S-1 Parity Debt, money in the Building Aid Subaccount shall be retained therein until transferred as follows:

(1) at any time, to the Pre-07 S-1 Senior Subaccount or the Pre-07 S-1 Parity Subaccount, in that order of priority, to pay Pre-07 S-1 Senior Bonds or Pre-07 S-1 Parity Debt then due and not otherwise provided for;

(2) in the first month of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the month and (y) the day when the Unfunded Balance is zero; and (b) to the order of the City, if no transfer to the School Bond Account is required, beginning the first day when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and continuing until the end of the month; and

(3) in the second and third months of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their Full Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the Collection Quarter and (y) the day when the Unfunded Balance is zero; (b) to the order of the City, if no transfer to the School Bond Account is required, beginning when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount are funded to their Full Requirements and continuing until the end of the Collection Quarter; and (c) on the last Business Day of the Collection Quarter, to the Pre-07 S-1 Senior Subaccount and then the Pre-07 S-1 Parity Subaccount until both of them have been funded to their Full Requirements; then to the School Bond Account, if the Remaining State Aid is not more than 110% of the Unfunded Balance, until the Unfunded Balance is zero; and then to the order of the City.

SUMMARY OF COLLECTION AND APPLICATION OF REVENUES



* State Building Aid is initially available to pay debt service coming due and payable but not already provided for with respect to Senior Bonds and Parity Debt, issued prior to the Fiscal 2007 Series S-1 Building Aid Revenue Bonds.

** Within the respective retention period, once each of the First-Month and Full Requirement is satisfied, State Building Aid flows to either the School Bond Account or the City of New York.

SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS

Tax Revenues

Pursuant to the Indenture, the Building Aid Revenue Bonds are payable only from the State Building Aid and not from the Tax Revenues. Future Tax Secured Bonds are secured by Tax Revenues. The application of State Building Aid to pay the Building Aid Revenue Bonds is subject to priorities under the Indenture in favor of the Pre-07 S-1 Obligations. If Tax Revenues are not sufficient to pay Pre-07 S-1 Obligations, as well as Post-07 S-1 Obligations, State Building Aid on deposit in the Collection Account will be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for payment of the Building Aid Revenue Bonds will be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and Post-07 S-1 Obligations. See "Debt Service Coverage" herein.

Tax Revenues consist primarily of Personal Income Tax Revenues and Sales Tax Revenues. Personal Income Tax Revenues are the revenues collected from the Personal Income Tax less overpayments and costs of administration. The Personal Income Tax is the tax imposed by the City as authorized by the State on the income of City residents and, while applicable, on nonresident earnings in the City. The Personal Income Tax is composed of several components, which State law authorizes the City to impose. Some of these components have required renewals in the past and will require renewals in the future. The Act provides that nothing contained therein restricts the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Tax, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed.

Sales Tax Revenues are the revenues collected from the Sales Tax less (i) administrative expenses of the Municipal Assistance Corporation for the City of New York ("MAC Funding Requirements"), and (ii) State administrative costs. MAC Funding Requirements were $10 million in fiscal year 2007. The Sales Tax is the tax currently imposed by the State on the sale and use of tangible personal property and services in the City until July 1, 2008 and thereafter means a similar tax imposed by the City. The term "Sales Tax" also includes certain amounts collected from a sales and compensating use tax imposed by the City as authorized by the State. Prior to July 1, 2008, Sales Tax Revenues (except for the collections derived from the Sales Tax imposed by the City) are subject to appropriation by the State Legislature. Sales Tax Revenues are not subject to City appropriation. The obligation of the State to pay such amounts is subject to, and dependent upon, the making of annual appropriations therefor by the State Legislature and the availability of money to fund such payments. Commencing July 1, 2008, Sales Tax collections will not be subject to the pledge of the Municipal Assistance Corporation for the City of New York and will not be subject to appropriation by the State or City.

Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Pre-07 S-1 Obligations and Post-07 S-1 Obligations if Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds. Notwithstanding the foregoing, Building Aid Revenue Bonds are not payable from Tax Revenues.

Historical collections of Tax Revenues for fiscal years 1991 to 2006 and forecasted collections of Tax Revenues for fiscal years 2007 through and including 2011 are shown in the following table. Forecasted collections of Tax Revenues included in this Official Statement are as forecasted by the New York City Office of Management and Budget ("NYC OMB") as set forth in the City Financial Plan Modification dated January 26, 2007 (the "City Financial Plan").

HISTORICAL AND FORECASTED AMOUNTS OF TAX REVENUES

Fiscal Year Ending June 30	Tax Revenues (millions)	Fiscal Year Ending June 30	Tax Revenues (millions)
1991	$4,720	2002	$ 7,908
1992	5,028	2003	7,785
1993	5,444	2004	9,037
1994	5,702	2005	10,873
1995	6,202	2006	11,756
1996	6,533	2007(1)	12,167
1997	7,048	2008(1)	12,307
1998	7,816	2009(2)	12,526
1999	8,639	2010(2)	13,090
2000	8,961	2011(2)	13,783
2001	9,485		

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

(1) Forecast. Figures do not reflect deductions for MAC Funding Requirements.

(2) Forecast. Amount shown assumes that the City will be authorized to impose the Sales Tax after July 1, 2008 at the rate of 4%, which will require legislation.

If Tax Revenues are not sufficient to pay Pre-07 S-1 Obligations and Post-07 S-1 Obligations, State Building Aid on deposit in the Collection Account will be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for the payment of Building Aid Revenue Bonds will be reduced. Under the Indenture, the Authority may issue Bonds only: (i) as Senior Bonds (or Notes in anticipation thereof) to pay or reimburse Project Capital Costs or refund or renew such Bonds or Notes, but not to exceed $12 billion in Outstanding principal amount, and subject to a $330 million limit on Quarterly Debt Service to be payable; or (ii) as Subordinate Bonds (or Notes in anticipation thereof), with Rating Confirmation; but no Series of Senior Bonds shall be authenticated and delivered without Rating Confirmation unless the amount of collections of Tax Revenues for the twelve consecutive calendar months ended not more than two months prior to the calculation date less the aggregate amount of operating expenses of the Authority for the current fiscal year is at least three times the amount of annual Senior Debt Service, including debt service on the Series of Bonds proposed to be issued, for each fiscal year Bonds will be Outstanding. Parity Debt (or Notes in anticipation thereof) may be issued, provided that collections of Tax Revenues for the most recent fiscal year ended at least two months prior to the date of such issuance are, for each fiscal year during which such proposed Parity Debt is to be outstanding, at least three times the sum of $1.32 billion (Covenanted Maximum Annual Debt Service for Senior Bonds) and annual debt service on Outstanding Parity Debt, together with the Series proposed to be issued, as estimated in accordance with the Indenture. See "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT".

The amount of future Tax Revenues to be collected depends upon various factors including the economic conditions in the City. The forecasts of Tax Revenues are not intended to be guarantees of actual collections and results may vary from forecasts. Economic conditions in the City have reflected numerous cycles of growth and recession. There can be no assurance that historical data relating to economic conditions in the City are predictive of future trends or that forecasts of future economic developments will be realized.

Debt Service Coverage

The following table shows debt service coverage for Outstanding Future Tax Secured Bonds of the Authority by historical and forecasted Tax Revenues.

DEBT SERVICE COVERAGE FOR FUTURE TAX SECURED BONDS BY HISTORICAL AND FORECASTED TAX REVENUES

Fiscal Year	Tax Revenues ($ millions)	Pro Forma Coverage[1]
1991	$ 4,720	3.38x
1992	5,028	3.60
1993	5,444	3.90
1994	5,702	4.08
1995	6,202	4.44
1996	6,533	4.68
1997	7,048	5.05
1998	7,816	5.60
1999	8,639	6.19
2000	8,961	6.42
2001	9,485	6.79
2002	7,908	5.66
2003	7,785	5.57
2004	9,037	6.47
2005	10,873	7.79
2006	11,756	8.42
2007[2]	12,167	8.71
2008[2]	12,307	8.81
2009[3]	12,526	8.97
2010[3]	13,090	9.37
2011[3]	13,783	9.87

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

(1) Calculated based on maximum annual debt service of $1,397 million on Outstanding Future Tax Secured Bonds (assuming that variable rate bonds bear interest at their maximum rate).

(2) Forecast. Figures do not reflect deductions for MAC Funding Requirements.

(3) Forecast. Amounts shown assume that the City will be authorized to impose the Sales Tax after July 1, 2008 at the rate of 4%, which will require legislation.

SECTION IV: THE SERIES 2007 S-2 BONDS

General

The Series 2007 S-2 Bonds will be dated, will bear interest at the rates and will mature on the dates as set forth on the inside cover page of this Official Statement unless redeemed prior to maturity. All of the Series 2007 S-2 Bonds will be issued in book-entry only form. The Series 2007 S-2 Bonds are payable from State Building Aid, subordinate to payment of the Pre-07 S-1 Obligations. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS."

The Series 2007 S-2 Bonds will be issued in denominations of $5,000 or any integral multiple thereof, and will bear interest calculated on the basis of a 360-day year of 30-day months.

The Series 2007 S-2 Bonds are subject to defeasance in accordance with the Indenture. See "APPENDIX A—SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT—The Indenture—*Defeasance*."

Optional Redemption

The Series 2007 S-2 Bonds maturing on or before January 15, 2017 are not subject to optional redemption prior to maturity. The Series 2007 S-2 Bonds maturing after January 15, 2017 are subject to optional redemption prior to maturity on 30 days notice beginning on January 15, 2017 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

Mandatory Redemption

The Series 2007 S-2 Bonds maturing on January 15, 2031 and bearing a 4½% rate of interest and the Series 2007 S-2 Bonds maturing on January 15, 2034 and January 15, 2037 are subject to mandatory redemption, by lot within such maturity, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, without premium, on the dates and in the amounts set forth below:

	Principal Amount to be Redeemed		
January 15	2031 Maturity	2034 Maturity	2037 Maturity
2029	$28,110,000	$ —	$ —
2030	29,375,000	—	—
2031	24,550,000[1]	—	—
2032	—	32,065,000	—
2033	—	33,425,000	—
2034	—	34,845,000[1]	—
2035	—	—	36,330,000
2036	—	—	38,145,000
2037	—	—	40,050,000[1]

(1) Stated Maturity

At the option of the Authority, there shall be applied to or credited against any of the required amounts subject to mandatory redemption the principal amount of any such Series 2007 S-2 Bonds that have been defeased, purchased or redeemed and not previously so applied or credited.

Defeased Series 2007 S-2 Bonds shall at the option of the Authority no longer be entitled, but may be subject, to the provisions thereof for mandatory redemption.

Notice of Redemption

Upon receipt of notice from the Authority of its election to redeem Bonds or when redemption of Bonds is required pursuant to the Indenture, the Trustee is to give notice of such redemption by mail to the Holders of Bonds to be redeemed at least 30 days prior to the date set for redemption. Failure by a particular Holder to receive notice, or any defect in the notice to such Holder, will not affect the redemption of any other Bond.

Other Series

The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

Bond Insurance

Payment of regularly scheduled principal of and interest on the Series 2007 S-2 Bonds maturing on January 15, 2013 through January 15, 2020, inclusive (the "FSA Insured Bonds"), will be insured by Financial Security Assurance Inc. ("FSA"). Information about FSA is set forth in Appendix E hereto. A Specimen FSA Insurance Policy is set forth in Appendix F hereto. Payment of regularly scheduled principal of and interest on the Series 2007 S-2 Bonds maturing on January 15, 2021 through January 15, 2037, inclusive (the "FGIC Insured Bonds", together with the FSA Insured Bonds, the "Insured Bonds"), will be insured by Financial Guaranty Insurance Company ("Financial Guaranty", together with FSA, the "Bond Insurers"). Information about Financial Guaranty is set forth in Appendix G hereto. A specimen Financial Guaranty Insurance Policy is set forth in Appendix H hereto.

Debt Service Requirements

The following schedule sets forth, for each 12-month period ending June 30 of the years shown, the amounts required to be paid by the Authority for the payment of debt service on the Series 2007 S-2 Bonds, on all Outstanding Building Aid Revenue Bonds and total debt service on Building Aid Revenue Bonds during such period.

Fiscal Year Ending June 30	Series 2007 S-2 Bonds Debt Service: Principal and Sinking Fund Installments	Interest	Total	Debt Service on Outstanding Building Aid Revenue Bonds	Total Debt Service on Building Aid Revenue Bonds
2008	$ —	$25,547,896	$25,547,896	$36,659,939	$62,207,835
2009	9,415,000	30,657,475	40,072,475	40,727,850	80,800,325
2010	9,740,000	30,327,950	40,067,950	40,719,994	80,787,944
2011	10,080,000	29,987,050	40,067,050	40,684,119	80,751,169
2012	12,530,000	29,526,363	42,056,363	42,660,400	84,716,763
2013	13,100,000	28,952,163	42,052,163	42,676,750	84,728,913
2014	13,640,000	28,414,063	42,054,063	42,642,450	84,696,513
2015	14,280,000	27,774,400	42,054,400	42,626,850	84,681,250
2016	14,980,000	27,072,263	42,052,263	42,599,475	84,651,738
2017	15,695,000	26,359,063	42,054,063	42,584,275	84,638,338
2018	16,435,000	25,618,188	42,053,188	42,543,531	84,596,719
2019	17,260,000	24,796,438	42,056,438	42,517,188	84,573,625
2020	18,120,000	23,933,438	42,053,438	42,495,563	84,549,000
2021	19,025,000	23,027,438	42,052,438	42,498,738	84,551,175
2022	19,980,000	22,076,188	42,056,188	42,455,788	84,511,975
2023	20,975,000	21,077,188	42,052,188	42,427,788	84,479,975
2024	22,025,000	20,028,438	42,053,438	42,401,163	84,454,600
2025	23,125,000	18,927,188	42,052,188	42,371,538	84,423,725
2026	24,285,000	17,770,938	42,055,938	42,346,163	84,402,100
2027	25,495,000	16,556,688	42,051,688	42,320,250	84,371,938
2028	26,770,000	15,281,938	42,051,938	42,283,338	84,335,275
2029	28,110,000	13,943,438	42,053,438	42,249,338	84,302,775
2030	29,375,000	12,678,488	42,053,488	42,212,713	84,266,200
2031	30,700,000	11,356,613	42,056,613	42,179,963	84,236,575
2032	32,065,000	9,990,488	42,055,488	42,142,463	84,197,950
2033	33,425,000	8,627,725	42,052,725	42,109,088	84,161,813
2034	34,845,000	7,207,163	42,052,163	42,066,338	84,118,500
2035	36,330,000	5,726,250	42,056,250	42,022,963	84,079,213
2036	38,145,000	3,909,750	42,054,750	41,974,713	84,029,463
2037	40,050,000	2,002,500	42,052,500	41,906,294	83,958,794

Use of Proceeds

The proceeds of the Series 2007 S-2 Bonds will be used to finance a portion of the costs of one or more Five-Year Plans. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 2007 S-2 Bonds will be paid from the proceeds of the Series 2007 S-2 Bonds.

Book-Entry Only System

Beneficial ownership interests in the Authority's bonds and notes (the "Securities") will be available in book-entry only form. Purchasers of beneficial ownership interests in the Securities will not receive certificates representing their interests in the Securities purchased.

DTC, New York, New York, will act as securities depository for the Securities. The Securities will be issued as fully registered securities 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 or more fully registered bond certificates will be issued for each principal amount of Securities of each series maturing on a specified date and bearing interest at a specified interest rate, each in the aggregate principal amount of such quantity of Securities, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, 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. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of such Securities ("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. Beneficial Owners are, however, 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 Securities 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 bond certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts the Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities 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 Authority or the Trustee on the payable 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 Participants and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

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

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information furnished by DTC. Neither the Authority 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.

Other Information

For additional information regarding the Series 2007 S-2 Bonds and the Indenture, see "APPENDIX A — SUMMARY OF INDENTURE, ASSIGNMENT AND AGREEMENT."

SECTION V: THE AUTHORITY

Purpose and Operations

The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State created to issue and sell its Bonds and Notes to fund a portion of the capital program of the City including the Five-Year Plan, as requested by the Mayor.

The Authority does not have any significant assets or sources of funds other than the Tax Revenues and State Building Aid and amounts on deposit pursuant to the Indenture. The Bonds will not be insured or guaranteed by the City or the State. Consequently, holders of the Bonds must rely for repayment solely upon the sources of payment described herein.

The Authority is not authorized by State law to file a petition in bankruptcy.

Directors and Management

The Authority is administered by five directors, consisting of the Director of Management and Budget of the City, the Comptroller of the City, the Speaker of the City Council, the Commissioner of Finance of the City and the Commissioner of the Department of Design and Construction of the City. Three directors constitute a quorum for the transaction of business or the exercise of any power of the Authority. A favorable vote of at least three directors present at a meeting where such action is taken is necessary to approve any action, including the issuance of Bonds or Notes of the Authority or to authorize any amendatory or supplemental indenture or financing agreement of the Authority relating to such issuance. The current directors of the Authority, each of whom serves in an *ex-officio* capacity, are:

Mark Page, Chairperson	—	Director of Management and Budget of the City
Martha E. Stark	—	Commissioner of Finance of the City
William C. Thompson, Jr.	—	Comptroller of the City
David Burney	—	Commissioner of the Department of Design and Construction of the City
Christine Quinn	—	Speaker of the City Council

The following is a brief description of certain officers and staff members of the Authority:

Alan L. Anders, Executive Director

Mr. Anders was appointed Treasurer in April 1997 and subsequently was appointed Executive Director in June 2006. Mr. Anders also serves as Deputy Director for Finance of the Office of Management and Budget of the City. Prior to joining the City in September 1990, Mr. Anders was a senior investment banker for J.P. Morgan Securities since 1977 and prior to that date was Executive Director of the Commission on Governmental Efficiency and Economy in Baltimore, Maryland. Mr. Anders is a graduate of the University of Pennsylvania and the University of Maryland Law School.

Marjorie E. Henning, Secretary

Ms. Henning was appointed Secretary in April 1997. Ms. Henning also serves as General Counsel to the Office of Management and Budget of the City. Ms. Henning is a graduate of the State University of New York at Buffalo and the Harvard Law School.

F. Jay Olson, CTP, Treasurer

Mr. Olson was appointed Assistant Treasurer in October 2000 and subsequently was appointed Treasurer in June 2006. Mr. Olson is a graduate of Northwestern University, the University of Texas at Austin, and the John F. Kennedy School of Government at Harvard University. He is a certified treasury professional.

Prescott D. Ulrey, General Counsel

Mr. Ulrey was appointed Assistant Secretary in 1998 and subsequently was appointed General Counsel in 2000. He is a graduate of the University of California at Berkeley, the Fletcher School of Law and Diplomacy at Tufts University and Columbia Law School. He also serves as Counsel to the Office of Management and Budget of the City.

Lawrence R. Glantz, Comptroller

Mr. Glantz was appointed Comptroller in January 2000. He is a graduate of Hofstra University.

Michele Mark Levine, Assistant Comptroller

Ms. Levine was appointed Assistant Comptroller in March 2005. She is a graduate of the State University of New York at Binghamton and the Maxwell School of Citizenship and Public Administration at Syracuse University.

Sanna Wong-Chen, Assistant Treasurer

Ms. Wong-Chen was appointed Assistant Treasurer in June 2006. She is a graduate of Cornell University.

Albert F. Moncure, Jr., Assistant Secretary

Mr. Moncure was appointed Assistant Secretary in 1998. He is a graduate of Dartmouth College and the Yale Law School. He also serves as Chief of the Municipal Finance Division of the New York City Law Department, where he has worked since 1986.

Other Authority Obligations

Assuming conditions specified in the Act and the Indenture are met, the Act authorizes the Authority to issue Future Tax Secured Bonds for general City capital purposes (up to $13.5 billion) and for refunding of Future Tax Secured Bonds. The Act also permits the Authority to have outstanding an additional $2.5 billion of its Recovery Obligations. The School Financing Act authorizes the issuance of Building Aid Revenue Bonds of the Authority in an amount outstanding of up to $9.4 billion to finance portions of the Five Year Plan. Building Aid Revenue Bonds are secured by State Building Aid assigned by the City to the Authority. The Building Aid Revenue Bonds are not secured by Tax Revenues.

The Authority has Outstanding $12,357,855,000 of Future Tax Secured Bonds issued as Pre-07 S-1 Obligations (including bonds that have been economically defeased and the maturity value of capital appreciation bonds), $1,500,000,000 of Future Tax Secured Bonds issued as Post-07 S-1 Obligations and $650 million of Building Aid Revenue Bonds.

The Authority expects that it will issue Bonds for refunding purposes from time to time. In addition, the City expects annually to seek legislation amending the Act to increase the statutory cap on the Authority's Future Tax Secured Bonds for general City capital purposes. If the Act is so amended, the Authority expects to issue such Bonds from time to time, but will continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

Financial Emergency Act

The Authority is a "covered organization" under the New York State Financial Emergency Act for The City of New York, as amended (the "Financial Emergency Act"), and, as such, its operations are included in the City Financial Plan. Under the Financial Emergency Act, the Financial Plan would have to be approved by the New York State Financial Control Board (the "Control Board") in the event that a Control Period (as defined in the Financial Emergency Act) were imposed. During a Control Period, the Tax Revenues will continue to be paid to the Authority and the State and City covenants described herein will remain in full force and effect. The Financial Emergency Act requires outstanding debt obligations of the Authority to be paid. A Control Period would allow the Control Board to prohibit the Authority from issuing other Series of Bonds if such issuance would be inconsistent with the Financial Plan or objectives and purposes of the Financial Emergency Act. No Control Period has been in effect since 1986. In the absence of a Control Period, the Control Board retains certain powers of review over the financial plans that the City is required to submit periodically. The Control Board's authority to impose a Control Period terminates July 1, 2008.

SECTION VI: LITIGATION

There is not now pending any litigation (i) restraining or enjoining the issuance or delivery of the Series 2007 S-2 Bonds or questioning or affecting the validity of the Series 2007 S-2 Bonds or the proceedings and authority under which they are issued; (ii) contesting the creation, organization or existence of the Authority, or the title of the directors or officers of the Authority to their respective offices; (iii) questioning the right of the Authority to enter into the Indenture, the Assignment Agreement or the Agreement and to pledge the State Building Aid and funds and other moneys and securities purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture and State Building Aid or (iv) questioning or affecting the levy or collection of the Personal Income Tax, Sales Tax and State Building Aid in any material respect, or the application of the Personal Income Tax, Sales Tax and State Building Aid for the purposes contemplated by the Act, or the procedure thereunder.

SECTION VII: TAX MATTERS

In the opinion of Sidley Austin LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Series 2007 S-2 Bonds will not be includable in the gross income of the owners of the Series 2007 S-2 Bonds for purposes of federal income taxation under existing law. Interest on the Series 2007 S-2 Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2007 S-2 Bonds in the event of a failure by the Authority or the City to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and their respective covenants regarding use, expenditure and investment of the proceeds of the Series 2007 S-2 Bonds and the timely payment of certain investment earnings to the United States Treasury; and no opinion is rendered by Sidley Austin LLP as to the exclusion from gross income of the interest on the Series 2007 S-2 Bonds for federal income tax purposes on or after the date on which any action is taken under the Indenture or related proceedings upon the approval of counsel other than such firm.

In the opinion of Bond Counsel, interest on the Series 2007 S-2 Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City. In the opinion of Bond Counsel, interest on the Series 2007 S-2 Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which Sidley Austin LLP renders no opinion, as a result of ownership of such Series 2007 S-2 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 Series 2007 S-2 Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

The excess, if any, of the stated redemption price at maturity of any maturity of the Series 2007 S-2 Bonds 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 Series 2007 S-2 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 Series 2007 S-2 Bonds. In general, the issue price of a maturity of the Series 2007 S-2 Bonds is the first price at which a substantial amount of Series 2007 S-2 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 Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed below. 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 subject to redemption prior to its stated maturity, or a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such Bonds is sold to the public, may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

The excess, if any, of the tax basis of Series 2007 S-2 Bonds to a purchaser (other than a purchaser who holds such Series 2007 S-2 Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Series 2007 S-2 Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of such Series 2007 S-2 Bonds are required to decrease their adjusted basis in such Series 2007 S-2 Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2007 S-2 Bonds are held. The amortizable bond premium on such Series 2007 S-2 Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, U.S. Treasury regulations provide that bond premium is treated as an offset to qualified stated interest received on such Series 2007 S-2 Bonds. Owners of such Series 2007 S-2 Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Series 2007 S-2 Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2007 S-2 Bonds.

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 Series 2007 S-2 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 2007 S-2 Bonds will not have an adverse effect on the status of the Series 2007 S-2 Bonds. Legislative or regulatory actions and proposals may also affect the economic value of the tax exemption or the market price of the Series 2007 S-2 Bonds.

Backup Withholding

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Bonds made after March 31, 2007 to be subject to backup withholding if such interest is paid to 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 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.

SECTION VIII: RATINGS

The Series 2007 S-2 Bonds have been rated "AA−" by Standard & Poor's, "A1" by Moody's and "A+" by Fitch. Such ratings reflect only the views of Standard & Poor's, Moody's and Fitch, from which an explanation of the significance of such ratings may be obtained. The Authority expects that the Insured Bonds will be rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "AAA" by Fitch based on the respective municipal bond insurance policies to be issued by the respective Bond Insurers. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of the Rating Agency originally establishing the rating, circumstances so warrant. A downward revision or withdrawal of such ratings, or any of them, may have an effect on the market price of the Series 2007 S-2 Bonds.

SECTION IX: APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance and delivery of the Series 2007 S-2 Bonds are subject to the approval of Sidley Austin LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters are subject to the approval of the New York City Corporation Counsel, counsel to the Authority and the City, and of Winston & Strawn LLP, New York, New York, counsel to the Underwriters.

SECTION X: FINANCIAL ADVISORS

Public Resources Advisory Group, New York, New York and A.C. Advisory, Inc., Chicago, Illinois are acting as financial advisors to the Authority in connection with the issuance of the Series 2007 S-2 Bonds.

SECTION XI: FINANCIAL STATEMENTS

The Authority's financial statements for the fiscal years ended June 30, 2006 and June 30, 2005, included in Appendix B to this Official Statement, have been audited by Grant Thornton LLP, independent certified public accountants, to the extent and for the periods indicated in their report thereon.

SECTION XII: CONTINUING DISCLOSURE UNDERTAKING

To the extent that Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC") promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act"), requires underwriters (as defined in the Rule) to determine, as a condition to purchasing the securities, that the Authority will make such covenants, the Authority will covenant as follows:

The Authority shall provide

(a) within 185 days after the end of each fiscal year, to each nationally recognized municipal securities information repository and to any State information depository, core financial information and operating data for the prior fiscal year, including (i) the Authority's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the Authority's revenues, expenditures, financial operations and indebtedness, generally of the types found under "Sections II and III" herein and (iii) information generally of the type contained in Appendix C herein; and

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

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

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

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

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

(6) adverse tax opinions or events affecting the tax-exempt status of the Building Aid Revenue Bonds;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

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

(11) rating changes; and

(12) failure by the Authority to comply with clause (a) above.

The Authority will not undertake to provide any notice with respect to (1) credit enhancement if the credit enhancement is added after the primary offering of the Building Aid Revenue Bonds, the Authority does not apply for or participate in obtaining the enhancement and the enhancement is not described in the applicable Official Statement; (2) a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if (a) the terms, dates and amounts of redemption are set forth in detail in the applicable Official Statement, (b) the only open issue is which securities will be redeemed in the case of a partial redemption, (c) notice of redemption is given to the Holders as required under the terms of the Indenture and (d) public notice of the redemption is given pursuant to Release No. 23856 of the SEC under the 1934 Act, even if the originally scheduled amounts may be reduced by prior optional redemptions or purchases; or (3) tax exemption other than pursuant to the Act or § 103 of the Code.

No Holder of Building Aid Revenue Bonds may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the continuing disclosure undertaking (the "Undertaking") or for any remedy for breach thereof, unless such Holder of Building Aid Revenue Bonds shall have filed with the Authority evidence of ownership and a written notice of and request to cure such breach, the Authority shall have refused to comply within a reasonable time and such Holder stipulates that (a) no challenge is made to the adequacy of any information provided in accordance with the Undertaking and (b) no remedy is sought other than substantial performance of the Undertaking. 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 then outstanding bonds benefited 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.

An 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 Authority, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of award of a series of bonds, 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 Holders of bonds, as determined by parties unaffiliated with the Authority (such as, but without limitation, the Authority'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 SEC staff 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 issue of a series of bonds ceases to be in effect for any reason, and the Authority 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 bond 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 bond, subject to certain exceptions as set forth in the Undertaking. Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

The State has not agreed to provide continuing disclosure regarding the Building Aid Revenue Bonds. However, the Authority has agreed to provide continuing disclosure with respect to information relating to the State.

SECTION XIII: UNDERWRITING

The Series 2007 S-2 Bonds are being purchased for reoffering by the Underwriters, for whom Citigroup Global Markets Inc. is acting as Lead Manager. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2007 S-2 Bonds from the Authority at an aggregate underwriters' discount of

$3,787,721.76 to make an initial public offering of the Series 2007 S-2 Bonds at prices that are not in excess of the initial public offering prices set forth on the inside cover page of this Official Statement, plus accrued interest, if any. The Underwriters will be obligated to purchase all the Series 2007 S-2 Bonds if any Series 2007 S-2 Bonds are purchased.

The Series 2007 S-2 Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriters.

SECTION XIV: LEGAL INVESTMENT

Pursuant to the Act, the Bonds and Notes of the Authority are securities in which all public officers and bodies of the State and all public corporations, municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, conservators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or in other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them. Pursuant to the Act, the Bonds and Notes may be deposited with and may be received by all public officers and bodies of the State and all municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

SECTION XV: MISCELLANEOUS

The references herein to the Act, the Indenture, the Assignment, the MOU and the Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Act, the Indenture, the Assignment, the MOU and the Agreement for full and complete statements of such provisions. Copies of the Act, the Indenture, the Assignment, the MOU and the Agreement are available at the offices of the Trustee.

The agreements of the Authority with holders of the Series 2007 S-2 Bonds are fully set forth in the Indenture. Neither any advertisement of the Series 2007 S-2 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2007 S-2 Bonds.

The delivery of this Official Statement has been duly authorized by the Authority.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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SUMMARY OF INDENTURE AND AGREEMENT

This summary of the Indenture and the Agreement, each as proposed to be in effect upon the delivery of the Series 2007 S-2 Bonds, is qualified in its entirety by reference to such documents, copies of which are available from the Authority.

Definitions. The following terms, among others, are defined in the Indenture, the Assignment or the Agreement:

"Accounts" means the School Bond Account, the Recovery and Parity Debt Account, the Collection Account, the Bond Account, the Redemption Account and such other Accounts as may be established and so designated pursuant to the Indenture.

"Act" means the New York City Transitional Finance Authority Act, as in effect from time to time, and as the context requires, other provisions of Chapter 16 of the laws of New York 1997, as amended, and the School Financing Act.

"Agreement" means the Financing Agreement dated October 1, 1997, between the Authority and the City as amended, supplemented and in effect from time to time.

The term **"ancillary contracts"** means contracts entered into pursuant to law by the Authority or for its benefit or the benefit of any of the Beneficiaries to facilitate the issuance, sale, resale, purchase, repurchase or payment of Bonds or Notes, including bond insurance, letters of credit and liquidity facilities.

"Annual School Bond Debt Service" means the total amount required to be paid from the School Bond Account in a Fiscal Year, based on School Bonds Outstanding and to be issued.

"Assignment" means the Assignment of State Aid dated October 19, 2006, as amended, and includes each further assignment of State aid by the City to the Authority pursuant to the School Financing Act.

"Beneficiaries" means Bondholders and, to the extent specified in the Indenture, Noteholders and the parties to and beneficiaries of ancillary and swap contracts.

"Bondholders," "Noteholders" and similar terms mean the registered owners of the Bonds and Notes from time to time as shown on the books of the Authority, and, to the extent specified by Series Resolution, the owners of bearer Bonds and Notes.

"Bonds" means all obligations issued by the Authority as bonds.

"Building Aid" means the State school building aid described in the Assignment.

"Building Aid Subaccount" means the subaccount of the Collection Account so designated and held by the Trustee pursuant to the Indenture.

"Capital Financing Need" means a period during which and only the extent to which the issuance of Bonds or Notes in accordance with the Act would assist the City in meeting its capital needs as determined by the Mayor pursuant to the Act.

"Chapter 297" means Chapter 297 of the Laws of 2001 of the State, as it may be amended and in effect from time to time.

"Collection Quarter" means the three months beginning each August, November, February and May.

"Competing Claims" include all claims to, and diversions, reductions and withholdings of, Education Aid adverse to the Authority, such as: (x) claims of (i) holders of general obligation bonds of the City issued for school purposes; (ii) holders of the State of New York Municipal Bond Bank Agency Special School Purpose Revenue Bonds (Prior Year Claims), 2003 Series C; and (iii) holders of the New York City Educational Construction Fund Revenue Bonds, 2005 Series A; and (y) State withholdings or recoveries of Education Aid for the City's failure to provide certain educational services (e.g., courses in special areas, certain number of instructional days, certain health services, services for handicapped students, administrative practices or willful disobedience of certain laws or directives) or to otherwise correct errors or omissions in apportionments of Education Aid pursuant to Subdivision 5 of Section 3604 of the Education Law, as statutorily mandated.

"Confirmed Building Aid" means Building Aid statutorily required to be paid to the Authority with respect to approved projects, subject to appropriation, but not to any other statutory or administrative conditions or approvals, and which shall be calculated in accordance with the State Covenant and with the building aid ratios applicable to such projects at the date of calculation.

"Counsel" means nationally recognized bond counsel or such other counsel as may be selected by the Authority for a specific purpose.

"Debt Service" or **"Senior Debt Service"** means interest, redemption premium, purchase price to the extent provided by Officer's Certificate of the Authority, principal and sinking fund payments due on Outstanding Senior Bonds and (to the extent provided by Series Resolution) Notes and amounts payable from the Bond Account on Senior Agreements. Principal of Notes and termination payments on swap contracts shall be deemed Debt Service only to the extent expressly specified in the text of a Series Resolution.

"Deductions" refers to (i) the practice in effect at the date hereof under which, pursuant to the Education Law, the State Comptroller deducts from Education Aid amounts required to reimburse the State for certain expenditures made by the State for the education of blind, deaf and handicapped children resident in the City and (ii) withholdings, disallowances or recoveries of Education Aid as a result of administrative reviews, audits or other procedures relating to such Education Aid, other than administrative reviews, audits or other procedures relating to Building Aid.

"Defeasance Collateral" means money and (A) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Authority obtains Rating Confirmation with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

(B) obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof);

(C) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (B), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated trust account in the trust department separate from the general assets of such custodian;

(D) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, and (ii) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (A), (B), (C) or (E) which fund may be applied only to the payment when due of such bonds or other obligations; and

(E) with respect to Bonds issued on and after March 24, 2004, obligations described in clause (ii) of the definition of Eligible Investments.

"Defeased Bonds" means legally defeased Bonds or Notes and other Bonds or Notes that remain in the hands of their Holders but are no longer deemed Outstanding.

"Education Aid" means all State aid that may be forwarded to the Paying Agent for the benefit of the Holders of School Bonds and School Notes pursuant to § 99-b of the State Finance Law.

"Eligible Investments" means the following obligations to the extent they are legal for investment of money under the Indenture pursuant to any applicable provision of the Act:

(i) Defeasance Collateral;

(ii) direct obligations of, or obligations guaranteed as to timely payment of principal and interest by, FHLMC, FNMA or the Federal Farm Credit System;

(iii) demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any bank or trust company, savings and loan association or savings bank, if such deposits or instruments are rated A-1+ by Standard & Poor's and the long-term unsecured debt obligations of the institution holding the related account has one of the two highest ratings available for such securities by Moody's;

(iv) general obligations of, or obligations guaranteed by, any state of the United States or the District of Columbia receiving one of the two highest long-term unsecured debt ratings available for such securities by Moody's and Standard & Poor's;

(v) commercial or finance company paper (including both non-interest-bearing discount obligations and interest-bearing obligations payable on demand or on a specified date not more than one year after the date of issuance thereof) that is rated A-1+ by Standard & Poor's and in one of the two highest categories by Moody's;

(vi) repurchase obligations with respect to any security described in clause (i) or (ii) above entered into with a broker/dealer, depository institution or trust company (acting as principal) meeting the rating standards described in clause (iii) above;

(vii) securities bearing interest or sold at a discount that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated in one of the two highest categories by Moody's and either A-1+ or in one of the two highest long-term categories by Standard & Poor's at the time of such investment or contractual commitment providing for such investment; provided, however, that securities issued by any such corporation will not be Eligible Investments to the extent that investment therein would cause the then outstanding principal amount of securities issued by such corporation that are then held to exceed 20% of the aggregate principal amount of all Eligible Investments then held;

(viii) units of taxable money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated in one of the two highest categories by Moody's and at least AAm or AAm-G by Standard & Poor's, including if so rated the VISTA Money Market Funds or any other fund which the Trustee or an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or sub-custodian, notwithstanding that (a) the Trustee or an affiliate of the Trustee charges and collects fees and expenses (not exceeding current income) from such funds for services rendered, (b) the Trustee charges and collects fees and expenses for services rendered pursuant to the Indenture, and (c) services performed for such funds and pursuant to the Indenture may converge at any time (the Authority specifically authorizes the Trustee or an affiliate of the Trustee to charge and collect all fees and expenses from such funds for services rendered to such funds, in addition to any fees and expenses the Trustee may charge and collect for services rendered pursuant to the Indenture);

(ix) investment agreements or guaranteed investment contracts rated, or with any financial institution whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, in one of its two highest rating categories for comparable types of obligations by Moody's and Standard & Poor's; or

(x) investment agreements with a corporation whose principal business is to enter into such agreements if (a) such corporation has been assigned a counterparty rating by Moody's in one of the two highest categories and Standard & Poor's has rated the investment agreements of such corporation in one of the two highest categories and (b) the Authority has an option to terminate each agreement in the event that such counterparty rating is downgraded below the two highest categories by Moody's or the investment agreements of such corporation are downgraded below the two highest categories by Standard & Poor's;

provided that no Eligible Investment may evidence the right to receive only interest with respect to prepayable obligations underlying such instrument or be purchased at a price greater than par if such instrument may be prepaid or called at a price less than its purchase price prior to its stated maturity.

"FHLMC" means the Federal Home Loan Mortgage Corporation.

"Fiduciary" means the Trustee, any representative of the Holders of Notes or Subordinate Bonds appointed by Series Resolution, or any Paying Agent, including each fiscal agent.

"First-Month Requirement" means, for any subaccount funded by Tax Revenues, one-half of Quarterly Senior Debt Service or one-half of Quarterly Subordinate Debt Service payable therefrom, plus any amount payable therefrom in the current Payment Period.

The term **"fiscal agent"** means each Paying Agent (initially the Trustee) designated by the Authority to act as registrar and transfer agent.

"Fiscal Year" means each 12-month period beginning July 1.

"FNMA" means the Federal National Mortgage Association.

"Full Requirement" means, for any subaccount funded by Tax Revenues, the Quarterly Senior Debt Service or Quarterly Subordinate Debt Service payable therefrom, plus any amount payable therefrom in the current Payment Period.

"HYIC" means the Hudson Yards Infrastructure Corporation, a local development corporation organized under the Not-For-Profit Corporation Law of the State.

"Indenture" means the Amendment and Restated Original Indenture entered into as of October 1, 1997, as supplemented, and as amended and restated November 16, 2006.

"LFL" means the Local Finance Law of the State, as amended from time to time.

"MAC" means the Municipal Assistance Corporation for The City of New York.

"Majority in Interest" means the Holders of a majority of the Outstanding Bonds or Notes eligible to act on a matter, measured by face value at maturity unless otherwise specified in a Series Resolution.

The term **"maximum annual debt service on the Bonds"** means the greatest amount of interest, principal and sinking fund payments on Outstanding Bonds (including payment on Subordinate Bonds and Senior Bonds but excluding payments on Notes and ancillary and swap contracts, whether or not such payments are Debt Service) payable in the current or any future fiscal year.

"Moody's" means Moody's Investors Service; references to Moody's are effective so long as Moody's is a Rating Agency.

"MOU" means the Memorandum of Understanding relating to the Education Aid, dated as of October 26, 2006, among the Authority, the City, the State Comptroller and the State Education Department.

"Net Building Aid" means Confirmed Building Aid, net of any Competing Claims that the Authority expects to be applied against the Building Aid.

"Notes" means all obligations issued by the Authority as notes.

The term **"operating expenses"** means all expenses incurred by the Authority in the administration of the Authority including but not limited to salaries, administrative expenses, insurance premiums, auditing and legal expenses, fees and expenses incurred for professional consultants and fiduciaries, payments on Notes and swap and ancillary contracts not paid as Costs or from the Bond Account, transfers to pay or service Subordinate Bonds, and all operating expenses so identified by Supplemental Indenture.

"Outstanding," when used to modify Bonds or Notes, refers to Bonds or Notes issued under the Indenture, excluding: (i) Bonds or Notes which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment; (ii) Bonds or Notes which have been paid; (iii) Bonds or Notes which have become due and for the payment of which money has been duly provided; (iv) Bonds or Notes for which there have been irrevocably set aside sufficient Defeasance Collateral timely maturing and bearing interest, to pay or redeem them; and if any such Bonds or Notes are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds or Notes and notice of such redemption shall have been duly mailed in accordance with the Indenture or irrevocable instructions so to mail shall have been given to the Trustee; (v) Bonds and Notes the payment of which shall have been provided for pursuant to the defeasance provisions of the Indenture; and (vi) for purposes of any consent or other action to be taken by the Holders of a Majority in Interest or specified percentage of Bonds or Notes, Bonds or Notes held by or for the account of the Authority, the City or any person controlling, controlled by or under common control with either of them.

"Parity Debt" means Recovery Obligations and Bonds or Notes payable from the Recovery and Parity Debt Account on a parity with the Recovery Bonds or Recovery Notes, respectively.

"Payment Period" means the three months following each Collection Quarter.

"Personal Income Taxes" means the taxes paid or payable to the Authority pursuant to §1313 of the Tax Law or a successor statute.

"Post-07 S-1 Parity Debt" means Parity Debt issued after November 16, 2006, or so identified pursuant to a Series Resolution.

"Post-07 S-1 Parity Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Post-07 S-1 Parity Debt.

"Post-07 S-1 Senior Debt" means obligations payable from the Bond Account that are either incurred after November 16, 2006, or identified as Post-07 S-1 Senior Debt pursuant to a Series Resolution.

"Post-07 S-1 Senior Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Post-07 S-1 Senior Debt.

"Pre-07 S-1 Parity Debt" means Parity Debt that is not Post-07 S-1 Parity Debt.

"Pre-07 S-1 Parity Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Pre-07 S-1 Parity Debt.

"Pre-07 S-1 Senior Bonds" means Senior Bonds that are not Post-07 S-1 Senior Debt.

"Pre-07 S-1 Senior Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Pre-07 S-1 Senior Bonds.

"Prior Claims" means the Competing Claims to which the Authority's right to the Building Aid is subordinated by the School Financing Act.

"Project Capital Costs" or **"Costs"** means (i) costs, appropriated in the capital budget of the City pursuant to Chapters 9 and 10 of the City Charter, as amended from time to time, providing for the construction, reconstruction, acquisition or installation of physical public betterments or improvements which would be classified as capital assets under generally accepted accounting principles for municipalities, or (ii) the costs of any preliminary studies, surveys, maps, plans, estimates and hearings, or (iii) incidental costs, including legal fees, printing or engraving, publication of notices, taking of title, apportionment of costs, and interest during construction, or (iv) any underwriting or other costs incurred in connection with the financing thereof, or (v) to the extent financed by Recovery Obligations, Recovery Costs (the financing of which is not limited by references to the Capital Financing Need), but (vi) to the extent financed by School Bonds or School Notes, only School Capital Costs.

"Projects" means the projects identified in Exhibit A to the Agreement and all other projects, any costs of which are included in a Transitional Capital Plan pursuant to the Act or are Recovery Costs, and financed, by payment or reimbursement, with the proceeds of Bonds or Notes.

"Qualified Swap" means an ancillary or swap contract with a counterparty (i) the debt securities of which are rated in one of the two highest long-term debt rating categories by S&P or (ii) the obligations of which under the contract are either guaranteed or insured by an entity the debt securities or insurance policies of which are so rated or (iii) the debt securities of which are rated in the third highest long-term debt rating category by S&P or whose obligations are guaranteed or insured by an entity so rated, in either case the obligations of which under the contract are continuously and fully secured by Eligible Investments meeting criteria provided by S&P to the Authority and then in effect.

"Quarterly Debt Service" or **"Quarterly Senior Debt Service"** means Senior Debt Service payable in the following Payment Period, as certified to the Trustee by Officer's Certificate of the Authority.

"Quarterly Subordinate Debt Service" means amounts payable in the following Payment Period from the Recovery and Parity Debt Account pursuant to supplemental indentures, including interest on and principal of Recovery Obligations and Parity Debt issued as Bonds and interest on Recovery Obligations and Parity Debt issued as Notes, as certified to the Trustee by an Officer's Certificate.

"Rating Agency" means each nationally recognized statistical rating organization that has, at the request of the Authority, a rating in effect for the unenhanced Senior Bonds.

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

"Rating Confirmation" means evidence that no Senior Bond rating in effect from a Rating Agency will be withdrawn or reduced solely as a result of an action to be taken under the Indenture.

"Recovery and Parity Debt Account" or "Recovery Account" means the Account established under the Indenture to provide for the payment of debt service on Recovery Obligations and Parity Debt.

"Recovery Bonds" means Recovery Obligations issued as Bonds.

"Recovery Costs" means costs described in Chapter 297.

"Recovery Notes" means Recovery Obligations issued as Notes.

"Recovery Obligations" means bonds, notes or other obligations described in Chapter 297.

"Remaining Building Aid" means the Authority's projection of the balance of Net Building Aid to be received in the current Fiscal Year, based on the latest estimates from the State and such other information as the Authority deems relevant.

"Revenues" means the Tax Revenues (including Alternative Revenues paid or payable to the Authority), the Building Aid and all aid, rents, fees, charges, payments and other income and receipts (other than Note or Bond proceeds) paid or payable to the Authority or the Trustee for the account of the Authority.

"Sales Taxes" means Alternative Revenues as defined in the Act; that is, (i) sales and compensating use taxes that the City is authorized by the State to impose and (ii) taxes imposed pursuant to § 1107 of the Tax Law; and successor taxes.

"School Bond Account" means the account so designated and held by the Trustee pursuant to the Indenture.

"School Bond Rating Confirmation" means evidence that no School Bond rating in effect at the request of the Authority from a nationally recognized statistical rating organization will be withdrawn or reduced in Rating Category solely as a result of an action to be taken under the Indenture.

"School Bonds" means School Obligations issued as Bonds.

"School Capital Costs" means Costs referred to in the School Financing Act.

"School Financing Act" means part A-3 of chapter 58 of the laws of New York, 2006, as it may be amended and in effect from time to time.

"School Notes" means School Obligations issued as Notes, which shall mature within 13 months from their date of issue.

"School Obligations" means bonds, notes, swaps and ancillary contracts payable from the School Bond Account.

"Senior Agreements" means ancillary and swap contracts to the extent that amounts are payable thereon from the Bond Account pursuant to a Series Resolution.

"Senior Bonds" means all Bonds issued as Senior Bonds.

"Series" means all Notes or Bonds so identified in a Series Resolution, regardless of variations in maturity, interest rate or other provisions, and any Notes or Bonds thereafter delivered in exchange or replacement therefor.

"Series Fiscal Year" means each Fiscal Year in which School Bonds of a Series are scheduled to be Outstanding; in which, unless otherwise specified by Series Resolution, each payment of principal or interest shall be made on July 15 or January 15.

"Standard & Poor's" or **"S&P"** means Standard & Poor's Ratings Services; references to Standard & Poor's are effective so long as Standard & Poor's is a Rating Agency.

"State" means the State of New York.

"Statutory Revenues" means Personal Income Taxes and Sales Taxes.

"Subordinate Agreements" means ancillary and swap contracts to the extent that such contracts are not Senior Agreements.

"Subordinate Bonds" means all Bonds but Senior Bonds.

The term **"swap contract"** or **"swap"** means an interest rate exchange or similar agreement entered into by the Authority with Rating Confirmation by Standard & Poor's pursuant to the Act and any appropriate provisions of the LFL that are applicable to the City and made applicable to the Authority by the Act.

"Tax-Exempt Bonds" or **"Tax-Exempt Notes"** means all Bonds or Notes so identified in any Series Resolution.

"Tax Revenue Subaccount" means the subaccount of the Collection Account so designated and held by the Trustee pursuant to the Indenture.

"Tax Revenues" means the Personal Income Taxes and such other revenues, including Sales Taxes (but excluding Building Aid), as the Authority may derive directly from the State from taxes imposed by the City or the State and collected by the State.

"Transitional Capital Plan" means such plan in effect pursuant to the Act.

"Unfunded Balance", with respect to the Building Aid, means Annual School Bond Debt Service remaining to be paid in a Fiscal Year, plus Annual School Bond Debt Service for the following Fiscal Year, minus the amount held in the School Bond Account, but not less than zero.

THE INDENTURE

Directors, State and City Not Liable on Notes or Bonds. Neither the Directors of the Authority nor any person executing Notes, Bonds or other obligations of the Authority shall be liable personally thereon or be subject to any personal liability or accountability solely by reason of the issuance thereof.

The Notes, Bonds and other obligations of the Authority shall not be a debt of either the State or the City, and neither the State nor the City shall be liable thereon, nor shall they be payable out of any funds other than those of the Authority; and the Notes and Bonds shall contain on the face thereof a statement to such effect.

Security and Pledge. Pursuant to the Act, the Authority assigns and pledges to the Trustee (a) the Revenues, (b) all rights to receive the Revenues and the proceeds of such rights, (c) all money and Accounts held by the

Trustee, (d) the covenants of the City and the State and (e) any and all other property of every kind and nature from time to time, by delivery or by writing of any kind, pledged, assigned or transferred as and for additional security. Except as specifically provided, this assignment and pledge does not include: (i) the rights of the Authority pursuant to provisions for consent or other action by the Authority, notice to the Authority, indemnity or the filing of documents with the Authority, or otherwise for its benefit and not for that of the Beneficiaries, or (ii) any right or power reserved to the Authority pursuant to the Act or other law. The Authority will implement, protect and defend this pledge by all appropriate legal action, the cost thereof to be an operating expense. The preceding, and all pledges and security interests made and granted by the Authority pursuant hereto, are immediately valid, binding and perfected to the full extent provided by the Act. The foregoing collateral is pledged and a security interest is therein granted, to secure the payment of Bonds, Notes, and payments in respect of Senior Agreements and Subordinate Agreements; provided, however, that the pledge and security interest granted to secure the Authority's obligation to pay Subordinate Bonds and Subordinate Agreements shall be subject and subordinate to the pledge and security interest granted to secure Debt Service, and all Revenues, including the Building Aid, shall be applied in accordance with the Indenture. The lien of such pledge and the obligation to perform the contractual provisions shall have priority over any or all other obligations and liabilities of the Authority secured by the Revenues. The Authority shall not incur any obligations, except as authorized by the Indenture, secured by a lien on the Revenues or Accounts equal or prior to the lien of the Indenture.

Defeasance of the Indenture. When (a) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem all obligations to Beneficiaries in full, (b) if any Bonds or Notes are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds or Notes and notice of such redemption shall have been duly given or irrevocable instructions to give notice shall have been given to the Trustee, and (c) all the rights of the Authority and the Trustee have been provided for, then upon written notice from the Authority to the Trustee, the Beneficiaries shall cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds so held and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien, the security interests created by the Indenture (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien and security interests.

Legal Defeasance of Particular Bonds. If (a) any Bonds or Notes are identified as legally defeased in a Series Resolution pursuant to the Indenture, (b) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing fixed interest at such rates and with such maturities as will provide sufficient funds to pay or redeem all obligations to the Holders of such Bonds in full (to be verified by a nationally recognized firm of independent certified public accountants), (c) the Authority has taken all action necessary to redeem any such Bonds or Notes to be redeemed prior to maturity and notice of such redemption has been duly given or irrevocable instructions to give notice have been given to the Trustee, and (d) unless otherwise specified by Series Resolution at issuance of the Bonds or Notes to be defeased, the Authority has delivered to the Trustee an opinion of Counsel to the effect that the Holders 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 (if any), in the same manner and at the same times as would have been the case if such legal defeasance had not occurred, *then* the Authority's obligations under the Indenture with respect to such Bonds or Notes shall terminate, the debt represented thereby shall be legally satisfied, and the Holders shall cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds so held and other rights which by their nature cannot be satisfied until such Bonds or Notes are actually paid. Upon such defeasance, the funds and investments required to pay or redeem the Bonds or Notes shall be irrevocably set aside for that purpose, and money held for defeasance shall be invested only as described above and applied to the retirement of the Bonds or Notes.

Notes and Bonds of the Authority. By Series Resolution complying procedurally and in substance with the Act and the Indenture, the Authority may authorize, issue, sell and deliver (i) Bonds or (ii) Notes in anticipation thereof, from time to time in such principal amounts as the Authority shall determine to be necessary, to provide sufficient funds to meet a Capital Financing Need, including paying and reimbursing Project Capital Costs, and funding reserves to secure Notes or Bonds; and may issue Notes or Bonds to renew or refund Notes or Bonds, by exchange, purchase, redemption or payment, and establish such escrows therefor as it may determine.

Bonds and Notes may be issued only:

(i) as Senior Bonds (or Notes in anticipation thereof) to pay or reimburse Project Capital Costs or refund or renew such Bonds or Notes, but not to exceed $12 billion in Outstanding principal amount, and subject to a $330 million limit on Quarterly Debt Service to be payable, or

(ii) as Subordinate Bonds (or Notes in anticipation thereof), with Rating Confirmation; but

(iii) no Series of Senior Bonds shall be authenticated and delivered without Rating Confirmation except upon receipt by the Trustee of the following:

(w) a certificate by the Director of Management and Budget setting forth the most recent collections for the 12 consecutive calendar months ended not more than two months prior to the date of such certificate, of the Statutory Revenues, in effect at the date of issuance of such Series of Bonds, collected by the State and to be payable to the Authority; and

(x) an Officer's Certificate of the Authority setting forth

(I) the aggregate amount of Debt Service (excluding any accrued or capitalized interest), including such series of Bonds, for each Fiscal Year such Bonds will be Outstanding,

(II) the aggregate amount of operating expenses as estimated by an Authorized Officer of the Authority for the current Fiscal Year, and

(III) that the amounts set forth pursuant to clause (w) after deducting the operating expenses set forth pursuant to clause (x)(II), will be at least three times such aggregate amount set forth in clause (x)(I) for each Fiscal Year set forth pursuant to clause (x)(I).

Each interest rate on Outstanding and proposed variable-rate Bonds or Notes (if not economically fixed), shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

The Notes and Bonds shall bear such dates and shall mature at such times as the Authority may provide pursuant to the Act. The Notes and Bonds shall bear interest at such fixed or variable rates, and shall be in such denomination, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, be payable in such medium of payment, at such place and be subject to such terms of redemption as the Authority may provide pursuant to the Act. The Notes and Bonds may be sold by the Authority at public or private sale pursuant to the Act.

Documents to be Delivered to Trustee. The Authority may from time to time request the authentication and delivery of a Series of Bonds or Notes by providing to the Trustee (among other things) the following:

(a) an Officer's Certificate to the effect that there is no default that will remain uncured immediately following such delivery, nor an uncured failure of the State or the City to comply with their respective agreements provided for in the Act, as in effect at the date of the Indenture;

(b) an opinion of Counsel as to the due authorization, execution and delivery by the Authority of the Indenture and each relevant Supplemental Indenture; to the effect that the Series Resolution is in full force and effect and that the Bonds or Notes are valid and binding; and after delivery of the first series of Bonds, to the effect that the issuance of the Bonds or Notes will not adversely affect the exclusion from gross income for federal income tax purposes of interest on Tax-Exempt Bonds or Tax-Exempt Notes theretofore issued (as set forth in the opinions delivered with such prior Bonds or Notes).

Ancillary and Swap Contracts. Pursuant to the Act, the Authority may enter into, amend or terminate, as it determines to be necessary or appropriate, any ancillary or swap contracts, including Senior Agreements to facilitate the issuance, sale, resale, purchase, repurchase or payment of Bonds or Notes. The Authority may by

Series Resolution provide for the payment through the Bond Account of amounts due on ancillary and swap contracts.

Bond Anticipation Notes. Whenever the Authority shall authorize the issuance of a Series of Bonds, the Authority may, by Series Resolution, authorize the issuance of Notes and renewals thereof in anticipation of such Series. The interest on such Notes and renewals thereof may be made payable from the proceeds of such Notes, from the Bond Account, from the Recovery Account, from the School Bond Account or from the proceeds of renewal notes or the Series of Bonds in anticipation of which such Notes are issued. The proceeds of such renewal notes or Bonds may be pledged for the payment of the principal of or interest on such Notes, and any such pledge shall have a priority over any other pledge of such proceeds created by the Indenture. The Authority may also pledge the Revenues and, subject to the Indenture, the Accounts to the payment of the principal of such Notes.

Recovery Obligations and Other Parity Debt. The Authority may from time to time request the authentication and delivery of a Series of Recovery Obligations or other Parity Debt by providing to the Trustee (among other things) the following at the delivery of Bonds or of Notes in anticipation thereof (but not both):

(i) a certificate by the Director of Management and Budget setting forth the collections for the most recent Fiscal Year ended at least two months prior to the date of such certificate, of the Statutory Revenues collected by the State and to be payable to the Authority; and

(ii) an Officer's Certificate of the Authority setting forth (x) the sum of $1.32 billion and the aggregate amount payable from the Recovery and Parity Debt Account, including such Series of Bonds (assumed, at the delivery of Notes, to be issued at the Note maturity and to amortize over 30 years at an interest rate of 7%, with level debt service), for each Fiscal Year such Bonds will be Outstanding and (y) that the amounts set forth pursuant to clause (i) will be at least 3 times the sum set forth in clause (ii)(x) for each Fiscal Year set forth pursuant to clause (ii)(x).

School Bonds and School Notes. The Authority may from time to time request the authentication and delivery of a Series of School Bonds or School Notes by providing to the Trustee (among other things) the following at the delivery of such Bonds or of Notes in anticipation thereof (but not both) an Officer's Certificate setting forth:

(i) Annual School Bond Debt Service, including debt service on such Series of Bonds (assumed, at the delivery of Notes, to be issued at or prior to the Note maturity and to amortize and bear interest as specified in such Officer's Certificate) in each Series Fiscal Year, and

(ii) the Confirmed Building Aid payable in the Fiscal Year preceding each Series Fiscal Year, which shall be at least equal to the amount set forth in clause (i) for each Series Fiscal Year.

Each interest rate on Outstanding and proposed variable-rate Bonds or Notes (if not offset or economically fixed by a Qualified Swap, a liquidity account, or otherwise with School Bond Rating Confirmation), shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

Project Capital Costs. Proceeds of the sale of the Bonds and Notes issued for capital purposes shall be promptly deposited in the Project Fund established under the Agreement to the extent set forth by Series Resolution, and applied to finance Project Capital Costs. The Authority shall transfer its earnings on the Project Fund to the Collection Account as Building Aid or Tax Revenues, or otherwise apply such earnings in accordance with the Tax Code pursuant to Officer's Certificate.

Limited Purpose of Indenture. The Indenture provides for the issuance and payment of the Authority's obligations and the financing and refinancing of Project Capital Costs. Except as set forth in the Agreement, the Authority, the City and the Trustee shall have no liability to each other or to the Beneficiaries for the construction, reconstruction, acquisition, installation, physical condition, ownership or operation of any Project.

Application of Revenues. Provision is made in the Act for the payment to the Authority of the Revenues, and the Authority has requested the State Comptroller to make such payments to the Collection Account to be held by the Trustee. Any Revenues received by the Authority shall be promptly deposited in the Collection Account. Two subaccounts are established in the Collection Account: the Tax Revenue Subaccount and the Building Aid Subaccount. Building Aid transferred to the Bond Account or the Recovery Account may be treated as an interfund advance and transferred to the School Bond Account or restored to the Building Aid Subaccount through an

Officer's Certificate directing the transfer of Tax Revenues at the *fourth* level of priority. The transfers and payments of Revenues shall be appropriately adjusted by Officer's Certificate to reflect the date of issue of Notes or Bonds, any accrued or capitalized interest deposited in the Bond Account, actual rates of interest, any amount needed or held in the Accounts for Debt Service, and any purchase or redemption of Notes or Bonds, so that there will be available on each payment date the amount necessary to pay Debt Service and so that accrued or capitalized interest will be applied to the installments of interest to which it is applicable.

Bond Account. A Bond Account is established with the Trustee and money shall be deposited therein as provided in the Indenture. Accrued interest received upon the sale of Notes (if so specified by Series Resolution) or Senior Bonds shall be deposited in the Bond Account. Two subaccounts are hereby established in the Bond Account: the Pre-07 S-1 Senior Subaccount and the Post-07 S-1 Senior Subaccount. The money in the Bond Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of Debt Service. If at any time the amount held in either subaccount exceeds the Full Requirement, the Trustee shall transfer such excess to the Collection Account as Tax Revenues. The Trustee shall pay, or transfer money from the applicable subaccount of the Bond Account to a Paying Agent in time for the Paying Agent to pay, Debt Service when due in same-day funds.

Redemption Account. A Redemption Account is established with the Trustee and money shall be deposited therein as provided in the Indenture. The money and investments in such Account shall be held in trust and, except as otherwise specified, shall be applied by the Trustee to the redemption of Bonds and Notes. Upon direction by Officer's Certificate of the Authority, the Trustee shall apply money in the Redemption Account to the purchase of Bonds and Notes for cancellation at prices not exceeding (unless so directed by Officer's Certificate of the Authority) the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not with money required to pay Bonds or Notes for which notice of redemption has been given. Accrued interest on the purchase of Bonds and Notes may be paid from the Bond Account (if so payable under the Indenture) or as directed by Officer's Certificate of the Authority.

When money in the Redemption Account is to be applied to the redemption of Notes or Bonds, the Trustee shall pay, or transfer such money to a Paying Agent in time for the Paying Agent to pay, such Notes or Bonds when due in same-day funds.

If on any date the amount in the Bond Account is less than the amount then required to be applied to pay Debt Service then due, the Trustee shall apply the amount in the Redemption Account (other than any sum irrevocably set aside for particular Notes or Bonds no longer Outstanding) to the extent necessary to meet the deficiency.

Redemption of the Bonds and Notes. The Authority may redeem Bonds and Notes at its option in accordance with their terms and shall redeem Bonds and Notes in accordance with their terms pursuant to any mandatory redemption ("sinking fund") requirements established by Series Resolution. When Bonds or Notes are called for redemption, the accrued interest thereon shall become due on the redemption date. To the extent not otherwise provided, the Authority shall deposit with the Trustee on or prior to the redemption date a sufficient sum to pay the redemption price and accrued interest.

The Authority shall not by purchase or optional redemption cause Quarterly Debt Service to exceed $330 million unless either cash is on hand therefor, held by the Authority or in the Redemption Account, or this limit has been modified by Officer's Certificate of the Authority with Rating Confirmation.

Unless otherwise specified by Series Resolution, there shall, at the option of the Authority, be applied to or credited against any sinking fund requirement the principal amount of any such Bonds that have been defeased, purchased or redeemed and not previously so applied or credited. Defeased Bonds shall, at the option of the Authority, no longer be entitled, but may be subject, to the provisions thereof for mandatory redemption.

When Bonds or Notes are to be redeemed prior to maturity, the Trustee shall give notice in the name of the Authority, which notice shall identify the Bonds or Notes to be redeemed, state the date fixed for redemption and state that such Bonds or Notes will be redeemed at the corporate trust office of the Trustee or a Paying Agent. The notice shall further state that on such date there shall become due and payable upon each Bond or Note to be redeemed the redemption price thereof, together with interest accrued to the redemption date, and that money therefor having been deposited with the Trustee or Paying Agent, from and after such date, interest thereon shall cease to accrue. The Trustee shall give 30 days' notice by mail, or otherwise transmit the redemption notice in accordance with the Indenture and any appropriate provisions of the LFL, to the registered owners of any Bonds or Notes which are to be redeemed, at their addresses shown on the registration books of the Authority. Such notice may be waived by any Holder of Bonds or Notes to be redeemed. Failure to transmit notice to a particular Holder, or any defect in the notice to such Holder, shall not affect the redemption of any other Bond or Note.

No Bonds or Notes may be optionally redeemed from the Building Aid unless the Unfunded Balance is zero.

Investments. Pending its use, money in the Accounts may be invested by the Trustee in Eligible Investments maturing or redeemable at the option of the holder at or before the time when such money is expected to be needed and shall be so invested pursuant to written direction of the Authority if there is not then an Event of Default known to the Trustee. Investments shall be held by the Trustee in the respective Accounts and shall be sold or redeemed to the extent necessary to make payments or transfers from each Account.

Except as otherwise specified, any interest realized on investments in any Account and any profit realized upon the sale or other disposition thereof shall be credited to the Collection Account.

The Trustee may hold undivided interests in Eligible Investments for more than one Account (for which they are eligible) and may make interfund transfers in kind.

If any money is invested under the Indenture and a loss results therefrom so that there are insufficient funds to pay Debt Service or to redeem Bonds or Notes called for redemption, then the deficiency shall be timely filled from Revenues (as Debt Service if so payable under the Indenture).

Unclaimed Money. Except as may otherwise be required by applicable law, in case any money deposited with the Trustee or a Paying Agent for the payment of the principal of, or interest or premium, if any, on any Bond or Note remains unclaimed for two years after such principal, interest or premium has become due and payable, the Fiduciary may and upon receipt of a written request of the Authority will pay over to the Authority the amount so deposited and the owner of such Bond or Note shall be entitled (subject to any applicable statute of limitations) to look only to the Authority as an unsecured creditor for the payment thereof.

Recovery and Parity Debt Account. A Recovery and Parity Debt Account is established with the Trustee and money shall be deposited therein as provided in the Indenture or by Officer's Certificate. The Pre-07 S-1 Parity Subaccount and the Post-07 S-1 Parity Subaccount are established as subaccounts in the Recovery Account. The money in the Recovery and Parity Debt Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payments of Recovery Obligations and Parity Debt payable therefrom. If at any time the amount held in either subaccount exceeds the Full Requirement, the Trustee shall transfer such excess to the Collection Account as Tax Revenues. The Trustee shall pay, or transfer money from the applicable subaccount of the Recovery and Parity Debt Account to a Paying Agent in time for such Paying Agent to pay, Recovery Obligations and Parity Debt when due in same-day funds.

School Bond Account. A School Bond Account is established with the Trustee and money shall be deposited therein as provided in the Indenture or by Officer's Certificate. The money in the School Bond Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of School Obligations. If at any time the Unfunded Balance is zero, the Trustee shall transfer any amount in the School Bond Account to the Collection Account as Building Aid. The Trustee shall pay, or transfer money from the School Bond Account to a Paying Agent in time for such Paying Agent to pay, School Obligations when due in same-day funds.

Application of Tax Revenues. (a) Provision is made in the Act for the payment to the Authority of the Tax Revenues, and the Authority has requested the State Comptroller to make such payments to the Collection Account. Any Tax Revenues received by the Authority or the Trustee shall be promptly deposited in the Tax Revenue Subaccount and shall be applied upon receipt by the Trustee, in the following order of priority: *first* to the Bond Account to pay Debt Service pursuant to the Indenture; *second* to the Authority's operating expenses, which may include deposits to the Redemption Account for optional redemption and reserves to be held by the Authority for payment of operating expenses, in such amounts as may be determined by Officer's Certificate; *third* pursuant to Supplemental Indentures for the benefit of Noteholders, Subordinate Bondholders and parties to ancillary and swap contracts, to the extent such Supplemental Indentures may require application of Tax Revenues to pay items after payment of Debt Service and operating expenses; *fourth* pursuant to each Officer's Certificate making reference to this level of priority in accordance with the Indenture; and *fifth* daily or as soon as practicable but not later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.

(b) At the beginning of each Collection Quarter, the Trustee shall begin to transfer all Tax Revenues from the Tax Revenue Subaccount to each subaccount of the Bond Account in proportion to the unfunded balance of each First-Month Requirement, and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement. On the first day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount. To the extent that Quarterly Debt Service includes principal, interest or premium on Bonds or Notes to be purchased or redeemed prior to maturity, such Debt Service may be paid through the Redemption Account, and the Authority may by Officer's Certificate direct the Trustee in writing to transfer Revenues thereto, rather than to the Bond Account.

(c) Pursuant to the *third* level of priority: at the beginning of each Collection Quarter, the Trustee shall begin to transfer all Tax Revenues to each subaccount of the Recovery Account in proportion to the unfunded balance of each First-Month Requirement, and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement; and on the first Business Day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount. To the extent that Quarterly Subordinate Debt Service includes principal, interest or premium on Bonds or Notes to be purchased or redeemed prior to maturity, or Revenues are available to pay principal of Notes, such amounts may be paid through the Redemption Account or an escrow fund, and the Authority may by Officer's Certificate direct the Trustee to transfer Revenues thereto.

(d) The Authority may by Officer's Certificate estimate interest payable at a variable rate; or treat anticipated receipts from a Qualified Swap as offsets thereto.

Application of Building Aid. (A) Provision is made by the Act and the Assignment for the payment to the Authority of the Building Aid, and the Authority has requested the State Comptroller to make such payments to the Collection Account. Any Building Aid received by the Authority or the Trustee shall be promptly deposited in the Building Aid Subaccount and shall be applied by the Trustee pursuant hereto, in the following order of priority, as implemented in part by provisions described below: *first* to Pre-07 S-1 Senior Bonds; *second* to the Authority's operating expenses, which may include reserves to be held by the Authority for payment of operating expenses, in such amounts as may be determined by Officer's Certificate, but excluding operating expenses properly allocable to Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt; *third* to Pre-07 S-1 Parity Debt and then to School Obligations; and *fourth* daily or as soon as practicable but not later than the last day of each month, to the order of the City, free and clear of the lien hereof.

(B) To provide for the timely payment of School Obligations subject to the rights of the Holders of Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt, money in the Building Aid Subaccount shall be retained therein until transferred as follows:

(1) at any time, to the Pre-07 S-1 Senior Subaccount or the Pre-07 S-1 Parity Subaccount, in that order of priority, to pay Pre-07 S-1 Senior Bonds or Pre-07 S-1 Parity Debt then due and not otherwise provided for;

(2) in the first month of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the month and (y) the day when the Unfunded Balance is zero; and (b) to the order of the City, if no transfer to the School Bond Account is required, beginning the first day when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and continuing until the end of the month; and

(3) in the second and third months of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their Full Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the Collection Quarter and (y) the day when the Unfunded

Balance is zero; (b) to the order of the City, if no transfer to the School Bond Account is required, beginning when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount are funded to their Full Requirements and continuing until the end of the Collection Quarter; and (c) on the last Business Day of the Collection Quarter, to the Pre-07 S-1 Senior Subaccount and then the Pre-07 S-1 Parity Subaccount until both of them have been funded to their Full Requirements; then to the School Bond Account, if the Remaining Building Aid is not more than 110% of the Unfunded Balance, until the Unfunded Balance is zero; and then to the order of the City.

Purchase of HYIC Obligations. The Authority may apply Tax Revenues available at the *fourth* level of priority to the purchase of obligations of HYIC (not exceeding the amounts specified by Supplemental Indentures approved by unanimous vote of the Directors of the Authority), which HYIC obligations shall be held by the Authority.

Contract; Obligations to Beneficiaries. In consideration of the purchase and acceptance of any or all of the Bonds and Notes and ancillary and swap contracts by those who shall hold the same from time to time, the provisions of the Indenture shall be a part of the contract of the Authority with the Beneficiaries, and shall be deemed to be and shall constitute contracts among the Authority, the Trustee, the City to the extent specified in the Agreement, the Beneficiaries from time to time and, to the extent specified in the Act, the State. The pledge made in the Indenture and the covenants set forth to be performed by the Authority, the City and the State shall be for the equal benefit, protection and security of the Beneficiaries of the same priority. All of the Outstanding Bonds or Notes or ancillary or swap contracts of the same priority, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any thereof over any other except as expressly provided pursuant to the Indenture and the Act.

The Authority shall pay when due all sums payable on the Bonds and Notes, from the Revenues and money designated in the Indenture, subject only to (i) the Act and the Indenture, and (ii) to the extent permitted by the Act and the Indenture, (x) agreements with Holders of Outstanding Bonds and Notes pledging particular collateral for the payment thereof and (y) the rights of Beneficiaries under ancillary and swap contracts. The obligation of the Authority to pay principal, interest and redemption premium, if any, to the Holders of Bonds and Notes shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, and shall not be subject to setoff, recoupment or counterclaim. The Authority shall also pay its operating expenses.

Enforcement. The Authority shall enforce or cause the Trustee to enforce by appropriate legal proceedings, each covenant, pledge or agreement made by the City or the State in the Indenture or in or pursuant to the Act for the benefit of any of the Beneficiaries, including the Assignment and the related provisions of the School Financing Act.

The Authority shall (1) protect and defend, as an operating expense, its and the Trustee's claim to every material portion of the Building Aid, and the Fiduciaries shall cooperate therein at the Authority's expense;

(2) with the Fiduciaries, as aforesaid, and the City pursuant to the Assignment (a) contest any Competing Claim to any material portion of the Building Aid that (i) it deems factually or legally unfounded, or (ii) is based on constitutional, statutory or regulatory ambiguity, on any provision of the Education Law, or on any action or failure to act of the City;

(b) and cooperate with the Holders in filing and prosecuting any claim made by Holders under § 99-b of the State Finance Law and in opposing any Competing Claim;

(3) provide the calculations contemplated by the MOU; and

(4) not agree to any modification of the MOU that is materially adverse to the Holders of the School Bonds. Without limitation, a modification that receives School Bond Rating Confirmation is not materially adverse to such Holders.

Sales Taxes. For each fiscal year of the City for which the Mayor has given a notice to the State Comptroller pursuant to the State Covenant, the Authority shall request the State Comptroller to schedule payments of Sales Taxes to the Authority, based on the Authority's projections of Personal Income Taxes and debt service, so that the Authority will receive Tax Revenues in each Collection Quarter sufficient to pay its obligations but in all events at least equal to the Quarterly Payment Requirement. Such requests shall be modified, as often as necessary, to reflect experience and revised projections.

Tax Covenant. The Authority shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on Tax-Exempt Bonds and Tax-Exempt Notes shall be excludable from gross income for federal income tax purposes pursuant to § 103(a) of the Tax Code; and no funds of the Authority shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Tax-Exempt Bond or Tax-Exempt Note to be an arbitrage bond as defined in such Code and any applicable Regulations issued thereunder. If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, pay from the Project Fund or as an operating expense the amount, if any, required by the Code to be rebated thereto or paid as a related penalty.

Accounts and Reports. (a) The Authority shall (1) cause to be kept books of account in which complete and accurate entries shall be made of its transactions relating to all funds and accounts under the Indenture, which books shall at all reasonable times be subject to the inspection of the City, the Trustee and the Holders of an aggregate of not less than 25% in principal amount of Bonds and Notes then Outstanding or their representatives duly authorized in writing;

(2) annually, within 185 days after the close of each fiscal year, deliver to the Trustee and each Rating Agency, a copy of its audited financial statements for such fiscal year;

(3) keep in effect at all times an accurate and current schedule of all Quarterly Debt Service to be payable during the life of then Outstanding Bonds, Notes and Senior Agreements secured by the Bond Account; of Remaining Building Aid, and of amounts payable from the Recovery Account and the School Bond Account; certifying for the purpose such estimates as may be necessary; and

(4) deliver to each Rating Agency a quarterly statement of cash flows, including Revenues received, transfers to the Accounts, Bonds and Notes issued, and payments of principal and interest, and an annual statement of the State's costs in administering, collecting and distributing the Tax Revenues.

(b) To implement the State Covenant, the Chairperson of the Authority shall, not less than 30 days prior to the beginning of each fiscal year, certify to the State Comptroller, the Governor, and the Directors of the Authority a schedule of maximum annual debt service payments due on the Bonds and Notes respectively then Outstanding.

(c) The Authority shall deliver to the Trustee and each Rating Agency, not less often than quarterly, an Officer's Certificate showing (i) Revenues on a pro-forma basis for the current fiscal year and each of the two preceding fiscal years, as received, expected and adjusted as if current statutes had been in effect for the three-year period; (ii) Debt Service to be paid in the next three fiscal years; and (iii) whether such Revenues are at least 150% of such Debt Service.

Ratings. Unless otherwise specified by Series Resolution, the Authority shall pay such reasonable fees and provide such available information as may be necessary to obtain and keep in effect ratings on all the Senior Bonds and the School Bonds from at least two nationally recognized statistical rating organizations.

No Other Business. The Authority shall not engage in any line of business not contemplated by the Act.

No Indebtedness or Funds of City. The Indenture does not constitute indebtedness of the City for purposes of § 20.00 of the LFL or any constitutional or statutory limitation. The Authority's revenues are not funds of the City.

State Covenants and Tax Contract. The Authority includes in the Indenture: (a) the State's pledge and agreement with the Holders of Outstanding Bonds and Notes that the State will not limit or alter the rights vested in the Authority by the Act to fulfill the terms of any agreements made with the Holders, or in any way impair the rights and remedies of such Holders or the security for the Bonds and Notes until such Bonds and Notes, together with the interest thereon, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged; (b) the further terms of § 2799-ii of the Act to the effect that: Nothing contained in this covenant shall be deemed to restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Taxes, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed. Not less than 30 days prior to the beginning of each fiscal year, the Chairperson of the Authority shall certify to the State Comptroller, the Governor, and the members of the Board of Directors of the Authority a schedule of maximum annual debt service payments due on the Bonds and Notes then Outstanding. To the extent that Personal Income Taxes payable to the Authority during such fiscal year are projected by the Mayor to be insufficient to meet at least 150% of maximum annual debt service on the Bonds then Outstanding, the Mayor shall so notify the State Comptroller and the State Comptroller shall pay to the Authority from Sales Taxes such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds; provided, however, that for so long as any indebtedness of MAC remains outstanding no Sales Taxes that are, as of March 5, 1997, or may in the future be, required to be deposited in the Municipal Assistance Tax Fund established under § 92-d of the State Finance Law shall be paid to the Authority except out of funds that are otherwise required to be paid to the City under that section. Nothing in this covenant shall be deemed to obligate the State to make any additional payments or impose any taxes to satisfy the obligations of the Authority; (c) subdivision 4 of § 2799-tt of the Act (added by the School Financing Act) to the effect that: The State Covenant shall be fully applicable to School Bonds and School Notes and may be included in any agreement with the Holders thereof. Nothing contained in this covenant shall be deemed to restrict the right of the State to amend, modify, repeal or otherwise alter statutes relating to the Building Aid, but such Building Aid shall in all events (i) continue to be so payable, as assigned, so long as any such Building Aid is paid and (ii) continue to be calculated in accordance with the same formula used for such calculation, and otherwise on the same basis as such aid is calculated, on the date that the applicable project is approved for reimbursement; (d) the last paragraph of § 99-b of the State Finance Law (as amended by the School Financing Act) to the effect that: The State hereby covenants with the Holders of the School Bonds and School Notes that it will not repeal, revoke or rescind the provisions of this section or amend or modify the same so as to limit, impair or impede the rights and remedies granted hereby; provided, however, that nothing in this section shall be deemed or construed as requiring the State to continue the payment of aid or assistance to any city, city school district or school district or as limiting or prohibiting the State from repealing or amending any law heretofore or hereafter enacted relating to aid or assistance, the manner and time of payment or apportionment thereof, or the amount thereof; and (e) the tax contract of the State in the Act.

Authority Acknowledgments. (a) The Authority acknowledges that the City's covenants and pledge and agreement for the benefit of the Holders and the State Covenant and Tax Contract constitute important security provisions of the Outstanding Bonds and Notes, and to the fullest extent permitted by applicable federal and State law, waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support the assertion by the City, the State or any other person of, any such claim to the contrary.

(b) By acknowledging that the City's covenants and pledge and agreement for the benefit of the Holders and the State Covenant and Tax Contract constitute important security provisions of the Outstanding Bonds and Notes, the Authority also acknowledges, to the fullest extent permitted by applicable federal and State law, that, in the event of any failure or refusal by the City or the State to comply therewith, the Holders of the Outstanding Bonds or Notes may have suffered monetary damages, the extent of the remedy for which may be, to the fullest extent permitted by applicable federal and State law, determined, in addition to any other remedy available at law or in equity, in the course of any action taken pursuant to the Indenture; and to the fullest extent permitted by applicable federal and State law, the Authority waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support the assertion by the City, the State or any other person of, any claim to the effect that no such monetary damages have been suffered.

(c) The Authority confirms that the acknowledgments and agreements summarized forth in paragraphs (a) and (b) above have been included as a result of negotiations with the underwriters of specified Bonds and may further acknowledge in any Series Resolution if and the extent to which any provision of the Resolution has been amended, or any provision of such Series Resolution has been included therein, as a result of the same or similar negotiations.

Rights and Duties of the Fiduciaries. The Fiduciaries shall not be required to monitor the financial condition of the Authority or the physical condition of any Project and, unless otherwise expressly provided, shall not have any responsibility with respect to reports, notices, certificates or other documents filed with them under the Indenture, except to make them available for inspection by Beneficiaries.

Upon a failure of the Authority to make a payment of Debt Service when due or a failure known to the Trustee to make any other required payment within 7 days after the same becomes due and payable, the Trustee shall give written notice thereof to the Authority. The Trustee shall give notices of default when instructed to do so by the written direction of another Fiduciary or the owners of at least 25% in principal amount of the Outstanding Senior Bonds or with respect to specified events, if actually known to an Authorized Officer of the Trustee. The Trustee shall proceed under the Indenture for the benefit of the Holders in accordance with the written directions of a Majority in Interest of the Outstanding Senior Bonds. The Trustee shall not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity is furnished for any expense or liability to be incurred.

Each Fiduciary shall be entitled to the advice of counsel (who may be counsel for any party) and shall not be liable for any action taken in good faith in reliance on such advice. Each Fiduciary may rely conclusively on any notice, certificate or other document furnished to it under the Indenture and reasonably believed by it to be genuine. A Fiduciary shall not be liable for any action taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under the Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or consent or other action by a Fiduciary is called for by the Indenture, the Fiduciary may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof. A permissive right or power to act shall not be construed as a requirement to act.

Any fees, expenses, reimbursements or other charges which any Fiduciary may be entitled to receive from the Authority, if not otherwise paid, shall be a first lien upon (but only upon) any funds held by the Trustee for payment of operating expenses.

Paying Agents. The Authority designates the Trustee a Paying Agent. The Authority may appoint additional Paying Agents, generally or for specific purposes, may discharge a Paying Agent from time to time and may appoint a successor. The Authority shall designate a successor if the Trustee ceases to serve as Paying Agent. Each Paying Agent shall be a bank or trust company eligible under the Act, and unless otherwise provided by Series Resolution shall have a capital and surplus of not less than $50,000,000 and be registered as a transfer agent with the Securities and Exchange Commission. The Authority shall give notice of the appointment of a successor to the Trustee as Paying Agent in writing to each Beneficiary shown on the books of the Trustee. A Paying Agent may but need not be the same person as the Trustee. Unless otherwise provided by the Authority, the Trustee as Paying Agent shall act as Bond and Note registrar and transfer agent. Each Paying Agent shall act as paying agent with respect to any allotments, apportionments or payments forwarded to it by the State pursuant to § 99-b of the State Finance Law.

Resignation or Removal of the Trustee. The Trustee may resign on not less than 30 days' written notice to the Authority and the Holders. The Trustee will promptly certify to the Authority that it has given written notice to all Holders and such certificate will be conclusive evidence that such notice was given as required by the Indenture. The Trustee may be removed by written notice from the Authority (if not in default) or a Majority in Interest of the Outstanding Senior Bonds to the Trustee and the Authority. Such resignation or removal shall not take effect until a successor has been appointed.

Successor Fiduciaries. Any corporation or association which succeeds to the municipal corporate trust business of a Fiduciary as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights, powers and duties thereof under the Indenture, without any further act or conveyance.

In case a Fiduciary resigns or is removed or becomes incapable of acting, or becomes bankrupt or insolvent, or if a receiver, liquidator or conservator of a Fiduciary or of its property is appointed, or if a public officer takes charge or control of a Fiduciary, or of its property or affairs, then such Fiduciary shall with due care terminate its activities and a successor may, or in the case of the Trustee shall, be appointed by the Authority. If no appointment of a successor Trustee is made within 45 days after the giving of written notice of resignation or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Trustee or any Holder may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor Trustee shall be a trust company or a bank having the powers of a trust company, located in the State, having a capital and surplus of not less than $50,000,000.

No Statutory Trustee. Pursuant to the Act, the rights of the Holders of Bonds and Notes to appoint a statutory trustee are abrogated.

Fiduciaries for Notes and Subordinate Bonds. The Authority may by Series Resolution provide for the appointment of a Fiduciary (which may be the Trustee) to represent the Holders of Notes or Subordinate Bonds, having powers and duties not inconsistent with the Indenture or the Act.

Registered Owners. The enumeration of certain provisions applicable to DTC as Holder of immobilized Notes and Bonds shall not be construed in limitation of the rights of the Authority and each Fiduciary to rely upon the registration books in all circumstances and to treat the registered owners of Notes and Bonds as the owners thereof for all purposes not otherwise specifically provided for. Notwithstanding any other provisions of the Indenture, any payment to the registered owner of a Note or Bond shall satisfy the Authority's obligations thereon to the extent of such payment.

Events of Default; Default. "Event of Default" in the Indenture means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice. (a) The Authority shall fail to pay when due any interest, principal or redemption premium on a Note or Bond. (b) The Authority shall fail to make any other required payment to the Trustee or other Fiduciary and such failure is not remedied within 7 days after written notice thereof is given by the Trustee or other Fiduciary to the Authority. (c) The Authority shall fail to observe or perform any of its other agreements, covenants or obligations under the Indenture and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the Authority. (d) Specified events of insolvency. (e) The State shall (i) amend, alter, repeal or fail to comply with the State Covenant or its tax contract in the Act as in effect on the date of issuance of the first Series of Bonds or (ii) enact a moratorium or other similar law affecting the Bonds or Notes or (iii) amend, modify, repeal or otherwise alter, in any material respect, (y) the requirement of § 1313 of the Tax Law that: "The comptroller, after reserving such refund fund and such costs shall, commencing on or before the fifteenth day of each month, pay to the New York City transitional finance authority on a daily basis the balance of" Personal Income Taxes or (z) the requirement of § 2799-ii of the Act that: "To the extent that the tax revenues payable to the authority under section thirteen hundred thirteen of the tax law during such fiscal year are projected by the mayor to be insufficient to meet at least one hundred fifty percent of maximum annual debt service on authority bonds then outstanding, the mayor shall so notify the state comptroller and the state comptroller shall pay to the authority from" Alternative Revenues such amount as is necessary to provide at least 150% of the maximum annual debt service; subject to the proviso in effect at the date of the first series of Bonds recognizing the prior claim in favor of MAC. (f) The State Comptroller shall fail or refuse to comply with any provision of law in effect for the benefit of the Authority. (g) The City shall fail to observe or perform any of its agreements, covenants or obligations under the Agreement for the benefit of the Holders and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the City and the Authority or by the Authority to the Trustee and the City. (h) Any Officer's Certificate delivered pursuant to paragraph (c) of "Accounts and Reports" above shall show estimated Revenues to be less than 150% of Debt Service.

Remedies of the Trustee. If an Event of Default occurs and is continuing: (1) The Trustee may, and upon written request of the Holders of 25% in principal amount of the Senior Bonds Outstanding shall, in its own name by action or proceeding in accordance with the Civil Practice Law and Rules: (a) enforce all rights of the Holders and require the Authority or, to the extent permitted by law, the State or the City to carry out its agreements with the Holders and to perform its duties under the Act; (b) sue upon such Bonds and Notes; (c) require the Authority to account as if it were the trustee of an express trust for the Holders of such Bonds and Notes; and (d) enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds and Notes. (2) The Trustee shall, in addition, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in the Act or incident to the general representation of Holders in the enforcement and protection of their rights. (3) If such Event of Default is described in clause (a), (d), (e)(iii) or (h) under "Events of Default" above, the Trustee shall (a) give written notice thereof to the Authority, the Holders, the Mayor, the City Comptroller, the Speaker of the Council, the Governor, the State Comptroller, the chair and ranking minority member of the Senate Finance Committee, the chair and ranking minority member of the Assembly Ways and Means Committee, and the State Financial Control Board for the City, and (b) if so directed by a Majority in Interest of the Senior Bonds, and having given 30 days' notice to the Authority, declare the principal amount of all Bonds and Notes to be, and the same shall become, due and payable.

Note and Subordinate Bond Remedies. Subject to the prior application of the Accounts to pay Debt Service and to the Indenture, the Holders of Notes or Subordinate Bonds, other Beneficiaries or a Fiduciary appointed for them, may enforce the provisions of the Indenture for their benefit by appropriate legal proceedings.

School Bond Remedies. To the extent not inconsistent with the Act or the Indenture as in effect prior to the issuance of the first Series of School Bonds: if (i) there occurs and is continuing any Event of Default, or (ii) the State shall amend, alter, repeal or fail to comply with its covenant respecting the Building Aid, or (iii) the City shall fail to observe or perform any of its agreements, covenants or obligations under the Assignment for the benefit of the Holders and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the City and the Authority or by the Authority to the Trustee and the City, then:

(a) The Trustee may, and upon written request of the Holders of 25% in principal amount of the School Bonds Outstanding shall, in its own name by action or proceeding in accordance with the Civil Practice Law and Rules;

(1) enforce all rights of the Holders and require the Authority or, to the extent permitted by law, the State or the City to carry out its agreements with the Holders and to perform its duties under the Act;

(2) sue upon such Bonds and Notes;

(3) require the Authority to account as if it were the trustee of an express trust for the Holders of such Bonds and Notes; and

(4) enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds and Notes.

(b) The Trustee shall have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in the Act or incident to the general representation of Holders of School Bonds and School Notes in the enforcement and protection of their rights.

Individual Remedies. No one or more Holders shall by his or their action affect, disturb or prejudice the pledge created by the Indenture, or enforce any right under the Indenture, except in the manner therein provided; and all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided therein and for the equal benefit of all Beneficiaries of the same class; but nothing in the Indenture shall affect or impair the right of any Holder of any Bond or Note to enforce payment of the principal thereof, premium, if any, or interest thereon at and after the maturity thereof, or the obligation of the Authority to pay such principal, premium, if any, and interest on each of the Bonds and Notes to the respective Holders thereof at the time, place, from the source and in the manner expressed in the Indenture and in the Bonds and Notes.

Venue. The venue of every action, suit or special proceeding against the Authority shall be laid in the County of New York.

Waiver. If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, by written notice to the Authority, and shall do so upon written instruction of the Holders of at least 25% in principal amount of the Outstanding Senior Bonds.

Application of Money. If available money in the Accounts is not sufficient on any day to pay all Debt Service, Subordinate Bonds and Subordinate Agreements then due or overdue, such money (subject to the payment of fees and expenses necessary to collect Revenues and distribute Debt Service and to provisions theretofore made for the payment of Bonds or Notes no longer Outstanding and to the priorities established by the Indenture) shall be applied *first* to the Trustee's fees and other costs of collecting and applying the Revenues and administering the accounts, *second* to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time), and if the amount available shall not be sufficient to pay in full any installment or installments of interest or obligations with respect to Senior Agreements maturing on the same date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service without priority or preference of any item over any other; and *third* to the payment of principal (including sinking fund installments) and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due), and if the amount available shall not be sufficient to pay in full all principal, premium or obligations with respect to Senior Agreements maturing on the same date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service without priority or preference of any item over any other and, if the amount available shall not be sufficient to pay in full all principal due on any date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service, without priority or preference of any Bond over any other; and *fourth* to the payment of any Notes (to the extent not paid as Debt Service), Subordinate Bonds and Subordinate Agreements then due and, if the amounts available are insufficient to pay in full all such subordinated payment obligations, then to the payment thereof ratably, in accordance with the priorities established by the Indenture but otherwise without preference or priority of any such item over any other. For this purpose Debt Service on Senior Agreements shall be characterized in accordance with their financial terms and interest on overdue principal shall be treated as coming due on the first day of each month. Whenever money is to be applied pursuant to this section, such money shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such money available for application and the likelihood of additional money becoming available for such application in the future.

Supplements and Amendments. (A) The Indenture may be (1) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority and executed or approved by the Mayor and Comptroller to the extent, if any, required by the Act, to (a) provide for earlier or greater deposits into the Bond Account, (b) subject any property to the lien of the Indenture, (c) add to the covenants and agreements of the Authority or surrender or limit any right or power of the Authority, (d) identify particular Notes or Bonds for purposes not inconsistent with the Indenture including credit or liquidity support, remarketing, serialization and defeasance, or (e) authorize Bonds or Notes of a Series and in connection therewith determine the matters referred to in the Indenture and any other things relative to such Bonds or Notes that are not prejudicial to the Holders, or to modify or rescind any such authorization or determination at any time prior to the first authentication and delivery of such Series of Bonds or Notes; or

(2) amended by the Authority and the Trustee with the approval of the Mayor and Comptroller to the extent, if any, required by the Act, (a) to cure any ambiguity or defect, (b) to add provisions that are not prejudicial to the Holders, (c) to adopt amendments that do not take effect unless and until (i) no Bonds or Notes Outstanding prior to the adoption of such amendment remain Outstanding or (ii) such amendment is consented to by the Holders of such Bonds or Notes in accordance with the Indenture, or (d) pursuant to paragraph (B) summarized below.

(B) Except as described in the foregoing paragraph (A), the Indenture may be amended (1) only with the written consent of a Majority in Interest of the Recovery Bonds and Bonds issued as Parity Debt, the School Bonds, the Senior Bonds and the Notes of each category (each acting as a separate class) to be Outstanding at the effective date thereof and affected thereby; but (2) only with the unanimous written consent of the affected Holders for any of the following purposes: (a) to extend the maturity of any Bond or Note, (b) to reduce the principal amount or interest rate of any Bond or Note, (c) to make any Bond or Note redeemable other than in accordance with its terms, (d) to create a preference or priority of any Bond or Note over any other Bond or Note of the same class or (e) to reduce the percentage of the Bonds and Notes required to be represented by the Holders giving their consent to any amendment. If their interests differ materially, the Holders of the Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt shall vote as separate classes from the Holders of Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt.

(C) Any amendment of the Indenture shall be accompanied by a Counsel's Opinion to the effect that the amendment is permitted by law and does not adversely affect the exclusion of interest on the Tax-Exempt Bonds and Tax-Exempt Notes from gross income for federal income tax purposes.

Beneficiaries. The Indenture is not intended for the benefit of and shall not be construed to create rights in parties other than the City, the Authority, the Fiduciaries, the Holders of Notes and Senior Bonds, and the other Beneficiaries to the extent specified therein.

Covenant. The City and the Authority covenant with the Holders of the Outstanding Bonds offered hereby to comply with the financial reporting requirements of the Financial Emergency Act For The City of New York and the Act, respectively, each as in effect from time to time.

THE AGREEMENT

The Agreement, including the Transitional Capital Plan attached thereto:

(i) describes by reference to the capital budget of the City and the Act the particular Projects and Costs to be financed in whole or in part by the Authority;

(ii) describes the plan for the financing of the Costs or Projects;

(iii) sets forth the method for which and by whom and the terms and conditions upon which money provided by the Authority shall be distributed to the City, which disbursements shall occur, subject to receipt by the Authority of such documentation as to the costs being reimbursed as the Authority shall reasonably require, at least monthly;

(iv) provides for the payment of such Costs by the City under such contracts as shall be awarded by the City or for the City to make a capital contribution of such proceeds as City funds to another entity for the payment or reimbursement of such Costs;

(v) requires every contract entered into by the City, or another entity receiving funds from the City, for Projects or Costs to be financed in whole or in part by the Authority to be subject to the provisions of the City Charter and other applicable laws governing contracts of the City or such entity, as the case may be; and

(vi) authorizes the Authority's assignment and pledge to the Trustee in trust for the benefit and security of the Bondholders and, to the extent specified in the Indenture, of Noteholders and the parties to ancillary and swap contracts of rights of the Authority under the Agreement.

City's Further Assurances. Pursuant to the Act, the City acknowledges the State's grant to the Authority and the Authority's pledge and assignment to the Trustee of, and disclaims ownership of, all subject to the terms of the Act: the City's right, title and interest in and to the Personal Income Taxes and the Sales Taxes, and all rights to receive the same and the proceeds thereof; and the City will protect and defend the Trustee's title thereto.

Separate Accounts and Records. The Authority and the City represent and covenant, each for itself, that: (a) Each of them will maintain its books, financial records and accounts (including, without limitation, interentity transaction accounts) in a manner so as to identify separately the assets and liabilities of each such entity; each has observed and will observe all applicable corporate procedures and formalities, including, where applicable, the holding of regular periodic and special meetings of governing bodies, the recording and maintenance of minutes of such meetings, and the recording and maintenance of resolutions, if any, adopted at such meetings; and all transactions and agreements between and among the Authority, the City and the Trustee have reflected and will reflect the separate legal existence of each entity and have been and will be formally documented in writing. (b) Neither the Authority nor the City has commingled or will commingle any of its assets, funds or liabilities with the assets, funds or liabilities of any other person or entity. Each of them has conducted and will conduct all business between itself and third parties in its own name and separate and distinct from the other.

Project Fund. A Project Fund is established to be held by the Authority. Money shall be deposited therein as provided in the Indenture. The money and investments in the Project Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Authority as described below.

The Authority shall pay from the Project Fund the Costs of Issuance, including any expenses of the City in connection with the issuance of the Bonds and Notes that are approved by the Authority, and disburse funds to the City to finance, by payment or reimbursement, Project Capital Costs. When all Costs of Issuance and Project Capital Costs have been paid or reimbursed, as evidenced by Officer's Certificates of the Authority and the City, any excess in the Project Fund shall promptly be paid to the Trustee for deposit in the Collection Account.

The Authority and the City shall develop, and may from time to time modify, procedures for the disbursement, at least monthly, of money to the City from the Project Fund, upon terms, conditions and documentation providing for compliance with the Act, appropriate provisions of the LFL, the Transitional Capital Plan, the Agreement, the Indenture, and the advice of Counsel as to the application of proceeds of Tax-Exempt Notes and Tax-Exempt Bonds. The City shall pay Costs out of Note and Bond proceeds under such contracts as shall be awarded by the City or make a capital contribution of such proceeds as City funds to another entity for the payment or reimbursement of such Costs.

Money in the Project Fund shall be invested and reinvested in accordance with the Act. Earnings thereon shall be transferred to the Collection Account as Building Aid or Tax Revenues, or otherwise applied in accordance with the Tax Code pursuant to an Officer's Certificate.

Indemnity. The City shall indemnify the Authority and hold it harmless against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and disbursements) that the Authority incurs arising out of or in relation to any Project.

Limited Purpose of Agreement. The Agreement provides for the issuance and payment of the Authority's obligations and the financing and refinancing of Project Capital Costs. Except as specified in the Agreement, the Authority, the City, and the Trustee shall have no liability to each other or to the Beneficiaries for the construction, reconstruction, acquisition, installation, physical condition, ownership or operation of any Project. The specific Project Capital Costs to be paid or reimbursed by the Authority shall be determined by the City in accordance with the Act.

Covenants of the City. The City covenants with the Authority, and consents to the pledge and assignment to the Trustee of its covenants, that:

(A) The City will at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on Tax-Exempt Bonds and Tax-Exempt Notes shall be excludable from gross income for federal income tax purposes pursuant to § 103(a) of the Code; and no funds of the City shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Tax-Exempt Bond or Tax-Exempt Note to be an arbitrage bond as defined in the Code and any applicable Regulations issued thereunder.

(B) The City in its papers and in the statements of its officials has referred and will refer to the Authority as a separate and distinct legal entity; and the City will take no action that is inconsistent with the Agreement and that would give any creditor of the City cause to believe either that any such obligations incurred by the City would be not only the obligation of the City, but also of the Authority, or that the City were not or would not continue to remain an entity separate and distinct from the Authority.

(C) To implement the State Covenant, an Authorized Officer of the City shall, not less than 30 days prior to the beginning of each fiscal year, and as often as he deems necessary but at least quarterly thereafter, certify to the Authority and the Trustee the Mayor's projection of Personal Income Taxes payable to the Authority each month during such fiscal year; and if the projected Personal Income Taxes are insufficient to meet at least 150% of maximum annual debt service on the Bonds, as certified by the Chairperson of the Authority pursuant to the Indenture, then (1) the Mayor shall so notify the State Comptroller, and (2) an Authorized Officer of the City shall, not less than 30 days prior to the beginning of each fiscal year in which such projected Personal Income Taxes are insufficient to meet at least 150% of such maximum annual debt service, and as often as he deems necessary but at least quarterly thereafter, certify to the Authority and the Trustee (in addition to other required matters) the City's projection of Sales Taxes available to be paid to the Authority each month during such fiscal year.

Statutory Pledge and Agreement ("City Covenant"). The City pledges and agrees with the Holders of the Outstanding Bonds and Notes that the City will not limit or alter the rights vested in the Authority by the Act to fulfill the terms of any agreements made with such Holders pursuant to the Act, or in any way impair the rights and remedies of such Holders or the security for such Bonds and Notes until such Bonds and Notes, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged. This pledge and agreement shall not be deemed to restrict any right the City may have to amend, modify or otherwise alter local laws imposing or relating to the Personal Income Taxes so long as, after giving effect to such amendment, modification or other alteration, the amount of Tax Revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration shall be not less than 150% of maximum annual debt service on the Bonds.

Statutory Requirement. To the extent required by the Act, the City agrees that it shall require every contract entered into by the City, or another entity receiving funds from the City, for projects or costs to be financed in whole or in part by the Authority to be subject to the provisions of the City Charter and other applicable laws governing contracts of the City or such entity, as the case may be.

Transfers to City. Subject to the provisions of the Act and the Agreement, all money received by the Authority which, together with other money available for the purposes of the Indenture, exceeds the amount required for such purposes shall be transferred to the order of the City daily or as soon as practicable but not later than the last day of each month.

City Acknowledgments. (a) The City acknowledges that its covenants and pledge and agreement for the benefit of the Holders constitute important security provisions of the Bonds and Notes, and to the fullest extent permitted by applicable federal and State law, waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support any assertion of any claim to the contrary.

(b) By acknowledging that its covenants and pledge and agreement for the benefit of the Holders constitute important security provisions of the Bonds and Notes, the City also acknowledges, to the fullest extent permitted by applicable federal and State law, that, in the event of any failure or refusal by the City to comply therewith, the Holders of the Bonds or Notes may have suffered monetary damages, the extent of the remedy for which may be, to the fullest extent permitted by applicable federal and State law, determined, in addition to any other remedy available at law or in equity, in the course of any action taken pursuant to the Agreement; and to the fullest extent permitted by applicable federal and State law, the City waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support any assertion of any claim to the effect that no such monetary damages have been suffered.

(c) The City further acknowledges that the acknowledgments and agreements described in paragraphs (a) and (b) above have been included as a result of negotiations with the underwriters of the first series of Bonds and the first Series of School Bonds and may further acknowledge if and the extent to which any provision of the Agreement has been amended, or any provision of a Series Resolution has been included therein, as a result of the same or similar negotiations.

Amendment. (A) The Agreement may be (1) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority and executed or approved by the City to the extent required by the Agreement and the Act, to (a) update the Transitional Capital Plan or (b) add to the covenants and agreements of the City or the Authority for the benefit of the Holders or surrender or limit for the benefit of the Holders any right or power of the City or the Authority; or

(2) amended by the parties with notice to the Trustee but without Bondholder or Noteholder consent to (a) cure any ambiguity or defect or (b) add provisions that are not prejudicial to the Holders of the Bonds and Notes, including provisions that do not take effect unless and until (i) no Bonds or Notes Outstanding prior to the adoption of such amendment remain Outstanding or (ii) such amendment is consented to by Holders in accordance with the further provisions of the Agreement.

(B) Except as described in the foregoing paragraph (A), the Agreement may be amended only by the City and the Authority with the written consent of a Majority in Interest of the Senior Bonds, the Recovery Bonds and Bonds issued as Parity Debt, the School Bonds and the Notes of each category (each acting as a separate class) to be Outstanding at the effective date thereof and affected thereby; but only with the unanimous written consent of the affected Holders to reduce the percentage of the Bonds and Notes required to be represented by the Holders giving their consent to any amendment. If their interests differ materially, the Holders of the Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt shall vote as separate classes from the Holders of Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt.

(C) Any amendment of the Agreement shall be accompanied by a Counsel's Opinion to the effect that the amendment is permitted by law and does not adversely affect the exclusion of interest on the Tax-Exempt Bonds and Tax-Exempt Notes from gross income for federal income tax purposes.

Beneficiaries. The Agreement is not intended for the benefit of and shall not be construed to create rights in parties other than the City, the Authority, the Fiduciaries, the Holders of Notes and Senior Bonds, and the other Beneficiaries to the extent specified in the Agreement and the Indenture.

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FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

June 30, 2006 and 2005

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
New York City Transitional Finance Authority

We have audited the accompanying financial statements of the governmental activities, the capital projects fund and the debt service fund of the New York City Transitional Finance Authority (the "Authority"), a component unit of the City of New York, New York, as of and for the years ended June 30, 2006 and 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the capital projects fund and the debt service fund of the Authority as of June 30, 2006 and 2005, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

The annual financial statements of the New York City Transitional Finance Authority (the "Authority") consist of two parts - management's discussion and analysis (this section) and the basic financial statements.

Our discussion and analysis of the financial performance of the Authority provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion & Analysis for State and Local Governments,* as amended. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. All revenues and expenses are taken into account regardless of when cash is paid or received.

The Authority's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period.

The reconciliations of the statements of revenues, expenditures and changes in fund balances of governmental funds to the statements of activities are presented to assist the reader in understanding the differences between entity-wide and governmental funds financial statements.

The Authority is a component unit of New York City (the "City") and, accordingly, is included in the City's financial statements. The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for general City capital purposes ("Future Tax Secured Bonds") to $11.5 billion as of June 30, 2006, which limit was reached during the fiscal year ended June 30, 2004. In July 2006, legislation increased the limit by $2 billion to $13.5 billion.

In addition, legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system, which have not been issued as of June 30, 2006.

The Authority is also authorized to have outstanding $2.5 billion of bonds and notes ("Recovery Bonds") to pay costs related to or arising from the World Trade Center attack. The Authority had as of June 30, 2006 and 2005, $1.84 billion and $1.96 billion, respectively, of Recovery Bonds outstanding.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements

During fiscal year 2006, total assets decreased by $459 million. Restricted cash and cash equivalents decreased by $126 million, restricted investments increased by $361 million, unrestricted cash and cash equivalents decreased by $1,147 million, restricted investments held for economic defeasance decreased by $40 million, personal income taxes receivable increased by $499 million and other assets decreased by $6 million.

At June 30, 2006, a decrease of $126 million in restricted cash and cash equivalents from the June 30, 2005 balance reflects the longer term of securities held for restricted purposes, and is offset by an increase of $361 million in restricted investments, resulting in a net increase of $235 million in restricted assets. This net increase in restricted assets has occurred because the grant funds received at June 30, 2005 and remaining on hand at June 30, 2006 are restricted for debt service payments, whereas grant proceeds on hand at June 30, 2005 were unrestricted.

The $1,147 million decrease in unrestricted cash and cash equivalents reflects the decrease in unrestricted grant proceeds from the City held at year-end. The $40 million decrease in restricted investments held in the economic defeasance escrow resulted primarily from the payment of debt service on the economically defeased bonds.

Income taxes receivable at each fiscal year-end are based on estimates of taxable personal income earned during the fiscal year, including during the period January 1 to June 30, for which taxes will be collected after year-end. The $499 million increase in personal income taxes receivable at June 30, 2006 compared to 2005 is the result of higher estimated total taxable personal income for the fiscal year ended June 30, 2006 to be subsequently collected than was estimated as of the prior year-end.

Total liabilities decreased by $252 million in fiscal year 2006. The primary changes were that the long-term portion of bonds payable decreased by $739 million, the current portion of bonds payable decreased by $5 million and personal income taxes payable to the City increased by $505 million. The decrease in bonds payable reflects the principal payments of $724 million made on Future Tax Secured Bonds by the Authority during the fiscal year 2006 and the issuance of $597 million of Future Tax Secured Bonds during the fiscal year ended June 30, 2006 which was used for defeasance of Future Tax Secured Bonds totaling $617 million.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements (continued)

Total general revenues decreased by $1,286 million in fiscal 2006. The primary components of this decrease were a decrease of $1,147 million as no unrestricted grant was received from the City in fiscal 2006 and a $147 million decrease in personal income taxes retained by the Authority. The $147 million decrease in personal income taxes is primarily due to a $1,320 increase in personal income tax revenue and an increase of $1,467 of personal income taxes remitted to the City during the fiscal year ended 2006 As discussed above, personal income tax revenues include estimates of amounts earned during the period to be received after year-end. The Authority paid its debt service during the year ended June 30, 2006, using the unrestricted grant received from the City at June 30, 2005, and retained $350 million of personal income taxes to defease bonds on June 26, 2006.

Total program expenses increased by $35 million in fiscal 2006, primarily from increased variable rate interest expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements

Total assets decreased by $453 million in fiscal 2006. Restricted cash and cash equivalents decreased by $126 million, restricted investments increased by $361 million, unrestricted cash and cash equivalents decreased by $1,147 million, restricted investments held for economic defeasance decreased by $40 million and personal income tax receivable increased by $499 million.

Total liabilities increased by $499 million in fiscal year 2006, which reflects the increase of $467 million of deferred personal income tax revenue and an increase of personal income taxes payable of $32 million at June 30, 2006.

Total revenues decreased by $1,275 million in fiscal year 2006. The primary components of the decrease was the $1,147 million unrestricted grant received from the City in fiscal 2005 but not in fiscal 2006, and a $147 million decrease in personal income taxes retained.

Expenditures increased by $352 million in fiscal year 2006. The primary components of this increase were interest expense increased by $20 million and principal amount of debt retired increased by $335 million.

New York City Transitional Finance Authority

STATEMENTS OF NET ASSETS (DEFICIT)

June 30,
(in thousands)

	2006	2005
ASSETS		
Restricted cash and cash equivalents	$ 4,041	$ 130,637
Restricted cash escrow for economic defeasance	681	681
Restricted investments	367,477	5,985
Restricted investments escrow for economic defeasance	266,351	306,332
Unrestricted cash and cash equivalents	-	1,147,242
Personal income tax receivable	505,475	-
Personal income tax receivable from New York City - net	-	6,301
Unamortized bond issuance costs	52,914	58,767
Total assets	1,196,939	1,655,945
LIABILITIES		
Personal income tax payable to New York City	505,475	-
Personal income tax refunds payable - net	-	6,301
Accrued expenses	1,657	2,034
Accrued interest payable	130,853	135,500
Interest rate cap obligation	-	6,140
Bonds payable		
Portion due within one year	368,660	373,245
Portion due after one year	11,863,885	12,603,370
Unamortized deferred bond refunding costs	(172,928)	(193,717)
Unamortized bond premium	301,735	318,406
Total liabilities	12,999,337	13,251,279
NET ASSETS (DEFICIT)		
Restricted for economic defeasance	1,640	11,484
Deficit	(11,804,038)	(11,606,818)
Total deficit	$(11,802,398)	$(11,595,334)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

STATEMENTS OF ACTIVITIES

Year ended June 30,
(in thousands)

	2006	2005
EXPENSES		
General and administrative expenses	$ 9,595	$ 11,509
Amortization of deferred bond refunding costs	31,198	30,677
Interest expense	544,379	507,636
Amortization of debt issuance costs	4,979	5,376
Total program expenses	590,151	555,198
GENERAL REVENUES		
Personal income tax revenue	7,800,813	6,480,398
Less remittances to New York City	(7,450,813)	(5,983,304)
Personal income tax revenue retained	350,000	497,094
Unrestricted grant from New York City	-	1,147,242
Unrealized loss on economic defeasance investments	(4,384)	(1,182)
Cost of rate cap termination	(1,135)	-
Change in value of interest rate cap obligation	-	9,920
Investment earnings	38,606	16,157
Total general revenues	383,087	1,669,231
Change in net assets	(207,064)	1,114,033
DEFICIT - beginning of year	(11,595,334)	(12,709,367)
DEFICIT - end of year	$(11,802,398)	$(11,595,334)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2006
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ -	$ 4,041	$ 4,041
Restricted cash escrow for economic defeasance	-	681	681
Unrestricted cash and cash equivalents	-	-	-
Restricted investments	-	367,477	367,477
Restricted investments escrow for economic defeasance	-	266,351	266,351
Personal income tax receivable	-	505,475	505,475
Total assets	$ -	$1,144,025	$1,144,025
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ -	$ 1,657	$ 1,657
Personal income tax payable to New York City	-	38,475	38,475
Deferred personal income tax revenue	-	467,000	467,000
Total liabilities	-	507,132	507,132
Fund balances			
Reserved for debt service	-	369,861	369,861
Reserved for economic defeasance	-	267,032	267,032
Unreserved funds	-	-	-
Total fund balances	-	636,893	636,893
Total liabilities and fund balances	$ -	$1,144,025	$1,144,025

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2005
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ -	$ 130,637	$ 130,637
Restricted cash escrow for economic defeasance	-	681	681
Unrestricted cash and cash equivalents	-	1,147,242	1,147,242
Restricted investments	-	5,985	5,985
Restricted investments escrow for economic defeasance	-	306,332	306,332
Personal income tax receivable from New York City - net	-	6,301	6,301
Total assets	$ -	$1,597,178	$1,597,178
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ -	$ 2,034	$ 2,034
Personal income tax refunds payable - net	-	6,301	6,301
Total liabilities	-	8,335	8,335
Fund balances			
Reserved for debt service	-	134,588	134,588
Reserved for economic defeasance	-	307,013	307,013
Unreserved funds	-	1,147,242	1,147,242
Total fund balances	-	1,588,843	1,588,843
Total liabilities and fund balances	$ -	$1,597,178	$1,597,178

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds

Year ended June 30, 2006
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ -	$ 7,333,813	$ 7,333,813
Less remittances to New York City	-	(6,983,813)	(6,983,813)
Personal income tax revenue retained	-	350,000	350,000
Investment earnings	-	38,606	38,606
Unrealized loss on economic defeasance investments	-	(4,384)	(4,384)
Total revenues	-	384,222	384,222
EXPENDITURES			
Interest expense	-	572,723	572,723
Principal amount of bonds retired	-	724,015	724,015
Refunding bond issuance costs	-	4,083	4,083
General and administrative expenses	-	9,595	9,595
Total expenditures	-	1,310,416	1,310,416
Excess of revenues over expenditures	-	(926,194)	(926,194)
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	-	627,984	627,984
Payments to refunded bond escrow holder	-	(646,465)	(646,465)
Cost of termination of rate cap obligation	-	(7,275)	(7,275)
Total other financing sources and uses	-	(25,756)	(25,756)
Net change in fund balances	-	(951,950)	(951,950)
FUND BALANCES - beginning of year	-	1,588,843	1,588,843
FUND BALANCES - end of year	$ -	$ 636,893	$ 636,893

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds

Year ended June 30, 2005
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ -	$ 6,521,398	$ 6,521,398
Less remittances to New York City	-	(6,024,304)	(6,024,304)
Personal income tax revenue retained	-	497,094	497,094
Unrestricted grant from New York City	-	1,147,242	1,147,242
Investment earnings	-	16,157	16,157
Unrealized loss on economic defeasance investments	-	(1,182)	(1,182)
Total revenues	-	1,659,311	1,659,311
EXPENDITURES			
Interest expense	-	552,283	552,283
Principal amount of bonds retired	-	389,260	389,260
Refunding bond issuance costs	-	5,601	5,601
General and administrative expenses	-	11,509	11,509
Total expenditures	-	958,653	958,653
Excess of revenues over expenditures	-	700,658	700,658
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	-	980,239	980,239
Payments to refunded bond escrow holder	-	(974,638)	(974,638)
Gain from restructure of 2004 defeasance escrow	-	1,435	1,435
Transfers in (out)	(2,539)	2,539	-
Total other financing sources and uses	(2,539)	9,575	7,036
Net change in fund balances	(2,539)	710,233	707,694
FUND BALANCES - beginning of year	2,539	878,610	881,149
FUND BALANCES - end of year	$ -	$ 1,588,843	$ 1,588,843

The accompanying notes are an integral part of this statement.

RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET ASSETS (DEFICIT)

June 30,
(in thousands)

	2006	2005
Total fund balance - governmental funds	$ 636,893	$ 1,588,843
Amounts reported for governmental activities in the statements of net assets (deficit) are different because:		
Costs of debt issuance are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), the costs of debt issuance are reported as capitalized assets and amortized over the lives of the debt.	52,914	58,767
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), bond premiums are reported as a component of bonds payable and amortized over the lives of the related debt.	(301,735)	(318,406)
Proceeds from interest rate cap agreements are currently available financial resources and are recognized as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), this amount is considered a liability and is reported at fair value.	-	(6,140)
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements but are reported in the statements of net assets (deficit). Those liabilities consist of:		
Bonds payable	(12,232,545)	(12,976,615)
Accrued interest on bonds	(130,853)	(135,500)
Costs of bond refunding are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	172,928	193,717
Personal income taxes due to the Authority at year-end but not collected within sixty days of year-end are recognized as deferred revenue in the governmental funds balance sheets. In the statements of net assets (deficit) and changes in net assets, all personal income tax receivables are recognized as revenue and are included in net assets. The corresponding amount of personal income taxes payable to the City of New York is higher in the statements of net assets (deficit) for this reason:		
Personal income tax payable to New York City	(467,000)	-
Deferred personal income tax revenue	467,000	-
Net assets (deficit) of government activities	$(11,802,398)	$(11,595,334)

The accompanying notes are an integral part of these statements.

RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES

Year ended June 30,
(in thousands)

	2006	2005
Net change in fund balances - total governmental funds	$(951,950)	$ 707,694
Amounts reported for governmental activities in the statements of activities are different because:		
Refunding bond proceeds and payments to refunded bond escrow holder are reported as other financing sources and uses in the governmental funds, but increase and decrease long-term liabilities in the statements of net assets (deficit).	18,480	(5,601)
Governmental funds report costs of bond refundings as expenditures. However, in the statements of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to advance refund the bonds.	(27,115)	(26,510)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statements of net assets (deficit).	724,015	389,260
Governmental funds report costs of debt issuance as expenditures. However, in the statements of activities, the cost of debt issuance is amortized over the lives of the debt.	(4,979)	(5,376)
Governmental funds report bond premiums/discounts as other financing sources/uses. However, in the statements of activities, bond premiums/discounts are amortized over the lives of the debt as interest expense.	29,929	32,316
Governmental funds report the cost of termination of the interest rate cap as other financing uses. However, the statements of activities report cost of the termination net of carrying fair value of the agreement.	6,140	9,920
Interest expense is reported in the statements of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required.	(1,584)	12,330
Change in net assets of governmental activities	$(207,064)	$1,114,033

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE A - ORGANIZATION

The New York City Transitional Finance Authority (the "Authority") is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State"). The Authority is governed by a Board of five directors, consisting of the following officials of the City of New York (the "City"): the Director of Management and Budget (who also serves as Chairperson), the Commissioner of Finance, the Commissioner of Design and Construction, the City Comptroller and the Speaker of the City Council. Although legally separate from the City, the Authority is a component unit of the City and, accordingly, is included in the City's financial statements.

The Authority was created by State legislation enacted in 1997 to issue and sell up to $7.5 billion in bonds and notes ("Future Tax Secured Bonds") to fund a portion of the capital program of the City, the purpose of which is to maintain, rebuild and expand the infrastructure of the City. In June 2000, the State Legislature increased to $11.5 billion the Authority's capacity to issue bonds and notes for general City capital purposes. In June 2000, the State Legislature also increased the amount of Future Tax Secured Bonds which may be issued as variable rate debt from $750 million to $2.3 billion. As of June 30, 2004, the Authority had issued its statutory limit of $11.5 billion of Future Tax Secured Bonds. Subsequent to June 30, 2006, the capacity limit to issue bonds and notes for general City capital purposes was increased by $2 billion to $13.5 billion and the limit on Future Tax Secured Bonds that may be issued as variable rate debt was increased to $2.7 billion.

On September 13, 2001, the State Legislature authorized the Authority to have outstanding an additional $2.5 billion of bonds and notes ("Recovery Bonds") to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center.

Legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system; none of those obligations have been issued as of June 30, 2006.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a

NOTE B (continued)

whole, in accordance with Governmental Accounting Standards Board Statement No. 34. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due. For the years ended June 30, 2006 and 2005, since the Authority issued its statutory limit of bonds and notes for general City capital purposes in 2004, the governmental fund consists only of the Debt Service Fund. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt and is used for the operations of the Authority.

Bond and bond anticipation note premiums, discounts and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the entity-wide financial statements. The governmental fund financial statements recognize the premiums, discounts, as well as debt issuance costs, during the current period. The face amount of debt issued and premium received are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred bond refunding costs represent the accounting loss incurred in advance refunding of outstanding bonds. The deferred bond refunding costs are amortized over the lesser of the remaining life of the old debt or the life of the new debt.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditure is recognized when paid in the governmental fund financial statements.

Interest rate cap obligations, which originated from the sale of interest rate cap agreements, were terminated during the year ended June 30, 2006. The amount paid, net of the obligation at June 30, 2005 in the statement of net assets (deficit), is reported in the statements of activities and is shown as an expenditure in the governmental funds statements of revenues, expenditures, and changes in fund balances. In years prior to June 30, 2006, the interest rate cap obligations were reported in the statements of net assets (deficit) and were adjusted to their fair value at June 30 each year and the change in their fair value was reported as revenue or expense in the statements of activities.

NOTE B (continued)

The Authority receives City personal income taxes, imposed pursuant to State law and collected on behalf of the Authority by the State, to service its debt and pay its administrative expenses. Funds for bond debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City. During the year ended June 30, 2006, debt service was funded by an Unrestricted Grant received from the City on June 30, 2005. The Authority retained $350,000,000 of personal income taxes for a cash defeasance on June 26, 2006.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), as amended subsequent to June 30, 2006, the Authority is authorized to issue $13.5 billion Future Tax Secured Bonds. The Authority had issued $11.5 billion Future Tax Secured Bonds as of June 30, 2004. As of June 30, 2006 and 2005, the Authority had outstanding debt of $10.4 billion and $11.0 billion of Future Tax Secured Bonds, respectively, including $260 million and $292 million of economically defeased Future Tax Secured Bonds, respectively. The Authority includes the escrow funds for the economically defeased bonds in its assets and those funds provide for all future debt service on the economically defeased bonds.

In addition, the Act permits the Authority to have outstanding $2.5 billion of Recovery Bonds. As of June 30, 2006 and 2005, the Authority had outstanding $1.84 billion and $1.96 billion of Recovery Bonds, respectively.

The Authority funds its debt service requirements for Future Tax Secured Bonds and Recovery Bonds and certain operating expenditures from personal income taxes collected on its behalf by the State and, under certain circumstances, sales taxes. Sales taxes are only available to the Authority after such amounts required by the Municipal Assistance Corporation for the City of New York are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. No sales tax revenues were received or required during fiscal years 2006 and 2005.

All City personal income tax is paid by the State to the Authority. The Authority has pledged the personal income tax as collateral to secure its Future Tax Secured Bonds and Recovery Bonds. The Authority retains personal income taxes in an amount sufficient to pay debt service on its Future Tax Secured Bonds and Recovery Bonds and pay certain operating expenditures, and remits the difference to the City. The Authority has no taxing power.

NOTE C (continued)

Bonds are recorded at the principal amount outstanding and consist of the following:

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	(in thousands)			
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 226,190	$ -	$ (35,705)	$ 190,485
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	483,665	-	(42,270)	441,395
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	357,675	-	(75,010)	282,665
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	63,000	-	-	63,000
Variable rate tax-exempt bonds due in 2028 (a)	100,000	-	-	100,000
1999 Fiscal Series A				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2016	91,850	-	(20,865)	70,985
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	12,710	-	(5,445)	7,265
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	222,500	-	(33,320)	189,180

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	(in thousands)			
1999 Fiscal Series A (continued)				
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	$ 277,500	$ -	$ -	$ 277,500
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	292,600	-	(22,050)	270,550
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	14,315	-	(11,760)	2,555
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	100,000	-	-	100,000
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	50,000	-	-	50,000
1999 Fiscal Series C				
3.50% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2028	188,820	-	(106,505)	82,315
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	28,125	-	-	28,125
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	55,005	-	(19,140)	35,865
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	15,815	-	(6,345)	9,470

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	---------------------------	(in thousands)	---------------------------	
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 127,055	$ -	$ (98,655)	$ 28,400
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005	1,650	-	(1,650)	-
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	187,685	-	(138,400)	49,285
Variable rate tax-exempt bonds maturing in varying installments through 2030 (a)	100,000	-	-	100,000
2001 Fiscal Series B				
3.75% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2020	264,475	-	(36,355)	228,120
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	100,000	-	-	100,000
2001 Fiscal Series C				
3.65% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2022	308,815	-	(34,120)	274,695
Variable rate tax-exempt bonds maturing in varying installments through 2032 (a)	100,000	-	-	100,000
2002 Fiscal Series A				
4.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2031	139,490	-	(31,905)	107,585

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	-----------------------	(in thousands)	-----------------------	
2002 Fiscal Series B				
3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 360,950	$ -	$ (34,515)	$ 326,435
Variable rate taxable bonds maturing in varying installments through 2030 (a)	181,350	-	(4,185)	177,165
2002 Fiscal Series C				
4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	230,190	-	(30,955)	199,235
2003 Fiscal Series A				
3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,208,215	-	(56,975)	1,151,240
2003 Fiscal Series B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	662,630	-	(12,270)	650,360
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	39,575	-	(23,675)	15,900
2003 Fiscal Series C				
2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	368,665	-	(12,315)	356,350
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	150,000	-	-	150,000

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	---------------------------	(in thousands)	--------------------------	
2003 Fiscal Series D				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 475,695	$ -	$ (8,635)	$ 467,060
2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013	103,215	-	(19,030)	84,185
2003 Fiscal Series E				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	537,965	-	(39,375)	498,590
2004 Fiscal Series A				
3.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	145,000	-	(6,040)	138,960
2004 Fiscal Series B				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2032	535,255	-	(39,120)	496,135
2004 Fiscal Series C				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	531,365	-	(39,045)	492,320
2004 Fiscal Series D				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2017	662,010	-	(103,600)	558,410
2005 Fiscal Series A				
2.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2024	913,110	-	(53,305)	859,805

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance At June 30, 2006
	--------------------------(in thousands)--------------------------			
2005 Fiscal Series B 2.50% to 4.125% serial tax-exempt bonds maturing in varying installments through 2020	$ 7,535	$ -	$ (725)	$ 6,810
2006 Fiscal Series A 3.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	-	597,235	(23,980)	573,255
Total bonds payable, excluding Recovery Bonds	11,021,665	597,235	(1,227,245)	10,391,655
2003 Series 1 Recovery Bonds Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	462,100	-	(37,500)	424,600
2003 Series 2 Recovery Bonds Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	500,200	-	(41,400)	458,800
2003 Series 3 Recovery Bonds 2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	109,450	-	(35,160)	74,290
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	883,200	-	-	883,200
Total Recovery Bonds payable	1,954,950	-	(114,060)	1,840,890
Total bonds payable	12,976,615	$597,235	$(1,341,305)	12,232,545
Less current portion of bonds payable	373,245			368,660
Bonds payable due after one year	$12,603,370			$11,863,885

NOTE C (continued)

(a) Variable rates are adjusted daily or weekly and represent the lowest rate of interest that would cause the adjustable rate bonds to have a market value equal to the principal amount. The rates cannot exceed 9%.

(b) Fiscal 2003 Series A bonds include bonds callable on November 1, 2011. The callable term bonds are $659,770,000 maturing on November 1, 2026 and $122,500,000 maturing on November 1, 2028. Capital appreciation bonds (accreted value of $112,365,000 on November 1, 2011), maturing on November 1, 2029, are also callable. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 14% per annum. The callable bonds are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning November 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

(c) $482,490,000 of Fiscal 2003 Series B term bonds maturing on February 1, 2029 are callable on February 1, 2011. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 10% per annum. Other bonds in this series callable on February 1, 2012 or later are those that mature on February 1, 2013, 2014 and 2015 with no change to the interest rate if not called. The Fiscal 2003 Series B Bonds maturing on February 1, 2029 are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning on February 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

Included as outstanding on June 30, 2006 and 2005 were $260,655,000 and $292,755,000, respectively, of Future Tax Secured Bonds that were economically defeased on March 24, 2004, and included as an asset is the escrow account that is held by the Authority's Trustee, funded from the proceeds of the sale of Fiscal 2004 Series D Future Tax Secured Bonds.

On November 3, 2005, the Authority issued $597,235,000 of Fiscal 2006 Series A Future Tax Secured Bonds and made an equity contribution from current revenue of $22,560,000 to advance refund $617,290,000 of its outstanding Future Tax Secured Bonds. This advance refunding resulted in an accounting loss of $24.4 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by $31.5 million and obtained an economic benefit of $20.6 million. In this defeasance, the proceeds, net of costs of issuance, were invested in Defeasance Collateral (as defined in the Authority's indenture) that was deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the defeased

NOTE C (continued)

bonds. Refundings using Defeasance Collateral result in the refunded bonds being removed from bonds outstanding.

On June 26, 2006, the Authority advance refunded $310,270,000 of outstanding Future Tax Secured Bonds with current revenue of $311,473,000. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral. This refunding resulted in an accounting gain of $14 million.

On April 1, 2005, the Authority issued $913,111,000 and $7,535,000 of Fiscal 2005 Series A and B Future Tax Secured Bonds to advance refund $918,655,000 of its outstanding Future Tax Secured Bonds. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral. This advance refunding resulted in an accounting loss of $59.2 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by $34.7 million and obtained an economic benefit of $29.1 million.

Bonds economically defeased remain a liability and the escrow deposited with the Authority's Trustee is an asset on the Authority's records. The bonds refunded with Defeasance Collateral have been removed from the financial statements as a liability of the Authority. As of June 30, 2006 and 2005, the Authority had bonds refunded with Defeasance Collateral totaling $4,224,295,000 and $3,296,735,000, respectively, of which $3,885,205,000 and $3,041,695,000, respectively, are still to be paid from the Defeasance Collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

Debt service requirements at June 30, 2006, for bonds payable to their maturity are as follows:

	Principal	Interest (a)	Total
	(in thousands)		
Year ended June 30,			
2007	$ 368,660	$ 544,722	$ 913,382
2008	105,905	534,936	640,841
2009	425,175	526,165	951,340
2010	460,815	506,911	967,726
2011	462,285	485,756	948,041
2012 to 2016	2,875,890	2,529,911	5,405,801
2017 to 2021	3,102,540	1,785,078	4,887,618
2022 to 2026	2,546,940	961,393	3,508,333
2027 to 2031	1,694,795	265,344	1,960,139
2032 to 2034	189,540	11,011	200,551
	$12,232,545	$8,151,227	$20,383,772

NOTE C (continued)

(a) Interest on the callable Fiscal 2003 Series A and Fiscal 2003 Series B term bonds which would convert to 14% and 10%, respectively, on the call date if not called and interest on the callable Fiscal 2003 Series A capital appreciation bonds which would convert to 14% per annum if not called are computed in this table at the 14% or 10% rates, as if those bonds were not called. Actual variable rates at June 30, 2006 averaged approximately 2.928% on tax-exempt bonds and 4.291% on taxable bonds, which are the rates used in this table. If variable interest is calculated at 5.00% on tax-exempt and 7.00% on taxable per annum (which are the rates utilized for retention), total interest would be increased to $8,971,560 from the $8,151,227 in the above table.

Debt service accounts have been established under the Authority's indenture to provide security for the payment of interest on and principal of bonds outstanding. The principal and interest required to be paid are to be deposited into the applicable debt service account in the quarter preceding the payment due date. During the year ended June 30, 2006, debt service was funded by the Unrestricted Grant received from the City on June 30, 2005.

At June 30, 2006 and 2005, the Authority maintained its required debt service accounts totaling $123,480,000 and $133,285,000, respectively, of which $13,350,000 and $13,060,000 were for principal retirement, respectively, and $110,130,000 and $120,225,000 were for interest payments, respectively. The Authority held approximately $243,997,000 in excess of required retention at June 30, 2006.

NOTE D - CASH AND CASH EQUIVALENTS

The Authority's restricted cash and cash equivalents consisted of bank deposits, commercial paper and U.S Government securities held by the Authority's Trustee in the Authority's name. The Authority's restricted cash escrow was cash held by the escrow agent in the economic defeasance account.

NOTE D (continued)

	June 30, 2006	June 30, 2005
	(in thousands)	
Restricted cash and cash equivalents		
Cash	$ 16	$ 2,852
Commercial paper	-	127,785
U.S. Government securities	4,025	-
	$4,041	$ 130,637
Restricted cash in escrow for economic defeasance	$ 681	$ 681
Unrestricted cash	$ -	$1,147,242

All of the commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

At June 30, 2006 and 2005, the carrying amounts of bank deposits were $16,000 and $2,852,000, respectively, and the bank balances were $19,000 and $2,815,000, respectively. At June 30, 2006 and 2005, $19,000 and $100,000, respectively, of the bank deposits were insured by the Federal Deposit Insurance Corporation. The remaining balances were not collateralized.

The Authority's investments classified as cash and cash equivalents have an original maturity date of three months or less. The Authority values those investments at cost plus accrued interest, which approximates market. See Note E below for the Authority's investment policy.

NOTE E - RESTRICTED INVESTMENTS

Pursuant to its Indenture and Investment Guidelines, the Authority is generally permitted to invest in obligations of, or guaranteed by, the U.S. Government; certain highly rated certificates of deposit (or similar instruments); certain highly rated obligations of, or guaranteed by, a state; certain highly rated commercial paper (or similar instruments); certain investment agreements with highly rated institutions; certain repurchase obligations with highly rated institutions; certain highly rated corporate securities (that do not exceed 20% of its investments); and certain highly rated taxable money market funds. The

NOTE E (continued)

Authority is also authorized to make certain other investments authorized pursuant to a supplemental indenture and to enter into the interest rate cap agreement described below. All holdings having an original maturity of more than three months are carried as investments.

For an investment, custodial credit risk is that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are not collateralized. All investments are held in the Authority's name by the trustee.

The Authority values commercial paper at cost plus accrued interest, which approximates market. At June 30, 2005, the below-referenced commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

The Authority's restricted investments in the economic defeasance escrow account at the Authority's trustee were valued at market, which resulted in an unrealized loss of approximately $4,384,000 at June 30, 2006 and an unrealized loss of approximately $1,182,000 at June 30, 2005. The investments included purchases of securities at a premium, resulting in higher interest-bearing investments and this was included in the verification agent's computations to assure that the escrow fund provides for all future debt service on the economically defeased bonds.

The Authority's restricted investments are as follows:

	June 30,	
	2006	2005
	(in thousands)	
Restricted investments		
Commercial paper	$ -	$ 5,985
U.S. Government securities	367,477	-
	$367,477	$ 5,985
Restricted investments for economic defeasance		
Federal Home Mortgage Corporation and Federal National Mortgage Association bonds, notes and STRIPS; United States bonds, notes and STRIPS	$266,351	$306,332

NOTE F - INTEREST RATE CAP OBLIGATIONS

In June 2002, the Authority entered into three interest rate cap agreements (the "Interest Rate Cap Agreements") with the New York City Housing Development Corporation ("HDC") (a component unit of the City) relating to certain variable rate bonds issued by HDC. In December 2005, the Authority paid $7,274,400 to HDC to terminate three Interest Rate Cap Agreements. The cost of termination of $1,135,000 included in the statement of activities for the year ended June 30, 2006 consists of the $7,274,400 termination payment reduced by the elimination of the interest rate cap obligation liability of $6,140,000. The termination payment of $7,274,400 is shown as an expenditure in the governmental funds statement of revenues, expenditures, and changes in fund balances.

At June 30, 2005, the Interest Rate Cap Agreements were estimated by the Authority's Swap Advisor to have a market value of $6.14 million. The valuation was based on an option valuation model using market interest rates and volatilities as of June 30, 2005. The valuation at June 30, 2005 reduced the interest rate cap obligation in the statement of net assets (deficit) and was reported as revenue in the statement of activities.

NOTE G - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority did not receive a grant from the City during the year ended June 30, 2006.

The Authority received an unrestricted grant from the City of $1,147,242,000 on June 30, 2005. These funds were received by the Authority's Trustee too late on June 30 to be invested on June 30, 2005; thus, the funds were held as cash overnight. Those funds were invested in July 2005 and were used to fund debt service requirements and administrative expenses during the year ended June 30, 2006 and into the year ended June 30, 2007.

The Authority received an unrestricted grant from the City of $400,000,000 on June 29, 2004. The Authority used the entire unrestricted grant received from the City on June 29, 2004 to fund debt service and administrative expenses during the year ended June 30, 2005, rather than retaining personal income tax revenues for those purposes.

NOTE H - ADMINISTRATIVE COSTS

The Authority's salaries, rent and expenditures related to carrying out the Authority's duties, including remarketing and liquidity fees not funded from cost of issuance or investment earnings, are funded from the personal income taxes flowing through the Authority's accounts.

NOTE I - SUBSEQUENT EVENT

On October 16, 2006, the Authority issued $500,000,000 of Future Tax Secured Bonds, Series 2007 A-1, tax-exempt fixed rate; $200,000,000 Future Tax Secured Bonds, Series 2007 A-2, taxable fixed rate; and $100,000,000 Future Tax Secured Bonds, Series 2007 A-3, tax-exempt variable rate.

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INFORMATION CONCERNING THE STATE OF NEW YORK

Although certain information relating to the financial condition of the State is set forth in this Official Statement, the State has not reviewed or approved this Official Statement, nor is it passing upon the accuracy or adequacy of the information set forth in this Official Statement.

Extracts of information about the State and its financial condition contained in the State's February AIS Update are set forth in this Appendix C. The State has authorized only such extracts from the February AIS Update to be included in this Official Statement and the State expressly disclaims inclusion of any other portion of the AIS or the November AIS Update in this Official Statement. The State is not under any contractual or statutory obligation to provide continuing disclosure regarding the information included in this Official Statement and the State DOB, which is responsible for organizing and presenting the information that appears in the AIS on behalf of the State, has not undertaken any updating procedures regarding the issuance of the Building Aid Revenue Bonds or with respect to the extracts of the February AIS Update included in this Official Statement. The State DOB will not be providing the Authority with any certifications with respect to such information.

Update to Annual Information Statement (AIS) State of New York

February 7, 2007

This quarterly update (the "AIS Update") is the third quarterly update to the Annual Information Statement of the State of New York, dated June 12, 2006 (the "AIS") and contains information only through February 7, 2007. This AIS Update should be read in its entirety, together with the AIS.

In this AIS Update, readers will find:

1. Extracts from the Governor's Executive Budget Financial Plan for 2007-08 (the "Current State Financial Plan") which the Division of the Budget ("DOB") presented to the Legislature on January 31, 2007. The Current State Financial Plan includes updated estimates for the State's current fiscal year (2006-07) and detailed projections for fiscal years 2007-08 through 2010-11, as modified by the Executive Budget recommendations. The entire 2007-08 Executive Budget, including the Current State Financial Plan, a detailed forecast of the State's economy and revenues, and the proposed Capital Program and Financing Plan, is available on the DOB website, www.budget.state.ny.us.

2. A discussion of special considerations related to the Current State Financial Plan including an update on GASB 45.

3. Updated information regarding State Government.

4. The status of significant litigation that has the potential to affect the State's finances.

In addition, the following information that appeared in prior updates to the AIS is reprinted as a convenience to readers:

A. A summary of GAAP-basis results for the 2005-06 fiscal year (the full statements are available on the State Comptroller's website, www.osc.state.ny.us). This information is reprinted from the August 4, 2006 update to the AIS.

B. Information regarding the State Retirement System that is reprinted from the November 6, 2006 update to the AIS.

DOB is responsible for organizing and presenting the information that appears in this AIS Update on behalf of the State. In preparing the AIS Update, DOB relies on information drawn from other sources, such as the Office of the State Comptroller ("OSC"). Information relating to matters described in the section entitled "Litigation" is furnished by the State Office of the Attorney General.

During the current fiscal year, the Governor, the State Comptroller, State legislators, and others may issue statements or reports that contain predictions, projections or other information relating to the State's financial condition, including potential operating results for the current fiscal year and projected baseline gaps for future fiscal years, that may vary materially from the information provided in the AIS. Investors and other market participants should, however, refer to the AIS, as revised, updated, or supplemented, for the most current official information regarding the financial condition of the State.

The State may issue AIS supplements or other disclosure notices to this AIS Update as events warrant. The State intends to announce publicly whenever an update or a supplement is issued. The State may choose to incorporate by reference all or a portion of this AIS Update in Official Statements or related disclosure documents for State or State-supported debt issuance. Readers may obtain informational copies of the AIS, updates and supplements by contacting Mr. Louis A. Raffaele, Chief Budget Examiner, New York State Division of the Budget, State Capitol, Albany, NY 12224, (518) 473-8705. The State has filed this AIS Update directly with the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) and with the Central Post Office, Disclosure USA. The Municipal Advisory Council of Texas (Texas MAC) has established this internet-based disclosure filing system approved by the Securities and Exchange Commission to facilitate the transmission of disclosure-related information to the NRMSIRs. An official copy of this AIS Update may be obtained from the Division of the Budget, State Capitol, Albany, NY 12224, Tel: (518) 473-8705 or from any NRMSIR.

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PART I

Current State Financial Plan

Note: *DOB issued the Current State Financial Plan, extracts of which are set forth below, on January 31, 2007. The Current State Financial Plan includes updated estimates for 2006-07 and projections for 2007-08 through 2010-11. As such, it contains estimates and projections of future results that should not be construed as statements of fact. These estimates and projections are based upon various assumptions that may be affected by numerous factors, including future economic conditions in the State and nation and potential litigation. There can be no assurance that actual results will not differ materially and adversely from the estimates and projections contained in the Financial Plan.*

The State accounts for all of its spending and revenues by the fund in which the activity takes place (such as the General Fund), and the broad category or purpose of that activity (such as State Operations). The Financial Plan tables sort all State projections and results by fund and category. The State Constitution requires the Governor to submit an Executive Budget that is balanced on a cash basis in the General Fund — the Fund that receives the majority of State taxes, and all income not earmarked for a particular program or activity. Since this is the fund that is statutorily required to be balanced, the focus of the State's budget discussion is often weighted toward the General Fund.

The State also reports spending and revenue activity by two other broad measures: State Funds, which includes the General Fund and funds specified for dedicated purposes, but excludes Federal Funds; and All Governmental Funds, which includes both State and Federal Funds and provides the most comprehensive view of the financial operations of the State.

Fund types of the State include: the General Fund; State special revenue funds (SRFs), which receive certain dedicated taxes, fees and other revenues that are used for a specified purpose; Federal SRFs, which receive Federal grants; State and Federal Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

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Extracts from 2007-08 Executive Budget Financial Plan

Summary

ECONOMIC BACKDROP

The State's economic expansion entered its fourth year in September 2006, with State employment, personal income, and wages all experiencing solid growth. The momentum of the State's expansion appears to have peaked, however, and the DOB forecast for the next four years predicts more moderate rates of economic growth.

The State's strong income performance in 2006, was due in large part to significant increases in finance and insurance sector bonus growth, a strong real estate market and substantial stock market gains. These trends have translated into continuing strong growth in State tax revenues. If current estimates are correct, annual growth in tax receipts will approach nearly 12 percent in the current fiscal year, after factoring the impact of law changes. The extraordinary rates of underlying growth are expected to moderate in future years consistent with projected economic growth. In addition, receipts growth will be reduced by already enacted tax reductions.

2006-07 SURPLUS IS EXPECTED TO BE HIGHER

General Fund Operating Forecast For 2006-07 Has Improved Since Mid-Year Update (millions of dollars)	
Mid-Year Surplus Estimate (after Rainy Day deposit)	**1,011**
Change Since Mid-Year	**451**
Increased Revenue	279
Decreased Spending	172
Net Executive Budget Surplus Projection	**1,462**

The net General Fund surplus is projected at $1.5 billion in the current year, $451 million higher than the Mid-Year Update. Strength in tax collections, attributable especially to continued economic growth in the financial services, real estate, and construction sectors, has led DOB to raise its General Fund tax receipts forecast for the current year by over $500 million. This growth is partially offset by a delayed payment of $175 million from the New York Power Authority that is now expected to be received in 2007-08, and other modest revenue revisions. A planned $428 million payment from New York City also remains at risk, but is expected by the end of the current fiscal year.

Projected General Fund disbursements have been revised downward by $172 million across several programs. In addition, Medicaid spending projections have been reduced by $100 million, with the savings used to finance costs that would otherwise be paid for through Health Care Resources (HCRA). Spending trends for the State's major programs otherwise remain generally consistent with the Mid-Year Update.

General Fund Estimated Closing Balance for 2006-07 (millions of dollars)			
	Mid-Year Estimate	*Change*	*Executive Estimate*
Closing Fund Balance	**3,120**	***451***	**3,571**
Tax Stabilization Reserve Fund	1,025	*0*	1,025
Contingency Reserve Fund	21	*0*	21
2005-06 Surplus	787	*0*	787
2006-07 Surplus	1,011	*451*	1,462
Community Projects Fund	276	*0*	276

The Executive Budget Financial Plan includes an $81 million deposit to the Tax Stabilization Reserve Fund (added in the Mid-Year Update), maintaining the balance at the statutory maximum level of 2 percent of General Fund spending ($1.0 billion). DOB projects the State will end the 2006-07 fiscal year with an approximate $3.6 billion balance in the General Fund, consisting of $1.0 billion in the Tax Stabilization Reserve Fund, $1.5 billion from the 2006-07 projected surplus, $787 million from the remaining 2005-06 prior-year surplus, $21 million in the Contingency Reserve for litigation risks, and $276 million in the Community Projects Fund to support existing commitments.

CURRENT SERVICES BUDGET GAPS FOR 2007-08 THROUGH 2010-11 (PRIOR TO EXECUTIVE BUDGET RECOMMENDATIONS)

DOB currently projects a potential imbalance of $1.6 billion in 2007-08, $3.0 billion in 2008-09, and gaps in the range of $5 billion in future years, prior to the Executive Budget recommendations.

Revisions to Current Services Gaps Since the Mid-Year Update (Prior to Executive Budget Recommendations)				
	GENERAL FUND ($ Millions)			
	2007-08	2008-09	2009-10*	2010-11*
Mid-Year Budget Gaps	**(2,449)**	**(4,486)**		
Exclude Surplus from Calculation**	(1,043)	(255)		
Revised Tax Collections	1,445	1,577		
All Other Revenue Changes	465	310		
Spending Changes	(26)	(141)		
Budget Gaps (Before Recommendations)	**(1,608)**	**(2,995)**	**(5,089)**	**(5,359)**

* 2009-10 and 2010-11 gap estimates are published for the first time in this Financial Plan.

** The Mid-Year Update assumed the prior-year surplus and a portion of the 2006-07 surplus would be used to lower the 2007-08 and 2008-09 gaps. To more clearly reflect the potential use of these resources, such amounts have been excluded for purposes of calculating the current services gaps prior to Executive Budget recommendations.

The improvement in the gaps since the Mid-Year Update is primarily the result of positive revenue revisions, consistent with current-year experience. Projected spending has been increased for the expected cost of Timothy's Law (roughly $100 million annually), which was enacted in December 2006 and mandates expanded mental health coverage that will be subsidized in part by the State; and a recent court decision that barred the State from requiring public employees and retirees to pay a share of Medicare Part B premiums ($60 million in 2007-08; $31 million thereafter). In addition, revenues from a planned expansion of the video lottery terminal (VLT) program beginning in 2008-09 ($331 million) are no longer counted in the current services forecast. The VLT receipts that were counted on to support school aid must be replaced with General Fund resources, thus adding to the gaps. Downward revisions for Medicaid, the Judiciary, and disaster assistance spending partially offset these costs.

2007-08 GENERAL FUND EXECUTIVE BUDGET

The Executive Budget eliminates the entire potential $1.6 billion imbalance in 2007-08 and funds several new initiatives, primarily through reductions in planned spending growth in health care and other programs. The Budget addresses the structural imbalance and finances new initiatives by: (a) restraining spending in the fastest-growing programs in the State Budget, particularly Medicaid, (b) closing tax law loopholes to enhance revenue collections, and (c) using a portion of prior-year budget surpluses. It leaves roughly $1.2 billion of surplus moneys to help reduce potential outyear gaps.

The Executive Budget recommends a $7 billion increase in school aid over the next four school years, and an expanded $6 billion property tax relief plan with $2.5 billion in additional relief for middle class taxpayers over the next three years, and a plan to ensure that all children have access to health insurance. In addition, the Budget recommends a deposit of $250 million into a reserve to lower State debt and another $125 million into the new Rainy Day Reserve Fund, established in law in 2007, that may be used to respond to an economic downturn or catastrophic event.

The table below summarizes the multi-year fiscal impact of the 2007-08 Executive Budget recommendations.

General Fund Budget-Balancing Plan

(millions of dollars)

	2007-08	2008-09	2009-10	2010-11
Executive Budget Current Services (Gaps)	**(1,608)**	**(2,995)**	**(5,089)**	**(5,359)**
Savings Plan:	2,810	3,383	4,460	4,659
Medicaid/Health/Mental Hygiene	1,299	958	1,924	1,738
All Other Savings	1,062	1,858	1,999	2,384
Revenue Loophole Closures	449	567	537	537
New Initiatives:	(1,873)	(3,097)	(4,271)	(5,961)
Revised Surplus/(Gaps) Before Use of Reserves	**(671)**	**(2,709)**	**(4,900)**	**(6,661)**
Deposit to new Rainy Day Reserve Fund	(125)	0	0	0
Deposit to Debt Reduction Reserve Fund	(250)	0	0	0
Planned Use of Remaining 05-06 Surplus	787	0	0	0
Planned Use of 06-07 Surplus ($1.5 billion)	259	401	401	401
Executive Budget Surplus/(Gaps)	**0**	**(2,308)**	**(4,499)**	**(6,260)**

Impact of Executive Budget Recommendations on Spending

Total Disbursements (millions of dollars)					
	2006-07 Revised	2007-08 Proposed	Annual $ Change	Annual % Change	Adjusted % Change*
General Fund	51,127	53,262	2,135	4.2%	3.8%
State Funds	77,522	83,557	6,035	7.8%	6.3%
All Funds	113,536	120,633	7,097	6.3%	5.2%

** Excludes $952 million for the STAR Property Tax Relief program and $204 million for the Medicaid Cap/Family Health Plus Takeover.*

The Executive Budget recommendations result in annual spending growth of 4.2 percent in the General Fund, 7.8 percent in State Funds, and 6.3 percent in All Governmental Funds (hereafter "All Funds"). When adjusted to exclude State-financed local school tax relief through the School Tax Relief (STAR) program, the State cap on local government Medicaid costs, and the full takeover of the Family Health Plus (FHP) program, spending increases by 3.8 percent in the General Fund, 6.3 percent in State Funds, and 5.2 percent in All Funds.

Projected 2007-08 Year-End Balances

General Fund Estimated Closing Balance (millions of dollars)			
	2006-07 Revised	2007-08 Proposed	*Change*
Year-End Fund Balance	**3,571**	**2,975**	***(596)***
Undesignated Reserves	1,046	1,171	*125*
Tax Stabilization Reserve Fund	1,025	1,025	*0*
Rainy Day Reserve Fund	0	125	*125*
Contingency Reserve Fund	21	21	*0*
Designated Reserves	2,525	1,804	*(721)*
Debt Reduction Reserve Fund	0	250	*250*
Remaining 2005-06 Surplus	787	0	*(787)*
Remaining 2006-07 Surplus	1,462	1,203	*(259)*
Community Projects Fund	276	351	*75*

DOB projects the State will end the 2007-08 fiscal year with a General Fund balance of $3.0 billion (5.6 percent of spending) if the Legislature enacts the Executive Budget recommendations in their entirety. The balance consists of $1.2 billion in undesignated reserves and $1.8 billion in reserves designated to finance existing or planned commitments. The projected closing balance is $596 million below the level estimated for 2006-07, which primarily reflects the use of the remaining 2005-06 surplus to support 2007-08 operations.

The undesignated reserves include $1.0 billion in the State's Tax Stabilization Reserve, after a planned deposit of $81 million in 2006-07 that will maintain the balance at the statutory maximum of 2 percent of General Fund spending, and $21 million in the Contingency Reserve Fund for litigation risks. In addition, a first deposit of $125 million is proposed to the new Rainy Day Reserve. The reserve has a maximum balance of 3 percent of General Fund spending and may be used to respond to an economic downturn or catastrophic event.

The designated reserves include $351 million in the Community Projects Fund to finance existing initiatives, $1.2 billion remaining from the 2006-07 surplus that is planned to be used in three equal amounts to lower the projected outyear budget gaps, and $250 million to reduce high-cost debt.

RISKS TO THE FINANCIAL PLAN

In any year, the Financial Plan is subject to risks that, if they were to materialize, could affect operating results. The most significant short-term risks include potential collective bargaining agreements in 2007-08 and beyond; payments from New York City that are subject to ongoing negotiations; potential Federal disallowances arising from audits related to Medicaid claims under the School Supportive Health Services program; and proposed Federal rule changes concerning Medicaid payments. See "Financial Plan Reserves and Risks," herein.

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2006-07 FINANCIAL PLAN UPDATE

The Current State Financial Plan includes the third quarterly update to the 2006-07 Enacted Budget Financial Plan. The following describes the substantive revisions to Financial Plan estimates for the current year since the issuance of the last update to the Financial Plan in October 2006. Please refer to the quarterly Financial Plans issued in July 2006 and October 2006, which are available on-line, for detailed explanations of the earlier revisions.

DOB projects the State will end the 2006-07 fiscal year with a $1.5 billion surplus in the General Fund, after making the maximum annual contribution of $81 million to the State's Tax Stabilization Reserve. As described below, the continued strength in revenues from 2005-06 levels is mainly responsible for the net surplus.

General Fund receipts, including transfers from other funds, are now projected at $51.4 billion, an increase of $279 million from the Mid-Year Update. DOB has revised the estimate for taxes (including transfers in excess of debt service) upward by $524 million based on revenue collections to date and the strength of key economic indicators, both of which have exceeded expectations. After correcting for the impact of the law changes, tax receipts increased by 11.9 percent in 2006-07. This is the third consecutive year of double-digit growth in the revenue base. However, a number of policy changes already enacted and delays in the receipts of one-time revenues reduced growth in receipts to 9 percent for the fiscal year.

General Fund disbursements, including transfers to other funds, are expected to total $51.1 billion in 2006-07, $172 million below the Mid-Year Update. The revision reflects lower spending across all agencies and programs based on experience to date, with the most substantive revisions in higher education and education programs.

CURRENT YEAR REVISIONS

The following provides a summary of the substantive revisions to the Financial Plan forecast during the year.

2006-07 General Fund Quarterly Financial Plan Revisons From Enacted Budget (millions of dollars)				
	First Quarter	**Mid-Year**	**Executive**	**Total**
Projected Surplus	**0**	**0**	**1,011**	**0**
Revenue Revisions	**(855)**	**720**	**279**	**144**
(Costs)/Savings	**(141)**	**122**	**172**	**153**
Reimbursement to NYC for CUNY Costs	428			428
Medicaid	(345)	359		14
Medicare Part D	(120)			(120)
SUNY		(74)	45	(29)
School Aid		(65)	(16)	(81)
Judiciary	14	60	1	75
All Other Changes	(118)	(158)	142	(134)
Use of 2005-06 Surplus	**996**			996
Use of Debt Reduction Reserve		**250**		250
Deposit to Tax Stabilization Reserve		**(81)**	**0**	**(81)**
Net Change: Favorable/(Unfavorable)	**0**	**1,011**	**451**	**1,462**
Projected Surplus	**0**	**1,011**	**1,462**	**1,462**

The increased General Fund receipts of $279 million reflects a combination of $524 million more in tax receipts, offset by a $245 million reduction in miscellaneous receipts. The largest revisions are in business taxes, user taxes and fees, and other taxes. The revisions are based on actual results to date, the continued strength of the economy, and the exceptional performance of the financial services sector, as well as enhanced audit activity, and the enforcement of tax collections on Native American lands. Delayed payments from the New York Power Authority ($175 million) and the sale of office space at 633 Third Avenue in New York City ($75 million) reduced expected miscellaneous receipts.

Base growth, adjusted for law changes, in tax receipts for fiscal year 2006-07 is estimated at 11.9 percent. Growth in the tax receipts base has benefited from several factors including: improvements in overall economic activity; the continued profitability and compensation gains of financial services companies; and the strong commercial real estate market downstate.

Since the Mid-Year Update, General Fund spending projections for the current fiscal year have been reduced by $172 million. The change reflects lower-than-expected local aid payments, operational savings across all agencies, and lower fringe benefit costs.

General Fund Estimated Closing Balance for 2006-07 (millions of dollars)			
	Mid-Year Estimate	***Change***	***Executive Estimate***
Closing Fund Balance	**3,120**	***451***	**3,571**
Tax Stabilization Reserve Fund	1,025	*0*	1,025
Contingency Reserve Fund	21	*0*	21
2005-06 Surplus	787	*0*	787
2006-07 Surplus (after Rainy Day deposit)	1,011	*451*	1,462
Community Projects Fund	276	*0*	276

DOB projects the State will end the 2006-07 fiscal year with a General Fund balance of approximately $3.6 billion. The balance consists of $1.0 billion in the Tax Stabilization Reserve Fund (TSRF), $21 million in the Contingency Reserve Fund, $2.2 billion from accumulated surpluses, and $276 million in the Community Projects Fund that finances discretionary spending commitments by the Legislature.

State Funds and All Funds Changes: All Funds receipts estimates have been revised upward by $154 million for fiscal year 2006-07. Tax receipts growth for fiscal year 2006-07 has significantly exceeded expectations and, as a result, All Funds tax estimates for fiscal year 2006-07 have been increased by $475 million from the Mid-Year Update. The growth in tax receipts is offset by downward revisions in miscellaneous receipts of $300 million due to timing delays and lower than anticipated Federal grants ($21 million).

State Funds spending is now projected to total $77.5 billion in the current year, a decrease of $543 million from the Mid-Year Update. In addition to the $172 million in downward adjustments in the General Fund, State Funds spending has been revised downward to reflect lower EPIC spending related to Medicare Part D savings and overall Medicaid costs ($168 million), lower overall debt service costs mainly due to the timing of bond sales ($59 million), and downward revisions in SUNY operations ($73 million), STAR ($45 million), school aid ($26 million), and other modest program changes.

All Funds spending in 2006-07 is now projected to total $113.5 billion, a decrease of $512 million from the Mid-Year Update. This is consistent with the State Funds revisions, and reflects modest changes in the estimate of Federal aid for flood relief.

2006-07 YEAR-TO-DATE OPERATING RESULTS THROUGH DECEMBER 2006

The table below compares actual results for the period from April 2006 through December 31, 2006 to the estimates included in the Mid-Year and July Financial Plans, as well as actual results for the same nine-month period in 2005. Results are compared to the July Plan instead of the Enacted Plan as the former includes major supplemental legislation that completed the 2006-07 Budget.

2006-07 Fiscal Year
Actual Year-to-Date Results: April through December, 2006
General Fund Results vs. Projections; Year-to-Year Comparison
(millions of dollars)

	July Projection	Mid-Year Projection	Actual Results	Actuals vs. Estimates Favorable/ (Unfavorable): July	Actuals vs. Estimates Favorable/ (Unfavorable): Mid-Year	Increase/ (Decrease) from Prior Year
Opening Balance (April 1, 2006)	**3,257**	**3,257**	**3,257**	**0**	**0**	**711**
Receipts	**34,686**	**35,231**	**35,065**	**379**	**(166)**	**2,258**
Personal Income Tax	14,990	15,019	14,605	(385)	(414)	850
User Taxes and Fees	6,190	6,168	6,264	74	96	(293)
Business Taxes	3,888	4,260	4,519	631	259	1,043
All Other Taxes, Receipts & Grants	2,465	2,714	2,587	122	(127)	544
Transfers From Other Funds	7,153	7,070	7,090	(63)	20	114
Disbursements	**35,253**	**36,466**	**35,954**	**(701)**	**512**	**4,182**
Local Assistance	21,552	22,602	22,150	(598)	452	2,613
State Operations						
Personal Service	5,676	5,621	5,670	6	(49)	756
Non-Personal Service	1,924	1,879	1,805	119	74	85
General State Charges	3,577	3,603	3,621	(44)	(18)	281
Transfers To Other Funds	2,524	2,761	2,708	(184)	53	447
Change in Operations	**(567)**	**(1,235)**	**(889)**	**(322)**	**346**	**(1,924)**
Closing Balance (December 31, 2006)	**2,690**	**2,022**	**2,368**	**(322)**	**346**	**(1,213)**

Year-to-Date Variance vs. Mid-Year Update Projections (General Fund)

Through December 2006, General Fund receipts, including transfers from other funds, totaled $35.1 billion, or $166 million lower than the Mid-Year forecast. Estimated tax payments on personal income and miscellaneous receipts came in below expectations by $396 million and $289 million, respectively, but were offset by higher-than-expected collections in the corporate franchise tax ($165 million) and estate and gift taxes ($160 million).

General Fund disbursements, including transfers to other funds, totaled $36 billion, $512 million below the Mid-Year estimate. Actual local assistance spending was $452 million below planned levels through December 2006, with Medicaid and special education coming in below forecast by $195 million and $153 million, respectively. These spending variances are mostly timing-related. Under-spending through December 2006 for a number of other programs, including Children and Families ($44 million), Higher Education Services Corporation (HESC) ($30 million), and All Other Education ($26 million) also appears to be timing-related.

State Operations spending was $25 million below planned levels. Non-Personal Service disbursements were $74 million lower than projected, with SUNY accounting for the largest variance ($65 million).

Personal Service disbursements were $49 million higher than expected and spread among several agencies. Transfers to other funds were $73 million below plan and reflect the timing of disbursements for economic development capital projects ($29 million) and for the Judiciary ($37 million).

The closing balance on December 31, 2006 was $2.4 billion, an increase of $346 million from the Mid-Year Update.

Year-to-Date Annual Change - 2006-07 vs. 2005-06 (General Fund)

Through December 2006, total taxes, before the deposits to the debt service funds and the School Tax Relief Fund, increased by nearly $3.0 billion, or 8.5 percent, compared to the same period in 2005-06 and is largely attributable to continued economic improvement in 2005, strong payments on current- and prior- year personal income tax liability, continued strength in the real estate market and large audit recoveries in business taxes.

General Fund spending through December 2006 was $4.2 billion, or 13 percent, higher-than-actual results through the same period for fiscal year 2005-06. The increase in year-to-year spending is primarily concentrated in local assistance ($2.6 billion). Programs with significant growth include Medicaid ($1.1 million) due to program growth and, more importantly, the timing of credits and "offloads" with special revenue funds, School Aid ($944 million) reflecting the annual aid increase, and the City University of New York (CUNY) ($103 million) and welfare ($231 million) due largely to timing of payments. Personal Service increases ($756 million) are driven by the payment of a retroactive arbitration award to corrections officers in 2006-07 ($210 million), contractual salary increases and regular movement through grade levels. The annual increase in transfers ($447 million) includes the $250 million to the DRRF, noted above.

2006-07 Fiscal Year
April through December 2006
All Funds Results vs. Projections; Year-to-Year Comparison
($ in millions)

	July Projection	Mid-Year Projection	Actual Results	Actuals vs. Estimates Favorable/ (Unfavorable): July	Actuals vs. Estimates Favorable/ (Unfavorable): Mid-Year	Increase/ (Decrease) from Prior Year
Total Disbursements	**81,771**	**81,414**	**80,646**	**1,125**	**768**	**5,904**
General Fund*	32,729	33,705	33,246	(517)	459	3,736
Special Revenue Funds	42,039	40,672	40,360	1,679	312	1,523
Capital Projects Funds	4,193	4,011	4,042	151	(31)	341
Debt Service Funds	2,810	3,026	2,998	(188)	28	304

* Excludes Transfers

Year-to-Date Variance vs. Mid-Year Update Projections (All Funds)

Through December 2006, All Funds disbursements totaled $80.6 billion, $768 million below the Mid-Year Update projection. Aside from the General Fund variances, as described earlier, Special Revenue Funds spending was under the forecast by $312 million, while Capital Projects Funds spending was $31 million higher. The Special Revenue variance was driven primarily by the timing of the final NYC STAR PIT payment ($363 million), in January 2007. The Capital Projects Funds variance is due to higher Transportation spending, offset by lower Economic Development spending.

Year-to-Date Annual Disbursements Change - 2006-07 vs. 2005-06 (All Funds)

Compared to the same period in 2005-06, Special Revenue funds disbursements were $1.5 billion higher, due primarily to an increase in Federal Medicaid spending ($571 million), STAR due primarily to the new local property tax rebate program in September 2006 ($716 million) and Public Health, primarily in HCRA supported programs ($325 million). The Capital Projects Funds increase from the prior-year spending is primarily driven by higher spending in the Dedicated Highway and Bridge Trust Fund (DHBTF). Higher Debt Service Funds spending includes the $250 million for debt reduction.

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2007-08 FINANCIAL PLAN

REVISIONS FROM THE MID-YEAR UPDATE TO CURRENT SERVICES ESTIMATES

The current services gaps form the starting point for developing the Executive Budget. Since the Mid-Year Update, DOB has revised its current services forecasts for receipts and disbursements for 2007-08 and 2008-09 and calculated an estimate of the 2009-10 and 2010-11 gaps. The revisions reflect stronger projected revenue performance and updates to current services spending estimates based on a review of actual operating results and program trends.

Revisions to Current Services Gaps Since the Mid-Year Update (Prior to Executive Budget Recommendations)

	GENERAL FUND ($ Millions)			
	2007-08	2008-09	2009-10*	2010-11*
Mid-Year Budget Gaps	**(2,449)**	**(4,486)**		
Exclude Surplus from Calculation**	(1,043)	(255)		
Revised Tax Collections	1,445	1,577		
All Other Revenue Changes	465	310		
Spending Changes	(26)	(141)		
Budget Gaps (Before Recommendations)	**(1,608)**	**(2,995)**	**(5,089)**	**(5,359)**

* 2009-10 and 2010-11 gap estimates are published for the first time in this Financial Plan.

** The Mid-Year Update assumed the prior-year surplus and a portion of the 2006-07 surplus would be used to lower the 2007-08 and 2008-09 gaps. To more clearly reflect the potential use of these resources, such amounts have been excluded for purposes of calculating the current services gaps prior to Executive Budget recommendations.

DOB has increased its estimate of General Fund revenues for both 2007-08 and 2008-09, based on actual results to date, continued growth in the State economy, and the strength of the financial services sector. Base receipts are now forecast to grow by 6.5 percent in 2007-08. Tax receipts are expected to be higher, accounting for most of the upward revision in estimated growth. The forecast for miscellaneous receipts has also been increased.

DOB believes the strong economy in 2006 will continue to drive large gains in receipts in early fiscal year 2007-08 as personal income taxpayers finalize payments on their 2006 liability. Out-year growth in tax receipts, before the impact of recommended tax actions, is expected to grow at rates consistent with the mature stage of economic expansion (an average of roughly 5.5 percent per year). Enhanced audit activity and the enforcement of tax collections on Native American lands accounts for the remaining growth in collections. Miscellaneous receipts in 2007-08 and beyond have been increased for additional abandoned property receipts ($100 million in 2007-08; $50 million in 2008-09; and $25 million in 2009-10), the timing of receipts that were originally budgeted in 2006-07 but are now expected next year ($250 million), and debt service savings.

DOB has raised its estimate of lottery receipts from traditional lottery games by roughly $100 million annually, but lowered its forecast for VLT receipts due to a delay in the grand opening of the Yonkers gaming facility (roughly $100 million annually in 2007-08 and 2008-09; $54 million in 2009-10 and $73 million in 2010-11). In addition, potential VLT revenues from expanding the number of gaming facilities are no longer counted in the current services forecast since enabling legislation has not been enacted (a cost of $331 million in 2008-09). All lottery aid, net of prizes and administrative costs, pays for a portion of the State's school aid program, with any shortfall in receipts financed by the General Fund. The net change in total lottery receipts results in higher General Fund spending of $337 million in 2008-09.

Since the Mid-Year Update, DOB has increased the General Fund spending forecast by $26 million in 2007-08 and $141 million in 2008-09. The sources of higher spending include: State subsidies for mental health insurance required by Timothy's Law (roughly $100 million annually); a court decision barring the State from requiring State employees or retirees to pay a portion of Medicare Part B premiums ($60 million in 2007-08; $31 million thereafter); the timing of education aid payments ($25 million in 2007-08 and $7 million in 2008-09); growth in the higher education budget for salaries and non-personal service expenses (roughly $20 million annually); and school aid owed to districts based on updated enrollment figures from the Department of Education (roughly $30 million annually).

The growth in spending is offset in part by reductions in several areas. The current-services forecast for Medicaid has been reduced based on price and utilization trends (roughly $450 million annually beginning in 2008-09, but offset in 2009-10 by $300 million in costs for an extra weekly payment associated with a 53rd Medicaid cycle). Estimated public assistance and child welfare spending has been lowered based on caseload and claiming trends ($8 million growing to $44 million). Finally, the Judiciary submitted a budget request that was lower than planned (saving $73 million in 2007-08; $94 million annually thereafter).

SUMMARY OF 2007-08 EXECUTIVE BUDGET RECOMMENDATIONS

The Executive Budget for 2007-08 is balanced on a cash basis in the General Fund. The Budget closes a $1.6 billion current-services gap and finances $1.9 billion in new initiatives, the largest of which are for school aid, school property tax relief, and health insurance for children. To close the gap and finance the initiatives, the Budget proposes $2.8 billion in savings actions and the use of $671 million in reserves. The unused portion of the 2006-07 surplus ($1.2 billion) is planned to reduce the projected outyear gaps in three equal amounts. The table below summarizes the multi-year impact of the Executive Budget recommendations.

General Fund Budget-Balancing Plan

(millions of dollars)

	2007-08	2008-09	2009-10	2010-11
Executive Budget "Baselevel" Surplus/(Gaps)	**(1,608)**	**(2,995)**	**(5,089)**	**(5,359)**
Savings Plan:	2,810	3,383	4,460	4,659
Medicaid/Health/Mental Hygiene	1,299	958	1,924	1,738
All Other Savings	1,062	1,858	1,999	2,384
Revenue Loophole Closures	449	567	537	537
New Initiatives:	(1,873)	(3,097)	(4,271)	(5,961)
Revised Surplus/(Gaps) Before Use of Surplus	**(671)**	**(2,709)**	**(4,900)**	**(6,661)**
Use of Prior Year Surpluses	671	401	401	401
Executive Budget Surplus/(Gaps)	**0**	**(2,308)**	**(4,499)**	**(6,260)**

Recommended Initiatives

The Executive Budget proposes new initiatives totaling $1.9 billion in 2007-08, growing to $6 billion in 2010-11. Three initiatives, for school aid, school tax relief, and health care, account for 90 percent of the total. The Budget recommends a $7 billion increase for school aid by 2010-11 (on a school year basis), which is roughly a $3.3 billion increase above previous financial plan estimates; an expanded $6 billion school property tax relief program over the next three years, or $2.5 billion above current-law requirements; and $100 million to expand enrollment in the CHP program, simplify eligibility for other public health insurance programs, and fund other health initiatives.

Recommended Savings

The Executive Budget proposes a set of health care, local aid, and operational reforms that will provide over $2.8 billion in savings in 2007-08. The value of the savings proposed this year grows to $4.7 billion by 2010-11.

General Fund Savings Plan
(millions of dollars)

	2007-08	2008-09	2009-10	2010-11
Savings Plan:	2,810	3,383	4,460	4,659
Medicaid/Health/Mental Hygiene	1,299	958	1,924	1,738
All Other Savings	1,062	1,858	1,999	2,384
Revenue Loophole Closures	449	567	537	537

Health Care

The 2007-08 savings plan includes the first step in a multi-year plan to reform the State's health care system. Recommended savings total over $1.4 billion in the aggregate, including roughly $150 million in savings that will accrue to the Health Care Resources (HCRA) Fund. The plan freezes reimbursement rates paid to most providers as part of a plan to develop a new reimbursement system that better aligns the interests of health care providers, patients, and public and private payers by more accurately reflecting the actual cost to providers of providing various services; strengthens statewide anti-fraud activities; improves cost controls on prescription drugs; and enhances management of high-cost beneficiaries. The table below itemizes the savings from these initiatives.

Medicaid/HCRA/Health/Mental Hygiene Savings Plan (millions of dollars)				
	2007-08	**2008-09**	**2009-10**	**2010-11**
Freeze 2007 Rates Pending Overhaul of Methodologies	350	389	389	389
Redirect Subsidies to High-Need Medicaid Hospitals	73	99	120	120
Pharmaceutical Savings	240	301	303	303
Enhance Management of High-Cost Beneficiaries	5	43	49	56
Strengthen Anti-Fraud Capabilities	104	109	109	109
Other General Fund Medicaid Savings	221	105	372	378
Other HCRA Savings	219	544	543	593
Public Health	39	33	38	38
Mental Hygiene	195	111	111	112
Total Medicaid/HCRA/Health/Mental Hygiene Savings	**1,446**	**1,734**	**2,034**	**2,098**
HCRA Savings in Other State Funds	(147)	(776)	(796)	(846)
Proposed Changes in General Fund Support for HCRA	0	0	686	486
Net General Fund Savings	**1,299**	**958**	**1,924**	**1,738**

Specific savings proposals include:

- **Freeze Rates/Redirect Subsidies:** Eliminating automatic inflationary rate increases for hospitals and nursing homes, freezing managed care premium payments, and revising subsidy payments to redirect funding to high-need facilities.

- **Pharmaceutical Savings:** Reducing reimbursement rates for pharmacies; increasing enrollment in the Medicare Part D program; strengthening the rules governing the Preferred Drug program; and expanding its applicability to the Elderly Pharmaceutical Insurance Coverage (EPIC).

- **Enhanced Management of High-Cost Beneficiaries:** Implementing a series of new demonstration projects to help provide seamless, cost-effective care to high-cost beneficiaries.

- **Anti-Fraud:** Staffing increases, greater use of technology, and stepped-up audit procedures will be put into place.

Other savings include maximizing Federal aid; continuation of the 0.35 percent assessment on hospital revenues beyond March 31, 2007 and the reimbursable 6 percent assessment on nursing home revenues beyond March 31, 2009; a $75 increase in the covered lives assessment paid by insurance carriers; and additional health care conversion proceeds. In addition, General Fund subsidy payments to HCRA in 2009-10 and 2010-11, including discretionary repayment of a loan, have been eliminated, pursuant to proposed statutory changes.

Other Savings

Outside of health care, other recommended savings include eliminating State aid subsidies to high-wealth communities, instituting strict controls on spending by State agencies, enhancing competition in the State's debt management, and maximizing Federal aid.

All Other Savings Plan (millions of dollars)				
	2007-08	2008-09	2009-10	2010-11
Local Government Aid	306	267	217	167
Economic Development	209	96	96	96
Social Services/Labor	165	139	150	139
Public Safety/Homeland Security	109	113	111	112
Education/Arts	54	64	64	64
Environment/Energy	50	40	40	40
Transportation	43	176	145	185
Debt Service	40	43	45	47
Higher Education	35	60	63	65
STAR Rebate	0	675	675	675
VLT Expansion	0	150	357	766
All Other	51	35	36	28
Total General Fund Savings	**1,062**	**1,858**	**1,999**	**2,384**

The key Executive Budget recommendations include the following proposals:

Local Government Aid: Restructure local government aid to significantly increase aid to distressed municipalities and eliminate Aid and Incentives for Municipalities (AIM) funding to New York City and other high-wealth municipalities.

Economic Development/Regulation: Generate savings from increasing New York City's tax processing assessment, shifting the Department of State's business licensing to the General Fund, and reducing certain economic development initiatives. It also includes a routine sweep of excess funds from the State of New York Mortgage Agency (SONYMA).

Social Services/Labor: Increase the amount of the Temporary Assistance for Needy Families (TANF) public assistance offset through proposed reductions in the TANF funded commitment to several operational programs and several 2006-07 initiatives. In addition, a one-time transfer of $16 million will be made from Department of Labor interest assessment account funds to the General Fund, and the rates charged to local governments for youth in the Office of Children and Family Services (OCFS) facilities will be adjusted to reflect actual costs and to reconcile prior-year billings.

Public Safety/Homeland Security: Improve the parole violation process; propose less costly implementation of enhanced work zone safety; implement a new security assessment on nuclear power plant operators; and continue State Operations efficiencies to generate savings. In addition, savings are generated by using non-General Fund resources to fund State Police public safety communications projects and certain Department of Criminal Justice Services (DCJS) programs.

Education/Arts: Includes funding for Education accountability and efficiency initiatives for school districts, as well as increases for public libraries and public broadcasting.

Environment/Energy: Reductions result from a shift of personal service costs for Agriculture and Markets programs from the General Fund to other financing sources. Non-personal service reductions in most departments generate additional savings.

Transportation: Includes allocating additional Transmission Tax revenue for upstate transit systems, lease-purchasing transit buses rather than using pay-as-you-go funding, and lower General Fund transfers to the Dedicated Bridge and Highway Trust Fund.

Debt Service: Savings are expected from a proposed increase to the swaps and variable rate caps from 15 percent to 20 percent, increased refunding opportunities based on proposed enhancements, and increasing the use of competitive processes.

Higher Education: Tuition Assistance Program (TAP) reforms are proposed to promote the wise investment of taxpayer funds. Specifically, use of the Ability to Benefit Test will be discontinued as a measure of determining academic eligibility for TAP beginning in the 2007-08 academic year. This will conform New York's eligibility standards to those of other major states.

STAR Rebate: The existing STAR Plus Rebate program is replaced by the new $6 billion middle class property tax relief program.

VLT Expansion: Savings from proposed legislation to authorize the expansion of a number of VLT facilities is expected to generate additional revenue that will be used to support school aid funding.

All Other Savings: Includes changing the interest rate charged on judgments against the State to prevailing market rates, not a pre-defined, above-market rate of 9 percent ($5 million), and State Operations savings, primarily in non-personal service costs (part of a Statewide total of $85 million in non-personal service savings).

Revenue Loophole Closures

State tax law currently contains a number of loopholes that enable certain taxpayers to shelter income as a result of unintended consequences of existing law. The Executive Budget proposes the elimination of a number of such loopholes, as summarized on the following table.

General Fund Savings Plan -- Revenue Loophole Closures (millions of dollars)				
	2007-08	2008-09	2009-10	2010-11
Personal Income Tax	**36**	**181**	**151**	**151**
Extend/Restructure LLC Fees	30	30	30	30
Make Reporting of Tax Shelters Permanent	6	6	6	6
S Corporation Election	0	100	100	100
Sales Tax Itemized Deduction	0	30	0	0
Partnership Tax Abuse	0	15	15	15
Business Taxes	**398**	**366**	**366**	**366**
Corporate Franchise Tax Combined Filing	185	185	185	185
Add Back Expenses of Subs. Cap. & Elim. Disc. Wage Factor	35	28	28	28
Decouple from Federal Deduction for Qualified Production Activities	25	30	30	30
Cooperative Insurance Companies	23	18	18	18
Grandfathered Corporations	19	15	15	15
Real Estate Investment Trusts	88	70	70	70
Conform to Federal Bad Debt Deduction	13	10	10	10
Make Reporting of Tax Shelters Permanent	10	10	10	10
User Taxes and Fees	**15**	**20**	**20**	**20**
Sales Tax on Full Cost of Hotel Room Purchased Over Internet	15	20	20	20
Total General Fund Savings	**449**	**567**	**537**	**537**

The most significant loophole closures include:

- Restructure the fees imposed on Limited Liability Companies (LLC) from a per member fee to one that is based on income, to more clearly reflect an LLC's level of New York activity while generating the same amount of revenue as the LLC fees that are in effect through tax year 2006.
- Continue to deter the use of tax shelters by making permanent the authorization for the Department of Taxation and Finance to require the reporting and disclosure of Federal and New York reportable and listed transactions.
- Conform to the practices of 17 other states that require corporations which conduct substantial inter-corporate transactions with one another, to file a combined, rather than separate, corporate franchise tax return.
- Close a loophole and conform to Federal rules by eliminating the deduction for certain subsidiary dividends received by a parent company from a real estate investment trust (REIT) or regulated investment company (RIC), to ensure that the shareholders of the REIT or RIC pay tax on the income earned by the REIT or RIC.

NONRECURRING RESOURCES

The State typically uses some nonrecurring resources each year to support its operations. In many cases, the resources may occur each year, but are not included in the current services estimates since there is some uncertainty in timing and amounts that may be available. The table below summarizes the nonrecurring resources proposed in the Executive Budget.

General Fund Non-Recurring Resources
(millions of dollars)

	2007-08
Transfer SONYMA Excess Balances to the General Fund	100
Medicaid: Obtain Federal Share for the Home Care Insurance Demonstration Initiative	82
Medicaid: Waive Statutory Reconciliation of Prior Year Hospital Assessment Collections	44
Medicaid: Drug Rebate Revenue	40
Mental Hygiene: Federal PIA revenues (Part B settlement; Accelerated DSH payments)	61
Mental Hygiene: Audit-Fraud Recoveries; Federal Recovery for OMH Children's Facilities	18
Sweep cash for Cult. Educ. Storage Facility	20
Sweep Balance in the Unemployment Insurance Interest Assessment Account	16
Sweep Funds from Revenue Arrearage Account	15
DMV Compulsory Insurance Sweep	16
Sweep Additional Funds from various Public Health Accounts	10
Use Cellular Surcharge to Fund State Police Statewide Wireless Network	10
Sweep Excess EPF Fund Balances to General Fund	10
Finance National Guard Costs with Federal Funds	5
Sell Vacant Building Planned for Youth Opportunity Center	3
Sweep Cash from Several Welfare/OCFS Special Revenue Accounts	3
Utilize Federal Funds for Certain Welfare costs	2
Total One-Time Resources	**455**
Net Use of Prior Year Surpluses (after deposit to reserves)	671
Total Non-Recurring Resources	**1,126**

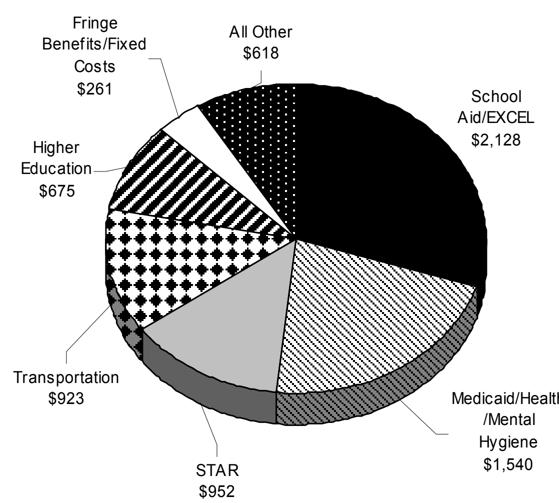
The proposed one-time actions consist mainly of routine transfers of available cash balances from other funds, time-specific transactions, and additional Federal aid including:

- Medicaid: Savings from several cost containment recommendations and revenue raisers help finance Medicaid costs that would otherwise be paid by the General Fund. These include reforms in HCRA, increased Federal aid for the Health Care Insurance Demonstration initiate, a waiver of prior-year reconciliations of hospital assessment collections, and available drug rebate revenues;
- Mental Hygiene: Federal revenues are expected to increase as a result of one-time benefits including accelerated Medicaid claiming for services provided to mental hygiene consumers, a Federal Medicare settlement, retroactive billings for children's residential facilities and expansion of quality assurance activities; and,
- Routine sweeps of fund balances and increasing Federal aid account for the majority of the remaining nonrecurring actions.

BUDGET IMPACT ON SPENDING GROWTH FOR MAJOR PROGRAMS

General Fund spending, including transfers to other funds, is projected to total $53.3 billion in 2007-08, an increase of $2.1 billion over the current-year forecast (4.2 percent; 3.8 percent excluding local Medicaid relief and the STAR program). State Funds spending, which includes both the General Fund and spending from other funds supported by State revenues, is projected to increase by $6 billion (7.8 percent; 6.3 percent without local Medicaid relief and STAR) and total $83.6 billion in 2007-08. All Funds spending, the broadest measure of spending, is projected to total $120.6 billion in 2007-08, an increase of $7.1 billion (6.3 percent; 5.2 percent without Medicaid takeover and STAR).

All Funds Spending Growth
$7.1 billion
(dollars in billions)



The 2007-08 Financial Plan includes $204 million in spending growth related to the State cap on local Medicaid costs and the takeover of the entire FHP program, and $952 million for the STAR Property Tax Relief program. To provide a comparable basis for calculating annual growth, the 2007-08 estimates are presented on both an "adjusted" (i.e., excluding the incremental growth in State spending for these local tax relief items) and an unadjusted basis.

Total Disbursements
(millions of dollars)

	2006-07 Revised	2007-08 Proposed	Annual $ Change	Annual % Change	Adjusted % Change*
General Fund	51,127	53,262	2,135	4.2%	3.8%
State Funds	77,522	83,557	6,035	7.8%	6.3%
All Funds	113,536	120,633	7,097	6.3%	5.2%

** Excludes $952 million for the STAR Property Tax Relief program and $204 million for the Medicaid Cap/Family Health Plus Takeover.*

The major sources of annual spending from 2006-07 to 2007-08 are presented in the table below. The estimates assume the Executive Budget recommendations are approved in their entirety.

Disbursement Projections -- After Recommended Savings
Major Sources of Annual Change
(millions of dollars)

	General Fund	State Funds	All Funds
2006-07 Revised Estimate	**51,127**	**77,522**	**113,536**
School Aid	1,303	1,395	1,428
EXCEL Capital	0	700	700
STAR	0	952	952
Economic Development	55	1,036	1,038
Transportation	42	871	923
Public Health	118	186	524
Mental Hygiene	265	322	444
Higher Education	230	654	675
Medicaid (inc. takeover)	398	268	572
Social Services	302	302	327
General State Charges	221	254	261
Debt Service	(11)	140	140
Local Government Aid	(264)	(264)	(264)
Capital/Other Transfers	(440)	0	0
Capital GAAP Adjustment	0	(992)	(992)
All Other	(84)	211	369
2007-08 Executive Budget Estimate	**53,262**	**83,557**	**120,633**
Dollar Change	*2,135*	*6,035*	*7,097*
Percent Change	*4.2%*	*7.8%*	*6.3%*
Percent Change Excluding Cap/Takeover/STAR	*3.8%*	*6.3%*	*5.2%*

2007-08 FINANCIAL PLAN

INTRODUCTION

This section describes the State's Financial Plan projections for receipts and disbursements based on the 2007-08 Executive Budget recommendations. The receipts forecast describes estimates for the State's principal taxes, miscellaneous receipts, and transfers from other funds. The spending projections summarize the annual growth in current services spending and the impact of Executive Budget recommendations on each of the State's major areas of spending (e.g., Medicaid, school aid, mental hygiene).

The 2007-08 Financial Plan projections are presented on an All Funds basis, which encompasses activity in the General Fund, other State-supported Funds, and Federal Funds, thus providing the most comprehensive view of the financial operations of the State.

2007-08 RECEIPTS FORECAST

Financial Plan receipts comprise a variety of taxes, fees, charges for State-provided services, Federal grants, and other miscellaneous receipts. The receipts estimates and projections have been prepared by DOB with the assistance of the Department of Taxation and Finance and other agencies responsible for the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts.

Total Receipts
(millions of dollars)

	2006-07 Revised	2007-08 Proposed	Annual Change	Percent Change
General Fund	51,441	52,666	1,225	2.4%
State Funds	76,868	80,917	4,049	5.3%
All Funds	113,031	118,316	5,285	4.7%

All Funds receipts are projected to total $118.3 billion, an increase of $5.3 billion over 2006-07 projections. The total comprises tax receipts ($61.0 billion), Federal grants ($37.3 billion) and miscellaneous receipts ($20.0 billion). The following table summarizes the receipts projections for 2006-07 and 2007-08.

Receipt Projections -- After Recommended Savings Major Sources of Annual Change (millions of dollars)	General Fund	State Funds	All Funds
2006-07 Revised Estimate	**51,441**	**76,868**	**113,031**
Personal Income Tax	635	1,840	1,840
User Taxes & Fees	425	552	552
Business Taxes	306	327	327
Other Taxes	(139)	(67)	(67)
Miscellaneous Receipts	186	1,518	1,506
Federal Grants	(121)	(121)	1,127
All Other Changes	(67)	0	0
2007-08 Executive Budget Estimate	**52,666**	**80,917**	**118,316**
Dollar Change	*1,225*	*4,049*	*5,285*
Percent Change	*2.4%*	*5.3%*	*4.7%*

* Includes tax receipts transfered from other funds.

Receipts Overview

- Total All Funds receipts are expected to reach $118.3 billion, an increase of $5.3 billion, or 4.7 percent from 2006-07 results. All Funds tax receipts are projected to grow by nearly $2.7 billion. The majority of this increase is attributable to the expectation of continued economic expansion offset by the net impact of past and proposed tax actions that serve to reduce receipts in 2007-08 on a net basis by $450 million. All Funds Federal grants are expected to increase by more than $1.1 billion, or 3.1 percent. All Funds Miscellaneous receipts are projected to increase by approximately $1.5 billion, or 8.1 percent.
- After controlling for the impact of policy changes, base tax revenue growth is estimated to be 6.5 percent for fiscal year 2007-08.
- Total State Funds receipts are projected at $80.9 billion, an increase of $4.0 billion, or 5.3 percent from 2006-07 estimated receipts.
- Total General Fund receipts are projected at $52.7 billion, an increase of $1.2 billion, or 2.4 percent from 2006-07 estimates. General Fund tax receipt growth is projected to remain nearly level with 2006-07 results and General Fund miscellaneous receipts are projected to increase by $186 million. The lack of growth in General Fund tax receipts largely reflects proposals with this Budget, including increasing STAR benefits and earmarking additional funds to debt service funds. Federal grants decline due to the loss of one-time Federal reimbursement for emergency costs related to delays in implementation of the Federal Medicare Part D program.

Overall, receipts growth in the three fiscal years following 2007-08 is expected to remain moderately strong consistent with projected continued growth in the U.S. and New York economies. In addition, the proposals contained with this Budget would eliminate unintended tax loopholes and supplement Department of Taxation and Finance efforts to find non-compliant taxpayers; both actions would continue to enhance receipt growth through 2010-11.

- Total All Funds receipts in 2008-09 are projected to reach $124.4 billion, an increase of $6.1 billion, or 5.2 percent from 2007-08 estimates. All Funds receipts in 2009-10 are expected to increase by nearly $4.9 billion (3.9 percent) over the prior-year. In 2010-11, receipts are expect to increase by more than $5.3 billion over 2009-10.
- Total State Funds receipts are projected to be nearly $85.3 billion in 2008-09, more than $88.4 billion in 2009-10 and nearly $92.0 billion in 2010-11.
- Total General Fund receipts are projected to reach $54.5 billion in 2008-09, nearly $57.2 billion in 2009-10 and almost $59.8 billion in 2010-11.
- All Funds tax receipts are expected to increase by 5.6 percent in 2008-09, 5.5 percent in 2009-10 and 4.7 percent in 2010-11. Again, the growth pattern is consistent with an economic forecast of continued but modest economic growth.

Governmental Funds
Actual and Base Tax Receipts Growth
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Personal Income Growth	
2006-07	8.7	11.9	5.4	
2007-08	4.5	6.5	5.0	
2008-09	5.6	5.7	5.0	
2009-10	5.5	5.6	5.2	
2010-11	4.7	4.8	5.1	
	Actual Change	**Base Change**	**Inflation Adjusted Base Change**	**Personal Income Growth**
Historical Average (87-88 to 05-06)	**4.4**	**4.0**	**0.9**	**4.8**
Forecast Average (07-08 to 10-11)	**5.1**	**5.6**	**3.0**	**5.1**
Recessions	**1.6**	**(0.6)**	**(3.3)**	**2.9**
Expansions	**4.5**	**5.3**	**2.1**	**5.8**

Base Growth

Base growth, adjusted for law changes, in tax receipts for fiscal year 2006-07 is estimated at 11.9 percent. Growth in the tax receipts base has benefited from several factors including:

- improvements in overall economic activity, especially in New York City and surrounding counties;
- continued profitability and compensation gains of financial services companies;
- continued growth in downstate commercial real estate market; and
- continued positive impact of high-income taxpayers on personal income tax growth.

Strong economic growth, especially concentrated in Downstate New York over the past several years, has driven large gains in receipts. It is expected that the rapid expansion in base revenue will slow modestly in 2007-08 and beyond, reflecting a slowing national economy, a continued cooling of the housing market and more modest gains in the equity markets. Actual receipts are expected to grow more slowly than the underlying base in 2007-08, reflecting the impact of proposed and already enacted tax reductions. As the above table indicates, non-adjusted receipts growth closely matches expected growth in personal income over the forecast period.

Personal Income Tax

All Funds income tax receipts for 2007-08 are projected to increase $1.8 billion over the prior-year to total $36.3 billion. Gross receipts are projected to increase 6.6 percent and reflect projected withholding growth of 6.2 percent ($1.7 billion), while the growth in estimated taxes for tax year 2007 liabilities is expected to reach 9.2 percent ($700 million). Payments from extensions and final returns for tax year 2006 are projected to each increase by less than 4.0 percent, or by $95 million and $74 million, respectively. Receipts from delinquencies are projected to increase $85 million over the prior-year. Net receipts, which include refunds on tax year 2006 payments and liabilities, are projected to grow 5.3 percent and reflect growth in refunds of $784 million or 14.2 percent. The robust growth over the prior-year in refunds is mainly attributable to the impact of the child credit implemented in 2006, offset by a slight reduction in the State/City offset from the prior-year ($24 million).

General Fund income tax receipts for 2007-08 of $22.3 billion are projected to decline by $570 million or 2.5 percent from the prior-year. The decline is attributable to increases in the deposits to the STAR Fund of roughly 24 percent to nearly $5.0 billion. This increase supports the new Middle Class STAR program proposed with the Budget. In addition, deposits to the Revenue Bond Tax Fund (RBTF) of almost $9.1 billion reflect Executive Budget legislation that would provide that deposits to the RBTF be calculated before the deposit of income tax receipts to the STAR Fund. Although this would have the impact of decreasing General Fund PIT more than $1.0 billion (25 percent of STAR), deposits in excess of debt service requirements are transferred back to the General Fund.

User Taxes and Fees

All Funds user taxes and fees receipts for 2007-08 are projected to be nearly $14.3 billion, an increase of $552 million or 4.0 percent from 2006-07. General Fund user taxes and fees receipts are projected to total $8.6 billion in 2007-08, an increase of $328 million or 3.9 percent from 2006-07. This increase largely reflects the projected growth in the sales tax base (4.1 percent) along with the enforcement of Tax Law provisions governing the taxation of various products sold by Native Americans.

Business Taxes

All Funds business tax receipts for 2007-08 of nearly $8.5 billion are projected to increase by $327 million or 4.0 percent over the prior-year. The projections reflect $455 million of Executive Budget initiatives that would make the reporting of abusive tax shelters permanent, address loopholes in the Tax Law that allow taxpayers to shelter income in unintended ways, conform certain State provisions to Federal law and to standard practices in other states, and increase the low income housing credit. Non-audit business tax receipts before these Executive Budget initiatives are projected to increase 6.2 percent. The overall increase reflects a moderation in the growth of non-audit corporate franchise tax receipts to roughly 10 percent; growth in corporation and utilities taxes of 4.1 percent that is attributable to modest growth in receipts from utilities, and a 7.2 percent increase in the petroleum business tax. Non-audit receipts from the insurance and bank taxes are projected to remain roughly flat, reflecting current year liabilities, the volatility of the bank tax and projected industry trends. Audit receipts related to All Funds business taxes are projected to decline by approximately 35 percent or roughly $535 million from the historical levels estimated for 2006-07. The largest projected declines in audit receipts are reflected in the corporation franchise and bank taxes.

General Fund business tax receipts for 2007-08 of $6.3 billion are projected to increase $306 million, or 5.1 percent over the prior-year. Business tax receipts deposited to the General Fund reflect the All Funds trends and the Executive Budget initiatives discussed above.

Other Taxes

All Funds other tax receipts in 2007-08 are projected to be nearly $2.0 billion, down $67 million or 3.3 percent from 2006-07, reflecting modest retrenchment in real estate transfer tax receipts as well as a return to a normal estate tax collection pace. General Fund receipts for 2007-08 are projected to total nearly $1.1 billion or a $17 million decline with estate tax collections expected to fall off its peak as the number of large estates closing in the year returns to a more normal level.

Miscellaneous Receipts

All Funds miscellaneous receipts include moneys received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are projected to total $20.0 billion in 2007-08, an increase of more than $1.5 billion from the current year.

In addition to the General Fund increase described above, other funds miscellaneous receipts are projected to increase by approximately $1.3 billion comprised of $1 billion in capital projects receipts and $300 million in Special Revenue Funds receipts. The capital projects receipts increase was primarily driven by growth in the EXCEL and AMD programs ($700 million and $100 million, respectively) as well as increases in other bonded projects. The Special Revenue Funds increase is primarily driven by growth in lottery revenues, including from VLTs ($429 million), SUNY revenue ($173 million) and HCRA surcharge revenues ($213 million). This growth is partially offset by a decline in proceeds from health care conversions, which the State uses to finance Medicaid and public health programs ($500 million).

General Fund miscellaneous receipts collections in 2007-08 are projected to reach approximately $2.9 billion, up $183 million from 2006-07 results, reflecting license and fee collections and local government revenue and disbursement program increases, partially offset by decreases in receipts from investment income.

Federal Grants

Federal grants help pay for State spending on Medicaid ($19.6 billion), mental hygiene ($3.0 billion), school aid ($2.8 billion), welfare ($2.6 billion), transportation ($1.6 billion), other public health ($1.6 billion), and other activities ($6.1 billion). Annual changes to Federal grants generally correspond to changes in federally-reimbursed spending. Accordingly, DOB typically plans that Federal reimbursement will be received in the State fiscal year in which spending occurs, but timing sometimes varies.

All Funds Federal grants are projected to total $37.3 billion in 2006-07, an increase of $1.1 million from the current year. Federal aid is expected to increase for Medicaid ($406 million), public health ($355 million), mental hygiene ($130 million), world trade enter transportation related projects ($107 million), modernization of voting machines ($104 million), and homeland security ($101 million). Offsetting this growth is a projected decline in General Fund federal grants of $121 million due to the loss of a one-time reimbursement from the Medicare Part D program. In most cases, the grant levels reflect projected changes in State spending levels and a corresponding change in estimated Federal reimbursement, not changes in aid levels for New York authorized by Congress.

2007-08 DISBURSEMENTS FORECAST

Total Disbursements (millions of dollars)

	2006-07 Revised	2007-08 Proposed	Annual $ Change	Annual % Change	Adjusted % Change*
General Fund	51,127	53,262	2,135	4.2	3.8
State Funds	77,522	83,557	6,035	7.8	6.3
All Funds	113,536	120,633	7,097	6.3	5.2

** Excludes $952 million for the STAR Property Tax Relief program and $204 million for the Medicaid Cap/Family Health Plus Takeover.*

In 2007-08, General Fund spending, including transfers to other funds, is projected to total $53.3 billion. State Funds spending, which includes both the General Fund and spending from other funds supported by assessments, tuition, HCRA resources and other non-Federal revenues, is projected to total $83.6 billion in 2007-08. All Funds spending, the broadest measure which includes Federal aid, is projected to total $120.6 billion in 2007-08. The Financial Plan projections assume that the 2007-08 Executive Budget is enacted in its entirety. The adjusted annual percentage change for spending excludes the growth in State costs related to capping local Medicaid costs, taking over the entire cost of the FHP Program, and providing additional property tax relief under STAR, all of which provide local tax and mandate relief.

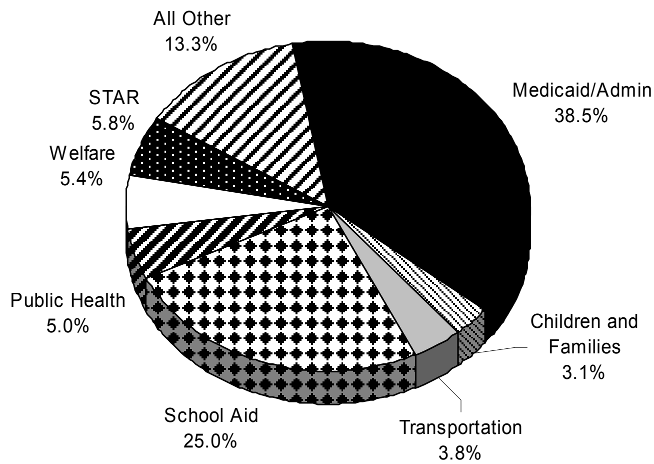
The major sources of annual spending change between 2006-07 and 2007-08 (after Executive Budget recommendations) are summarized in the following table.

Executive Budget Spending Projections -- After Executive Budget Recommendations Major Sources of Annual Change (millions of dollars)	General Fund	Other State Funds	State Funds	Federal Funds	All Funds
2006-07 Revised Estimate	***51,127***	***26,395***	***77,522***	***36,014***	***113,536***
Major Functions					
Public Health:					
Medicaid	194	(130)	64	304	368
Medicaid Cap/FHP Takeover	204	0	204	0	204
Public Health	118	68	186	338	524
K-12 Education:					
School Aid/Excel	1,303	792	2,095	33	2,128
All Other Education Aid	(44)	20	(24)	20	(4)
STAR	0	952	952	0	952
Higher Education	230	424	654	21	675
Social Services:					
Temporary and Disability Assistance	119	(3)	116	25	141
Children and Family Services	183	3	186	0	186
Mental Hygiene	265	57	322	122	444
Transportation	42	829	871	52	923
General State Charges	221	33	254	7	261
Debt Service	(11)	151	140	0	140
All Other Changes					
Economic Development	55	981	1,036	2	1,038
Elections	2	3	5	104	109
World Trade Center	0	0	0	107	107
Judiciary	39	47	86	(1)	85
Homeland Security	(14)	(5)	(19)	101	82
Local Government Aid	(264)	0	(264)	0	(264)
Correctional Services	(93)	30	(63)	(24)	(87)
Criminal Justice Services	(22)	32	10	(95)	(85)
Capital/Other Transfers	(442)	442	0	0	0
Capital GAAP Adjustments	0	(992)	(992)	0	(992)
All Other	50	166	216	(54)	162
2007-08 Executive Budget Estimate	**53,262**	**30,295**	**83,557**	**37,076**	**120,633**
Annual Dollar Change	*2,135*	*3,900*	*6,035*	*1,062*	*7,097*
Annual Percent Change	*4.2%*	*14.8%*	*7.8%*	*2.9%*	*6.3%*
Adjusted Annual Change excluding MA Cap/Takeover/STAR					
Dollar Change	*1,931*	*2,948*	*4,879*	*1,062*	*5,941*
Percent Change	*3.8%*	*11.2%*	*6.3%*	*2.9%*	*5.2%*

The following describes the 2007-08 Executive Budget proposals by purpose: Grants to local governments, State Operations, General State Charges, Capital Projects, and Debt Service. Detailed information by major program and function appears in the "2007-08 Executive Budget Five-Year Financial Plan" available at www.budget.state.ny.us.

GRANTS TO LOCAL GOVERNMENTS

2007-08 All Funds Local Assistance Spending
$85.5 Billion



Grants to Local Governments includes payments to local ("local assistance") governments, school districts, healthcare providers, and other local entities, as well as certain financial assistance to, or on behalf of, individuals, families, and nonprofit organizations. Local Assistance comprises 71 percent of All Funds spending.

In 2007-08, All Funds spending for local assistance is expected to total $85.5 billion. Spending is comprised of State aid to medical assistance providers and public health programs ($37.1 billion), State aid to school districts, universities and for tuition assistance programs ($31.2 billion), Temporary and Disability Assistance ($4.6 billion), mental hygiene programs ($3.4 billion), transportation ($3.3 billion), children and family services ($2.7 billion), and local government assistance ($913 million). Other local assistance programs include criminal justice, economic development, housing, parks and recreation, and environmental quality.

Local Assistance Spending Projections
(millions of dollars)

	2006-07 Revised	2007-08 Proposed	Annual Change	% Change
General Fund	**34,229**	**36,399**	**2,170**	**6.3**
Other State Support	16,013	17,444	1,431	8.9
State Funds	**50,242**	**53,843**	**3,601**	**7.2**
Federal Funds	31,006	31,702	696	2.2
All Funds	**81,248**	**85,545**	**4,297**	**5.3**

The following chart highlights proposed local assistance annual spending changes from the current year, by major program and/or agency.

Local Assistance Spending Projections Major Sources of Annual Change (millions of dollars)	General Fund	State Funds	All Funds
2006-07 Revised	**34,229**	**50,242**	**81,248**
School Aid	1,303	1,395	1,428
STAR	0	952	952
Medicaid (incl Admin)	398	268	572
Transportation	42	545	545
Public Health	102	18	326
Mental Hygiene	274	310	310
Children and Families	169	169	179
Temporary and Disability Assistance	116	112	135
Elections	1	1	117
Local Government Assistance	(264)	(264)	(264)
All Other	29	95	(3)
2007-08 Executive Budget	**36,399**	**53,843**	**85,545**
Annual Dollar Change	*2,170*	*3,601*	*4,297*
Annual Percent Change	*6.3%*	*7.2%*	*5.3%*

All Funds local assistance spending is projected to total $85.5 billion, an increase of $4.3 billion (5.3 percent) over the current year. The growth is primarily driven by projected increases in School Aid ($1.4 billion), Medicaid ($572 million), Transportation ($545 million), and STAR spending ($952 million), which includes the expanded Middle Class STAR program.

These annual changes in local assistance, as further categorized by current service requirements and Executive Budget savings and investment actions, are outlined in more detail below.

Local Assistance Sources of Annual Spending Increase/(Decrease) (millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:	**3,297**	**(310)**	**1,086**	**4,073**
Medicaid (incl Admin)	1,438	(456)	998	1,980
School Aid (excludes EXCEL spending)	932	92	33	1,057
Mental Hygiene	262	31	0	293
Transportation	42	209	0	251
Children and Families	197	0	10	207
Public Health	94	91	5	190
Temporary and Disability Assistance	157	0	24	181
STAR	0	(259)	0	(259)
All Other	175	(18)	16	173
Recommended Savings:	**(1,682)**	**168**	**(736)**	**(2,250)**
Medicaid Actions	(1,073)	321	(729)	(1,481)
Local Government Assistance	(306)	0	0	(306)
Public Health	(44)	(162)	(9)	(215)
Temporary and Disability Assistance	(59)	0	0	(59)
Children and Families	(37)	0	0	(37)
Economic Development	(24)	0	0	(24)
TAP	(21)	0	0	(21)
Criminal Justice/Parole	(42)	20	4	(18)
All Other	(76)	(11)	(2)	(89)
New Initiatives:	**555**	**1,573**	**346**	**2,474**
Middle Class STAR	0	1,211	0	1,211
Public Health/F-SHRP	53	18	311	382
School Aid (above base; net of EXCEL Debt Svc)	371	0	0	371
MTA/Transit Assistance	0	280	0	280
Medicaid	33	5	35	73
Other Education	27	0	0	27
Universal Broadband Access Initiative	0	25	0	25
Mental Hygiene	25	0	0	25
Community College Base Aid	17	0	0	17
All Other	29	34	0	63
Total Annual Change	**2,170**	**1,431**	**696**	**4,297**

Current Services

For 2007-08, on an All Funds basis, current service requirements increase by $4.1 billion above 2006-07. The majority of this increase is concentrated in Medicaid ($2 billion), and School Aid ($1.1 billion). Changes in STAR largely reflect the discontinuance of the 2006 property tax rebate checks (in favor of the new middle class STAR initiative described below), offset by $220 million for New York City rebate payments. Other local current services requirements include increases for CUNY salaries and inflation, TAP, and local program spending in mental hygiene.

Recommended Savings

Two-thirds of the Executive Budget's All Funds and General Fund local assistance savings plan relies on Medicaid actions ($1.5 billion total). Other significant savings actions include reductions in local government assistance to high wealth areas, and re-direction of a growing portion of the savings to other communities.

New Initiatives

The largest areas of investment in local assistance occur in STAR, reflecting fiscal year increases for the new Middle Class property tax cut initiative and the additional State fiscal year funding required for the $1.4 billion school year increase. Other significant Executive actions include increased Federal spending on F-SHRP ($300 million) and additional assistance for the Metropolitan Transit Authority and statewide transit systems ($280 million).

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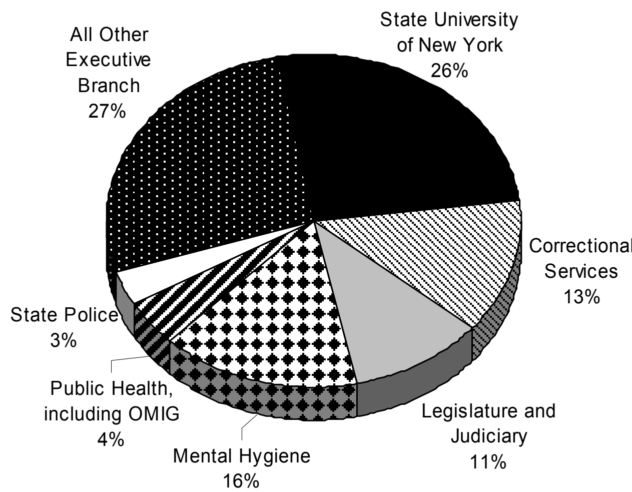
STATE OPERATIONS

State Operations spending is for personal service (PS) and non-personal service (NPS) costs. Personal service costs, which accounts for approximately two-thirds of State Operations spending, includes salaries of State employees of the Executive Branch, Legislature, and Judiciary, as well as overtime payments and costs for temporary employees. Non-personal service costs, which account for the remaining one-third of State Operations, represent the operating costs of State agencies, including real estate rental, utilities, contractual payments (e.g. consultants, information technology and professional business services), supplies and materials, equipment, telephone service and employee travel.

2007-08 All Funds State Operations Spending - $18.6 Billion



All Funds State Operations spending is projected at $18.6 billion in 2007-08, which finances the costs of Executive Branch agencies ($16.6 billion) and the Legislature and Judiciary ($2.0 billion). The largest executive branch agencies include SUNY ($4.8 billion; 39,834 full-time employees), Correctional Services ($2.4 billion; 31,514 full-time employees), Mental Hygiene ($2.9 billion; 40,560 full-time employees), Public Health, including OMIG ($820 million; 6,676 full-time employees), and State Police ($620 million; 5,927 full-time employees).

Approximately 93 percent of the State workforce is unionized. The largest unions include the Civil Service Employees Association, which primarily represents office support staff and administrative personnel, machine operators, and therapeutic and custodial care staff; the Public Employees Federation which primarily represents professional and technical personnel (i.e. attorneys, nurses, accountants, social workers, and institution teachers); United University Professions which represents faculty and non-teaching professional staff within the State University system; and Correctional Officers and Police Benevolent Association comprised of security personnel (e.g., correction officers, safety and security officers).

The State workforce, which reflects full-time employees of the Executive Branch, excluding the Legislature, Judiciary, and contractual labor, is projected to total 197,068 in 2007-08, an increase of 2,468 FTEs over 2006-07 levels. Increases are expected in Mental Hygiene agencies (642 FTEs) primarily due to staffing for the Sexually Violent Predator Civil Commitment Initiative and NYS-CARES II programs; the Medicaid Inspector General (157 FTEs), reflecting staffing growth needed for Medicaid audit and fraud prevention activities; Transportation (411 FTEs) for the State takeover of I-84 maintenance and the replacement of contract staff with State employees; CUNY (198 FTEs) due to hiring of full-time faculty to reduce reliance on adjunct staff, SUNY (200 FTEs) due to staffing initiatives, including the Empire Innovations Program; Tax and Finance (200 FTEs) for enhanced voluntary compliance; and OCFS (189 FTEs) primarily for the addition of 200 direct-care staff to improve the health and safety of youth and staff at youth facilities, offset by other changes.

State Operations Spending Projections (millions of dollars)				
	2006-07 Revised	2007-08 Proposed	Annual Change	Percent Change
General Fund	**9,404**	**9,601**	**197**	**2.1%**
Other State Support	5,326	5,730	404	7.6%
State Funds	**14,730**	**15,331**	**601**	**4.1%**
Federal Funds	3,114	3,298	184	5.9%
All Funds	**17,844**	**18,629**	**785**	**4.4%**

All Funds State Operations spending is expected to total $18.6 billion in 2007-08, comprised of PS ($12.0 billion) and NPS ($6.6 billion). The majority of State Operations spending is for SUNY ($4.8 billion), Correctional Services ($2.4 billion), Judiciary ($2.0 billion), OMRDD ($1.5 billion) and OMH ($1.3 billion).

State Operations spending by category, based upon historical spending trends, is allocated among employee base salaries (64 percent), overtime payments (2 percent of State Operations), contractual services (25 percent), supplies and materials (6 percent), employee travel (1 percent) and other operational costs (2 percent).

All Funds State Operations Spending Projections Major Sources of Annual Change (millions of dollars)			
	Personal Service	Non-Personal Service	State Operations
2006-07 Revised	**11,787**	**6,057**	**17,844**
State University of New York	166	252	418
Insurance Department	2	107	109
Wireless Network	1	58	59
Mental Health	49	8	57
Health, including OMIG	41	14	55
Mental Retardation	25	23	48
Judiciary	13	31	44
Education All Other	9	28	37
Budget	(1)	29	28
Workers' Compensation Board	2	15	17
Correctional Services	(152)	36	(116)
All Other	36	(7)	29
2007-08 Executive Budget	**11,978**	**6,651**	**18,629**
Annual Dollar Change	*191*	*594*	*785*
Annual Percent Change	*1.6%*	*9.8%*	*4.4%*

All Funds State Operations spending increase of $785 million (4.4 percent) is primarily driven by projected increases in SUNY ($418 million), the Insurance Department ($109 million), Statewide Wireless Network ($58 million), OMH ($57 million), Public Health ($55 million), OMRDD ($48 million), and the Judiciary ($45 million), partially offset by a projected decline in DOCS ($116 million). The annual changes are described in more detail below.

Personal Service Sources of Annual Spending Increase/(Decrease) (millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
2006-07 Revised	**6,782**	**2,904**	**2,101**	**11,787**
Current Services:	**66**	**148**	**(9)**	**205**
Retroactive Salary Payments	(243)	0	0	(243)
Prior Negotiated Salary Increases	66	16	9	91
Overtime	37	0	0	37
Salary Adjustments	88	30	21	139
Workforce Growth	87	102	(8)	181
Offsets	31	0	(31)	0
Recommended Savings:	**(202)**	**30**	**127**	**(45)**
Maximize Revenues	(158)	21	128	(9)
SUNY	(11)	0	0	(11)
Power Plant Assessment	(13)	10	0	(3)
State Police	(9)	0	0	(9)
All Other	(11)	(1)	(1)	(13)
New Initiatives:	**41**	**(14)**	**4**	**31**
Fund Shifts	20	(20)	0	0
All Other	21	6	4	31
2007-08 Executive Budget	**6,687**	**3,068**	**2,223**	**11,978**
Total Annual Change	*(95)*	*164*	*122*	*191*

Current Services

Retroactive Salary Payments: Represents one time payments in 2006-07 for the retroactive components of the NYSCOPBA arbitration award ($210 million) and other salary adjustments ($33 million).

Negotiated Salary Increase: In 2007-08, personal service costs increase with an $800 base salary adjustment effective April 1, 2007. State labor contracts expire on April 1, 2007 and no new collective bargaining agreements have been negotiated and no funding is included in the Plan for such purpose.

Overtime: A projected rise in overtime costs, drives growth in Mental Hygiene and in Correctional Services due in part to higher salaries received through binding arbitration.

Salary Adjustments: Includes performance advances which systematically raise an employee's salary annually until the "job rate" is reached; longevity payments which increase base salary for employees at their job rate for more than 5 years; merit awards and other promotional factors.

Workforce Growth: Reflect payroll increases driven by workforce growth.

Offsets: A reduction in Federal revenue available to offset General Fund costs drives spending growth.

Recommended Savings

Maximize Revenues: Proposed Mental Hygiene Patient Income Account actions are expected to increase the amount of patient care revenues available to support General Fund costs ($128 million). In addition, assessments charged to New York City to recover State costs associated with the processing of City personal income tax returns ($21 million).

SUNY: Reflects a more gradual phase-in of multi-year Empire Innovation Program spending growth.

Power Plant Assessment: Implementation of a new $13 million security assessment on nuclear power plant operators to recover costs of National Guard activities.

State Police: Savings in State Police overtime costs will result from a change in the State Trooper plea bargain policy for traffic citations and increased use of civil administrative staff.

All Other: Primarily reflects reductions in workforce driven by attrition and consolidation of services and overtime savings.

New Initiatives

Fund Shifts: Primarily reflects the transfer of the business and licensing function of the Department of State from the Special Revenue Fund to the General Fund ($18 million). These additional costs are more than offset by the revenue generated from the activity.

All Other: Includes additional funding for environmental conservation resources ($4 million), direct care staff at OCFS youth facilities ($4 million) and Department of Health staffing investments ($16 million).

Non-Personal Service Sources of Annual Spending Increase/(Decrease) (millions of dollars)	General Fund	Other State Funds	Federal Funds	All Funds
2006-07 Revised	**2,622**	**2,422**	**1,013**	**6,057**
Current Services:	**335**	**190**	**59**	**584**
General Inflation (Statewide)	78	62	26	166
Insurance Department	100	7	0	107
Correctional Services	25	0	0	25
Mental Hygiene	37	0	0	37
Judiciary	13	0	0	13
Children and Family Services	12	0	0	12
SUNY	70	116	16	202
Wireless Network	0	22	0	22
Budget	0	27	0	27
All Other	0	(44)	17	(27)
Recommended Savings:	**(109)**	**18**	**0**	**(91)**
Maximize Revenues	(11)	9	0	(2)
Statewide Wireless Network	(10)	10	0	0
SUNY	(3)	0	0	(3)
Power Plant Assessment	0	3	0	3
Efficiencies	(85)	(4)	0	(89)
New Initiatives:	**66**	**32**	**3**	**101**
Fund Shifts	9	(10)	0	(1)
Statewide Wireless Network	0	25	0	25
Phone System Rate Reduction	11	0	0	11
SUNY	9	0	0	9
Work Zone Safety	0	9	0	9
Accountability Initiative	20	0	0	20
All Other	17	8	3	28
2007-08 Executive Budget	**2,914**	**2,662**	**1,075**	**6,651**
Total Annual Change	*292*	*240*	*62*	*594*

Current Services

General Inflation: Reflects the composite inflationary costs for non-personal service spending.

Insurance Department: Primarily reflects $100 million for costs associated with Timothy's Law, which became effective January 1, 2007.

Correctional Services: Annual growth is driven by projected increases in inmate medical services, including clinics and outside hospital services, and ongoing projects.

Mental Hygiene: Anticipated increases in pharmacy and utility costs, as well as quality assurance activities to ensure not-for-profit compliance.

Judiciary: Increased spending for security related equipment and contracts and real estate rental.

Children and Family Services: Reflects exhaustion of Federal revenue for the child welfare information system.

SUNY: Growth is driven largely by costs associated with multi-year initiatives enacted in 2006-07 and timing of operational payments.

Statewide Wireless Network: Reflects increased costs associated with the public safety communications program.

Budget: Reflects spending for the State's new Financial Management System which is required to provide data to support the State's new central accounting system.

Recommended Savings

Maximize Revenues: Revenues are generated by increases in assessments charged to New York City for processing of New York City PIT returns to finance related General Fund costs ($9 million) and accelerated use of Federal revenue for the CONNECTIONS child welfare computer system that would otherwise be General Fund costs in 2007-08 ($2 million).

Statewide Wireless Network: The Executive Budget recommends shifting certain State Police public safety communications projects previously financed by the General Fund to the Statewide Wireless Network account in the Special Revenue Fund which is funded by cellular surcharge revenues.

SUNY: Reflects a more gradual phase-in of the multi-year Empire Innovation Program and discontinues a one-time add for the University at Albany's east campus in Rensselaer.

Power Plant Assessment: Implementation of a new security assessment on nuclear power plant operators to recover costs of National Guard activities.

Efficiencies: Non-personal service spending efficiencies across nearly all State agencies are expected to generate savings in energy, utilities, and travel costs.

New Initiatives

Fund Shifts: Primarily reflects the transfer of the business and licensing function of the Department of State from the Special Revenue Fund to the General Fund ($10 million). These additional costs are more than offset by the revenue generated from the activity.

Statewide Wireless Network: One-time funding for new initiatives, including the expansion of broadband access.

Phone System Rate Reduction: Reflects the loss of revenues from elimination of a commission received on collect calls in correctional facilities.

SUNY: Additional funding for Cornell Agricultural and Equine Services and Educational Opportunity Centers.

Work Zone Safety: Costs associated with the use of cameras for speed enforcement in work zones.

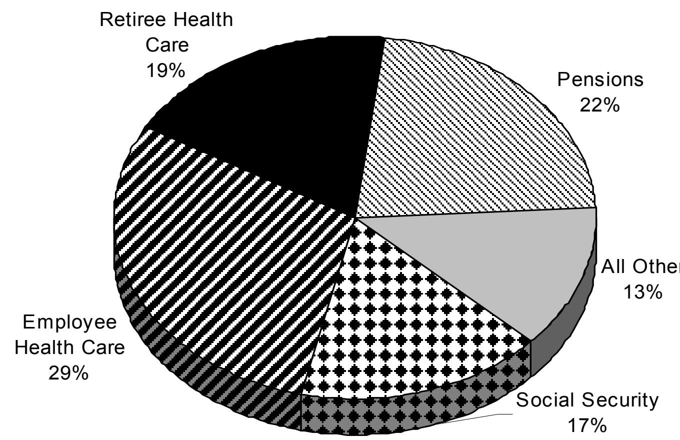
Accountability Initiative: Reflects the costs associated with the implementation of the State Education Department accountability measures.

All Other: Reflects funding of proposed initiatives for the Judiciary, including improved operation of the Justice courts ($5 million General Fund) and Justice Board funding of civil legal services to the indigent ($5 million Other State Funds), as well as additional funding for public health, including the vital records program ($5 million) and economic development, including tourism ($5 million).

GENERAL STATE CHARGES

General State Charges account for the costs of fringe benefits provided to State employees and retirees of the Executive, Legislative and Judicial branches, tax payments to municipalities related to public lands, and certain litigation against the State. Fringe benefit payments, many of which are mandated by statute or collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation and unemployment insurance. Other costs include State taxes paid to local governments for certain State-owned lands, and payments related to lawsuits against the State and its public officers.

General State Charges
2007-08 All Funds Spending - $5.4 billion



General State Charges Spending Projections (millions of dollars)				
	2006-07 Revised	**2007-08 Proposed**	**Annual Change**	**Percent Change**
General Fund	**4,351**	**4,572**	**221**	**5.1%**
Other State Support	585	618	33	5.6%
State Funds	**4,936**	**5,190**	**254**	**5.1%**
Federal Funds	236	243	7	3.0%
All Funds	**5,172**	**5,433**	**261**	**5.0%**

Employee fringe benefits are paid mostly from the General Fund (84 percent), supplemented with revenue from fringe benefit assessments on Federal funds and other dedicated revenue programs (16 percent). Other General State Charges costs are paid in full by General Fund revenues.

All Funds spending on General State Charges is expected to total $5.4 billion in 2007-08, and is comprised of health insurance spending for employees ($1.6 billion) and retirees ($1.0 billion), pensions ($1.2 billion) and social security ($873 million). The annual changes are described in more detail below.

General State Charges Sources of Annual Spending Increase/(Decrease) from 2006-07 to 2007-08 (millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:	**226**	**34**	**7**	**267**
Employee Health Care	144	0	0	144
Retiree Health Care	93	0	0	93
Pension Contribution	(37)	0	0	(37)
All Other	26	34	7	67
Recommended Savings:	**(5)**	**(1)**	**0**	**(6)**
Annual Change	**221**	**33**	**7**	**261**

Current Services

Employee/Retiree Health Care: Premiums for the State health plan are projected to increase by 9.9 percent in 2007-08, or by a total of $144 million for active employees and $93 million for retirees.

Pension Contribution: Projected contributions to the New York State and Local Retirement Systems for fiscal year 2007-08 are based on estimated pension contribution rates provided by the State Comptroller. Baseline projections from the Comptroller show an employer pension contribution rate of 9.5 percent of payroll in 2007-08 compared to 10.2 percent in 2006-07, resulting in a decrease of three percent. The 2007-08 annual State pension cost is projected to be $1.2 billion.

All Other: General Fund spending increases in the employee benefit programs are driven by additional costs incurred as a result of planned workforce growth, primarily for Social Security costs. In addition, spending increases are anticipated for certain fixed costs including taxes on public lands.

Recommended Savings

The Executive Budget recommends revising the interest rates payable on court judgments from the current above-market statutory fixed rate of 9 percent to a prevailing market rate.

CAPITAL PROJECTS

The following section briefly summarizes activity in the Capital Projects Funds type. A complete explanation of the State's capital programs is contained in the volume entitled "Five-Year Capital Program and Financing Plan," a component of the Executive Budget.

The following tables for capital projects do not reflect activity for certain capital spending that is not reported by the State Comptroller in actual cash spending results, but is reported in the State's GAAP Financial Statements. The unreported spending is related to programs financed directly from bond proceeds which are on deposit at various public authorities, rather than from a short-term loan from the Short-Term Investment Pool or cash from the General Fund. Estimates for this spending, projected at $1.7 billion in 2006-07 and $2.7 billion in 2007-08, are reflected in amounts shown in the "Five-Year Capital Program and Financing Plan."

The Capital Projects Fund group accounts for spending across all functional areas which finances costs related to the acquisition, construction, repair or renovation of fixed assets. Spending from appropriations made from over 30 capital projects funds are financed from four sources: Annual State taxes or dedicated miscellaneous receipts; grants from the Federal government; the proceeds of notes or bonds issued pursuant to General Obligation Bond Acts which are approved by the State voters; and the proceeds of notes or bonds issued by public authorities pursuant to legal authorization for State capital spending.

Capital Projects Spending Projections
(millions of dollars)

	2006-07 Revised	2007-08 Proposed	Annual Change	Percent Change
General Fund	**216**	**255**	**39**	**18.1%**
Other State Support	3,974	5,367	1,393	35.1%
State Funds	**4,190**	**5,622**	**1,432**	**34.2%**
Federal Funds	1,795	1,974	179	10.0%
All Funds	**5,985**	**7,596**	**1,611**	**26.9%**

All Funds capital spending is projected at $6.0 billion in 2006-07 and $7.6 billion in 2007-08. In fiscal year 2007-08, transportation spending, primarily for improvements and maintenance to the State's highways and bridges, continues to account for the largest share (50 percent) of this total. The balance of projected spending will support capital investments in the areas of economic development and government oversight (15 percent), education (10 percent), mental hygiene and public protection (8 percent), parks and the environment (8 percent), and health and social welfare, general government and other areas (9 percent).

Capital Projects Sources of Annual Spending Increase/(Decrease) (millions of dollars)				
	General Fund	Other State Funds	Federal Funds	All Funds
Current Services:	**12**	**1,235**	**86**	**1,333**
Economic Development	0	696	0	696
Transportation	0	341	(41)	300
All Other Reestimates	12	198	127	337
Recommended Savings:	**10**	0	0	**10**
All Agencies	10	0	0	10
New Initiatives:	**17**	**158**	**93**	**268**
Economic Development	17	94	0	111
Higher Education/Education	0	58	0	58
All Other Additions	0	6	93	99
Annual Change	**39**	**1393**	**179**	**1611**

Current Services

Spending for this category increases by $1.3 billion and primarily reflects reestimates across all programs. The largest component is $696 million across all economic development programs. Transportation programs spending increases by $300 million, while the remaining approximately $337 million of the increase reflects reestimates for all other capital programs.

Recommended Savings

Approximately $10 million has been identified as savings, primarily for efficiencies by the Office of General Services.

New Initiatives

Recommended additions of approximately $269 million reflect new initiatives in economic development programs ($111 million), including $16.5 million for stem cell research and innovation. Also included is $40 million for the State University, $11 million for the City University, and $7 million for a second segment of funding for public libraries. The balance of the additional spending is spread among the areas of transportation, mental hygiene, and public protection.

DEBT SERVICE

The State pays debt service on all outstanding State-supported bonds. These include general obligation bonds, for which the State is constitutionally obligated to pay debt service, as well as bonds issued by State public authorities (e.g., Empire State Development Corporation, Dormitory Authority of the State of New York, Thruway Authority) for which the State is contractually obligated to pay debt service, subject to an appropriation. Depending on the credit structure, debt service is financed through transfers from the General Fund, dedicated taxes and fees, and other resources, such as patient income revenues.

For a more complete discussion on State debt levels, debt service costs and debt management initiatives, please refer to the Executive Budget volume entitled "Capital Program and Financing Plan" which is available on the Division of the Budget's website, www.budget.state.ny.us.,.

Debt Service Spending Projections
(millions of dollars)

	2006-07 Revised	2007-08 Proposed	Annual Change	Percent Change
General Fund	**1,763**	**1,752**	**(11)**	**-0.6%**
Other State Support	2,487	2,638	151	6.1%
State Funds	**4,250**	**4,390**	**140**	**3.3%**
All Funds	**4,250**	**4,390**	**140**	**3.3%**

All Funds debt service is projected at $4.4 billion in 2007-08, of which $1.75 billion is paid from the General Fund through transfers and $2.64 billion from other State funds. Debt service is paid on revenue credits supported by dedicated taxes and fees and patient income, including Personal Income Tax Revenue Bonds, Dedicated Highway and Bridge Trust Fund bonds and Mental Health facilities bonds, as well as service contract bonds that are secured mainly by the General Fund.

Debt Service
Sources of Annual Spending Increase/(Decrease) from 2006-07 to 2007-08
(millions of dollars)

	General Fund	Other State Funds	All Funds
Current Services:	**(11)**	**191**	**180**
Recommended Savings:	**0**	**(40)**	**(40)**
Annual Change	**(11)**	**151**	**140**

Current Services

Underlying Growth: Primarily reflects increases in debt service costs to support ongoing bonded capital needs and reduced refunding savings compared to 2006-07. The increased spending is for Education purposes ($207 million, of which $112 million is for EXCEL), Transportation ($115 million), State Facilities and Equipment ($82 million), Economic Development and Housing ($43 million), and the Local Government Assistance Corporation (LGAC) ($14 million). Variable Interest rates are projected at 3.60 percent for 2007-08, slightly higher than 2006-07 levels of 3.50 percent.

The State continues to implement measures to reduce underlying growth in debt service costs, such as using highly rated personal income tax revenue bonds (in lieu of more costly service contract bonds) to finance a variety of capital programs.

Recommended Savings

Reflects $40 million in savings from a variety of debt management actions, including increasing competitive processes for bond sales, maximizing refunding savings opportunities through consolidated structures, and – if market conditions become more favorable – further diversifying the State's debt portfolio with variable rate obligations and interest rate exchange agreements up to a maximum of 20 percent of debt outstanding[1]. The State will also continue to use less costly AAA-rated PIT bonds to reduce borrowing costs[2].

New Initiatives

A Debt Reduction Reserve Fund deposit of $250 million is recommended. The money is not reflected in spending totals since it is in reserve, but it is expected to be used to reduce high cost debt or increase pay-as-you-go spending to generate long-term savings.

Although none of the newly-recommended bond-financed capital programs are expected to impact 2007-08 debt service spending, they will produce higher costs in later years. The recommended additions are for a variety of purposes, and are explained in detail in the Five-Year Capital Program and Financing Plan which is available on the Division of the Budget's website, www.budget.state.ny.us.

[1] State-supported debt outstanding. Increase to 20 percent requires legislation.
[2] Personal Income Tax Revenue Bonds are rated AAA by Standard & Poor's and rated AA- by Fitch.

GENERAL FUND FINANCIAL PLAN PROJECTIONS FOR 2008-09 THROUGH 2010-11

CURRENT SERVICES GAPS

The current services gaps, which form the starting point for developing the Executive Budget projections, are calculated at $1.6 billion in 2007-08, $3.0 billion in 2008-09, $5.1 billion in 2009-10, and $5.4 billion in 2010-11. Since the Mid-Year Update, DOB has revised its current-services forecasts for receipts and disbursements for 2007-08 and 2008-09 and calculated an estimate of the 2009-10 and 2010-11 gaps. The revisions reflect stronger projected revenue performance and updates to spending estimates based on a review of actual operating results and program trends. See the “Highlights” section herein for a summary of the revisions to the current services forecast.

EXECUTIVE BUDGET IMPACT ON THE OUTYEAR GAPS

The recommendations set forth in the Budget result in a balanced General Fund Financial Plan in 2007-08 and projected out-year budget gaps of $2.3 billion in 2008-09, $4.5 billion in 2009-10, and $6.3 billion in 2010-11. The plan uses reserves of roughly $400 million annually to reduce the gaps in each of the three out-years. The projections assume that the Legislature will enact the 2007-08 Executive Budget recommendations in their entirety.

The following tables summarize the impact of the 2007-08 Budget recommendations on the 2008-09 through 2010-11 budget gaps, as well as the annual changes in projected receipts, disbursements, and the use of reserves. See the “Executive Summary” and “Highlights” sections herein for detailed information on the specific budget recommendations.

General Fund Budget-Balancing Plan
Impact on Outyear Gaps
(millions of dollars)

	2008-09	2009-10	2010-11
Executive Budget Current Services Surplus/(Gaps)	**(2,995)**	**(5,089)**	**(5,359)**
Savings Plan:	3,383	4,460	4,659
Medicaid/Health/Mental Hygiene	958	1,924	1,738
All Other Savings	1,858	1,999	2,384
Revenue Loophole Closures	567	537	537
New Initiatives:	(3,097)	(4,271)	(5,961)
Revised Surplus/(Gaps) Before Use of Surplus	**(2,709)**	**(4,900)**	**(6,661)**
Use of Prior Year Surpluses	401	401	401
Executive Budget Surplus/(Gaps)	**(2,308)**	**(4,499)**	**(6,260)**

After recommendations, General Fund spending is projected to grow at an average annual rate of 7.7 percent. The spending is driven by rising costs for public health care, the State-financed cap on local Medicaid spending, employee and retiree health benefits, mental hygiene services, and child welfare programs, as well as the recommended initiatives for school aid and health care. Over the same period, General Fund receipts are estimated to grow at just over 4 percent a year, consistent with the DOB’s forecast of moderating economic growth. The following table summarizes the General Fund projections by major tax and Financial Plan category.

General Fund Executive Budget Forecast (millions of dollars)	2007-2008 Recommended	2008-2009 Projected	2009-2010 Projected	2010-2011 Projected
Receipts:				
Taxes:				
Personal income tax	22,258	23,518	24,902	26,313
User taxes and fees	8,633	8,915	9,228	9,554
Business taxes	6,333	6,604	6,885	7,160
Other taxes	1,060	1,186	1,317	1,400
Miscellaneous receipts	2,851	2,413	2,456	2,459
Federal grants	59	59	59	59
Transfers from other funds	11,472	11,843	12,307	12,818
Total receipts	**52,666**	**54,537**	**57,154**	**59,762**
Disbursements:				
Grants to local governments	36,399	39,624	43,476	46,755
State operations	9,601	9,977	10,378	10,631
General State Charges	4,572	4,962	5,358	5,666
Transfers to other funds	2,690	2,833	2,991	3,423
Total disbursements	**53,262**	**57,396**	**62,204**	**66,474**
Change in Reserves:				
Debt Reduction Reserve Fund	250	0	0	0
Rainy Day Reserve Fund	125	0	0	0
Community Projects Fund	75	(150)	(150)	(51)
Prior Year Surpluses	(1,046)	(401)	(401)	(401)
Deposit to/(Use of Gap)	**(596)**	**(551)**	**(551)**	**(452)**
Executive Budget Surplus/(Gap) Estimate	0	(2,308)	(4,499)	(6,260)

In evaluating the State's out-year operating forecast, it should be noted that the reliability of the estimates as a predictor of the State's future fiscal condition is likely to diminish as one moves further from the current-year and budget-year estimates. Accordingly, the 2008-09 forecast is perhaps the most relevant from a planning perspective, since any gap in that year must be closed with the next budget and the variability of the estimates is likely to be less than in later years.

The following chart provides a "zero-based" look at the causes of the 2008-09 General Fund budget gap, followed by a brief summary of the assumptions behind the projections. For a detailed explanation of the assumptions underlying the out-year revenue and spending projections, see "Out-year General Fund Receipt Projections" and "Outyear General Fund Disbursement Projections" later in this AIS Update..

2008-09 General Fund Annual Change Savings/(Costs) (millions of dollars)	
	2008-09
RECEIPTS	**1,871**
Constant Law Growth	3,466
Existing Tax Reductions	(157)
2007-08 Executive Budget Net Proposals	89
Uncommon Audit Collections	(117)
Change in STAR Deposits	(653)
Change in Debt Service (RBTF/LGAC/CWCA)	(296)
Non-recurring 2007-08 NYPA/SONYMA Payments	(275)
Abandoned Property	(50)
All Other	(136)
DISBURSEMENTS	**(4,134)**
Local Assistance	**(3,225)**
Medicaid (incl. admin)	(1,889)
Program Growth/Other	*(1,074)*
Medicaid Cap/Family Health Plus Takeover	*(374)*
Change in HCRA/Provider Assesment Financing	*(441)*
School Aid	(781)
Mental Hygiene	(218)
Children and Family Services	(123)
All Other Local Assistance	(215)
State Operations	**(376)**
Personal Service	(220)
Non-personal Service	(156)
General State Charges	**(390)**
Health Insurance	(334)
Pensions	(41)
All Other	(15)
Transfers to Other Funds	**(143)**
Change in Reserves Used for Operations	**(270)**
Change in Deposit to Reserves	**225**
"CURRENT SERVICES" BUDGET GAP FOR 2008-09	**(2,308)**

The forecast for 2008-09 is based on assumptions of economic performance, revenue collections, spending patterns, and projections for the current services costs of program activities. DOB believes the estimates of annual change in revenues and spending that create the 2008-09 current services gap forecast are based on reasonable assumptions and methodologies. Significant assumptions that affect the forecast include:

1. **Executive Budget enactment**: The estimates assume the Legislature enacts the 2007-08 Executive Budget appropriations and accompanying legislation in their entirety, without additions or modifications.

2. **Economic growth will continue during the forecast period**. DOB's forecast calls for moderate expansion in the economy. The momentum of the State's expansion appears to have peaked in 2005, and the forecast calls for positive, but slowing, growth in 2007 and a return to trend growth in the out-years.

3. **Revenues, adjusting for tax law changes, will grow in the range of 5 percent to 6 percent annually.** The growth rate is consistent with DOB's forecast for the economy, but, as in any year, is subject to significant volatility. Changes in the economic growth rate, Federal law, and taxpayer behavior all have a significant influence on receipts collections.

4. **The Federal government will not make substantive funding changes** to major aid programs or make substantive regulatory charges that adversely affect the State.

5. **The projections do not include any extra costs for new labor settlements** once the current contracts expire on April 1, 2007. Each 1 percent salary increase is valued at $86 million in the General Fund and $134 million in All Funds.

Changes to these or other assumptions have the potential to materially alter the size of the budget gaps for 2008-09 and beyond.

OUT-YEAR GENERAL FUND RECEIPT PROJECTIONS

General Fund Receipts Projections
(millions of dollars)

	2007-08	2008-09	Annual $ Change	2009-10	Annual $ Change	2010-11	Annual $ Change
Personal Income Tax	22,258	23,518	1,260	24,902	1,385	26,313	1,411
User Taxes and Fees	8,633	8,915	283	9,228	313	9,554	326
Business Taxes	6,333	6,604	271	6,885	281	7,160	275
Other Taxes	1,060	1,186	125	1,317	131	1,400	83
Miscellaneous Receipts	2,851	2,413	(438)	2,456	44	2,459	3
Federal Grants	59	59	0	59	(0)	59	0
Transfers from Other Funds							
Revenue Bond Fund	8,300	8,636	336	8,990	354	9,356	366
LGAC Fund	2,277	2,368	92	2,474	106	2,584	110
CW/CA Fund	560	563	3	619	56	621	2
All Other	335	275	(60)	224	(51)	256	32
Total Receipts	**52,666**	**54,537**	**1,871**	**57,154**	**2,617**	**59,762**	**2,608**

General Fund receipts, including transfers from other funds, are projected to total $54.5 billion in 2008-09, an increase of $1.9 billion from 2007-08 estimates. Beyond 2008-09, receipts are projected to grow by an additional $2.6 billion in each of 2009-10 and 2010-11 to total $59.8 billion by the end of the four-year plan. The receipts forecast for 2006-07 through 2010-11 is described at length in the Executive Budget volume entitled, "Economic and Revenue Outlook" which is available on the Division of the Budget's website, www.budget.state.ny.us.. In general, there is significant uncertainty associated with forecasts of receipts more than 18 months into the future. Overall, the tax receipt projections for the out-years follow the path dictated by DOB's forecast of economic growth. History suggests a large range of potential outcomes around these estimates.

Taxes

In general, PIT growth for 2008-09 through 2010-11 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S Corporations.

General Fund income tax receipts are projected to increase by $1.3 billion to $23.5 billion in 2008-09. The change from 2007-08 reflects growth in underlying liability, offset by the STAR expansion and higher debt service costs. PIT receipts for 2009-10 and 2010-11 are projected to increase by $1.4 billion annually. Again, the increase reflects growth in liability consistent with an expanding personal income base during economic expansion.

There is significant uncertainty associated with the forecast of the out-year income components. In many cases, a reasonable degree of uncertainty around the predicted income components would include a significant range around out-year income tax estimates.

General Fund receipts from user taxes and fees are estimated to total $8.9 billion in 2008-09, an increase of $283 million from 2007-08. Receipts are projected to grow by an additional $300 million annually in 2009-10 and 2010-11 to $9.2 billion and $9.6 billion, respectively. The increase is due almost exclusively to the projected growth in the sales tax base. The underlying growth in the sales tax base is expected to be in the range of 3 percent to 4 percent.

General Fund business tax receipts are expected to increase to $6.6 billion in 2008-09 and to $6.9 billion in 2009-10. Business tax receipts reflect trend growth in receipts and the full implementation of the tax reductions and loophole closing actions proposed with this Budget. Business tax receipts are projected to reach $7.2 billion in 2010-11.

General Fund receipts from other taxes are expected to grow modestly in the outyear, primarily reflecting modest growth in real estate activity estate tax.

Miscellaneous Receipts

General Fund miscellaneous receipts in 2008-09 are projected to be $2.4 billion, down $438 million from 2007-08. This decrease is primarily the result of the loss of certain receipts from the Power Authority and a decrease in the amount received from the local government reserve and reimbursement program. Receipts are expected to remain relatively constant in future years.

Transfer from Other Funds

Transfers from other funds primarily reflect increases in debt service related to PIT Revenue Bonds, LGAC Bonds and Clean Water/Clean Air General Obligation debt service and the loss of non recurring fund sweeps partially offset by projected increase in overall tax receipts.

OUTYEAR GENERAL FUND DISBURSEMENT PROJECTIONS

DOB forecasts General Fund spending of $57.4 billion in 2008-09, an increase of $4.1 billion (7.8 percent) over recommended 2007-08 levels. Growth in 2009-10 is projected at $4.8 billion (8.4 percent) and in 2010-11 at $4.3 billion (6.9 percent). The growth levels are based on current services projections, as modified by the recommendations contained in the 2007-08 Executive Budget. They do not incorporate any estimate of potential new actions to control spending, that would likely result from the constitutional requirement for the Governor to submit balanced budgets annually. The main sources of annual spending growth for 2008-09, 2009-10, and 2010-11 are itemized in the following table.

General Fund Disbursement Projections (millions of dollars)							
	2007-08	2008-09	Annual $ Change	2009-10	Annual $ Change	2010-11	Annual $ Change
Grants to Local Governments:	**36,399**	**39,624**	**3,225**	**43,476**	**3,852**	**46,755**	**3,279**
School Aid	15,879	16,660	781	18,095	1,435	19,685	1,590
Medicaid	8,443	9,958	1,515	11,421	1,463	12,162	741
Medicaid: Takeover Initiatives	974	1,348	374	1,898	550	2,453	555
Higher Education	2,360	2,422	62	2,477	55	2,504	27
Mental Hygiene	1,846	2,064	218	2,231	167	2,337	106
Children and Families Services	1,524	1,647	123	1,749	102	1,842	93
Temporary and Disability Assistance	1,397	1,428	31	1,424	(4)	1,420	(4)
Special Education - Categorical	1,025	1,083	58	1,145	62	1,210	65
Local Government Assistance	913	962	49	1,001	39	1,051	50
Public Health	697	744	47	724	(20)	734	10
Transportation	105	105	0	105	0	104	(1)
All Other	1,236	1,203	(33)	1,206	3	1,253	47
State Operations:	**9,601**	**9,977**	**376**	**10,378**	**401**	**10,631**	**253**
Personal Service	6,687	6,907	220	7,141	234	7,255	114
Non-Personal Service	2,914	3,070	156	3,237	167	3,376	139
General State Charges	**4,572**	**4,962**	**390**	**5,358**	**396**	**5,666**	**308**
Pensions	1,185	1,226	41	1,332	106	1,335	3
Health Insurance (Active Employees)	1,611	1,815	204	1,979	164	2,161	182
Health Insurance (Retired Employees)	1,023	1,153	130	1,260	107	1,378	118
All Other	753	768	15	787	19	792	5
Transfers to Other Funds:	**2,690**	**2,833**	**143**	**2,992**	**159**	**3,422**	**430**
Debt Service	1,752	1,719	(33)	1,716	(3)	1,765	49
Capital Projects	255	332	77	482	150	856	374
All Other	683	782	99	794	12	801	7
Total Disbursements	**53,262**	**57,396**	**4,134**	**62,204**	**4,808**	**66,474**	**4,270**

Grants to Local Governments

Annual growth in local assistance is driven primarily by Medicaid, school aid and welfare. The following table summarizes some of the factors that affect the local assistance projections over the Financial Plan period.

Forecast for Selected Program Measures Affecting Local Assistance (millions of dollars)							
	Actual		Forecast				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Medicaid							
Medicaid Coverage (excl. FHP)	3,531,938	3,674,167	3,690,578	3,854,312	4,008,484	4,168,824	4,335,577
Medicaid Inflation	4.1%	3.9%	3.9%	2.7%	3.9%	3.8%	3.8%
Medicaid Utilization	3.2%	3.7%	3.0%	2.1%	2.9%	2.9%	2.9%
State Takeover of County/NYC Costs							
- Family Health Plus	$60	$214	$438	$477	$518	$530	$547
- Medicaid	N/A	$3	$332	$497	$830	$1,368	$1,906
Education							
School Aid (School Year)	$15,400	$16,400	$17,700	$19,200	$20,700	$22,700	$24,700
K-12 Enrollment	2,850,124	2,826,981	2,794,393	2,761,450	2,761,450	2,761,450	2,761,450
Public Higher Education Enrollment (FTEs)	490,916	489,289	501,426	501,426	501,426	501,426	501,426
TAP Recipients	335,513	331,750	330,418	330,418	330,418	330,418	330,418
Welfare							
Family Assistance Caseload	485,500	453,200	415,200	397,600	393,000	391,900	391,400
Single Adult/No Children Caseload	140,200	146,000	150,600	155,400	155,400	154,100	152,600
Mental Hygiene							
Mental Hygiene Community Beds	81,446	82,948	84,465	87,409	90,196	92,462	94,271

School Aid

Major Sources of Annual Change in School Aid Growth (billions of dollars)			
	2008-09	2009-10	2010-11
State Fiscal Year Basis:			
Total General Fund and Lottery:	**1.3**	**1.8**	**2.0**
General Fund	0.8	1.4	1.5
Lottery/VLTs	0.5	0.4	0.5
School Year Basis:			
Total State Funds:	**1.5**	**2.0**	**2.1**

On a school year basis, school aid is projected at $20.7 billion in 2008-09, $22.7 billion in 2009-10, and $24.7 billion in 2010-11. The four-year cumulative increase through 2010-11 reflects the proposed $7 billion in additional resources for schools over the estimated 2006-07 school year of $17.7 billion. On a State fiscal year basis, General Fund school aid spending is projected to grow by $781 million in 2008-09, $1.4 billion in 2009-10, and $1.5 billion in 2010-11, Outside the General Fund, revenues from lottery sales are projected to increase by $63 million in 2008-09, $97 million in 2009-10, and $27 million in 2010-11, to a total of $2.2 billion in 2008-09 growing to $2.33 billion in 2010-11. In addition, VLT revenues are projected to increase by $476 million in 2008-09, $286 million in 2009-10, and $430 million in 2010-11, to a total of $1.06 billion in 2008-09 growing to $1.78 billion in 2010-11. The VLT estimates assume the start of operations at Aqueduct in 2007 and the approval of a proposed expansion plan in 2007-08, which is expected to provide $150 million of the increase planned in 2008-09, and $766 million in cumulative support through 2010-11.

Medicaid

General Fund spending for Medicaid is expected to grow by roughly $1.9 billion in 2008-09, $2.0 billion in 2009-10, and another $1.3 billion in 2010-11.

Major Sources of Annual Change in Medicaid Growth General Fund (billions of dollars)			
	Increase from Prior Year		
	2008-09	**2009-10**	**2010-11**
Price/Utilization/Admin Growth	1.1	1.1	1.0
Extra Weekly Payment	0.0	0.3	(0.3)
Medicaid Cap/FHP Takeover	0.4	0.6	0.6
Provider Assessments	0.1	0.0	0.0
HCRA Financing	0.3	0.0	0.0
Total	**1.9**	**2.0**	**1.3**

This growth results, in part, from the combination of modest growth in recipients, service utilization, and medical-care cost inflation. These factors are projected to add roughly $1.1 billion in costs annually. In 2009-10, an extra weekly payment to providers adds $300 million in spending. In addition, the State cap on local Medicaid costs and takeover of local FHP costs is projected to increase spending by $374 million in 2008-09, $550 million in 2009-10, and $555 million in 2010-11. The remaining growth is primarily attributed to certain nursing home delinquent payor assessment collections in 2007-08 that are not expected to recur in 2008-09 and lower levels of HCRA financing beginning in 2008-09, both of which are used to lower General Fund costs.

The average number of Medicaid recipients is expected to grow to nearly 4 million in 2008-09, an increase of 4.2 percent from the estimated 2007-08 caseload of more than 3.8 million. FHP enrollment is estimated to grow to approximately 556,000, in 2008-09, an increase of 3 percent over projected 2007-08 enrollment of 540,000.

Mental Hygiene

Mental Hygiene spending is projected at $2.1 billion in 2008-09, $2.2 billion in 2009-10, and $2.3 billion in 2010-11. The growth is largely attributable to increases in the projected State share of Medicaid costs, cost of living increases, projected expansions of the various mental hygiene service systems including OMH's Children's Services, increases in the NYS-CARES program and in the development of children's beds for out-of-state placements in OMRDD, the NY/NY III Supportive Housing agreement and community bed expansion in OMH, and several new chemical dependence treatment and prevention initiatives.

Children and Family Services

Children and Family Services spending is projected to grow by roughly $100 million annually in the outyears. The increases are driven primarily by expected growth in the open-ended child welfare services program, the impact of the OCFS Medicaid waiver, and cost-of-living increases for workers in foster care, and foster and adoptive parents enacted in 2006-07.

Temporary and Disability Assistance

Spending is projected at $1.4 billion in 2008-09, an increase of $31 million (2.2 percent) from 2007-08, and will remain at virtually the same level in 2009-10 and 2010-11. Caseloads for family assistance and single adult/childless couples are projected to decline marginally. This reduction is more than countered by the reduced availability of Federal TANF to support public assistance costs, thereby increasing General Fund spending growth.

Other Local

All other local assistance programs total $6.5 billion in 2008-09, an increase of $183 million over 2007-08 revised levels. This growth in spending results primarily from increases in the local government Aid and Incentives for Municipalities (AIM) program, higher anticipated claiming for special education, and additional support for CUNY programs, salaries and operations.

State Operations

Forecast of Selected Program Measures Affecting State Operations

	Actual		Forecast				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
State Operations							
Prison Population (Corrections)	63,307	62,890	63,400	63,400	63,400	63,400	63,400
Negotiated Salary Increases (1)	2.5%	2.75%	3.00%	0.0%	0.0%	0.0%	0.0%
Personal Service Inflation	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
State Workforce	188,925	191,400	194,600	197,100	198,200	198,200	198,200

(1) Negotiated salary increases include a recurring $800 base salary adjustment effective April 1, 2007.

State Operations spending is expected to total $10.0 billion in 2008-09, an annual increase of $376 million (3.9 percent). In 2009-10, spending is projected to grow by another $401 million to a total of $10.4 billion (4.0 percent). Spending in 2010-11 is projected to total $10.6 billion, $253 million above 2009-10 levels (2.4 percent). In all years, normal salary adjustments and increased staffing levels, primarily in mental health and corrections, drive higher personal service costs. Inflationary increases for non-personal service costs result in higher spending in all years. Additional growth is driven by spending for ongoing initiatives, including the Sexually Violent Predator civil commitment program and increasing medical and pharmacy costs in the areas of mental hygiene and corrections. The projections do not include any reserve for labor settlements once the current round of contracts expire on April 1, 2007 (United University Professions will expire on July 1, 2007).

General State Charges (GSCs)

Forecast of Selected Program Measures Affecting General State Charges							
	Actual		Forecast				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
General State Charges							
Pension Contribution Rate	7.0%	8.8%	10.2%	9.5%	9.9%	11.0%	11.0%
Employee/Retiree Health Insurance Rate	13.5%	8.2%	8.2%	9.9%	12.7%	9.1%	9.3%

GSCs are projected to total $5.0 billion in 2008-09, $5.4 billion in 2009-10 and $5.7 billion in 2010-11. The annual increases are due mainly to anticipated cost increases in pensions and health insurance for State employees and retirees.

The State's pension contribution rate to the New York State and Local Retirement System is expected to increase from 9.5 percent of salary in 2007-08 to 9.9 percent in 2008-09, 11.0 percent in 2009-10 and 2010-11. Pension spending in 2008-09 is projected to increase by $41 million over 2007-08 due to anticipated increases in the employer contribution rate. In 2009-10, spending is projected to grow by another $106 million to a total of $1.3 billion, and remains virtually unchanged in 2010-11. Spending for employee and retiree health care costs is expected to increase by $334 million in 2008-09, $271 million in 2009-10, and another $300 million in 2010-11 and assumes an average annual premium increase of roughly 10 percent. Health insurance is projected at $3.0 billion in 2008-09 ($1.8 billion for active employees and $1.2 billion for retired employees), and $3.3 billion in 2009-10 ($2.0 billion for active employees and $1.3 billion for retired employees), and $3.5 billion in 2010-11 ($2.1 billion for active employees and $1.4 billion for retired employees).

Forecast for Selected Program Measures Affecting General State Charges (millions of dollars)			
	Health Insurance		
Year	Active Employees	Retirees	Total State
2006-07	1,467	930	2,397
2007-08	1,611	1,023	2,634
2008-09	1,815	1,153	2,968
2009-10	1,979	1,260	3,239
2010-11	2,161	1,378	3,539

Notes:

1. All numbers reflect the cost of Health Insurance for General State Charges (Executive and Legislative branches) and the Office of Court Administration; actuals through 2004-05.

Transfers to Other Funds

Forecast of Selected Program Measures Affecting Debt Service							
	Actual		Forecast				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
State Debt							
Interest on Variable Rate Debt	1.44%	2.65%	3.50%	3.60%	3.60%	3.40%	3.35%
Interest on Fixed Rate 30-Year Bonds	5.09%	5.00%	4.55%	5.00%	6.05%	6.20%	6.25%

In 2008-09, transfers to other funds are estimated at $2.8 billion, an increase of $143 million. This increase is primarily attributed to the first in a series of annual transfers to the Dedicated Bridge and Highway Trust Fund ($41 million) aimed at reducing fund gaps, a $50 million transfer to support statewide financial management systems development and a return to normal patterns for SUNY Hospital State subsidy payments after an acceleration of 2007-08 funds into 2006-07. In 2009-10 and 2010-11, transfers to other funds are expected to increase by $159 million and $430 million, respectively, as capital transfers to the Dedicated Bridge and Highway Trust Fund rise by an additional $196 million and $365 million in each of those years.

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FINANCIAL PLAN RESERVES AND RISKS

RESERVES

In January 2007, the State created a new State Rainy Day Reserve in law that has an authorized balance of 3 percent of General Fund spending. The new Rainy Day Reserve may be used to respond to an economic downturn or catastrophic event. The Executive Budget for 2007-08 proposes the first deposit of $125 million. When combined with the existing Tax Stabilization Reserve, which has a balance of two percent and can be used only to cover unforeseen year-end deficits, the State's rainy day reserve authorization now totals 5 percent.

The State projects that General Fund reserves will total $3.0 billion at the end of 2007-08 (5.6 percent of General Fund Spending) with $1.2 billion in undesignated reserves available to deal with unforeseen contingencies and $1.8 billion designated for subsequent use.

2007-08 General Fund Estimated Closing Balance (millions of dollars)	
Year-End Fund Balance	**2,975**
Undesignated Reserves	1,171
Tax Stabilization Reserve Fund	1,025
Rainy Day Reserve Fund	125
Contingency Reserve Fund	21
Designated Reserves	1,804
Remaining 2006-07 Surplus	1,203
Debt Reduction Reserve Fund	250
Community Projects Fund	351

The $1.2 billion of undesignated reserves includes a balance of $1 billion in the Tax Stabilization Reserve, which is at its statutory maximum balance of 2 percent, $125 million in the new Rainy Day Reserve, and $21 million in the Contingency Reserve Fund for litigation risks.

The Executive Budget reserves another $1.8 billion designated for future use, including $1.2 billion remaining from the projected 2006-07 surplus (the Financial Plan projects that the reserve will be used in equal installments in each of the out-years). In addition, $250 million is set aside for debt reduction and $351 million is reserved in the Community Projects Fund to finance existing initiatives.

Aside from the amounts noted above, the 2007-08 Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of Federal disallowances or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

RISKS

Many complex political, social, and economic forces influence the State's economy and finances. Such forces may affect the State Financial Plan unpredictably from fiscal year to fiscal year. For example, the Financial Plan is necessarily based on forecasts of national and State economic activity. Economic forecasts have frequently failed to accurately predict the timing and magnitude of specific and cyclical changes to the national and State economies. The Financial Plan also relies on estimates and assumptions concerning Federal aid, law changes, and audit activity.

In any year, the Financial Plan is subject to risks that, if they were to materialize, could affect operating results. The most significant current risks include the following:

Risks to the U.S. Economic Forecast

Although DOB believes that the Federal Reserve has successfully managed a soft landing and that the U.S. economy will avoid a near-term recession, there is considerable risk to the forecast. As always, the forecast is contingent upon the absence of severe shocks to the economy. Unpredictable events such as a major terrorist attack remain the biggest risk to continued economic expansion. Such a shock could impair economic growth in many ways, such as causing a plunge in consumer confidence, the stock market, investment spending by firms, or impairing the transportation of goods and services, or causing a large spike in oil prices. A severe and extended downturn could easily materialize from such shocks.

A more severe downturn in the housing market than anticipated could derail the national economy from its predicted path. The additional weakness emanating from the housing and manufacturing sectors could result in lower job and income growth than expected, which in turn would produce lower growth in household spending than implied by the forecast. A more abrupt increase in energy prices than projected could reduce the ability of consumers and businesses to spend on non-energy related items. Such cutbacks could make firms behave even more cautiously and reduce business capital spending. Persistently high energy prices also raise the possibility that inflationary expectations could ratchet higher, causing the Federal Reserve Board to revert back to a tightening of monetary policy. Higher interest rates would, in turn, further exacerbate the slowdown and raise the likelihood of a recession.

A sharp reduction in the inflow of foreign funds could produce new inflationary pressures by weakening the U.S. dollar, which might also cause the Federal Reserve to resume tightening. Such a development might also produce an imbalance in the market for U.S. Treasury securities, causing long-term rates to rise further than expected in order to fund the Federal budget deficit. Higher Federal spending on the Iraq war than anticipated could have a similar effect. Higher interest rates could, in turn, induce households to increase the personal saving rate, resulting in even further cutbacks in consumer spending. This risk would only be exacerbated by lower than expected equity or housing prices, particularly if the anticipated easing of home prices happens suddenly rather than gradually, as expected. Again, lower consumption growth could weaken expected future corporate profits and, in turn, lower employment and investment growth.

On the other hand, lower than expected inflation, perhaps as a result of an even greater drop in the price of oil or more modest growth in unit labor costs, possibly due to slower growth in wages or stronger productivity growth, could induce the Federal Reserve to reduce its short-term interest rate target, resulting in stronger consumption and investment growth than projected. A more rapid increase in export growth due to either a weakened dollar or faster global growth could generate a somewhat stronger increase in total output than expected. Moreover, stronger employment growth could result in higher real wages, supporting faster growth in consumer spending than currently anticipated.

Risks to the New York Forecast

In addition to the risks described above for the national forecast, there are risks specific to New York. The chief risk remains another attack targeted at New York City that could once again plunge the State economy into a recession, resulting in substantially lower income and employment growth than is reflected in the current forecast. Higher energy prices and the potential for greater pass-through to core inflation, combined with a tightening labor market, raise the probability that the Federal Reserve could tighten one more time. Such an outcome could negatively affect the financial markets, which would also disproportionately affect the New York State economy. In addition, the State's real estate market could decline more than anticipated, which would negatively affect household consumption and taxable capital gains realizations. These effects could ripple though the economy, affecting both employment and wages.

In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities is possible, resulting in higher wage and bonuses growth than projected. It is important to recall that the financial markets, which are so pivotal to the direction of the downstate economy, are notoriously difficult to forecast.

Labor Contracts

Existing labor contracts with all of the State's major employee unions expire at the end of 2006-07 (United University Professionals will expire on July 1, 2007). The Financial Plan does not set aside any reserves for future collective bargaining agreements in 2007-08 or beyond. Each future one percent salary increase would cost roughly $86 million annually in the General Fund and $134 million in All Funds.

Miscellaneous Receipts

The State Financial Plan projections for 2006-07 and beyond assume approximately $450 million annually in receipts that are the subject of ongoing negotiations between the State and New York City. Actual receipts in 2005-06 were $450 million below planned levels, which the State recovered on a cash-basis by reducing spending for State aid to the City for reimbursement of CUNY costs.

School Supportive Health Services

The Office of the Inspector General (OIG) of the United States Department of Health and Human Services is conducting six audits of aspects of New York State's School Supportive Health Services program with regard to Medicaid reimbursement. The audits cover $1.4 billion in claims submitted between 1990 and 2001. To date, OIG has issued four final audit reports, which cover claims submitted by upstate and New York City school districts for speech pathology and transportation services. The final audits recommend that the Centers for Medicare and Medicaid Services (CMS) disallow $173 million of the $362 million in claims for upstate speech pathology services, $17 million of $72 million for upstate transportation services, $436 million of the $551 million in claims submitted for New York City speech pathology services, and $96 million of the $123 million for New York City transportation services. New York State disagrees with the audit findings on several grounds and has requested that they be withdrawn. If the recommended disallowances are not withdrawn, the State expects to appeal.

While CMS has not taken any action with regard to the disallowances recommended by OIG, CMS is deferring 25 percent of New York City claims and 9.7 percent of claims submitted by the rest of the State, pending completion of the audits. Since the State has continued to reimburse school districts for certain costs, these Federal deferrals are projected to drive additional spending of roughly $50 million annually, which has been reflected in the State's Financial Plan.

Proposed Federal Rule on Medicaid Funding

On January 18, 2007, the Centers for Medicare and Medicaid Services (CMS) issued a proposed rule that, if implemented, would significantly curtail Federal Medicaid funding to public hospitals (including New York City's Health and Hospital Corporation - HHC) and institutions and programs operated by both the State Office of Mental Retardation and Developmental Disabilities and the State Office of Mental Health.

The rule seeks to restrict State access to Federal Medicaid resources. The provision replacing prospective reimbursement with cost-based methodologies would have the most significant impact on New York's health care system.

The proposed rule could go into effect as soon as September 2007. It is estimated the rule could result in the loss of $350 million annually in Federal funds for HHC and potentially larger losses in aid for the State Mental Hygiene System.

The states affected by the regulations are expected to challenge their adoption on the basis that CMS is overstepping its authority and ignoring the intent of Congress. In recent years, the Congress has rejected similar proposals in the President's budget.

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CASH FLOW FORECAST

Current projections continue to show relatively healthy monthly balances through the end of 2007-08. In 2007-08, the General Fund is projected to have quarterly-ending balances of $3.3 billion in June 2007, $4.7 billion in September 2007, $1.6 billion in December 2007, and $3.0 billion at the end of March 2008. The lowest projected month-end cash flow balance is $1.6 billion in December 2007. The 2007-08 General Fund cash flow estimates assume on time enactment of all Executive Budget recommendations. DOB's detailed monthly cash flow projections for 2006-07, 2007-08 and 2008-09 are set forth in the sections entitled "Financial Plan Tables" and "Supplemental Financial Plan Information".

The Office of the State Comptroller (OSC) invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through the Short-Term Investment Pool (STIP), which is comprised of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds and Private Purpose Trust Funds), as well as several sole custody funds including the Tobacco Settlement Fund.

OSC is authorized to make short-term loans from STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year, based on legislation submitted with the Executive Budget. Loans may be granted only for amounts that the Director of the Budget certifies are "receivable on account" or can be repaid from the current operating receipts of the fund (i.e., loans cannot be granted in expectation of future revenue enhancements).

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GAAP-BASIS FINANCIAL PLANS/

In addition to the cash-basis Financial Plans, the General Fund and All Funds Financial Plans are prepared on a basis of GAAP in accordance with Governmental Accounting Standards Board (GASB) regulations. Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Financial Plan. The GAAP projections are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2005-06.

In 2006-07, the General Fund GAAP Financial Plan reflects total revenues of $43.3 billion, total expenditures of $51.6 billion, and net other financing sources of $7.8 billion, resulting in an operating deficit of roughly $500 million and a projected accumulated surplus of $1.7 billion. The operating results primarily reflect the 2006-07 cash-basis surplus, offset by the impact of enacted tax reductions on revenue accruals and a partial use of the 2005-06 surplus to support 2006-07 operations.

In 2007-08, the General Fund GAAP Financial Plan shows total revenues of $44.4 billion, total expenditures of $54.4 billion, and net other financing sources of $9.4 billion, resulting in an operating deficit of $661 million and a projected accumulated surplus of $1.0 billion. These changes are due primarily to the use of a portion of the prior and current year surplus to support 2007-08 operations.

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Special Considerations

The Financial Plan is necessarily based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and State economies. DOB believes that its current receipts and spending estimates related to the performance of the State and national economies are reasonable. However, there can be no assurance that actual results will not differ materially and adversely from the current forecast. For a discussion of additional risks to the Financial Plan, see the sections entitled "Risks to the Financial Plan" and "Litigation" in this AIS Update.

GASB 45

The GAAP basis results for 2005-06 showed the State having total net assets of $49.1 billion. The net assets are before the State reflects the impact of GASB 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions." GASB 45 requires State and local governments to reflect the value of post-employment benefits, predominantly health care, for current employees and retirees beginning with the financial statements for the 2007-08 fiscal year.

The State used an independent actuarial consulting firm to calculate retiree health care liabilities. Assuming there is no pre-funding of this liability, the analysis indicates that the present value of the actuarial accrued liability for benefits to date would be roughly $47 billion, using the level percentage of projected payroll approach under the Frozen Entry Age actuarial cost method. This is the actuarial methodology recommended to be used to implement GASB 45 by the Office of the State Comptroller. The actuarial accrued liability was calculated using a 4.1 percent annual discount rate.

The State's total unfunded liability will be disclosed in the 2007-08 basic financial statements. While the total liability is substantial, GASB allows it to be amortized over a 30 year period; therefore, only the annual amortized liability above the current pay-as-you-go costs would be recognized in the financial statements. Assuming no pre-funding, the 2007-08 liability would total roughly $3.7 billion under the Frozen Entry Age actuarial cost method amortized based on a level percent of salary, or $2.6 billion above the current pay-as-you-go retiree costs. This difference between the State's pay-as-you-go costs and the actuarially determined annual required contribution under GASB 45 would reduce the State's net assets.

GASB does not require the additional costs to be funded, and no funding is assumed for this purpose in the Financial Plan. On a budgetary (cash) basis, the State continues to finance these costs, along with all other employee health care expenses, on a pay-as-you-go basis. Anticipated increases in these costs are reflected in the State's multi-year Financial Plan as detailed below.

History of New York State Employee Health Insurance
(millions of dollars)

Year	Active Employees	Retirees	Total
2001-02	937	565	1,502
2002-03	1,023	634	1,657
2003-04	1,072	729	1,801
2004-05	1,216	838	2,054
2005-06	1,331	885	2,216
2006-07	1,466	931	2,397
2007-08	1,611	1,023	2,634
2008-09	1,815	1,153	2,968
2009-10	1,979	1,260	3,239
2010-11	2,161	1,378	3,539

All numbers reflect the cost of Health Insurance for General State Charges (Executive and Legislative branches) and the Office of Court Administration; actuals through 2004-05.

As noted, the current Financial Plan does not assume pre-funding of the GASB-45 liability. If such liability were pre-funded at this time, the additional cost above the pay-as-you-go amounts would be $1.3 billion in 2007-08. The State's Health Insurance Council, which consists of GOER, Civil Service, and DOB will continue to review this matter, seek input from the State Comptroller, the legislative fiscal committees and outside parties, and provide options for consideration.

GAAP-Basis Results for Prior Fiscal Years

(Reprinted from August 4, 2006 Update to the AIS)

The Comptroller prepares Basic Financial Statements on a GAAP basis for governments as promulgated by GASB. The Basic Financial Statements, released in July each year, include the Statement of Net Assets and Activities, the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, the Statements of Net Assets, Revenues, Expenses and Changes in Fund Net Assets and Cash Flows for the Enterprise Funds, the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets and the Combining Statements of Net Assets and Activities for Discretely Presented Component Units. These statements are audited by independent certified public accountants. The Comptroller also prepares and issues a Comprehensive Annual Financial Report, which includes a financial overview, the Basic Financial Statements, other supplementary information which includes individual fund combining statements, and a statistical section. For information regarding the State's accounting and financial reporting requirements, see the section in the AIS dated June 12, 2006 entitled "State Organization—Accounting, Financial Reporting and Budgeting."

Both the Basic Financial Statements and Comprehensive Annual Financial Reports for prior fiscal years can be obtained from the Office of the State Comptroller, 110 State Street, Albany, NY 12236 or at the OSC website at www.osc.state.ny.us. The following table summarizes recent governmental funds results on a GAAP basis.

Comparison of Actual GAAP-Basis Operating Results
Surplus/(Deficit)
(millions of dollars)

Fiscal Year Ended	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	All Governmental Funds	Accum. General Fund Surplus/(Deficit)
March 31, 2006	1,636	3,128	(664)	(251)	3,849	2,182
March 31, 2005	827	833	361	89	2,110	546
March 31, 2004	3,039	(578)	173	603	3,237	(281)

Beginning with the fiscal year ended March 31, 2003, statements have been prepared in accordance with GASB 34. GASB 34 has significantly affected the accounting and financial reporting for all state and local governments. The financial reporting model redefined the financial reporting model by changing its focus to major funds, rather than fund types, requiring a new section called management discussion and analysis (the "MD&A"), and containing new government-wide financial statements which includes all revenues and all costs of providing services each year. The new Basic Financial Statements and the MD&A are issued in place of the general purpose financial statements. The new statements also report on all current assets and liabilities and also long-term assets and liabilities, such as capital assets, including infrastructure (e.g., roads and bridges).

Summary of Net Assets
(millions of dollars)

Fiscal Year Ended	Governmental Activities	Business-Type Activities	Total Primary Government
March 31, 2006	45,997	3,136	49,133
March 31, 2005	41,190	2,645	43,835
March 31, 2004	39,086	2,088	41,174

State Organization

State Government

The State has a centralized administrative system with most executive powers vested in the Governor. The State has four officials elected in statewide elections, the Governor, Lieutenant Governor, Comptroller and Attorney General. These officials serve four-year terms that next expire on December 31, 2010.

Name	Office	Party Affiliation	First Elected
Eliot Spitzer	Governor	Democrat	2006
David A. Paterson	Lieutenant	Democrat	2006
Thomas P. DiNapoli*	Comptroller	Democrat	2007
Andrew M. Cuomo	Attorney General	Democrat	2006

*Elected by the State Legislature.

The Governor is elected on a single ticket with the Lieutenant Governor; the Comptroller and Attorney General are elected on separate tickets. The Governor appoints the heads of most State departments, including the Director of the Budget (the current Director is Paul E. Francis). DOB is responsible for preparing the Governor's Executive Budget, negotiating that budget with the State Legislature, and implementing the budget once it is adopted, which includes updating the State's fiscal projections quarterly. DOB is also responsible for coordinating the State's capital program and debt financing activities. The Comptroller is responsible for auditing the disbursements, receipts and accounts of the State, as well as for auditing State departments, agencies, public authorities and municipalities. The Comptroller is also charged with managing the State's general obligation debt and most of its investments. The Attorney General is the legal advisor to State departments, represents the State and certain public authorities in legal proceedings and opines upon the validity of all State general obligations.

The State Legislature is composed of a 62-member Senate and a 150-member Assembly, all elected from geographical districts for two-year terms, expiring December 31, 2008. Both the Senate and the Assembly operate on a committee system. The Legislature meets annually, generally for about six months, and remains formally in session the entire year. In recent years there have been special sessions, as well. The current majority leaders of the Legislature are Joseph Bruno (Republican), Temporary President of the Senate, and Sheldon Silver (Democrat), Speaker of the Assembly. The minority leaders are Malcolm Smith (Democrat) in the Senate and James Tedisco (Republican) in the Assembly.

State Retirement Systems

General

The New York State and Local Retirement Systems (the "Systems") provide coverage for public employees of the State and its localities (except employees of New York City and teachers, who are covered by separate plans). The Systems comprise the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System. The Comptroller is the administrative head of the Systems. State employees made up about 33 percent of the membership during the 2005-06 fiscal year. There were 3,000 other public employers participating in the Systems, including all cities and counties (except New York City), most towns, villages and school districts (with respect to non-teaching employees) and a large number of local authorities of the State.

As of March 31, 2006, 653,291 persons were members and 342,245 pensioners or beneficiaries were receiving benefits. The State Constitution considers membership in any State pension or retirement system to be a contractual relationship, the benefits of which shall not be diminished or impaired. Members cannot be required to begin making contributions or make increased contributions beyond what was required when membership began.

Contributions

Funding is provided in large part by employer and employee contributions. Employers contribute on the basis of the plan or plans they provide for members. Members joining since mid-1976, other than police and fire members, are required to contribute 3 percent of their salaries for their first 10 years of membership.

Legislation enacted in May 2003 realigned the Retirement Systems billing cycle to match governments' budget cycles and also instituted a minimum annual payment. The employer contribution for a given fiscal year will be based on the value of the pension fund and its liabilities on the prior April 1. In addition, employers are required to make a minimum contribution of at least 4.5 percent of payroll every year.

The State paid its employer contributions for the fiscal year ending March 31, 2007, which totaled $1,067.2 million as of June 1, 2006. This amount included the Judiciary bill and the amortization payments for the 2005 and 2006 bills. Also, an additional payment of $21 million was made on June 1, 2006 to reduce the State's remaining retirement incentive costs. The estimated bill for the fiscal year ending March 31, 2008 totals $1,045.4 million payable as of September 1, 2007. The amount also includes the Judiciary bill and amortization payments for the 2005 and 2006 bills.

Assets and Liabilities

Assets are held exclusively for the benefit of members, pensioners and beneficiaries. Investments for the Systems are made by the Comptroller as trustee of the Common Retirement Fund, a pooled investment vehicle. OSC reports that the net assets available for benefits as of March 31, 2006 were $142.6 billion (including $2.8 billion in receivables), an increase of $14.6 billion or 11.4 percent from the 2004-05 level of $128.0 billion, reflecting, in large part, equity market performance. OSC reports that the present value of anticipated benefits for current members, retirees, and beneficiaries increased from $146.5 billion on April 1, 2005 to $153.7 billion (including $58.8 billion for current retirees and beneficiaries) on April 1, 2006. The funding method used by the Systems anticipates that the net assets, plus future actuarially determined contributions, will be sufficient to pay for the anticipated benefits of current members, retirees and beneficiaries. Actuarially determined contributions are calculated using actuarial assets and the present value of anticipated benefits. Actuarial assets differed from net assets on April 1, 2006 in that amortized cost was used instead of market value for bonds and mortgages and the non-fixed investments utilized a smoothing method which recognized 20 percent of unexpected gain for the 2006 fiscal year and 40 percent of the unexpected gain for the 2005 fiscal year. Actuarial assets increased from $123.8 billion on April 1, 2005 to $132.1 billion on April 1, 2006. The table that follows shows the actuarially determined contributions that have been made over the last eight years. See also "Contributions" above.

Net Assets Available for Benefits of the
New York State and Local Retirement Systems(1)
(millions of dollars)

Fiscal Year Ended March 31	Total Assets(2)	Percent Increase/ (Decrease) From Prior Year
1999	112,723	6.0
2000	128,889	14.3
2001	114,044	(11.5)
2002	112,725	(1.2)
2003	97,373	(13.6)
2004	120,799	24.1
2005	128,038	6.0
2006	142,620	11.4

Sources: State and Local Retirement Systems.
(1) Includes relatively small amounts held under Group Life Insurance Plan. Includes some employer contribution receivables. Fiscal year ending March 31, 2006 includes approximately $2.8 billion of receivables.
(2) Includes certain accrued employer contributions to be paid with respect to service rendered during fiscal years other than the year shown.

Contributions and Benefits
New York State and Local Retirement Systems
(millions of dollars)

Fiscal Year	Contributions Recorded				Total
Ended March 31	All Participating Employers(1)	Local Employers(1)	State(1)	Employees	Benefits Paid(2)
1999	292	156	136	400	3,570
2000	165	11	154	423	3,787
2001	215	112	103	319	4,267
2002	264	199	65	210	4,576
2003	652	378	274	219	5,030
2004	1,287	832	455	222	5,424
2005	2,965	1,877	1,088	227	5,691
2006	2,782	1,714	1,068	241	6,073

(1) Includes employer premiums to Group Life Insurance Plan.
(2) Includes payments from Group Life Insurance Plan.

Litigation

Real Property Claims

On March 4, 1985 in *Oneida Indian Nation of New York, et al. v. County of Oneida*, the United States Supreme Court affirmed a judgment of the United States Court of Appeals for the Second Circuit holding that the Oneida Indians have a common-law right of action against Madison and Oneida counties for wrongful possession of 872 acres of land illegally sold to the State in 1795. At the same time, however, the Court reversed the Second Circuit by holding that a third-party claim by the counties against the State for indemnification was not properly before the Federal courts. The case was remanded to the District Court for an assessment of damages, which action is still pending. The counties may still seek indemnification in the State courts.

In 1998, the United States filed a complaint in intervention in *Oneida Indian Nation of New York*. In December 1998, both the United States and the tribal plaintiffs moved for leave to amend their complaints to assert claims for 250,000 acres, including both monetary damages and ejectment, to add the State as a defendant, and to certify a class made up of all individuals who currently purport to hold title within the affected 250,000 acre area. On September 25, 2000, the District Court granted the motion to amend the complaint to the extent that it sought to add the State as a defendant and to assert money damages with respect to the 250,000 acres and denied the motion to certify a class of individual landowners and to seek the remedy of ejectment.

In a decision dated March 29, 2002, the District Court granted, in part, plaintiffs' motion to strike the State's defenses and counterclaims. The defenses that were dismissed may not be asserted as to liability, but may still be asserted with respect to damages. The District Court also denied the State's motion to dismiss for failure to join indispensable parties.

On December 7, 2004, settlement agreements were signed between the State, the Oneidas of Wisconsin and the Stockbridge-Munsee Tribe, which contemplated the extinguishment of all Oneida and other Indian claims in the tract at issue in this litigation. Although the agreements provided for monetary payment, transfers of lands and other consideration to non-signatory tribal plaintiffs, these agreements were not signed by the United States, the Oneidas of New York, the Oneidas of the Thames Band or the New York Brothertown. The settlement agreements required the passage of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. No such legislation was enacted and no extension of time was agreed upon. On August 11, 2006, the defendants moved for summary judgment on the issue of laches.

Other Indian land claims include *Cayuga Indian Nation of New York v. Cuomo, et al.*, and *Canadian St. Regis Band of Mohawk Indians, et al., v. State of New York, et al.*, both in the United States District Court for the Northern District of New York and *Seneca Nation of Indians, et al. v. State, et al.,* in the United States District Court for the Western District of New York and *the Onondaga Nation v. The State of New York, et al.*

In the *Seneca Nation of Indians* case, plaintiffs seek monetary damages and ejectment with regard to their claim of ownership of certain islands in the Niagara River and the New York State Thruway right of way where the Thruway crosses the Cattaraugus reservation in Erie and Chautauqua Counties. By order dated November 17, 1999, the District Court confirmed the July 12, 1999 magistrate's report, which recommended granting the State's motion to dismiss that portion of the action relating to the Thruway right of way and denying the State's motion to dismiss the Federal government's damage claims. By decision and order dated June 21, 2002, the District Court granted summary judgment to defendants dismissing that portion of the action relating to the islands in the Niagara River. A judgment entered June 21, 2002 dismissed all aspects of this action. Plaintiffs appealed from the judgment to the U.S. Court of Appeals for the Second Circuit. By decision dated September 9, 2004, the Second Circuit affirmed the judgment of the District Court. On July 8, 2005, the Second Circuit denied the United States' motion for rehearing *en banc*. On September 2, 2005, the Second Circuit also denied the other plaintiffs' petitions for rehearing *en banc*. On January 17, 2006, plaintiffs filed for a petition for a writ of certiorari before the United States Supreme Court, seeking review of the September 9, 2004 decision. On June 5, 2006, the Supreme Court denied plaintiffs' petition for certiorari. This case is now concluded.

In the *Canadian St. Regis Band of Mohawk Indians* case, plaintiffs seek ejectment and monetary damages with respect to their claim that approximately 15,000 acres in Franklin and St. Lawrence Counties were illegally transferred from their predecessors-in-interest. By decision dated July 28, 2003, the District Court granted, in most respects, a motion by plaintiffs to strike defenses and dismiss counterclaims contained in defendants' answers. By decision dated October 20, 2003, the District Court denied the State's motion for reconsideration of that portion of the July 28, 2003 decision which struck a counterclaim against the United States for contribution. On November 29, 2004, the plaintiff tribal entities, with one exception, approved a settlement proposed by the State, which would require enactment of State and Federal legislation to become effective. The plaintiff tribal entity that did not approve the proposed settlement on November 29, 2004, subsequently expressed its approval. A bill that would implement the terms of the Haudenosaunee-Mohawk settlement agreement has been passed by the New York State Assembly and awaits action by the New York State Senate. On February 10, 2006, the District Court stayed all further proceedings in this case until 45 days after the United States Supreme Court issued a final decision in the *Cayuga Indian Nation of the New York* Case. On November 6, 2006, the defendants moved for judgment on the pleadings.

In the *Cayuga Indian Nation of New York* case, plaintiffs seek monetary damages for their claim that approximately 64,000 acres in Seneca and Cayuga Counties were illegally purchased by the State in 1795. Prior to trial, the court held that plaintiffs were not entitled to seek the remedy of ejectment. In October 1999, the District Court granted the Federal government's motion to have the State held liable for any damages owed to the plaintiffs. In February 2000, at the conclusion of the damages phase of the trial of this case, a jury verdict of $35 million in damages plus $1.9 million representing the fair rental value of the tract at issue was rendered against the defendants. By decision and judgment dated October 2, 2001, the District Court also granted plaintiffs $211 million in prejudgment interest. The State has appealed from the judgment to the United States Court of Appeals for the Second Circuit. Following argument of the appeal, the Second Circuit requested that the parties brief the Court on the impact of the decision of the United States Supreme Court in *City of Sherrill v. Oneida Indian nation of New York, et al.*, a case to which the State is not a named party, in which the Unites States Supreme Court has held that parcels of land recently acquired by the Oneida Indian Nation of New York within the 1788 reservation boundaries are subject to local property taxation. On October 1, 2004, the State filed an action in the District Court for the Northern District Court under the Federal Tort Claims Act, seeking contribution from the United States toward the $248 million judgment and post-judgment interest. On June 28, 2005, the Second Circuit held that plaintiffs' possessory land claim is subject to the defense of laches and is barred on that basis. The Court reversed the judgment of the District Court and entered judgment for defendants. On September 8, 2005 the Second Circuit denied plaintiff's motion for reconsideration and *en banc* review. On February 3, 2006, the United States and the tribal plaintiffs filed petitions for a writ of certiorari. On May 15, 2006, the Supreme Court denied plaintiffs' petitions for certiorari. The case is now concluded.

Settlements were signed by the Governor of the State with the Chief of the Seneca-Cayuga Tribe of Oklahoma on November 12, 2004 and with the Cayuga Indian nation of New York on November 17, 2004 which required, in part, require enactment of State and Federal legislation by September 1, 2005 in order to become effective, unless the parties agreed to an extension of time. These agreements provided for differential payments to be made to the plaintiff tribes, based upon the outcome of the appeal then pending in the Second Circuit. No legislation was enacted by September 1, 2005 and no extension of time was agreed upon.

In *The Onondaga Nation v. The State of New York*, et al., plaintiff seeks a judgment declaring that certain lands allegedly constituting the aboriginal territory of the Onondaga Nation within the State are the property of the Onondaga Nation and the Haudenosaunee, or "Six Nations Iroquois Confederacy," and that conveyances of portions of that land pursuant to treaties during the period 1788 to 1822 are null and void. The "aboriginal territory" described in the complaint consists of an area or strip of land running generally north and south from the St. Lawrence River in the north, along the east side of Lake Ontario, and south as far as the Pennsylvania border, varying in width from about 10 miles to more than 40 miles, including the area constituting the City of Syracuse. The District Court has granted defendants permission to move to dismiss the complaints or for summary judgment on the issue of laches. On August 15, 2006, the defendants moved for summary judgment on the issue of laches.

State Finance Policies

Budget Process

In *Greater New York Hospital Ass'n., et al. v. Pataki, et al.* (Sup. Ct., New York County), the plaintiffs seek a declaratory judgment that certain Medicaid appropriations for the State's 2006-2007 fiscal year enacted by the Legislature over the Governor's veto are constitutional and that the Governor and his co-defendants are constitutionally obligated to implement those appropriations and to take no action to prevent their implementation. On June 8, 2006, the Supreme Court, New York County denied plaintiffs' request for a temporary restraining order. In *Healthcare Association of New York State, et al. v. Pataki, et al.* (Sup. Ct., Albany County), the petitioners also challenge the Governor's refusal to authorize spending on Medicaid, mental health and other health appropriations for the State's 2006-07 fiscal year enacted by the Legislature over the Governor's veto. Both of these cases have been discontinued by agreement of the parties.

State Programs

School Aid

In *Campaign for Fiscal Equity, Inc. et al. v. State, et al.*(Supreme Court, New York County), plaintiffs challenge the State's method of providing funding for New York City public schools. Plaintiffs seek a declaratory judgment that the State's public school financing system violates article 11, section 1 of the State Constitution and Title VI of the Federal Civil Rights Act of 1964 and injunctive relief that would require the State to satisfy State Constitutional standards.

This action was commenced in 1993. In 1995, the Court of Appeals affirmed the dismissal of claims under the equal protection clauses of the Federal and State constitutions and Title VI of the Federal Civil Rights Act of 1964. It reversed dismissal of the claims under article 11, section 1 of the State Constitution and implementing regulations of Title VI, and remanded these claims for trial.

By decision dated January 9, 2001, following trial, the trial court held that the State's education funding mechanism does not provide New York City students with SBE as required by the State Constitution, and that it has a disparate impact on plaintiffs in violation of regulations enacted by the U.S. Department of Education pursuant to Title VI of the Civil Rights Act of 1964. The court ordered that defendants put in place reforms of school financing and governance designed to redress those constitutional and regulatory violations, but did not specify the manner in which defendants were to implement these reforms. The State appealed, and the trial court's decision was stayed pending resolution of the appeal. By decision and order entered June 25, 2002, the Appellate Division, First Department, reversed the January 9, 2001 decision and dismissed the claim in its entirety. On July 22, 2002, the plaintiffs filed a notice of appeal to the decision and order to the Court of Appeals.

By decision dated June 26, 2003, the Court of Appeals reversed that portion of the June 25, 2002 decision and order of the Appellate Division, First Department relating to the claims arising under the State Constitution. The Court held that the weight of the credible evidence supported the trial court's conclusion that New York City schoolchildren were not receiving the constitutionally mandated opportunity for SBE and further held that the plaintiffs had established a causal link between the present education funding system and the failure to provide said SBE. The Court remitted the case to the trial court for further proceedings in accordance with its decision.

On August 3, 2004, the Supreme Court, New York County, referred this case to a panel of three referees. The panel was to make recommendations to the court as to how the State should fulfill the Court of Appeals mandate to provide New York City school children with a SBE. On November 30, 2004, the panel issued its report and recommendations. It recommended that the Supreme Court direct the State to pay to New York City schools a total of $14.08 billion over the next four years in additional funding and $9.179 billion over the next five years for capital improvements. On March 15, 2005, the Supreme Court, New York County, issued an order confirming the panel's report and recommendations and directing the State to take all steps necessary to provide additional funding for New York City schools in the amounts of $1.41 billion in 2005-06, $2.82 billion in 2006-07, $4.22 billion in 2007-08 and $5.63 billion in 2008-09, totaling $14.08 billion over the next four years. The Court also directed the State to take all steps necessary to provide additional capital funding in the amount of $1.836 billion annually totaling $9.179 billion over the next five years. The State has appealed from the March 15, 2005 order to the Appellate Division, First Department and the trial court's decision was stayed pending resolution of the appeal. On May 3, 2005, the First Department denied the plaintiffs' motion to lift the automatic stay.

On March 23, 2006, the Appellate Division, First Department, by a three-member majority, vacated the March 15, 2005 order of the Supreme Court, New York County, confirming the referee's report and directed the Governor and the Legislature to:

(1) "Consider, as within the range of constitutionally required [operational] funding for the New York City School District," between $4.7 billion and 5.63 billion, phased in over four years, and "that they appropriate such amount" in order to remedy the constitutional deprivations found in the Court of Appeals' June 26, 2003 decision; and

(2) "Implement a capital improvement plan that expends $9.179 billion over the next five years or otherwise satisfies the City schools' constitutionally recognized capital needs."

In so directing the Governor and the Legislature, the First Department noted that "in the final analysis it is for the Governor and the Legislature to make the determination as to the constitutionally mandated amount of funding, including such considerations as how the funds shall be raised, how additional expenditures will affect other necessary appropriations and the economic viability of the State, and how the funding shall be allocated between the State and the City."

On April 17, 2006, the plaintiffs appealed to the Court of Appeals from the March 23, 2006 decision of the First Department. The State defendants cross appealed on April 21, 2006. On November 20, 2006, the Court of Appeals affirmed as modified the March 23, 2006 decision of the First Department. The Court of Appeals held that the constitutionally required funding for the New York City School District included additional operating funds in the amount of $1.93 billion, as adjusted with reference to the latest version of the Geographic Cost of Education Index and inflation since 2004. The Court of Appeals further vacated that portion of the March 23, 2006 order requiring a capital improvement program as unnecessary, citing the capital funding program approved by the Legislature in 2006. This case is now concluded.

Medicaid

There are numerous cases in which nursing homes have challenged the statutory provisions setting the reimbursement methodology pursuant to which they receive Medicaid payments, including *New York State Health Facilities Association, et al., v. DeBuono, et al., St. Luke's Nursing Center, et al. v. DeBuono, et al., New York Association of Homes and Services for the Aging v. DeBuono, et al. (six cases);* and *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello.* Plaintiffs allege that the changes in methodologies have been adopted in violation of procedural and substantive requirements of State and Federal law.

In *New York Association of Homes and Services for the Aging v. DeBuono, et al*., the United States District Court for the Northern District of New York dismissed plaintiffs' complaint by order dated May 19, 2004. On April 6, 2006, the Second Circuit Court of Appeals affirmed the order of the District Court. This case is now concluded. Several related State Court cases involving the same parties and issues had been held in abeyance pending the result of the litigation in Federal Court.

In *Matter of Nazareth Home of the Franciscan Sisters, et al. v. Novello,* the Supreme Court, Erie County, dismissed the petition by decision, order and judgment dated December 22, 2004. By order entered September 30, 2005, the Supreme Court, Appellate Division, Fourth Department affirmed the decision of the lower court. On December 22, 2005, the Appellate Division, Fourth Department, granted petitioners' motion for leave to appeal to the Court of Appeals. On October 24, 2006, the Court of Appeals affirmed the order of the Appellate Division dismissing the petition.

CASH FINANCIAL PLAN
GENERAL FUND
2006-2007
(millions of dollars)

	Mid-Year	Change	Executive
Opening fund balance	3,257	0	3,257
Receipts:			
Taxes:			
Personal income tax	22,836	(8)	22,828
User taxes and fees	8,216	89	8,305
Business taxes	5,899	128	6,027
Other taxes	924	153	1,077
Miscellaneous receipts	2,910	(245)	2,665
Federal grants	180	0	180
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,048	47	7,095
Sales tax in excess of LGAC debt service	2,164	16	2,180
Real estate taxes in excess of CW/CA debt service	583	99	682
All other transfers	402	0	402
Total receipts	51,162	279	51,441
Disbursements:			
Grants to local governments	34,386	(157)	34,229
State operations	9,477	(73)	9,404
General State charges	4,363	(12)	4,351
Transfers to other funds:			
Debt service	1,764	(1)	1,763
Capital projects	224	(8)	216
Other purposes	1,085	79	1,164
Total disbursements	51,299	(172)	51,127
Change in fund balance	(137)	451	314
Closing fund balance	3,120	451	3,571
Reserves			
Tax Stabilization Reserve Fund	1,025	0	1,025
Contingency Reserve Fund	21	0	21
2005-2006 Surplus	787	0	787
2006-2007 Surplus	1,011	451	1,462
Community Projects Fund	276	0	276

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2005-2006 AND 2006-2007
(millions of dollars)

	2005-2006 Actuals	2006-2007 Current	Annual Change
Opening fund balance	2,546	3,257	711
Receipts:			
Taxes:			
Personal income tax	20,700	22,828	2,128
User taxes and fees	8,639	8,305	(334)
Business taxes	5,084	6,027	943
Other taxes	881	1,077	196
Miscellaneous receipts	2,029	2,665	636
Federal grants	0	180	180
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	6,500	7,095	595
Sales tax in excess of LGAC debt service	2,295	2,180	(115)
Real estate taxes in excess of CW/CA debt service	715	682	(33)
All other	363	402	39
Total receipts	47,206	51,441	4,235
Disbursements:			
Grants to local governments	31,287	34,229	2,942
State operations	8,160	9,404	1,244
General State charges	3,975	4,351	376
Transfers to other funds:			
Debt service	1,710	1,763	53
Capital projects	286	216	(70)
Other purposes	1,077	1,164	87
Total disbursements	46,495	51,127	4,632
Change in fund balance	711	314	(397)
Closing fund balance	3,257	3,571	314
Reserves			
Tax Stabilization Reserve Fund	944	1,025	81
Contingency Reserve Fund	21	21	0
2005-2006 Surplus	2,041	787	(1,254)
2006-2007 Surplus	0	1,462	1,462
Community Projects Fund	251	276	25

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2006-2007 AND 2007-2008
(millions of dollars)

	2006-2007 Current	2007-2008 Recommended	Annual Change
Opening fund balance	3,257	3,571	314
Receipts:			
Taxes:			
Personal income tax	22,828	22,258	(570)
User taxes and fees	8,305	8,633	328
Business taxes	6,027	6,333	306
Other taxes	1,077	1,060	(17)
Miscellaneous receipts	2,665	2,851	186
Federal grants	180	59	(121)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	7,095	8,300	1,205
Sales tax in excess of LGAC debt service	2,180	2,277	97
Real estate taxes in excess of CW/CA debt service	682	560	(122)
All other	402	335	(67)
Total receipts	51,441	52,666	1,225
Disbursements:			
Grants to local governments	34,229	36,399	2,170
State operations	9,404	9,601	197
General State charges	4,351	4,572	221
Transfers to other funds:			
Debt service	1,763	1,752	(11)
Capital projects	216	255	39
Other purposes	1,164	683	(481)
Total disbursements	51,127	53,262	2,135
Change in fund balance	314	(596)	(910)
Closing fund balance	3,571	2,975	(596)
Reserves			
Tax Stabilization Reserve Fund	1,025	1,025	0
Rainy Day Reserve Fund	0	125	125
Contingency Reserve Fund	21	21	0
2005-2006 Surplus	787	0	(787)
2006-2007 Surplus	1,462	1,203	(259)
Community Projects Fund	276	351	75
Debt Reduction Reserve Fund	0	250	250

Source: NYS DOB

CASH RECEIPTS
GENERAL FUND
2005-2006 THROUGH 2007-2008
(millions of dollars)

	2005-2006 Actual	2006-2007 Current	2007-2008 Recommended	2007-2008 Compared with 2006-2007
Personal income tax	20,700	22,828	22,258	(570)
User taxes and fees	8,639	8,305	8,633	328
Sales and use tax	7,978	7,647	7,934	287
Cigarette and tobacco taxes	404	404	447	43
Motor fuel tax	0	0	0	0
Motor vehicle fees	23	0	0	0
Alcoholic beverages taxes	192	196	200	4
Alcoholic beverage control license fees	42	58	52	(6)
Business taxes	5,084	6,027	6,333	306
Corporation franchise tax	2,664	3,545	3,768	223
Corporation and utilities tax	591	619	618	(1)
Insurance taxes	987	1,113	1,150	37
Bank tax	842	750	797	47
Other taxes	881	1,077	1,060	(17)
Estate tax	854	1,065	1,039	(26)
Gift tax	2	(10)	0	10
Real property gains tax	1	1	0	(1)
Pari-mutuel taxes	23	20	20	0
Other taxes	1	1	1	0
Total Taxes	35,304	38,237	38,284	47
Miscellaneous receipts	2,029	2,665	2,851	186
Licenses, fees, etc.	577	684	845	161
Abandoned property	547	700	634	(66)
Reimbursements	228	171	200	29
Investment income	98	210	150	(60)
Other transactions	579	900	1,022	122
Federal Grants	0	180	59	(121)
Total	37,333	41,082	41,194	112

Source: NYS DOB

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2005-2006 THROUGH 2007-2008
(millions of dollars)

	2005-2006 Actual	2006-2007 Current	2007-2008 Recommended
Withholdings	24,761	26,710	28,376
Estimated Payments	9,158	10,352	11,147
Final Payments	1,849	2,078	2,156
Delinquencies	776	824	909
Gross Collections	36,544	39,964	42,588
State/City Offset	(466)	(533)	(509)
Refunds	(5,265)	(4,997)	(5,805)
Reported Tax Collections	30,813	34,434	36,274
STAR	(3,213)	(3,996)	(4,948)
RBTF	(6,900)	(7,610)	(9,068)
General Fund	20,700	22,828	22,258

Source: NYS DOB

CASH FINANCIAL PLAN
GENERAL FUND
2007-2008 THROUGH 2010-2011
(millions of dollars)

	2007-2008 Recommended	2008-2009 Projected	2009-2010 Projected	2010-2011 Projected
Receipts:				
Taxes:				
Personal income tax	22,258	23,518	24,902	26,313
User taxes and fees	8,633	8,915	9,228	9,554
Business taxes	6,333	6,604	6,885	7,160
Other taxes	1,060	1,186	1,317	1,400
Miscellaneous receipts	2,851	2,413	2,456	2,459
Federal grants	59	59	59	59
Transfers from other funds:				
PIT in excess of Revenue Bond debt service	8,300	8,636	8,990	9,356
Sales tax in excess of LGAC debt service	2,277	2,368	2,474	2,584
Real estate taxes in excess of CW/CA debt service	560	563	619	621
All other	335	275	224	256
Total receipts	52,666	54,537	57,154	59,762
Disbursements:				
Grants to local governments	36,399	39,624	43,476	46,755
State operations	9,601	9,977	10,378	10,631
General State charges	4,572	4,962	5,358	5,666
Transfers to other funds:				
Debt service	1,752	1,719	1,716	1,765
Capital projects	255	332	482	856
Other purposes	683	782	794	801
Total disbursements	53,262	57,396	62,204	66,474
Deposit to/(use of) Community Projects Fund	75	(150)	(150)	(51)
Deposit to/(use of) Rainy Day Reserve Fund	125	0	0	0
Deposit to/(use of) Debt Reduction Reserve Fund	250	0	0	0
Deposit to/(use of) 2005-06 Surplus	(787)	0	0	0
Deposit to/(use of) 2006-07 Surplus	(259)	(401)	(401)	(401)
Margin	0	(2,308)	(4,499)	(6,260)

Source: NYS DOB

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2008-2009 THROUGH 2010-2011
(millions of dollars)

	2008-2009 Projected	2009-2010 Projected	2010-2011 Projected
Withholdings	30,251	32,068	33,920
Estimated Payments	12,097	13,057	13,827
Final Payments	2,256	2,404	2,561
Delinquencies	947	985	1,027
Gross Collections	45,551	48,514	51,335
State/City Offset	(466)	(533)	(509)
Refunds	(6,260)	(6,612)	(7,180)
Reported Tax Collections	38,825	41,369	43,646
STAR	(5,601)	(6,125)	(6,421)
RBTF	(9,706)	(10,342)	(10,912)
General Fund	23,518	24,902	26,313

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	2,546	2,006	(206)	184	4,530
Receipts:					
Taxes	35,304	6,057	1,941	10,341	53,643
Miscellaneous receipts	2,029	13,596	1,713	745	18,083
Federal grants	0	2	0	0	2
Total receipts	37,333	19,655	3,654	11,086	71,728
Disbursements:					
Grants to local governments	31,287	13,403	281	0	44,971
State operations	8,160	5,126	0	58	13,344
General State charges	3,975	546	0	0	4,521
Debt service	0	0	0	3,701	3,701
Capital projects	0	41	3,145	0	3,186
Total disbursements	43,422	19,116	3,426	3,759	69,723
Other financing sources (uses):					
Transfers from other funds	9,873	1,454	279	5,168	16,774
Transfers to other funds	(3,073)	(252)	(866)	(12,458)	(16,649)
Bond and note proceeds	0	0	159	0	159
Net other financing sources (uses)	6,800	1,202	(428)	(7,290)	284
Change in fund balance	711	1,741	(200)	37	2,289
Closing fund balance	3,257	3,747	(406)	221	6,819

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,257	3,747	(406)	221	6,819
Receipts:					
Taxes	38,237	7,079	2,041	10,952	58,309
Miscellaneous receipts	2,665	12,485	2,565	664	18,379
Federal grants	180	0	0	0	180
Total receipts	41,082	19,564	4,606	11,616	76,868
Disbursements:					
Grants to local governments	34,229	15,180	833	0	50,242
State operations	9,404	5,264	0	62	14,730
General State charges	4,351	585	0	0	4,936
Debt service	0	0	0	4,250	4,250
Capital projects	0	7	3,357	0	3,364
Total disbursements	47,984	21,036	4,190	4,312	77,522
Other financing sources (uses):					
Transfers from other funds	10,359	1,330	318	5,633	17,640
Transfers to other funds	(3,143)	(473)	(801)	(12,892)	(17,309)
Bond and note proceeds	0	0	227	0	227
Net other financing sources (uses)	7,216	857	(256)	(7,259)	558
Change in fund balance	314	(615)	160	45	(96)
Closing fund balance	3,571	3,132	(246)	266	6,723

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,571	3,132	(246)	266	6,723
Receipts:					
Taxes	38,284	8,105	2,166	12,406	60,961
Miscellaneous receipts	2,851	12,790	3,585	671	19,897
Federal grants	59	0	0	0	59
Total receipts	41,194	20,895	5,751	13,077	80,917
Disbursements:					
Grants to local governments	36,399	16,622	822	0	53,843
State operations	9,601	5,669	0	61	15,331
General State charges	4,572	618	0	0	5,190
Debt service	0	0	0	4,390	4,390
Capital projects	0	3	4,800	0	4,803
Total disbursements	50,572	22,912	5,622	4,451	83,557
Other financing sources (uses):					
Transfers from other funds	11,472	1,138	465	5,628	18,703
Transfers to other funds	(2,690)	(518)	(935)	(14,222)	(18,365)
Bond and note proceeds	0	0	403	0	403
Net other financing sources (uses)	8,782	620	(67)	(8,594)	741
Change in fund balance	(596)	(1,397)	62	32	(1,899)
Closing fund balance	2,975	1,735	(184)	298	4,824

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,735	(184)	298	1,849
Receipts:					
Taxes	40,223	8,825	2,200	13,140	64,388
Miscellaneous receipts	2,413	13,915	3,800	680	20,808
Federal grants	59	0	0	0	59
Total receipts	42,695	22,740	6,000	13,820	85,255
Disbursements:					
Grants to local governments	39,624	17,392	819	0	57,835
State operations	9,977	5,671	0	61	15,709
General State charges	4,962	631	0	0	5,593
Debt service	0	0	0	4,821	4,821
Capital projects	0	3	5,157	0	5,160
Total disbursements	54,563	23,697	5,976	4,882	89,118
Other financing sources (uses):					
Transfers from other funds	11,842	1,222	572	5,744	19,380
Transfers to other funds	(2,833)	(515)	(1,006)	(14,661)	(19,015)
Bond and note proceeds	0	0	545	0	545
Net other financing sources (uses)	9,009	707	111	(8,917)	910
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Deposit to/(use of) 2006-07 Surplus	(401)	0	0	0	(401)
Change in fund balance	(2,308)	(250)	135	21	(2,402)
Closing fund balance	(2,308)	1,485	(49)	319	(553)

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2009-2010
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,485	(49)	319	1,755
Receipts:					
Taxes	42,332	9,428	2,246	13,929	67,935
Miscellaneous receipts	2,456	13,735	3,580	683	20,454
Federal grants	59	0	0	0	59
Total receipts	44,847	23,163	5,826	14,612	88,448
Disbursements:					
Grants to local governments	43,476	18,370	827	0	62,673
State operations	10,378	5,676	0	61	16,115
General State charges	5,358	643	0	0	6,001
Debt service	0	0	0	5,282	5,282
Capital projects	0	3	5,196	0	5,199
Total disbursements	59,212	24,692	6,023	5,343	95,270
Other financing sources (uses):					
Transfers from other funds	12,307	1,234	653	5,906	20,100
Transfers to other funds	(2,992)	(402)	(1,103)	(15,176)	(19,673)
Bond and note proceeds	0	0	778	0	778
Net other financing sources (uses)	9,315	832	328	(9,270)	1,205
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Deposit to/(use of) 2006-07 Surplus	(401)	0	0	0	(401)
Change in fund balance	(4,499)	(697)	131	(1)	(5,066)
Closing fund balance	(4,499)	788	82	318	(3,311)

Source: NYS DOB

CASH FINANCIAL PLAN
STATE FUNDS
2010-2011
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	788	82	318	1,188
Receipts:					
Taxes	44,427	9,795	2,280	14,609	71,111
Miscellaneous receipts	2,459	14,346	3,301	683	20,789
Federal grants	59	0	0	0	59
Total receipts	46,945	24,141	5,581	15,292	91,959
Disbursements:					
Grants to local governments	46,755	19,100	802	0	66,657
State operations	10,631	5,829	0	61	16,521
General State charges	5,666	648	0	0	6,314
Debt service	0	0	0	5,927	5,927
Capital projects	0	2	4,828	0	4,830
Total disbursements	63,052	25,579	5,630	5,988	100,249
Other financing sources (uses):					
Transfers from other funds	12,817	1,241	900	6,329	21,287
Transfers to other funds	(3,422)	(315)	(1,445)	(15,654)	(20,836)
Bond and note proceeds	0	0	718	0	718
Net other financing sources (uses)	9,395	926	173	(9,325)	1,169
Deposit to/(use of) Community Projects Fund	(51)	0	0	0	(51)
Deposit to/(use of) 2006-07 Surplus	(401)	0	0	0	(401)
Change in fund balance	(6,260)	(512)	124	(21)	(6,669)
Closing fund balance	(6,260)	276	206	297	(5,481)

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	2,546	2,005	(454)	184	4,281
Receipts:					
Taxes	35,304	6,057	1,941	10,341	53,643
Miscellaneous receipts	2,029	13,767	1,714	745	18,255
Federal grants	0	33,363	1,766	0	35,129
Total receipts	37,333	53,187	5,421	11,086	107,027
Disbursements:					
Grants to local governments	31,287	43,010	739	0	75,036
State operations	8,160	8,217	0	58	16,435
General State charges	3,975	760	0	0	4,735
Debt service	0	0	0	3,701	3,701
Capital projects	0	41	4,393	0	4,434
Total disbursements	43,422	52,028	5,132	3,759	104,341
Other financing sources (uses):					
Transfers from other funds	9,873	3,856	279	5,168	19,176
Transfers to other funds	(3,073)	(2,826)	(877)	(12,458)	(19,234)
Bond and note proceeds	0	0	159	0	159
Net other financing sources (uses)	6,800	1,030	(439)	(7,290)	101
Change in fund balance	711	2,189	(150)	37	2,787
Closing fund balance	3,257	4,194	(604)	221	7,068

Source: NYS DOB

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	20,700	3,213	0	6,900	30,813
User taxes and fees	8,639	1,491	1,179	2,615	13,924
Sales and use tax	7,978	604	0	2,615	11,197
Cigarette and tobacco taxes	404	571	0	0	975
Motor fuel tax	0	111	420	0	531
Motor vehicle fees	23	205	557	0	785
Highway Use tax	0	0	160	0	160
Alcoholic beverages taxes	192	0	0	0	192
Alcoholic beverage control license fees	42	0	0	0	42
Auto rental tax	0	0	42	0	42
Business taxes	5,084	1,353	650	0	7,087
Corporation franchise tax	2,664	388	0	0	3,052
Corporation and utilities tax	591	223	18	0	832
Insurance taxes	987	96	0	0	1,083
Bank tax	842	132	0	0	974
Petroleum business tax	0	514	632	0	1,146
Other taxes	881	0	112	826	1,819
Estate tax	854	0	0	0	854
Gift tax	2	0	0	0	2
Real property gains tax	1	0	0	0	1
Real estate transfer tax	0	0	112	826	938
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Total Taxes	35,304	6,057	1,941	10,341	53,643
Miscellaneous receipts	2,029	13,767	1,714	745	18,255
Federal grants	0	33,363	1,766	0	35,129
Total	37,333	53,187	5,421	11,086	107,027

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,257	4,194	(604)	221	7,068
Receipts:					
Taxes	38,237	7,079	2,041	10,952	58,309
Miscellaneous receipts	2,665	12,644	2,565	664	18,538
Federal grants	180	34,244	1,760	0	36,184
Total receipts	41,082	53,967	6,366	11,616	113,031
Disbursements:					
Grants to local governments	34,229	46,048	971	0	81,248
State operations	9,404	8,378	0	62	17,844
General State charges	4,351	821	0	0	5,172
Debt service	0	0	0	4,250	4,250
Capital projects	0	8	5,014	0	5,022
Total disbursements	47,984	55,255	5,985	4,312	113,536
Other financing sources (uses):					
Transfers from other funds	10,359	3,706	318	5,633	20,016
Transfers to other funds	(3,143)	(3,199)	(814)	(12,892)	(20,048)
Bond and note proceeds	0	0	227	0	227
Net other financing sources (uses)	7,216	507	(269)	(7,259)	195
Change in fund balance	314	(781)	112	45	(310)
Closing fund balance	3,571	3,413	(492)	266	6,758

Source: NYS DOB

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	22,828	3,996	0	7,610	34,434
User taxes and fees	8,305	1,616	1,265	2,539	13,725
Sales and use tax	7,647	694	0	2,539	10,880
Cigarette and tobacco taxes	404	565	0	0	969
Motor fuel tax	0	109	410	0	519
Motor vehicle fees	0	248	652	0	900
Alcoholic beverages taxes	196	0	0	0	196
Highway Use tax	0	0	157	0	157
Alcoholic beverage control license fees	58	0	0	0	58
Auto rental tax	0	0	46	0	46
Business taxes	6,027	1,467	629	0	8,123
Corporation franchise tax	3,545	525	0	0	4,070
Corporation and utilities tax	619	181	17	0	817
Insurance taxes	1,113	113	0	0	1,226
Bank tax	750	155	0	0	905
Petroleum business tax	0	493	612	0	1,105
Other taxes	1,077	0	147	803	2,027
Estate tax	1,065	0	0	0	1,065
Gift tax	(10)	0	0	0	(10)
Real property gains tax	1	0	0	0	1
Real estate transfer tax	0	0	147	803	950
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	38,237	7,079	2,041	10,952	58,309
Miscellaneous receipts	2,665	12,644	2,565	664	18,538
Federal grants	180	34,244	1,760	0	36,184
Total	41,082	53,967	6,366	11,616	113,031

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	3,571	3,413	(492)	266	6,758
Receipts:					
Taxes	38,284	8,105	2,166	12,406	60,961
Miscellaneous receipts	2,851	12,937	3,585	671	20,044
Federal grants	59	35,256	1,996	0	37,311
Total receipts	41,194	56,298	7,747	13,077	118,316
Disbursements:					
Grants to local governments	36,399	48,182	964	0	85,545
State operations	9,601	8,967	0	61	18,629
General State charges	4,572	861	0	0	5,433
Debt service	0	0	0	4,390	4,390
Capital projects	0	4	6,632	0	6,636
Total disbursements	50,572	58,014	7,596	4,451	120,633
Other financing sources (uses):					
Transfers from other funds	11,472	3,637	465	5,628	21,202
Transfers to other funds	(2,690)	(3,371)	(948)	(14,222)	(21,231)
Bond and note proceeds	0	0	403	0	403
Net other financing sources (uses)	8,782	266	(80)	(8,594)	374
Change in fund balance	(596)	(1,450)	71	32	(1,943)
Closing fund balance	2,975	1,963	(421)	298	4,815

Source: NYS DOB

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	22,258	4,948	0	9,068	36,274
User taxes and fees	8,633	1,713	1,281	2,650	14,277
Sales and use tax	7,934	722	0	2,650	11,306
Cigarette and tobacco taxes	447	631	0	0	1,078
Motor fuel tax	0	112	424	0	536
Motor vehicle fees	0	248	652	0	900
Alcoholic beverages taxes	200	0	0	0	200
Highway Use tax	0	0	157	0	157
Alcoholic beverage control license fees	52	0	0	0	52
Auto rental tax	0	0	48	0	48
Business taxes	6,333	1,444	673	0	8,450
Corporation franchise tax	3,768	497	0	0	4,265
Corporation and utilities tax	618	181	17	0	816
Insurance taxes	1,150	109	0	0	1,259
Bank tax	797	129	0	0	926
Petroleum business tax	0	528	656	0	1,184
Other taxes	1,060	0	212	688	1,960
Estate tax	1,039	0	0	0	1,039
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	688	900
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	38,284	8,105	2,166	12,406	60,961
Miscellaneous receipts	2,851	12,937	3,585	671	20,044
Federal grants	59	35,256	1,996	0	37,311
Total	41,194	56,298	7,747	13,077	118,316

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,963	(421)	298	1,840
Receipts:					
Taxes	40,223	8,825	2,200	13,140	64,388
Miscellaneous receipts	2,413	14,063	3,800	680	20,956
Federal grants	59	36,993	2,032	0	39,084
Total receipts	42,695	59,881	8,032	13,820	124,428
Disbursements:					
Grants to local governments	39,624	50,552	985	0	91,161
State operations	9,977	8,992	0	61	19,030
General State charges	4,962	880	0	0	5,842
Debt service	0	0	0	4,821	4,821
Capital projects	0	4	7,001	0	7,005
Total disbursements	54,563	60,428	7,986	4,882	127,859
Other financing sources (uses):					
Transfers from other funds	11,842	3,723	572	5,744	21,881
Transfers to other funds	(2,833)	(3,411)	(1,019)	(14,661)	(21,924)
Bond and note proceeds	0	0	545	0	545
Net other financing sources (uses)	9,009	312	98	(8,917)	502
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Deposit to/(use of) 2006-07 Surplus	(401)	0	0	0	(401)
Change in fund balance	(2,308)	(235)	144	21	(2,378)
Closing fund balance	(2,308)	1,728	(277)	319	(538)

Source: NYS DOB

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	23,518	5,601	0	9,706	38,825
User taxes and fees	8,915	1,738	1,300	2,746	14,699
Sales and use tax	8,220	747	0	2,746	11,713
Cigarette and tobacco taxes	443	625	0	0	1,068
Motor fuel tax	0	113	426	0	539
Motor vehicle fees	0	253	660	0	913
Alcoholic beverages taxes	204	0	0	0	204
Highway Use tax	0	0	164	0	164
Alcoholic beverage control license fees	48	0	0	0	48
Auto rental tax	0	0	50	0	50
Business taxes	6,604	1,486	688	0	8,778
Corporation franchise tax	3,969	522	0	0	4,491
Corporation and utilities tax	623	181	17	0	821
Insurance taxes	1,180	113	0	0	1,293
Bank tax	832	128	0	0	960
Petroleum business tax	0	542	671	0	1,213
Other taxes	1,186	0	212	688	2,086
Estate tax	1,165	0	0	0	1,165
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	688	900
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	40,223	8,825	2,200	13,140	64,388
Miscellaneous receipts	2,413	14,063	3,800	680	20,956
Federal grants	59	36,993	2,032	0	39,084
Total	42,695	59,881	8,032	13,820	124,428

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2009-2010
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,728	(277)	319	1,770
Receipts:					
Taxes	42,332	9,428	2,246	13,929	67,935
Miscellaneous receipts	2,456	13,881	3,580	683	20,600
Federal grants	59	38,690	2,022	0	40,771
Total receipts	44,847	61,999	7,848	14,612	129,306
Disbursements:					
Grants to local governments	43,476	53,178	993	0	97,647
State operations	10,378	9,009	0	61	19,448
General State charges	5,358	894	0	0	6,252
Debt service	0	0	0	5,282	5,282
Capital projects	0	4	7,030	0	7,034
Total disbursements	59,212	63,085	8,023	5,343	135,663
Other financing sources (uses):					
Transfers from other funds	12,307	3,732	653	5,906	22,598
Transfers to other funds	(2,992)	(3,334)	(1,117)	(15,176)	(22,619)
Bond and note proceeds	0	0	778	0	778
Net other financing sources (uses)	9,315	398	314	(9,270)	757
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Deposit to/(use of) 2006-07 Surplus	(401)	0	0	0	(401)
Change in fund balance	(4,499)	(688)	139	(1)	(5,049)
Closing fund balance	(4,499)	1,040	(138)	318	(3,279)

Source: NYS DOB

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2009-2010
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	24,902	6,126	0	10,342	41,370
User taxes and fees	9,228	1,781	1,343	2,849	15,201
Sales and use tax	8,529	776	0	2,849	12,154
Cigarette and tobacco taxes	438	616	0	0	1,054
Motor fuel tax	0	114	428	0	542
Motor vehicle fees	0	275	696	0	971
Alcoholic beverages taxes	209	0	0	0	209
Highway Use tax	0	0	167	0	167
Alcoholic beverage control license fees	52	0	0	0	52
Auto rental tax	0	0	52	0	52
Business taxes	6,885	1,521	691	0	9,097
Corporation franchise tax	4,209	552	0	0	4,761
Corporation and utilities tax	628	181	17	0	826
Insurance taxes	1,216	115	0	0	1,331
Bank tax	832	128	0	0	960
Petroleum business tax	0	545	674	0	1,219
Other taxes	1,317	0	212	738	2,267
Estate tax	1,296	0	0	0	1,296
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	738	950
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	42,332	9,428	2,246	13,929	67,935
Miscellaneous receipts	2,456	13,881	3,580	683	20,600
Federal grants	59	38,690	2,022	0	40,771
Total	44,847	61,999	7,848	14,612	129,306

Source: NYS DOB

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2010-2011
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,040	(138)	318	1,220
Receipts:					
Taxes	44,427	9,795	2,280	14,609	71,111
Miscellaneous receipts	2,459	14,490	3,301	683	20,933
Federal grants	59	40,489	2,051	0	42,599
Total receipts	46,945	64,774	7,632	15,292	134,643
Disbursements:					
Grants to local governments	46,755	55,667	968	0	103,390
State operations	10,631	9,183	0	61	19,875
General State charges	5,666	903	0	0	6,569
Debt service	0	0	0	5,927	5,927
Capital projects	0	3	6,665	0	6,668
Total disbursements	63,052	65,756	7,633	5,988	142,429
Other financing sources (uses):					
Transfers from other funds	12,817	3,739	900	6,329	23,785
Transfers to other funds	(3,422)	(3,262)	(1,459)	(15,654)	(23,797)
Bond and note proceeds	0	0	718	0	718
Net other financing sources (uses)	9,395	477	159	(9,325)	706
Deposit to/(use of) Community Projects Fund	(51)	0	0	0	(51)
Deposit to/(use of) 2006-07 Surplus	(401)	0	0	0	(401)
Change in fund balance	(6,260)	(505)	158	(21)	(6,628)
Closing fund balance	(6,260)	535	20	297	(5,408)

Source: NYS DOB

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2010-2011
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	26,313	6,422	0	10,912	43,647
User taxes and fees	9,554	1,815	1,375	2,959	15,703
Sales and use tax	8,860	806	0	2,959	12,625
Cigarette and tobacco taxes	432	606	0	0	1,038
Motor fuel tax	0	115	429	0	544
Motor vehicle fees	0	288	720	0	1,008
Alcoholic beverages taxes	214	0	0	0	214
Highway Use tax	0	0	171	0	171
Alcoholic beverage control license fees	48	0	0	0	48
Auto rental tax	0	0	55	0	55
Business taxes	7,160	1,558	693	0	9,411
Corporation franchise tax	4,441	582	0	0	5,023
Corporation and utilities tax	632	182	17	0	831
Insurance taxes	1,255	119	0	0	1,374
Bank tax	832	128	0	0	960
Petroleum business tax	0	547	676	0	1,223
Other taxes	1,400	0	212	738	2,350
Estate tax	1,379	0	0	0	1,379
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	738	950
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	44,427	9,795	2,280	14,609	71,111
Miscellaneous receipts	2,459	14,490	3,301	683	20,933
Federal grants	59	40,489	2,051	0	42,599
Total	46,945	64,774	7,632	15,292	134,643

Source: NYS DOB

CASHFLOW
GENERAL FUND
2005-2006
(dollars in millions)

	2005 April Actual	May Actual	June Actual	July Actual	August Actual	September Actual	October Actual	November Actual	December Actual	2006 January Actual	February Actual	March Actual	Total
OPENING BALANCE	2,546	5,584	3,188	4,007	3,603	3,670	4,923	4,355	3,011	3,581	7,873	8,105	2,546
RECEIPTS:													
Personal Income Tax	3,347	553	2,213	1,254	1,537	2,105	719	522	1,504	4,216	1,641	1,089	20,700
User Taxes and Fees	662	667	894	680	628	898	626	629	874	726	561	794	8,639
Business Taxes	217	177	891	90	83	919	91	53	954	21	127	1,461	5,084
Other Taxes	49	64	131	118	63	68	71	77	67	56	72	45	881
Total Taxes	4,275	1,461	4,129	2,142	2,311	3,990	1,507	1,281	3,399	5,019	2,401	3,389	35,304
Licenses, fees, etc.	47	57	55	30	38	38	68	53	43	38	33	50	550
Abandoned Property	25	0	15	10	35	35	8	142	62	0	0	230	562
Reimbursement	4	5	27	4	24	24	12	4	21	8	8	97	238
Investment income	29	(3)	4	12	(23)	(23)	43	2	6	33	(4)	3	79
Other transactions	56	22	75	39	35	34	48	23	70	20	12	166	600
Total Miscellaneous Receipts	161	81	176	95	109	108	179	224	202	99	49	546	2,029
PIT in excess of Revenue Bond Debt Service	1,114	160	737	417	431	718	210	5	539	1,405	295	469	6,500
Sales Tax in Excess of LGAC Debt Service	174	57	392	201	113	281	187	188	263	221	4	214	2,295
Real Estate Taxes in Excess of CW/CA Debt Service	108	60	15	66	99	66	65	50	71	48	25	42	715
All Other	0	76	63	7	6	12	9	5	11	14	5	155	363
Total Transfers from Other Funds	1,396	353	1,207	691	649	1,077	471	248	884	1,688	329	880	9,873
TOTAL RECEIPTS	5,832	1,895	5,512	2,928	3,069	5,175	2,157	1,753	4,485	6,806	2,779	4,815	47,206
DISBURSEMENTS:													
School Aid	168	1,917	1,253	53	351	1,205	431	463	1,104	284	583	5,687	13,499
Higher Education	20	16	165	211	258	47	385	34	216	36	39	363	1,790
All Other Education	40	213	115	166	64	45	46	88	193	223	99	169	1,461
Medicaid	798	633	1,155	466	864	494	447	875	352	645	774	1,131	8,634
Public Heatlh	110	14	43	29	40	16	55	(5)	20	69	17	105	513
Mental Hygiene	54	99	56	117	66	145	119	76	113	198	185	217	1,445
Children and Families	4	134	66	109	92	173	64	67	176	72	73	243	1,273
Temporary & Disability Assistance	114	138	74	80	150	10	156	149	(4)	143	118	123	1,251
Transportation	0	6	9	45	14	0	0	14	7	0	7	47	149
All Other	14	25	344	47	101	138	11	94	399	(24)	(78)	201	1,272
Total Local Assistance Grants	1,322	3,195	3,280	1,323	2,000	2,273	1,714	1,855	2,576	1,646	1,817	8,286	31,287
Personal Service	562	520	687	556	476	690	433	621	368	349	229	214	5,705
Non-Personal Service	174	223	180	160	214	174	200	195	199	219	204	313	2,455
Total State Operations	736	743	867	716	690	864	633	816	567	568	433	527	8,160
General State Charges	405	186	269	1,212	213	379	249	189	237	276	203	157	3,975
Debt Service	207	105	197	39	30	313	50	158	389	16	32	174	1,710
Capital Projects	15	30	44	16	42	33	46	54	14	(14)	30	(24)	286
Other Purposes	109	32	36	26	27	60	33	25	132	22	32	543	1,077
Total Transfers to Other Funds	331	167	277	81	99	406	129	237	535	24	94	693	3,073
TOTAL DISBURSEMENTS	2,794	4,291	4,693	3,332	3,002	3,922	2,725	3,097	3,915	2,514	2,547	9,663	46,495
Excess/(Deficiency) of Receipts over Disbursements	3,038	(2,396)	819	(404)	67	1,253	(568)	(1,344)	570	4,292	232	(4,848)	711
CLOSING BALANCE	5,584	3,188	4,007	3,603	3,670	4,923	4,355	3,011	3,581	7,873	8,105	3,257	3,257

Source: NYS DOB

CASHFLOW
GENERAL FUND
2006-2007
(dollars in millions)

	2006 April Actuals	May Actuals	June Actuals	July Actuals	August Actuals	September Actuals	October Actuals	November Actuals	December Actuals	2007 January Projected	February Projected	March Projected	Total
OPENING BALANCE	3,257	7,517	3,730	4,485	4,957	3,944	4,734	4,340	2,189	2,368	7,768	7,240	3,257
RECEIPTS:													
Personal Income Tax	4,170	689	2,393	1,340	1,537	1,943	835	198	1,502	5,067	1,460	1,694	22,828
User Taxes and Fees	600	597	843	653	607	852	617	608	888	720	550	770	8,305
Business Taxes	325	83	1,002	120	76	1,091	576	144	1,102	68	57	1,383	6,027
Other Taxes	104	80	112	119	70	61	107	82	179	55	54	54	1,077
Total Taxes	5,199	1,449	4,350	2,232	2,290	3,947	2,135	1,032	3,671	5,910	2,121	3,901	38,237
Licenses, fees, etc.	42	63	52	38	71	72	102	26	39	50	52	78	685
Abandoned Property	38	0	30	20	5	45	13	149	20	29	31	319	699
Reimbursement	3	8	22	5	15	25	9	11	27	8	9	29	171
Investment income	52	(6)	12	24	(3)	14	37	21	23	25	5	8	212
Other transactions	32	56	163	30	22	31	15	27	34	14	14	460	898
Total Miscellaneous Receipts	167	121	279	117	110	187	176	234	143	126	111	894	2,665
Federal Grants	0	0	111	0	(1)	0	15	0	10	1	1	43	180
PIT in excess of Revenue Bond Debt Service	1,388	199	803	445	386	673	228	(68)	514	1,689	122	716	7,095
Sales Tax in Excess of LGAC Debt Service	163	53	385	187	187	189	183	180	276	212	2	163	2,180
Real Estate Taxes in Excess of CW/CA Debt Service	92	72	57	53	64	0	123	31	91	32	34	33	682
All Other	1	0	63	30	9	10	9	1	11	65	0	203	402
Total Transfers from Other Funds	1,644	324	1,308	715	646	872	543	144	892	1,998	158	1,115	10,359
TOTAL RECEIPTS	7,010	1,894	6,048	3,064	3,045	5,006	2,869	1,410	4,716	8,035	2,391	5,953	51,441
DISBURSEMENTS:													
School Aid	135	1,945	1,567	128	393	1,302	474	691	1,219	525	552	5,645	14,576
Higher Education	7	18	107	149	474	45	355	23	217	44	310	515	2,264
All Other Education	21	301	123	82	105	173	45	62	19	205	175	371	1,682
Medicaid	916	1,196	825	657	1,146	538	413	909	686	437	555	741	9,019
Public Heatlh	111	51	15	51	13	30	45	39	22	69	38	111	595
Mental Hygiene	56	69	67	122	68	195	101	65	179	198	166	286	1,572
Children and Families	2	123	50	92	183	99	70	70	179	71	81	335	1,355
Temporary & Disability Assistance	80	203	59	75	142	173	30	161	175	81	125	(23)	1,281
Transportation	1	0	14	0	14	1	0	15	8	0	6	2	61
All Other	0	55	342	62	50	224	74	63	496	39	52	367	1,824
Total Local Assistance Grants	1,329	3,961	3,169	1,418	2,588	2,780	1,607	2,098	3,200	1,669	2,060	8,350	34,229
Personal Service	595	766	531	587	856	561	592	754	428	376	272	464	6,782
Non-Personal Service	177	234	239	183	233	195	204	146	194	185	226	406	2,622
Total State Operations	772	1,000	770	770	1,089	756	796	900	622	561	498	870	9,404
General State Charges	296	443	1,193	228	230	273	428	255	275	322	216	192	4,351
Debt Service	205	122	186	60	48	316	42	167	387	7	25	198	1,763
Capital Projects	26	124	(64)	37	56	17	109	52	13	54	58	(266)	216
Other Purposes	122	31	39	79	47	74	281	89	40	22	62	278	1,164
Total Transfers to Other Funds	353	277	161	176	151	407	432	308	440	83	145	210	3,143
TOTAL DISBURSEMENTS	2,750	5,681	5,293	2,592	4,058	4,216	3,263	3,561	4,537	2,635	2,919	9,622	51,127
Excess/(Deficiency) of Receipts over Disbursements	4,260	(3,787)	755	472	(1,013)	790	(394)	(2,151)	179	5,400	(528)	(3,669)	314
CLOSING BALANCE	7,517	3,730	4,485	4,957	3,944	4,734	4,340	2,189	2,368	7,768	7,240	3,571	3,571

Source: NYS DOB

CASH FLOW
GENERAL FUND
APRIL 1 THROUGH DECEMBER 31, 2006
(millions of dollars)

	Mid-Year Projected	Actual Results	Over/(Under) Variance
Opening fund balance	3,257	3,257	0
Receipts:			
Taxes:			
Personal income tax	15,019	14,605	(414)
User taxes and fees	6,168	6,264	96
Business taxes	4,260	4,519	259
Other taxes	755	917	162
Total Taxes	26,202	26,305	103
Licenses, fees, etc.	537	505	(32)
Abandoned Property	459	320	(139)
Reimbursement	119	125	6
Investment income	107	174	67
Other transactions	584	410	(174)
Total Miscellaneous receipts	1,806	1,534	(272)
Federal grants	153	136	(17)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,692	4,570	(122)
Sales tax in excess of LGAC debt service	1,778	1,803	25
Real estate taxes in excess of CW/CA debt service	461	582	121
All other	139	135	(4)
Total Transfers	7,070	7,090	20
Total receipts	35,231	35,065	(166)
Disbursements:			
School Aid	7,853	7,889	36
Higher Education	1,439	1,395	(44)
All Other Education	1,111	932	(179)
Medicaid	7,481	7,286	(195)
Public Heatlh	380	377	(3)
Mental Hygiene	876	922	46
Children and Families	912	868	(44)
Temporary & Disability Assistance	1,108	1,098	(10)
Transportation	53	53	0
All Other	1,389	1,330	(59)
Total Local Assistance Grants	22,602	22,150	(452)
State operations:			
Personal Service	5,621	5,670	49
Non-Personal Service	1,879	1,805	(74)
Total State Operation	7,500	7,475	(25)
General State charges	3,603	3,621	18
Transfers to other funds:			
Debt service	1,547	1,535	(12)
Capital projects	400	365	(35)
Other purposes	814	808	(6)
Total Transfers to Other Funds	2,761	2,708	(53)
Total disbursements	36,466	35,954	(512)
Change in fund balance	(1,235)	(889)	346
Closing fund balance	2,022	2,368	346

Source: NYS DOB

CASH FLOW
GENERAL FUND
APRIL 1 THROUGH DECEMBER 31, 2006
(millions of dollars)

	First Quarter Projected	Actual Results	Over/(Under) Variance
Opening fund balance	3,257	3,257	0
Receipts:			
Taxes:			
Personal income tax	14,990	14,605	(385)
User taxes and fees	6,190	6,264	74
Business taxes	3,888	4,519	631
Other taxes	727	917	190
Total Taxes	25,795	26,305	510
Licenses, fees, etc.	507	505	(2)
Abandoned Property	461	320	(141)
Reimbursement	124	125	1
Investment income	94	174	80
Other transactions	394	410	16
Total Miscellaneous receipts	1,580	1,534	(46)
Federal grants	158	136	(22)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,680	4,570	(110)
Sales tax in excess of LGAC debt service	1,795	1,803	8
Real estate taxes in excess of CW/CA debt service	481	582	101
All other	197	135	(62)
Total Transfers	7,153	7,090	(63)
Total receipts	34,686	35,065	379
Disbursements:			
School Aid	7,554	7,889	335
Higher Education	1,260	1,395	135
All Other Education	1,046	932	(114)
Medicaid	7,232	7,286	54
Public Heatlh	375	377	2
Mental Hygiene	800	922	122
Children and Families	843	868	25
Temporary & Disability Assistance	972	1,098	126
Transportation	52	53	1
All Other	1,418	1,330	(88)
Total Local Assistance Grants	21,552	22,150	598
State operations:			
Personal Service	5,676	5,670	(6)
Non-Personal Service	1,924	1,805	(119)
Total State Operation	7,600	7,475	(125)
General State charges	3,577	3,621	44
Transfers to other funds:			
Debt service	1,571	1,535	(36)
Capital projects	381	365	(16)
Other purposes	572	808	236
Total Transfers to Other Funds	2,524	2,708	184
Total disbursements	35,253	35,954	701
Change in fund balance	(567)	(889)	(322)
Closing fund balance	2,690	2,368	(322)

Source: NYS DOB

CASH FLOW
GENERAL FUND
APRIL 1 THROUGH DECEMBER 31 (ACTUALS)
(millions of dollars)

	2005 Actual Results	2006 Actual Results	Change
Opening fund balance	2,546	3,257	711
Receipts:			
Taxes:			
Personal income tax	13,755	14,605	850
User taxes and fees	6,557	6,264	(293)
Business taxes	3,476	4,519	1,043
Other taxes	708	917	209
Total Taxes	24,496	26,305	1,809
Licenses, fees, etc.	429	505	76
Abandoned Property	332	320	(12)
Reimbursement	125	125	0
Investment income	47	174	127
Other transactions	402	410	8
Total Miscellaneous receipts	1,335	1,534	199
Federal grants	0	136	136
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,331	4,570	239
Sales tax in excess of LGAC debt service	1,856	1,803	(53)
Real estate taxes in excess of CW/CA debt service	600	582	(18)
All other	189	135	(54)
Total Transfers	6,976	7,090	114
Total receipts	32,807	35,065	2,258
Disbursements:			
School Aid	6,945	7,889	944
Higher Education	1,352	1,395	43
All Other Education	970	932	(38)
Medicaid	6,193	7,286	1,093
Public Heatlh	322	377	55
Mental Hygiene	845	922	77
Children and Families	885	868	(17)
Temporary & Disability Assistance	867	1,098	231
Transportation	95	53	(42)
All Other	1,063	1,330	267
Total Local Assistance Grants	19,537	22,150	2,613
State operations:			
Personal Service	4,914	5,670	756
Non-Personal Service	1,720	1,805	85
Total State Operation	6,634	7,475	841
General State charges	3,340	3,621	281
Transfers to other funds:			
Debt service	1,488	1,535	47
Capital projects	293	365	72
Other purposes	480	808	328
Total Transfers to Other Funds	2,261	2,708	447
Total disbursements	31,772	35,954	4,182
Change in fund balance	1,035	(889)	(1,924)
Closing fund balance	3,581	2,368	(1,213)

Source: NYS DOB

CASHFLOW
SPECIAL REVENUE FUND
2006-2007
(dollars in millions)

	2006 April Actuals	May Actuals	June Actuals	July Actuals	August Actuals	September Actuals	October Actuals	November Actuals	December Actuals	2007 January Projected	February Projected	March Projected	Total
OPENING BALANCE	4,194	4,902	4,711	5,245	5,233	5,173	4,479	4,212	4,164	4,276	3,857	3,538	4,194
RECEIPTS:													
Personal Income Tax	0	0	0	0	0	783	1,019	1,157	1,081	0		(44)	3,996
User Taxes and Fees	179	128	165	123	142	136	137	123	155	132	115	81	1,616
Business Taxes	89	54	199	60	61	214	138	72	195	65	42	278	1,467
Total Taxes	268	182	364	183	203	1,133	1,294	1,352	1,431	197	157	315	7,079
HCRA	198	302	276	263	270	242	267	286	769	194	181	663	3,911
State University Income	255	144	171	164	259	382	266	184	169	200	300	137	2,631
Lottery	208	235	183	175	214	181	184	235	199	247	215	208	2,484
Medicaid	35	37	38	37	37	239	56	53	57	40	40	90	759
Other receipts	163	210	293	301	257	301	387	160	274	169	184	160	2,859
Total Miscellaneous Receipts	859	928	961	940	1,037	1,345	1,160	918	1,468	850	920	1,258	12,644
Federal Grants	2,023	2,646	3,232	2,260	2,997	2,724	2,320	2,944	2,778	3,674	3,096	3,550	34,244
TOTAL RECEIPTS	3,150	3,756	4,557	3,383	4,237	5,202	4,774	5,214	5,677	4,721	4,173	5,123	53,967
DISBURSEMENTS:													
School Aid	276	483	397	194	75	1,902	153	285	426	274	366	561	5,392
STAR	0	0	0	0	0	591	1,109	866	1,067	364	0	(1)	3,996
Medicaid	1,289	1,904	1,884	1,668	2,362	1,997	1,878	2,112	1,805	2,559	1,802	2,093	23,353
Public Heatlh	97	278	262	300	506	201	275	235	260	328	401	190	3,333
Mental Hygiene	16	171	163	154	182	150	228	219	31	31	31	49	1,425
Children and Families	3	143	40	13	85	135	(3)	38	100	90	350	157	1,151
Temporary & Disability Assistance	41	151	367	162	273	174	264	246	399	229	224	672	3,202
Transportation	76	51	260	233	263	88	48	354	649	72	125	100	2,319
All Other	134	93	120	213	(7)	89	202	147	124	254	254	254	1,877
Total Local Assistance Grants	1,932	3,274	3,493	2,937	3,739	5,327	4,154	4,502	4,861	4,201	3,553	4,075	46,048
Personal Service	249	355	310	270	307	326	398	429	492	517	630	722	5,005
Non-Personal Service	241	231	305	218	192	297	285	331	265	281	276	451	3,373
Total State Operations	490	586	615	488	499	623	683	760	757	798	906	1,173	8,378
General State Charges	70	67	63	50	88	65	47	86	63	70	70	82	821
Capital Projects	1	5	6	4	3	3	4	3	12	0	0	(33)	8
TOTAL DISBURSEMENTS	2,493	3,932	4,177	3,479	4,329	6,018	4,888	5,351	5,693	5,069	4,529	5,297	55,255
OTHER FINANCING SOURCES (uses):													
Transfers from other funds	245	275	408	202	390	312	97	337	361	268	311	500	3,706
Transfers to other funds	(194)	(290)	(254)	(118)	(358)	(190)	(250)	(248)	(233)	(339)	(274)	(451)	(3,199)
Net other financing sources (uses)	51	(15)	154	84	32	122	(153)	89	128	(71)	37	49	507
Excess/(Deficiency) of Receipts over Disbursements	708	(191)	534	(12)	(60)	(694)	(267)	(48)	112	(419)	(319)	(125)	(781)
CLOSING BALANCE	4,902	4,711	5,245	5,233	5,173	4,479	4,212	4,164	4,276	3,857	3,538	3,413	3,413

Source: NYS DOB

PROPOSED FORM OF BOND COUNSEL OPINION

March 15, 2007

NEW YORK CITY TRANSITIONAL
FINANCE AUTHORITY

We have acted as bond counsel to the New York City Transitional Finance Authority (the "Authority"), a public benefit corporation organized under the laws of the State of New York (the "State"), in the Authority's issuance of its Building Aid Revenue Bonds, Fiscal 2007 Series S-2 (the "New Bonds"). The New Bonds are being issued pursuant to Chapter 16, Laws of New York, 1997, as amended (the "Act"), to an Indenture dated as of October 1, 1997, as supplemented, and as amended and restated November 16, 2006 (the "Indenture"), between the Authority and The Bank of New York, as Trustee, and to an Assignment of State Aid dated October 19, 2006 (the "Assignment"), and a Financing Agreement dated October 1, 1997, as supplemented and as amended and restated November 16, 2006 (the "Agreement"), between the Authority and The City of New York (the "City"). Terms not defined herein are used as defined in the Indenture.

The New Bonds are dated, bear interest, mature, are subject to redemption and are secured as set forth in the Indenture. The Authority is authorized to issue additional bonds (together with such bonds heretofore issued and the New Bonds, the "Bonds") on the terms and conditions set forth in the Indenture and all such Bonds shall be entitled to the benefit, protection and security of the Indenture, payable from the sources of revenue in the order of priority set forth therein. We assume the parties will perform their respective covenants in the Indenture and the Agreement in all material respects.

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

1. The Authority is a public benefit corporation duly organized and existing under the laws of the State, and is authorized under the laws of the State, particularly the Act, to enter into the Indenture and the Agreement and to issue the New Bonds. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matter of this opinion letter.

2. The New Bonds have been duly authorized, executed, and delivered by the Authority and are valid and binding obligations of the Authority payable from the Building Aid pledged and the other collateral provided for School Bonds in the Indenture. The Bonds do not constitute a debt of the State or the City, and neither the State nor the City shall be liable thereon, nor shall the Bonds be payable out of any funds other than those of the Authority.

3. The Act validly provides for (a) the payment to the Authority of the Building Aid, (b) the Authority's pledge to the Trustee of the Building Aid and other collateral described in the Indenture and (c) the application of proceeds of the Bonds to purposes of the City.

4. The City, acting through the Mayor, has assigned to the Authority all of the State school building aid payable to the City or its school district pursuant to section 3602.6 of the Education Law (or to any successor provision of State law) and, under the Act, such Building Aid and the right to receive the Building Aid are the property of the Authority. The Building Aid is subject to State appropriation, to prior claims under the Constitution and laws of the State, and to priorities under the Indenture in favor of outstanding Senior Bonds, Recovery Bonds and Parity Debt.

5. The Indenture (a) has been duly and lawfully authorized, executed and delivered by the Authority, (b) creates the valid pledge of Building Aid and other collateral that it purports to create and (c) is a valid and binding agreement, enforceable in accordance with its terms, of the Authority, and to the extent specified in the Act, the State. The Act does not restrict the right of the State to amend, modify, repeal or otherwise alter

statutes imposing or relating to the Building Aid nor does it obligate the State to make any payments not specified in the Act or impose any taxes to satisfy the obligations of the Authority.

6. The lien of the Indenture on the Building Aid for the security of the outstanding Senior Bonds and other instruments, including the New Bonds, to the extent specified in the Indenture is, and pursuant to the covenant of the Authority in the Indenture will be, prior to all other liens thereon. The pledge of Revenues, including the Building Aid, and other collateral made by the Authority in the Indenture is valid, binding and perfected without any physical delivery of the collateral or further act, and the lien thereof is valid, binding and perfected against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of such parties' notice thereof.

7. The Assignment and the Agreement have been duly and lawfully authorized, executed and delivered by the Authority and the City pursuant to the Act, and are valid and binding agreements of each of them.

8. The Authority is not eligible for protection from its creditors pursuant to Title 11 (the "Bankruptcy Code") of the United States Code. If the debts of the City were adjusted under the Bankruptcy Code, and the City or its creditors asserted a right to the Building Aid superior or equal to the rights of the holders of the Bonds, such assertion would not succeed.

9. The New Bonds are issued for school purposes and therefore entitled to the benefit of § 99-b of the State Finance Law.

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

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

12. Interest on the New Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Tax 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.

13. The excess, if any, of the stated redemption price at maturity of any maturity of the New Bonds 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 New Bonds with original issue discount is excluded from gross income for federal income tax purposes to the same extent as interest on the New Bonds. In general, the issue price of a maturity of the New Bonds is the first price at which a substantial amount of New 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). The Tax Code provides that such original issue discount excluded as interest accrues in accordance with a constant yield method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of the New Bonds with original issue discount will be increased by the amount of such accrued interest.

14. No registration with, consent of, or approval by any governmental agency or commission that has not been obtained is necessary for the execution and delivery of the New Bonds. The adoption and compliance with all of the terms and conditions of the Indenture and the New Bonds, and the execution and delivery of the New Bonds, will not result in a violation of or be in conflict with any existing law.

The rights of the holders 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 except as specifically stated above, and 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.

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FINANCIAL SECURITY ASSURANCE INC. BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2007 S-2 Bonds maturing January 15, 2013 through January 15, 2020, inclusive (the “Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Financial Security Assurance Inc.

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

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

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

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

Other than with respect to information concerning Financial Security contained in this Exhibit E and Exhibit F specimen “Municipal Bond Insurance Policy”, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium: $

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

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

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

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

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

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 500NY (5/90)

FINANCIAL GUARANTY INSURANCE COMPANY BOND INSURANCE

Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the issuer or the underwriter as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Series 2007 S-2 Bonds maturing January 15, 2021 through January 15, 2037, inclusive (the "Bonds"), Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Bonds. The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At December 31, 2006, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At December 31, 2006, Financial Guaranty had net admitted assets of approximately $3.894 billion, total liabilities of approximately $2.763 billion, and total capital and policyholders' surplus of approximately $1.131 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of December 31, 2006 and December 31, 2005, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "APPENDIX G – FINANCIAL GUARANTY INSURANCE COMPANY BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Recent Developments

On November 15, 2006, Financial Guaranty received a subpoena from the Antitrust Division of the U.S. Department of Justice. Based upon press reports, Financial Guaranty believes that the subpoena relates to an ongoing criminal investigation of alleged bid rigging of awards of municipal guaranteed investment contracts ("Municipal GICs") and that several other companies (including other financial guarantors) have received similar subpoenas. Until December 18, 2003, when Financial Guaranty was acquired from General Electric Capital Corporation ("GE Capital") by its current owners, Financial Guaranty was affiliated with certain companies (the "Former Affiliates") that provided Municipal GICs. The Former Affiliates remained a part of GE Capital after the acquisition of Financial Guaranty, and the outstanding Municipal GICs remained with the Former Affiliates. The subpoena contains no allegations or statements concerning the activities of Financial Guaranty. Financial Guaranty intends to cooperate fully with the investigation.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "APPENDIX G – FINANCIAL GUARANTY INSURANCE COMPANY BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

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principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory New York State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

The insurance provided by this Policy is not covered by the New York Property/Casualty Insurance Security Fund (New York Insurance Code, Article 76).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

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125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory New York State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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