In the opinion of Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Corporation described herein, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the federal alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel is further of the opinion that interest on the Series 2012A Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. See "SECTION XIII: TAX MATTERS" herein regarding certain other tax considerations.

$1,000,000,000
Hudson Yards Infrastructure Corporation
Hudson Yards Senior Revenue Bonds
Fiscal 2012 Series A

Dated: Date of Delivery **Due: As shown on the inside cover page**

The Hudson Yards Senior Revenue Bonds Fiscal 2012 Series A (the "Series 2012A Bonds") are being issued by Hudson Yards Infrastructure Corporation (the "Corporation"), a local development corporation organized by The City of New York (the "City") under the Not-For-Profit Corporation Law of the State of New York (the "State"), pursuant to a Trust Indenture by and between the Corporation and U.S. Bank National Association, New York, New York, as Trustee (the "Trustee"), dated as of December 1, 2006, as amended by a First Supplemental Trust Indenture, dated as of December 1, 2006 and a Second Supplemental Trust Indenture, dated as of February 1, 2008, and as further amended and restated as of October 1, 2011 (collectively, the "Amended and Restated Indenture"), and the Third Supplemental Trust Indenture dated as of October 1, 2011 (the "Third Supplemental Trust Indenture"). The Amended and Restated Indenture and the Third Supplemental Trust Indenture are referred to together as the "Indenture." The Corporation is an instrumentality of, but separate and apart from, the City.

The Series 2012A Bonds are being issued by the Corporation to finance a portion of the costs of the Project (described herein), including a portion of the costs of the Subway Extension and Public Amenities, each as defined herein, and the acquisition of certain property for such purposes. The Project is intended to encourage and facilitate extensive new privately owned commercial and residential development in the Hudson Yards Financing District (defined herein).

The Series 2012A Bonds are the second series of Senior Bonds issued by the Corporation. The Corporation issued $2,000,000,000 Hudson Yards Senior Revenue Bonds Fiscal 2007 Series A (the "Series 2007A Bonds"; the Series 2007A Bonds, the Series 2012A Bonds and any additional series of bonds issued under the Indenture, are collectively referred to as the "Bonds") in December 2006. The Series 2007A Bonds are, and the Series 2012A Bonds will be, designated as "Senior Bonds" under the Indenture.

Interest on the Series 2012A Bonds will be payable semiannually on February 15 and August 15 of each year, beginning on February 15, 2012. The Series 2012A Bonds can be purchased in principal amounts of $5,000 or any integral multiple thereof. Other terms of the Series 2012A Bonds, including redemption provisions, are described herein. The Series 2012A Bonds will be issued as registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the Series 2012A Bonds.

The Corporation expects to receive revenues from development in the Hudson Yards Financing District which will be applied to pay debt service on the Bonds. Initially, however, the Corporation does not expect to receive sufficient revenues from such development to pay all interest due on the Bonds. In the absence of sufficient revenues from such development to permit the Corporation to pay such interest, the City has agreed to make payments to the Corporation, subject to annual appropriation, pursuant to the Hudson Yards Support and Development Agreement, dated as of December 1, 2006, entered into between the City, the Corporation and Hudson Yards Development Corporation, in the amounts necessary to permit the Corporation to pay interest due on up to $3 billion of its Bonds so long as such Bonds are outstanding ("Interest Support Payments"). See "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS."

Payment of principal of the Bonds will be made by the Corporation from revenues received as a result of development in the Hudson Yards Financing District as described in this Official Statement. The Corporation is not obligated to make any payments of principal of the Series 2012A Bonds prior to maturity unless and until the Corporation receives Revenues (as defined herein) in amounts sufficient to make such payments. After the date on which the Series 2012A Bonds are first callable and prior to the Conversion Date (as defined herein), all Revenues received by the Corporation in a Fiscal Year remaining after funding of the Corporation's expenses and interest on Senior Bonds for such Fiscal Year and interest on Senior Bonds for the subsequent Fiscal Year must be used to purchase or redeem Senior Bonds in advance of their maturity except that, if, during such Fiscal Year, the City has made Interest Support Payments, then the Corporation must first reimburse the City for such Interest Support Payments prior to purchasing or redeeming Senior Bonds. The Indenture provides that a schedule of Sinking Fund Installments must be established for outstanding Bonds not later than the June 30 of the Fiscal Year during which the Conversion Date occurs, which is the date on which the Corporation has certified that it has received Net Recurring Revenues (as defined herein) for each of the two immediately preceding Fiscal Years in amounts not less than, among other factors, 125% of Maximum Annual Debt Service on then Outstanding Senior Bonds, all as specified in the Indenture. See "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS — Conversion Date" and "SECTION XI: THE SERIES 2012A BONDS — Redemption of Series 2012A Bonds" for a description of the procedures established in the Indenture for determining the Conversion Date and the calculation of Sinking Fund Installments.

The scheduled payment of principal of and interest on the Series 2012A Bonds bearing interest at 5% (the "Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp.

INVESTMENT IN THE SERIES 2012A BONDS INVOLVES CERTAIN RISKS. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION. SEE "SECTION II: RISK FACTORS" IN THIS OFFICIAL STATEMENT FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN EVALUATING AN INVESTMENT IN THE SERIES 2012A BONDS. THE SERIES 2012A BONDS ARE NOT A DEBT OF THE CITY, AND THE CITY HAS NO OBLIGATION TO PAY PRINCIPAL OF OR, ABSENT AN APPROPRIATION THEREFOR AS DESCRIBED HEREIN, INTEREST ON, THE SERIES 2012A BONDS. THE CORPORATION HAS NO TAXING POWER.

The Series 2012A Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Nixon Peabody LLP, New York, New York, Bond Counsel. Certain legal matters with respect to the Corporation and the City will be passed upon by the City's Corporation Counsel, and certain legal matters with respect to the City's disclosure in Appendix D to this Official Statement will be passed upon by Orrick, Herrington & Sutcliffe LLP, New York, New York, Special Disclosure Counsel to the City. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York. It is expected that the Series 2012A Bonds will be available for delivery to DTC on or about October 26, 2011.

J.P. Morgan **Goldman, Sachs & Co.**

Barclays Capital **BofA Merrill Lynch** **Cabrera Capital Markets, LLC** **Citigroup**
Fidelity Capital Markets **Jackson Securities** **Jefferies & Company** **Loop Capital Markets, LLC**
M.R. Beal & Company **Morgan Keegan** **Morgan Stanley** **Ramirez & Co., Inc.**
Raymond James & Associates, Inc. **RBC Capital Markets** **Rice Financial Products Company** **Roosevelt & Cross Incorporated**
Siebert Brandford Shank & Co., LLC **Southwest Securities, Inc.** **Wells Fargo Bank, National Association**

BB&T Capital Markets **Janney Montgomery Scott LLC** **Lebenthal & Co. LLC** **MFR Securities, Inc.**
Oppenheimer & Co. Inc. **Piper Jaffray** **Stifel Nicolaus** **TD Securities**

October 20, 2011

$1,000,000,000

Hudson Yards Infrastructure Corporation

Hudson Yards Senior Revenue Bonds
Fiscal 2012 Series A

$650,000,000 5¾% Term Bonds Due February 15, 2047; Yield: 5.10%*; CUSIP: 44420PDG6**

$300,000,000 5¼% Term Bonds Due February 15, 2047; Price: 100%; CUSIP: 44420PDH4**

$50,000,000 5% Term Bonds† Due February 15, 2047; Price: 100%; CUSIP: 44420PDJ0**

---

* Priced to first optional call on February 15, 2021.

** Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2012A Bonds and the Corporation makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2012A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2012A Bonds.

† Insured by Assured Guaranty Municipal Corp.

No dealer, broker, salesperson or other person has been authorized by the Corporation, the City or the Underwriters to give any information or to make any representations in connection with the Series 2012A Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Corporation, the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2012A Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2012A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The Underwriters may offer and sell Series 2012A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters. No representations are made or implied by the Corporation or the Underwriters as to any offering of any derivative instruments.

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

This Official Statement contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the City, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Corporation, its independent auditors, the City, Hudson Yards Development Corporation, Cushman & Wakefield, Inc., Moody's Analytics, Inc. 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 Corporation. These forward-looking statements speak only as of the date they were prepared. The Corporation disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein (except as required by law) to reflect any change in the Corporation's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This Official Statement is intended to reflect facts and circumstances on the date of this Official Statement or on such other date or at such other time as identified herein. No assurance can be given that such information will not have changed or be incomplete at a later date. Consequently, there should be no reliance on this Official Statement at times subsequent to the issuance of the Series 2012A Bonds described herein on the assumption that such facts or circumstances are unchanged.

Marks Paneth & Shron LLP, the Corporation's independent auditor, has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Marks Paneth & Shron LLP relating to the Corporation's financial statements for the fiscal years ended June 30, 2011 and 2010, which is a matter of public record, is included in this Official Statement. However, Marks Paneth & Shron LLP has not performed any procedures on any financial statements or other financial information of the Corporation, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN MARKET PRICES OF THE SERIES 2012A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

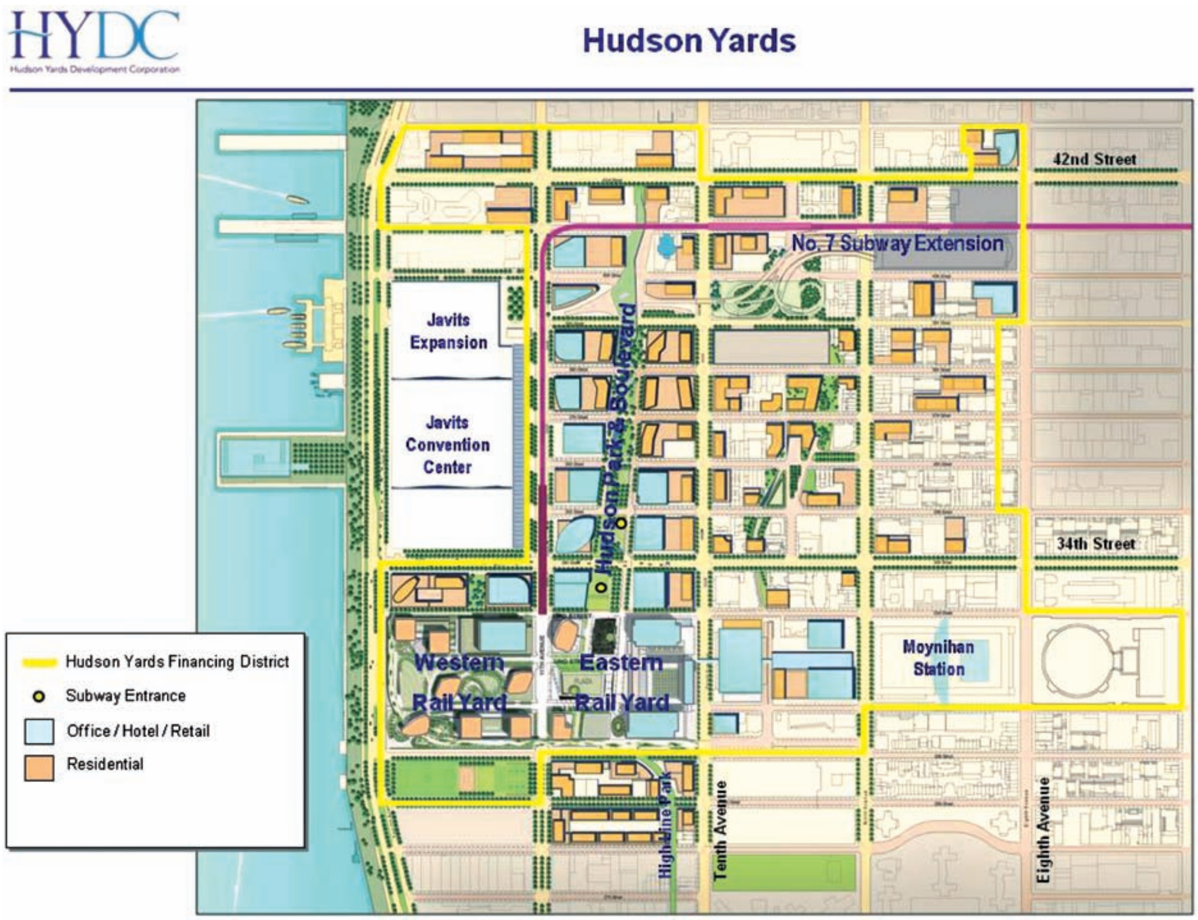
Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Series 2012A Bonds or the advisability of investing in the Series 2012A Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented in the paragraph of the Summary Statement entitled "Bond Insurance," the first paragraph of the subheading entitled "Bond Insurance" within "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS," and Appendices H and I.

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

PROJECT AREA MAP

Set forth below is a map showing the boundaries of the Hudson Yards Financing District outlined in yellow, with possible future development in accordance with the Project Area Zoning Regulations.



SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the Series 2012A Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Summary Statement and not otherwise defined shall have the meanings given such terms in the Indenture. See "Appendix A - CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Definitions of Certain Terms."

Overview . . . . The Hudson Yards Infrastructure Corporation (the "Corporation") is issuing $1,000,000,000 of its Hudson Yards Senior Revenue Bonds Fiscal 2012 Series A (the "Series 2012A Bonds") pursuant to a Trust Indenture, dated as of December 1, 2006, as amended by a First Supplemental Trust Indenture, dated as of December 1, 2006 and a Second Supplemental Trust Indenture, dated as of February 1, 2008, and as further amended and restated as of October 1, 2011 (collectively, the "Amended and Restated Indenture"), and a Third Supplemental Trust Indenture dated as of October 1, 2011 (collectively, with the Amended and Restated Indenture, the "Indenture"), by and between the Corporation and U.S. Bank National Association (the "Trustee"), to provide additional financing for the Project (defined herein).

The initial financing for the Project was provided by the Corporation's issuance of $2,000,000,000 Hudson Yards Senior Revenue Bonds Fiscal 2007 Series A (the "Series 2007A Bonds", and, together with the Series 2012A Bonds and any additional series of bonds issued under the Indenture, including Senior Bonds and Subordinate Bonds, are collectively referred to as the "Bonds") in December 2006 pursuant to the original Trust Indenture dated as of December 1, 2006 and a First Supplemental Trust Indenture dated as of December 1, 2006. The Series 2007A Bonds are, and the Series 2012A Bonds will be, designated as "Senior Bonds" under the Indenture.

THE SERIES 2012A BONDS ARE NOT A DEBT OF THE CITY, AND THE CITY HAS NO OBLIGATION TO PAY PRINCIPAL OF OR, ABSENT AN APPROPRIATION THEREFOR AS DESCRIBED HEREIN, INTEREST ON THE SERIES 2012A BONDS. THE CORPORATION HAS NO TAXING POWER.

The Project is intended to encourage and facilitate the development of the Hudson Yards Financing District (defined below and also referred to as the "Project Area") by extending the No. 7 Subway line from its current terminus at Times Square on West 41st Street between Seventh and Eighth Avenues to a new terminal station at West 34th Street and Eleventh Avenue and by creating parks and open spaces.

The "Hudson Yards Financing District," the approximately 45 square block area generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Eleventh and Twelfth Avenues on the west and West 29th and 30th Streets on the south, is outlined in yellow on the map preceding this Summary Statement and is more specifically described in Appendix C to this Official Statement. New zoning regulations intended to encourage new medium- to large-scale commercial, residential, hotel and retail development in the Project

Area were adopted by the City Council on January 19, 2005, October 27, 2005, October 11, 2006 and December 21, 2009 (the current Hudson Yards District zoning regulations, inclusive of those referenced herein, are referred to as the "Project Area Zoning Regulations"). The Corporation expects to receive substantial revenues from such development as described in this Official Statement. See "SECTION V: STATUS OF DEVELOPMENT WITHIN THE PROJECT AREA" herein.

Risk Factors . . . . Investment in the Series 2012A Bonds involves certain risks. Investors should read this entire Official Statement to obtain information essential to making an informed investment decision. Reference is made to "SECTION II: RISK FACTORS" herein.

The Corporation . . . . The Corporation is a local development corporation organized by The City of New York (the "City") under the Not-for-Profit Corporation Law of the State of New York (the "State"). The Corporation is an instrumentality of, but separate and apart from, the City.

Hudson Yards Development Corporation . . . . To manage implementation of the Project, the City created the Hudson Yards Development Corporation ("HYDC"), a local development corporation organized under the New York State Not-For-Profit Corporation Law. HYDC is governed by a Board of Directors of thirteen persons, a majority of whom serve at the pleasure of the Mayor of the City, and has a staff of nine. HYDC is working to implement design and construction of the various elements of the Project in coordination with the City Law Department for property acquisition and condemnation, the Metropolitan Transportation Authority ("MTA") for design and construction of the Subway Extension, the City and the New York City Economic Development Corporation ("NYCEDC") for construction of the Public Amenities (as defined below), the Corporation and the City's Office of Management and Budget ("OMB") for project financing and cost containment, and with private developers active in the Project Area.

The Project . . . . The Project consists of (i) the design and construction of an extension of the No. 7 subway line from its current terminus at Times Square on West 41st Street between Seventh and Eighth Avenues to a new terminal station at West 34th Street and Eleventh Avenue (the "Subway Extension"), (ii) the construction of a system of parks, public open spaces and streets in the Project Area, including the segment of a mid-block boulevard and park between Tenth and Eleventh Avenues from West 33rd Street to West 36th Street (the "Hudson Park and Boulevard"), a second segment of which may further extend, if such extension is undertaken, from West 36th Street to West 42nd Street (the "Public Amenities"), (iii) the acquisition from the Triborough Bridge and Tunnel Authority ("TBTA"), an affiliate of the MTA, of certain transferable development rights generated by the Eastern Railyard (or the "ERY", as defined herein) and (iv) the property acquisition for the Project ("Property Acquisition").

The Project is intended to provide infrastructure that facilitates the creation of a medium-to-high-density, mixed-use commercial and residential district in the Project Area containing new medium to large scale commercial, residential, hotel and retail developments and new parks and public open spaces as contemplated in the Project Area Zoning Regulations. See “SECTION V: STATUS OF DEVELOPMENT WITHIN THE PROJECT AREA” herein.

Security for the Bonds . . . . The Bonds (as defined herein) are special obligations of the Corporation secured by and payable solely from the Revenues as described herein in accordance with the Indenture. **THE CORPORATION HAS NO TAXING POWERS. THE BONDS ARE NOT A DEBT OF THE CITY AND, EXCEPT AS EXPRESSLY STATED HEREIN, THE CITY HAS NO OBLIGATION TO PAY OR PROVIDE FOR ANY OF THE DEBT SERVICE ON THE BONDS.**

The Revenues of the Corporation are described below and consist of: payments in lieu of real property and mortgage recording taxes made pursuant to agreements between owners of property in the Project Area and the New York City Industrial Development Agency (“IDA”), the MTA and the Convention Center Development Corporation (“CCDC”) in respect of New Developments (as defined herein); payments by the City equal to real property taxes and payments in lieu of real property taxes received by the City from owners of New Developments in the Project Area that do not otherwise enter into PILOT Agreements (as defined below) with the IDA or the MTA; payments by the City to enable the Corporation to pay interest on Supported Bonds (as defined below); certain payments from the sale by the Corporation of the interest in the ERY Transferable Development Rights (as defined herein) purchased by the Corporation from TBTA; and payments by property owners pursuant to certain density bonus programs offered by the City for development in the Project Area, as described herein.

Interest Support Payments . . . . Pursuant to the Hudson Yards Support and Development Agreement, dated as of December 1, 2006 (the “Support and Development Agreement”), entered into by and among the City, the Corporation and HYDC, the City has agreed to make payments to the Corporation (“Interest Support Payments”), subject to annual appropriation, in the amounts necessary to permit the Corporation to pay interest due on up to $3 billion (or, as described in the paragraph below, a greater amount authorized by an appropriate City Council resolution) of Bonds to which the Support and Development Agreement applies (the “Supported Bonds”), which includes the Series 2007A Bonds, the Series 2012A Bonds and any other Senior Bonds issued prior to the Conversion Date (as defined herein).

The Support and Development Agreement obligates the City, subject to annual appropriation, to make Interest Support Payments to the Corporation as long as Supported Bonds are outstanding. Interest Support Payments are required to be made by the City only when the Corporation receives insufficient Revenues from development to pay interest on Supported Bonds. The Support and Development Agreement requires the Mayor of the City to include in the expense budget submitted to the City Council for the succeeding fiscal year of the City an amount sufficient to make the Interest Support Payment in each such fiscal year.

The Indenture limits the principal amount of Senior Bonds which may be issued prior to the Conversion Date, other than for refunding purposes, to an aggregate of $3.5 billion. The Indenture also prohibits the issuance of more than $3 billion of Supported Bonds, other than for refunding purposes, unless the City is authorized by an appropriate City Council resolution to make Interest Support Payments on a greater amount of Bonds and the Support and Development Agreement is amended to provide for the payment of interest on such greater amount of Bonds. In addition, the Indenture requires that all Senior Bonds issued prior to the Conversion Date be supported by Interest Support Payments. See "Limitations on Additional Bonds" below.

INTEREST SUPPORT PAYMENTS ARE SUBJECT TO ANNUAL APPROPRIATION BY THE CITY AND TO THE AVAILABILITY OF MONEY FOR SUCH PAYMENTS. THE SUPPORT AND DEVELOPMENT AGREEMENT AND THE CITY'S OBLIGATION TO MAKE SUCH PAYMENTS DOES NOT CONSTITUTE DEBT OF THE CITY UNDER OR WITHIN THE MEANING OF THE STATE CONSTITUTION OR THE LOCAL FINANCE LAW OF THE STATE. THE CITY IS NOT LEGALLY REQUIRED TO MAKE ANNUAL APPROPRIATIONS FOR SUCH PAYMENTS.

PILOT Payments .... The Corporation expects to receive payments in lieu of real estate taxes ("PILOT Payments") under agreements between developers and the IDA, the MTA or CCDC.

(i) IDA PILOT Payments. In August 2006, the IDA adopted a Uniform Tax Exemption Policy for the Project Area except for the Western Railyard (or the "WRY", as defined herein) and the Javits Marshalling Yard (the "Project Area UTEP") under its statutory authority, and adopted a general amendment and restatement on August 3, 2010, which was further amended on November 9, 2010. The Project Area UTEP provides discounts for 19 years to owners of certain new large-scale commercial developments on privately-owned sites in the Project Area ("UTEP Eligible Commercial Projects") from otherwise applicable real property taxes in exchange for IDA PILOT Payments. Developers of UTEP Eligible Commercial Projects are expected to enter into IDA PILOT Agreements because IDA PILOT Payments during the first 19 years will be lower than the otherwise applicable real estate taxes. Beginning in the twentieth year, IDA PILOT Payments will be equal to full real property taxes in the amount levied by the City and continue for the life of each agreement providing for IDA PILOT Payments to be made (an "IDA PILOT Agreement"), which is expected to be 35 years with the right of the IDA to extend such agreement up to another 64 years.

The Corporation, the IDA and the City have entered into the PILOT Assignment and Agreement, dated as of December 1, 2006 (the "IDA Assignment Agreement"), pursuant to which the IDA has assigned the IDA PILOT Payments to the Corporation and the City has agreed to such assignment. The IDA has agreed in the IDA Assignment Agreement not to directly or indirectly rescind, amend, modify or deviate from the Project Area UTEP in any respect without the prior written consent of the Corporation except to conform to a change in State law. The IDA Assignment Agreement terminates when all principal and interest has been paid on the Bonds.

(ii) MTA Railyard PILOT Payments. The MTA agreed in the Railyards Agreement, dated as of September 28, 2006, as amended May 25, 2010 (the "City-MTA Railyards Agreement"), among MTA, TBTA, The Long Island Railroad Company and the City that, if it leases the ERY or the WRY (together, the "Railyards") for development, such leases shall require the developer to make PILOT Payments ("Railyard PILOT Payments") on UTEP Eligible Commercial Projects in amounts no less than the PILOT amounts payable according to the Project Area UTEP, and Railyard PILOT Payments for other developments that are equal to full real property taxes for such developments in the amounts that would have been levied by the City if the Railyards were privately owned. The MTA has further agreed that it will direct payment to, or pay over to the Corporation (or to the City upon the Corporation's direction), all Railyard PILOT Payments.

Tax Equivalency Payments . . . . The Support and Development Agreement also obligates the City to pay to the Corporation, subject to annual appropriation, an amount equal to the real property taxes and PILOT Payments collected by the City on New Developments (as defined herein) in the Project Area ("Tax Equivalency Payments"). The Tax Equivalency Payments are pledged by the Corporation to the Trustee under the Indenture. Although Tax Equivalency Payments are expected to be generated primarily from residential and hotel development, such payments will also be generated from commercial development if PILOT Agreements are not entered into with the IDA or the MTA and from payments in lieu of real property taxes received by the City pursuant to agreements between other governmental bodies and developers of New Developments in the Project Area.

Tax Equivalency Payments are to be made by the City each year in two installments, occurring not later than the first day of August and the first day of February of each Fiscal Year, subject to adjustment as provided in the next sentence, each in an amount equal to 50% of (i) the *ad valorem* real property taxes levied by the City on New Developments in the Project Area not subject to a PILOT Agreement that are payable during such Fiscal Year, and (ii) the PILOT Payments projected by the City to be received during such Fiscal Year. The amount payable by the City on each such date is to be adjusted to reflect the amount, if any, by which the Tax Receipts (as defined herein) collected during the six-month period that commenced on the closer of the January 1 or July 1 immediately preceding such payment date either exceeded or was less than the amount payable on such payment date.

TAX EQUIVALENCY PAYMENTS ARE SUBJECT TO ANNUAL APPROPRIATION BY THE CITY AND TO THE AVAILABILITY OF MONEY FOR SUCH PAYMENTS. THE

SUPPORT AND DEVELOPMENT AGREEMENT AND THE CITY'S OBLIGATION TO MAKE SUCH PAYMENTS DOES NOT CONSTITUTE DEBT OF THE CITY UNDER OR WITHIN THE MEANING OF THE STATE CONSTITUTION OR THE LOCAL FINANCE LAW OF THE STATE. THE CITY IS NOT LEGALLY REQUIRED TO MAKE ANNUAL APPROPRIATIONS FOR SUCH PAYMENTS.

DIB Payments .... As authorized in the Project Area Zoning Regulations, commercial and residential developments in certain portions of the Project Area are eligible to increase their density in exchange for certain payments ("DIB Payments"). The Project Area Zoning Regulations establish as-of-right base floor area ratios ("FAR") of the Project Area for development, generally 6.5 for residential development and 10 for commercial development. Developments in certain portions of the Project Area may increase their FAR up to an amount specified in the Project Area Zoning Regulations, in exchange for DIB Payments.

The Corporation and the City have entered into a DIB Assignment and Agreement dated as of December 1, 2006 (the "DIB Assignment Agreement") pursuant to which and in accordance with the Project Area Zoning Regulations adopted by the City Council, the City has assigned to the Corporation the DIB Payments. The Project Area Zoning Regulations direct that the DIB Payments be paid directly to the Corporation. The City has agreed in the DIB Assignment Agreement that the City will not take any action that would limit or alter the rights vested in the Corporation under the Project Area Zoning Regulations or the DIB Assignment Agreement or in and to the DIB Payments and that the City will not take any action that would in any way impair the rights and remedies of the holders or the security for the Bonds.

PILOMRT Payments.............. (i) <u>IDA PILOMRT Payments</u>. The Project Area UTEP adopted by the IDA provides for a 100% exemption from the mortgage recording tax for mortgages securing construction and permanent financing for UTEP Eligible Commercial Projects in the Project Area. However, the Project Area UTEP requires the recipient of such exemption to make payments in lieu of the mortgage recording tax ("PILOMRT Payments") in an amount equal to 100% of the mortgage recording tax that would otherwise be due in the absence of such exemption. Such PILOMRT Payments will be required in each IDA PILOT Agreement.

Pursuant to the IDA Assignment Agreement, the IDA has assigned the PILOMRT Payments to the Corporation, and the City has agreed to such assignment. The City has agreed in the IDA Assignment Agreement not to take any action that would limit or alter the PILOMRT Payments rights vested in the Corporation under the IDA Assignment Agreement or any IDA PILOT Agreement or in or to the PILOMRT Payments or that would in any way impair the rights and remedies of the holders of or the security for the Bonds. The IDA Assignment Agreement terminates when all principal and interest has been paid on the Bonds.

(ii) MTA PILOMRT Payments. The MTA has agreed in the City-MTA Railyards Agreement that, if it leases the ERY or the WRY for development, such leases will require the developer to pay PILOMRT Payments ("MTA PILOMRT Payments") equal to 100% of the otherwise applicable mortgage recording tax. The MTA has further agreed that it shall direct payment to or pay over to the Corporation (or to the City upon the Corporation's direction), the MTA PILOMRT Payments, except that the MTA will retain such portion of the MTA PILOMRT Payments equal to the percentage of mortgage recording tax which the MTA generally receives under New York State law, currently 10.7% of the total mortgage recording tax.

Payments for ERY Transferable Development Rights . . . . Pursuant to the City-MTA Railyards Agreement, the Corporation has purchased for $200 million (paid with proceeds of the Series 2007A Bonds) from the TBTA a $200 million interest in 4.56 million square feet of development rights generated by the ERY ("ERY Transferable Development Rights"), which may be sold to owners of certain other properties in the Project Area for the purpose of increasing the density of new development at such properties. Pursuant to the City-MTA Railyards Agreement, the Corporation has the right to all proceeds from the sale of ERY Transferable Development Rights until it has received an amount equal to $200 million (*i.e.,* the Series 2007A Bond proceeds used to purchase the ERY Transferable Development Rights) plus the amount of interest paid by the Corporation on the borrowed funds (*i.e.,* the interest cost of the Series 2007A Bonds) used to purchase the ERY Transferable Development Rights. The MTA has the right to all additional proceeds realized from the sale of ERY Transferable Development Rights.

Cushman & Wakefield, Inc. Reports . . Cushman & Wakefield, Inc. ("C&W"), a real estate consultant to the Corporation, prepared a report in 2006 (the "C&W 2006 Report") in connection with the Series 2007A Bonds of projected future demand for new commercial office, residential, hotel and retail space in the Project Area from 2006 to 2035. Such projections were based on a number of assumptions and limitations described in the C&W 2006 Report (in particular, the Limiting Conditions, Chapter 1.B.), including timely completion of the Subway Extension by 2013. The C&W 2006 Report is annexed as Appendix E-2 to this Official Statement.

In connection with the Series 2012A Bonds, the Corporation retained C&W to prepare a 2011 update to the C&W 2006 Report (the "C&W 2011 Report" and, collectively with the C&W 2006 Report, the "C&W Reports") to update the analysis set forth in the C&W 2006 Report. The C&W 2011 Report is attached hereto as Appendix E-1. Based on the assumptions and limitations stated therein, the C&W 2011 Report concludes that estimates, by the City's Office of Management and Budget ("OMB") and HYDC, of Revenues expected to be received by the Corporation from projected new office, residential, hotel and retail development aggregating $36.9 billion during the period from 2012 to 2050 are reasonable.

Securities Offered . . . . The Corporation expects to issue the Series 2012A Bonds as Term Bonds due and bearing interest as provided in the inside cover page of this Official Statement. Interest on the Series 2012A Bonds is payable semiannually on February 15 and August 15 of each year, beginning on February 15, 2012. Sinking Fund Installments for the Series 2012A Bonds (and for each other Series of Bonds then Outstanding) will not be scheduled and payable unless and until the Conversion Date occurs as a result of receipt by the Corporation of sufficient Net Recurring Revenues (defined below) from development in the Project Area. See "SECTION XI: THE SERIES 2012A BONDS — Redemption of Series 2012A Bonds — Sinking Fund Installments" herein.

Not Debt of the City . . . . **THE BONDS ARE NOT A DEBT OF THE CITY, AND THE CITY HAS NO OBLIGATION TO PAY PRINCIPAL OF OR, ABSENT AN APPROPRIATION THEREFOR AS DESCRIBED HEREIN, INTEREST ON THE BONDS. THE CORPORATION HAS NO TAXING POWER.**

Payment of Interest on Bonds . . . . Although the Corporation has begun receiving Revenues, it does not expect the Project Area to generate sufficient Revenues from development to pay all interest due on the Bonds for the foreseeable future. Pursuant to the Support and Development Agreement as provided above, the City has agreed to make Interest Support Payments to the Corporation, subject to annual appropriation, in the amounts necessary to permit the Corporation to pay interest due on up to $3 billion (or, as described above, an additional $500 million authorized by an appropriate City Council resolution) of Supported Bonds which includes the Series 2007A Bonds, the Series 2012A Bonds and all other Senior Bonds issued prior to the Conversion Date. Interest Support Payments are required to be made by the City only when the Corporation receives insufficient Revenues from development to pay interest on Supported Bonds. The City has made Interest Support Payments in the approximate amount of $43 million for the fiscal year ended June 30, 2011, and has appropriated an amount sufficient to make Interest Support Payments to the extent required for the fiscal year ending June 30, 2012. See "Revenues of the Corporation — Interest Support Payments" above.

Payment of Principal of Bonds . . . . . . The Corporation is not obligated to make any payments of principal of the Bonds prior to maturity unless and until the Corporation receives Revenues in amounts sufficient to make such payments, as specified in the Indenture. Not later than June 30 of the Fiscal Year during which the Conversion Date occurs, the Corporation must establish a schedule of Sinking Fund Installments for all its outstanding Bonds. See "Conversion Date" below. Once established, it is provided in the Indenture that Sinking Fund Installments are required to be made only if money is available therefor in accordance with the Indenture. To the extent that money shall be insufficient to pay in whole or in part a Sinking Fund Installment on outstanding Bonds of a stated Series and maturity, the unpaid principal amount of such Sinking Fund Installment is to be added to the next succeeding Sinking Fund Installment for the Bonds of such Series and maturity, and interest shall continue to accrue on such unpaid principal. See "SECTION XI: THE SERIES 2012A BONDS — Redemption of Series 2012A Bonds — Sinking Fund Installments" herein. The City has no obligation to make any payments to the Corporation to pay the principal of the Bonds.

Bond Insurance	The scheduled payment of principal of and interest on the Series 2012A Bonds bearing interest at 5% (the "Insured Bonds") when due will be insured by Assured Guaranty Municipal Corp. ("AGM"). Concurrently with the issuance of the Insured Bonds, AGM will issue its Municipal Bond Insurance Policy for the Insured Bonds (the "Policy"). Information about AGM is set forth in Appendix H. A specimen of the Policy is set forth in Appendix I. The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.
Mandatory Purchase or Redemption Prior to the Conversion Date	After the date on which a Series of Senior Bonds (such as the Series 2007A Bonds and the Series 2012A Bonds) are first callable and prior to the Conversion Date, all Revenues received by the Corporation in a Fiscal Year remaining after funding the Corporation's expenses and interest on the Bonds for such Fiscal Year and interest on the Bonds for the subsequent Fiscal Year, must be used to purchase or, if a Series of Senior Bonds is then subject to redemption, to redeem, such Senior Bonds. If the Corporation redeems one or more Series of Senior Bonds, such redemption will be *pro rata* among the Series of Bonds so to be redeemed, and *pro rata* within each Series of Senior Bonds to be redeemed. The Series 2007A Bonds are subject to optional redemption on or after February 15, 2017, and the Series 2012A Bonds are subject to optional redemption on or after February 15, 2021. Therefore, no such Revenues can be applied to redeem the Series 2012A Bonds prior to February 15, 2021. The Corporation may, alternatively, direct the application of Revenues to the purchase of any Senior Bonds of any maturity, including the Series 2007A Bonds and the Series 2012A Bonds, whether or not then subject to redemption, and without any limitation of *pro rata* allocation, at a purchase price of not greater than par together with accrued interest. However, if, during a Fiscal Year, the City has made Interest Support Payments for the Corporation's Supported Bonds, then the Corporation must first reimburse the City for such Interest Support Payments prior to purchasing or redeeming any such Series of Senior Bonds.
Conversion Date.	The Indenture requires the Corporation, not later than June 30 of the Fiscal Year during which the Conversion Date occurs, to establish a schedule of Sinking Fund Installments for all outstanding Bonds. The Indenture defines "Conversion Date" as the date on which the Corporation has certified to the Trustee that, for each of the two immediately preceding Fiscal Years, the Corporation received Net Recurring Revenues for each such Fiscal Year that were, (i) not less than 125% of Maximum Annual Debt Service on all then Outstanding Senior Bonds and (ii) not less than 105% of Maximum Annual Debt Service on all then Outstanding Bonds. For this purpose, Maximum Annual Debt Service is to be calculated as of the Conversion Date. There can be no assurance that the Conversion Date will occur prior to the maturity of the Series 2012A Bonds. See "SECTION IX: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION" herein.

Net Recurring Revenues means, as of any particular date of calculation and (i) when used in connection with any prior Fiscal Year, the amount of PILOT Payments and Tax Equivalency Payments paid during such prior Fiscal Year, less the lesser of the Operating Cap or the actual Corporation Expenses for such Fiscal Year, and (ii) when used in connection with any then current or future Fiscal Year, the Projected Recurring Revenues (defined in Appendix A hereto) for such Fiscal Year less the Operating Cap for such Fiscal Year, assuming there are not Tax Obligations (defined in Appendix A hereto) payable during such Fiscal Year.

Maximum Annual Debt Service means, as of any particular date of calculation and with respect to any Outstanding Senior Bonds or Subordinate Bonds of a specified priority, an amount equal to the greatest amount required in the then current or in any future Fiscal Year to pay Debt Service on such Senior Bonds or Subordinate Bonds payable during such Fiscal Year as calculated in accordance with the Indenture.

Operating Cap means the sum of (i) during the Fiscal Year ending June 30, 2012, $1,159,274 and, (ii) during each Fiscal Year thereafter, an amount equal to 103% of the Operating Cap for the prior Fiscal Year, plus, in each case, Tax Obligations the Corporation estimates to be payable during such Fiscal Year or to be reserved for estimated payments to be made in subsequent Fiscal Years.

Sinking Fund Installments. . . . . The Indenture requires the Corporation, not later than June 30 of the Fiscal Year during which the Conversion Date occurs, to establish and file with the Trustee a schedule of principal amortization through Sinking Fund Installments for all, but not less than all, of the Series 2007A Bonds, the Series 2012A Bonds and all other then Outstanding Bonds issued prior to the Conversion Date. The Sinking Fund Installments so established for the Bonds must conform to the requirements of the Indenture. The Corporation has covenanted with the holders of the Series 2012A Bonds that, to the extent practicable, redemptions through Sinking Fund Installments, in addition to being *pro rata* within each Series of Senior Bonds, will also be *pro rata* among the Series of Senior Bonds to be redeemed.

Once established, it is provided in the Indenture that Sinking Fund Installments are required to be made only if money is available therefor in accordance with the Indenture. To the extent that money shall be insufficient to pay in whole or in part a Sinking Fund Installment on Outstanding Bonds of a stated Series and maturity, the unpaid principal amount of such Sinking Fund Installment is to be added to the next succeeding Sinking Fund Installment for the Bonds of such Series and maturity, and interest shall continue to accrue on such unpaid principal. See "SECTION XI: THE SERIES 2012A BONDS — Redemption of Series 2012A Bonds — Sinking Fund Installments" herein.

Payment Default . . . . It is provided in the Indenture that upon the occurrence of a Payment Default (as defined herein), the Bonds are subject to mandatory redemption in whole from Revenues to the extent available. See "SECTION II: RISK FACTORS — No Acceleration of Bonds or of

Revenues Upon a Payment Default" and "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS — Payment Default" herein.

Optional Redemption. . . . . The Series 2012A Bonds are subject to redemption prior to maturity at the election of the Corporation, in whole or in part in any order at any time, at a redemption price equal to 100% of the principal amount of Series 2012A Bonds to be redeemed beginning on February 15, 2021, plus accrued interest, if any, to the redemption date. Any Series 2012A Bonds that are defeased to their maturity date will remain subject to optional redemption by the Corporation.

Limitations on Additional Bonds . . . . . Prior to the Conversion Date, the principal amount of Senior Bonds which may be issued, other than for refunding purposes, is limited to an aggregate of $3.5 billion. However, the Indenture also provides that the Corporation may not issue more than $3 billion of Supported Bonds, other than for refunding purposes, unless the City is authorized by appropriate City Council resolution to pay, and the Support and Development Agreement provides for the payment of, interest on the principal amount of Bonds that would be supported by the Interest Support Payments after issuance of such Bonds. In addition, the Indenture requires that all Senior Bonds issued prior to the Conversion Date be supported by Interest Support Payments. The Indenture permits the Corporation to issue Subordinate Bonds without limitation on the principal amount and without the benefit of Interest Support Payments, but subject to the limitations described below.

Prior to the Conversion Date, (i) no Bond may mature prior to February 15, 2047, (ii) no amortization may be scheduled on any Bond prior to maturity, (iii) no Senior Bonds may be issued as Option Bonds, Capital Appreciation Bonds, Deferred Income Bonds or Variable Interest Rate Bonds, (iv) no Subordinate Bond may mature prior to the latest date on which any Outstanding Senior Bond matures and (v) the interest payable in any Fiscal Year on Subordinate Bonds may not exceed $30 million.

After the Conversion Date, Bonds, other than Bonds issued pursuant to the Indenture for refunding purposes, may not be issued unless, as set forth in a certificate of an Authorized Officer (as defined herein) of the Corporation, (a) the amount of the Net Recurring Revenues for the immediately preceding Fiscal Year for which audited financial statements of the Corporation are available is at least (x) equal to 125% of the aggregate amount of principal, Sinking Fund Installments and interest that was paid during such Fiscal Year on all then Outstanding Senior Bonds and (y) equal to 105% of the aggregate amount of principal, Sinking Fund Installments and interest that was paid during such Fiscal Year on all then Outstanding Bonds and (b) the amount of the Net Recurring Revenues for the Fiscal Year during which such Bonds are issued and for each succeeding Fiscal Year during which Bonds will be Outstanding after giving effect to the issuance of such Bonds are for each Fiscal Year at least (x) equal to 125% of the Maximum Annual Debt Service calculated only with respect to Senior Bonds after giving effect to the issuance of the Senior Bonds then to be issued and (y) equal to 105% of the Maximum

	Annual Debt Service on all Outstanding Bonds after giving effect to the issuance of the Subordinate Bonds then to be issued.
Tax Matters	In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Corporation described herein, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the federal alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2012A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is further of the opinion that interest on the Series 2012A Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. See "SECTION XIII: TAX MATTERS" herein regarding certain other tax considerations.
Trustee	U.S. Bank National Association, New York, New York.
Ratings	The Series 2012A Bonds, other than the Insured Bonds, are rated "A2" by Moody's Investors Service ("Moody's"), "A" by Standard & Poor's Ratings Services ("Standard & Poor's") and "A" by Fitch, Inc. ("Fitch"). The Corporation expects the Insured Bonds to be rated "Aa3" (negative outlook) and "AA+" (CreditWatch negative) by Moody's and Standard & Poor's, respectively, based on the ratings of AGM.
Corporation Contact	Mr. Raymond Orlando Phone Number: (212) 788-5875 Fax Number: (212) 788-9197 Email: orlandor@omb.nyc.gov

OFFICIAL STATEMENT
of
HUDSON YARDS INFRASTRUCTURE CORPORATION
Relating To
$1,000,000,000
Hudson Yards Senior Revenue Bonds
Fiscal 2012 Series A

SECTION I: INTRODUCTION

General

This Official Statement (which includes the cover page, summary and appendices hereto) of Hudson Yards Infrastructure Corporation (the "Corporation") sets forth information concerning the sale by the Corporation of its Hudson Yards Senior Revenue Bonds Fiscal 2012 Series A in the aggregate principal amount of $1,000,000,000 (the "Series 2012A Bonds"). For purposes of this Official Statement, the term "Bonds" refers to the Series 2012A Bonds and all other bonds that have been or may be issued under the Indenture by the Corporation, and the term "Senior Bonds" refers to the Series 2012A Bonds and all other Bonds that have been or may be issued under the Indenture on a parity with the Series 2012A Bonds (including the $2,000,000,000 Hudson Yards Senior Revenue Bonds Fiscal 2007 Series A, issued by the Corporation in December 2006 (the "Series 2007A Bonds")). The Corporation also has the authority to issue (but heretofore has not issued) Bonds subordinate to the Senior Bonds, referred to herein as "Subordinate Bonds."

The Series 2012A Bonds are being issued pursuant to a Trust Indenture dated as of December 1, 2006, as amended by a First Supplemental Trust Indenture, dated as of December 1, 2006 and a Second Supplemental Trust Indenture, dated as of February 1, 2008, as further amended and restated as of October 1, 2011, and by the Third Supplemental Trust Indenture dated as of October 1, 2011, and from time to time by supplemental indentures (collectively, the "Indenture"), by and between the Corporation and U.S. Bank National Association, New York, New York, as Trustee (the "Trustee"). A summary of certain provisions of the Indenture, together with certain defined terms used therein and in this Official Statement, is contained in Appendix A hereto. Capitalized terms not otherwise defined in this Official Statement have the meanings set forth in Appendix A.

The Corporation was created by the City to provide financing for infrastructure improvements which are expected to encourage and facilitate the transformation of the Hudson Yards Financing District to a mixed-use community containing new medium- to large-scale commercial, residential, hotel and retail development. The initial financing for such improvements was provided by the Corporation's issuance of the Series 2007A Bonds, and additional financing for such improvements is being provided by the Corporation's issuance of the Series 2012A Bonds. The City's goals are to accommodate the expansion of the Midtown central business district over the long term by providing space and incentives for commercial, residential, hotel and retail development, to expand the amount of public open space and to contribute to the cultural and recreational life of the City. See "SECTION V: STATUS OF DEVELOPMENT WITHIN THE PROJECT AREA" herein. As used in this Official Statement, the term "Hudson Yards Financing District" or "Project Area" describes the approximately 45 square block area of Manhattan generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Eleventh and Twelfth Avenues on the west and West 29th and 30th Streets on the south as more specifically described in Appendix C to this Official Statement, from which the Corporation expects to derive its Revenues (other than Interest Support Payments, as defined below). The Project Area originally consisted primarily of open parking lots, industrial uses, small commercial and residential buildings, and transportation infrastructure such as the entrance and exit roadways and plazas for the Lincoln Tunnel and approximately 26 acres of open rail yards serving the operational needs of the Long Island Railroad and Pennsylvania Station.

To assist in accomplishing these goals, the City revised the zoning regulations for the Hudson Yards Financing District (as so revised, the "Project Area Zoning Regulations") except for the Javits Marshalling Yard (defined herein), to promote commercial and residential development, and the City created the Hudson Yards

Development Corporation ("HYDC") to manage the redevelopment plan. The Project Area Zoning Regulations provide for a major high density office and commercial core in the south and west portions of the Project Area and a mix of residential and lower density commercial uses in the north and east portions.

The City has also agreed to make certain payments to the Corporation, subject to annual appropriation, as described in this Official Statement.

The Corporation

The Corporation is a local development corporation organized by the City under the Not-for-Profit Corporation Law of the State. The Corporation is an instrumentality of, but separate and apart from, the City.

Purpose of Issue

The Series 2012A Bonds are being issued by the Corporation to finance a portion of the costs of the Project (as described herein) and to pay the costs of issuance of the Series 2012A Bonds. That portion of the Project to be financed from the proceeds of the Series 2012A Bonds consists of (i) the design and construction of an extension of the No. 7 subway line from its current terminus at Times Square on West 41st Street between Seventh and Eighth Avenues to a new terminal station at West 34th Street and 11th Avenue (the "Subway Extension"), (ii) the construction of a system of parks, public open spaces and streets in the Hudson Yards Financing District, including the first segment of a mid-block boulevard and park between Tenth and Eleventh Avenues (the "Hudson Park and Boulevard"), a second segment of which may further extend, if such extension is undertaken, from West 33rd Street to West 42nd Street (the "Public Amenities"), and (iii) the acquisition of certain property for the Project ("Property Acquisition"). See "SECTION IV: THE PROJECT." As hereinafter discussed, absent further authorization by resolution of the City Council, the issuance of the Series 2012A Bonds in the aggregate principal amount of $1,000,000,000, together with the Series 2007A Bonds in the aggregate principal amount of $2,000,000,000, fully exhausts the limitation within the Indenture of $3,000,000,000 of Supported Bonds (as defined below).

Revenues of the Corporation

The revenues of the Corporation (the "Revenues"), except for the Interest Support Payments (defined herein) payable by the City, will be received as a result of private development in the Project Area as described in this Official Statement and consist of: payments in lieu of real property and mortgage recording taxes made pursuant to agreements between property owners and either the New York City Industrial Development Agency ("IDA"), the Metropolitan Transportation Authority ("MTA") or the Convention Center Development Corporation ("CCDC"), payments by the City equal to real property taxes or payments in lieu of taxes received by the City on New Developments (defined herein) in the Project Area, certain payments from the sale of the interest in the transferable development rights derived from the Eastern Railyard or the ERY (as defined herein) that were purchased from the Triborough Bridge and Tunnel Authority (the "TBTA") by the Corporation (the "ERY Transferable Development Rights"), and payments by property owners pursuant to the Project Area Zoning Regulations to increase the permitted density for their developments in the Project Area. See "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS" for a description of the Revenues. The projected amounts of such Revenues through 2050 are reviewed in the 2011 update report prepared by Cushman & Wakefield, Inc. (the "C&W 2011 Report"), and compared to Cushman & Wakefield's 2006 report prepared in connection with the Series 2007A Bonds (the "C&W 2006 Report" and, together with the C&W 2011 Report, the "C&W Reports"), each of which in turn is predicated upon certain assumptions and limitations (in particular, the Limiting Conditions, Chapter 1.B.) respectively stated therein including, among other things, reliance on information, reports and tax revenue forecasts, calculations and methodology provided by the City, the Corporation, HYDC and Moody's Analytics (as defined below), the timely completion of the Subway Extension by late 2013, a forecast of economic growth and demographic changes during the study period, and the continuation of certain incentives for development in the Project Area. See "SECTION VIII: CUSHMAN & WAKEFIELD, INC. REPORT."

The demand forecasts and revenue projections reviewed in the C&W Reports are based on various assumptions and limitations (in particular, the Limiting Conditions, Chapter 1.B.) which are detailed in the C&W Reports. *The C&W Reports should be read in their entirety.* As the demand and revenue projections are provided for several decades, and the assumptions are based on current market conditions and existing legislation, zoning and tax programs, the variables have a greater probability of change the farther out the forecast is extended. Potential risks arising from unforeseen economic, political and fiscal policy changes or events are not accounted for in the real estate demand forecasts or in the revenue projections.

SECTION II: RISK FACTORS

The Corporation has no significant assets other than the remaining proceeds of the Series 2007A Bonds in the amount of approximately $213 million, the proceeds of the Series 2012A Bonds when issued, the Corporation's interest in the ERY Transferable Development Rights, and the Corporation's right to receive the Revenues as described herein. All future Revenues, except for the Interest Support Payments, are dependent upon future development in the Project Area. The Corporation's ability to pay principal of the Series 2007A Bonds and the Series 2012A Bonds is dependent on, among other things, the occurrence of additional development in the Project Area as projected and the receipt of sufficient Revenues from such additional development which depends upon, among other factors, the timely completion of the Subway Extension. Although the City has agreed to make payments to the Corporation in amounts each fiscal year to allow the Corporation to pay interest on up to $3 billion of Bonds in the event the Corporation has not received sufficient Revenues from development in the Project Area to make such interest payments, such payments by the City are subject to appropriation each year. The City is not obligated to pay principal on the Series 2012A Bonds. Certain factors that could affect the receipt of the Revenues by the Corporation in the amounts projected and the ability of the Corporation to pay debt service on the Series 2007A Bonds and the Series 2012A Bonds are described below. The risks and uncertainties described herein are not intended to be, nor can they be, a complete recitation of the risks and uncertainties involved in the purchase and ownership of the Series 2012A Bonds. Additional risks and uncertainties not presently known, or currently believed to be immaterial, may also materially and adversely affect the payment of the Series 2012A Bonds. This section should be read in conjunction with the rest of this Official Statement, including the Appendices hereto.

Project Revenues

The amount of projected Revenues from private commercial and residential development in the Project Area expected to be available to the Corporation (See "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS") is reviewed in the C&W 2011 Report and in the C&W 2006 Report, a copy of each of which is attached to this Official Statement as Appendices E-1 and E-2, respectively. The C&W Reports are based on numerous assumptions and limitations (in particular, the Limiting Conditions, Chapter 1.B.), including assumptions of economic growth and demographic changes by Moody's Analytics, Inc. ("Moody's Analytics")*, some or all of which may prove to be incorrect. If any of the assumptions prove to be incorrect, the amount of projected Revenues (other than the Interest Support Payments) reviewed in the C&W 2011 Report may not be achieved, and the Corporation may not have sufficient funds to pay principal on the Bonds when due. Each prospective investor should read the C&W Reports in their entirety and reach his or her own conclusion regarding the reasonableness of the assumptions on which they are based.

The extent and timing of residential and commercial development in the Project Area is dependent on the willingness of developers to undertake development of the sites available in the Project Area, some of which are subject to development constraints such as, for example, the need to build a platform over certain operating railyards, including the MTA's ERY and the WRY, as defined herein, or other limitations. Such restrictions may reduce a developer's willingness to develop a particular site or to purchase a particular site for development. In the C&W Reports, C&W has reviewed the development potential, including limitations to development, of a number of sites in the Project Area. See the C&W 2011 Report and the C&W 2006 Report, attached hereto as Appendices E-1

---

* Moody's Analytics is an independent provider of data, analysis, modeling and forecasts on national and regional economies, financial markets and credit risk, and is an affiliate of Moody's Investors Service (one of the rating agencies that has rated the Series 2012A Bonds).

and E-2, respectively, for an analysis of such sites. In the event development in the Project Area does not proceed as described in the C&W Reports, the receipt of Revenues by the Corporation in the amounts projected would be adversely affected.

The occurrence of certain events, including delays in the construction and completion of the Project, a major accident or terrorist event affecting the Project or the City, economic conditions less favorable than projected, a slower rate or lesser amount of development than expected within the Project Area and other factors not within the Corporation's control may cause a shortfall in the amount and the timing of receipt of Revenues generated from development activities in the Project Area compared to those projected in the C&W Reports. There can be no assurance that such events will not occur. In addition, there can be no assurance that developers will make the payments in lieu of real estate taxes ("PILOT Payments"), pay real estate taxes, make payments in lieu of mortgage recording taxes with respect to PILOT Mortgages, or pay for ERY Transferable Development Rights and other density bonus rights in connection with the development of parcels in the Project Area that form the basis of the data reviewed in the C&W Reports. If the actual Revenues received by the Corporation from development in the Project Area are lower than estimated, the Corporation may not be able to pay principal on the Bonds.

No Interest Support Payments were paid by the City in fiscal years 2007 through 2010 (see "SECTION VII: HISTORICAL SUMMARY OF CASH FLOWS" herein) as a result of the use of investment earnings from the proceeds of the Series 2007A Bonds, DIB Payments (as defined herein), Tax Equivalency Payments (as defined herein), and a one-time City grant in fiscal year 2009 of approximately $15 million to pay interest on the Series 2007A Bonds. The City paid approximately $43 million in Interest Support Payments in fiscal year 2011, and the City's current financial plan assumes (based on the issuance of the Series 2012A Bonds in 2011) Interest Support Payments of approximately $100 million in fiscal year 2012, and approximately $138 million in each of fiscal years 2013 through 2015. In addition, the City has appropriated an amount sufficient to make Interest Support Payments to the extent required in fiscal year 2012. The obligation of the City to make Interest Support Payments is subject to annual appropriation by the City.

Need for Additional Funds

Although the Corporation is of the opinion that, with the proceeds of the Series 2012A Bonds, sufficient money will exist to finance the completion of construction of the Subway Extension, in the event of cost overruns beyond the funds available therefor, and the unwillingness of any party to provide such additional funds, the completion of the Subway Extension could be delayed or prevented, which could have a material adverse effect upon Revenues. See "SECTION IV: THE PROJECT" herein.

Property Acquisition

The process of condemning land for any public improvement is subject to inherent risks, including the risk that the actual cost of acquiring such land will exceed the budgeted costs.

Potential Lost Revenue

Among the assumptions on which projections of the Revenues expected to be received by the Corporation were based is the assumption that owners of commercial sites in the Project Area will either enter into agreements for PILOT Payments ("PILOT Agreements") with the IDA, the Convention Center Development Corporation (the "CCDC"; relating to the Javits Marshalling Yard or the CCDC-owned site on the east side of 11th Avenue between 35th and 36th Streets, "Javits Plaza") or the MTA (relating to the ERY and the WRY), or pay real property taxes to the City and, if applicable, will make certain amounts of DIB Payments (defined herein) and TDR Payments (*i.e.*, payments for the purchase of ERY Transferable Development Rights) in exchange for the right to increase the size of their New Developments in the Project Area. In addition to the IDA, the New York State Urban Development Corporation ("UDC") (sometimes referred to as the Empire State Development Corporation) ("ESDC") and its subsidiaries (including, but not limited to, the CCDC), have statutory powers that may be utilized in the Project Area, which give UDC and its subsidiaries the power to enter into agreements with developers in the Project Area to reduce or eliminate real property taxes otherwise payable to the City without a PILOT Agreement with the IDA and to build larger buildings without making DIB Payments or TDR Payments. In addition, because real property taxes are not payable on property owned by the State, ESDC (including its subsidiaries), MTA, or The Port Authority of New York and New Jersey (the “Port Authority”), commercial and residential development on such property within the Project Area would not result in real property tax revenues to the City or PILOT revenues to the Corporation, unless the State, ESDC (or a subsidiary), CCDC, MTA or the Port Authority agrees to require PILOT Payments be made to the City or the Corporation (which PILOT Payments, if made to the City, will be included in the City’s calculation of Tax Equivalency Payments payable to the Corporation), such as in the City-MTA Railyards Agreement. Therefore, development on State, ESDC, CCDC, MTA or Port Authority owned property in the Project Area could fill some of the demand projected by C&W for commercial and residential developments within the Project Area without resulting in Revenues to the Corporation, thereby reducing projected Revenues payable to the Corporation.

Although the Corporation expects, based on previous experience when such agreements have been entered into, that such governmental entities will reimburse the City for unrealized real property taxes pursuant to an assignment of payments in lieu of real property taxes, there can be no assurance that reimbursement of such lost real property taxes will take place and there can be no assurance that projected Revenues from DIB Payments and TDR Payments will not be adversely affected. However, the Railyards Agreement, dated as of September 28, 2006, as amended May 25, 2010 (the “City-MTA Railyards Agreement”), among MTA, TBTA, The Long Island Railroad Company and the City, provides assurances that the Corporation will receive PILOT Payments from development on both the ERY and the WRY. Also, the Corporation expects to receive PILOT Payments from CCDC on the Javits Marshalling Yard and Javits Plaza sites. In addition, the Corporation has received assurances from ESDC in a letter dated March 25, 2004 that ESDC will not undertake any project in the Project Area unless the Corporation first shall have received from the rating agencies confirmation that the ratings on Bonds of the Corporation will not be reduced because of the proposed project.

Uncertainty as to Timing of Principal Payments

No assurance can be given that principal payments, the Conversion Date or the establishment of a schedule of Sinking Fund Installments for the Series 2012A Bonds will occur, nor that Revenues will be available in sufficient amounts to pay in whole or in part any such scheduled Sinking Fund Installments. The projected Revenues (other than Interest Support Payments) have been analyzed based on various assumptions and limitations as described in this Official Statement and reviewed in the C&W Reports. Actual results will vary from the assumptions. Such variance could be material and could accelerate or delay principal payment and the Conversion Date or result in such date not occurring. In addition, no assurance can be given that interest rates on additional Bonds issued by the Corporation, if any, will be in the amounts estimated. Higher interest costs than estimated on such additional Bonds or the issuance of Subordinate Bonds could delay principal payment and the Conversion Date. See “SECTION IX: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION.”

No Acceleration of Bonds or of Revenues Upon a Payment Default

Upon any default in the payment of the principal of or interest on the Bonds, the outstanding principal of the Bonds is not subject to acceleration under the Indenture. Further, upon the occurrence of a Payment Default under the Indenture, the mandatory redemption of the Bonds as a remedy under the Indenture does not result in any acceleration of the receipt of Revenues by the Corporation to effect the payment of the Redemption Price required by such mandatory redemption. See “SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS” and “APPENDIX A — CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” herein.

Foreclosure of PILOT Mortgages Securing PILOT Payments May Be A Time-Consuming, Complex Process From Which Adequate Proceeds May Not Be Realized

Each property owner that enters into an IDA PILOT Agreement with the IDA will secure its payment obligations under such agreement by granting a first mortgage (the “PILOT Mortgage”) to the IDA, which PILOT Mortgage will be assigned by the IDA to the Corporation, and by the Corporation to the Trustee. If the property owner defaults under the IDA PILOT Agreement, the Trustee could seek to enforce payment of amounts due by seeking to foreclose the PILOT Mortgage. In New York, foreclosure of a mortgage requires judicial action and is a lengthy process that requires careful compliance with a number of procedural requirements. It is subject to most of the delays, uncertainties and expenses of other lawsuits and sometimes requires several years to complete. The property owner will have the opportunity to raise defenses and to assert counterclaims which can significantly increase the time and cost of completing a foreclosure. In addition, other parties with liens, judgments or other interests in the property may seek to prevent or delay a foreclosure action. New York law restricts the right of a mortgagee to simultaneously bring a foreclosure action and an action to recover the mortgage debt. Upon completion of a foreclosure action, there can be no assurance that a foreclosure sale will net an amount equal to the amount secured.

Notwithstanding a lender's strict compliance with the requirements for a judicial foreclosure, a foreclosure action can be stayed at any point if the property owner or any other party with an interest in the property files for bankruptcy. If such a stay were to occur, the cost and time required to realize on the mortgaged property would likely increase. In addition, under certain circumstances the bankruptcy court could modify the terms of the PILOT Mortgage.

Legal Proceedings

With the exception of the litigation described in "SECTION XVI: LITIGATION," there are no legal proceedings pending, or to the knowledge of the Corporation, threatened, against the Corporation. There can be no assurance that judicial or administrative actions or investigations challenging the issuance of the Series 2012A Bonds, the construction, operation or financing of the Project or any of the other transactions contemplated by this Official Statement will not be filed or commenced in the future or, if they are filed or commenced, that they will not adversely affect the Project or the ability of the Corporation to pay debt service on the Series 2012A Bonds. See "SECTION XVI: LITIGATION."

Bankruptcy

The enforceability of the rights and remedies of the owners of the Series 2012A Bonds under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and to the exercise of judicial discretion in appropriate cases.

Dilution of Security for the Series 2012A Bonds

The Indenture permits the Corporation to issue additional Senior Bonds payable from the Revenues on a parity with the Series 2012A Bonds and the Series 2007A Bonds, as described herein (*i.e.*, the issuance prior to the Conversion Date of up to an additional $500 million of Senior Bonds if the related Interest Support Payments are authorized by an appropriate City Council resolution), subject to the requirement that all Senior Bonds issued prior to the Conversion Date be Supported Bonds. The issuance by the Corporation of additional Senior Bonds payable from the Revenues on a parity with the Series 2012A Bonds and with the Series 2007A Bonds would dilute the security for the Series 2012A Bonds by increasing the aggregate debt service payable by the Corporation and decreasing the projected debt service coverage for the Series 2012A Bonds. See "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS — Additional Bonds" herein.

Remediation of Hazardous Substances and Environmental Compliance

The presence of hazardous substances where construction will take place in the Project Area at levels requiring remediation could increase the costs of construction and could cause delays in the construction and completion of the Project and in development of residential and commercial projects in the Project Area.

Permits and Approvals

Many permits and approvals are required for the Project. Although the Corporation expects that the entities responsible will be able to obtain the required permits, approvals and reviews in a manner that will not delay construction of the Project, there can be no assurance that any or all of these permits, approvals and reviews will be obtained at all or in a timely manner that will permit the Project to be constructed on schedule. Moreover, failure to comply with conditions for the permits could cause delays in the Project. Regulations governing, among other things, air pollution, noise abatement and control, hazardous waste, solid waste and water quality may become more stringent in the future, possibly requiring additional compliance and resulting in additional costs or delays in the Project.

Changes in Zoning or Development Incentives

The Project Area Zoning Regulations which are intended to encourage new medium to large scale commercial, residential, hotel and retail development in the Project Area were last approved by the New York City Planning Commission and adopted by the New York City Council in December 2009. The New York City Planning Commission, the majority of the commissioners of which are Mayoral appointees, and the City Council, could enact changes in the Project Area Zoning Regulations in the future that reduce available density bonuses, reduce the amount of DIB Payments, or make the cost of such payments prohibitive for developers, or make other changes to the zoning regulations that would adversely affect the development climate in the Project Area. Although the IDA has agreed not to modify the Project Area UTEP (defined herein) without the prior consent of the Corporation except to comply with State law, changes in State law could require a reduction of the incentives provided by the Project Area UTEP. In addition, the 421-a Program (defined herein), which provides certain incentives to develop residential housing, expires June 15, 2015. There can be no assurance that such program will be extended or what incentives might be included in the program if it is extended. Changes in such program may have the effect of reducing the incentives for residential development and the Revenues available to the Corporation to pay debt service on the Bonds. See the C&W 2011 Report attached hereto as Appendix E-1 for a brief description provided by the City of the 421-a Program.

Competing Development Activities

Projected development in the Project Area has been analyzed in the C&W 2011 Report based on assumptions and limitations regarding the likelihood of development in other areas of the City and the New York City metropolitan region (the "Region") which will compete with the Project Area for development. If such assumptions prove incorrect, it is possible that more development could occur in other areas of the City or the Region which would diminish the demand for development in the Project Area and have a negative impact on the Revenues. For example, as noted in the C&W 2011 Report, the approximately 10.7 million square feet ("msf") of current and planned construction of office towers at the World Trade Center site could compete with, or delay, commencement of similar office towers in the Project Area. Policy decisions by the City or the State or by neighboring states to encourage development in other areas could lessen the amount of development in the Project Area. See the C&W 2011 Report attached hereto as Appendix E-1 for a brief description of certain of such competing development activities.

Recession Risk

Periodic economic recessions may have the effect of limiting sources of financing for private development in the Project Area, or the demand for commercial, residential, hotel and/or retail development within the Project Area, any of which may have a material adverse effect upon the receipt of Revenues. See the Moody's Analytics report presented as Chapter 2 in the C&W 2011 Report attached hereto as Appendix E-1.

Appropriation Risk

The City has agreed in the Support and Development Agreement (defined herein) to make Interest Support Payments to the Corporation to pay interest on up to $3 billion of the Bonds (or, upon appropriate City Council resolution, on up to $3.5 billion of the Bonds) to the extent that the Corporation does not have sufficient Revenues to make such payments and to make Tax Equivalency Payments to the Corporation. Payments by the City pursuant to the Support and Development Agreement are subject to appropriation each year. There can be no assurance that such amounts will be appropriated and, if not appropriated, such payments cannot be made by the City. The Support and Development Agreement and the City's obligation to make payments pursuant to such agreement do not constitute debt of the City under or within the meaning of the State Constitution or the Local Finance Law of the State. The willingness of the City to appropriate the amounts due under the Support and Development Agreement may depend on the financial condition of the City. See Appendix D to this Official Statement for information about the City.

HYDC Liabilities

In the Support and Development Agreement, the Corporation has agreed to pay the administrative expenses of the Hudson Yards Development Corporation ("HYDC"). The responsibilities of HYDC include the approval of the design and construction plans and the oversight of construction of certain aspects of the Project. Such activities could expose HYDC to litigation and potential liability, including the cost of litigation. The Corporation has not agreed to pay any costs incurred by HYDC resulting from such litigation. Although HYDC expects to be indemnified against such costs by the parties who enter into construction and design contracts for the Project and by the City, subject to appropriation, HYDC has no source of funding available to pay such costs and if such costs are incurred and not paid pursuant to applicable indemnification arrangements, there can be no assurance that HYDC will have sufficient resources to continue to fulfill its role of overseeing development of the Project.

Limited Remedies

The Trustee is limited under the terms of the Indenture to enforcing the terms of the Indenture, receiving the Revenues and applying them in accordance with the Indenture. Although the Trustee may, in the event of a Payment Default, enforce obligations under the Support and Development Agreement, PILOT Assignment Agreement, PILOT Agreements and DIB Assignment Agreement, the Trustee has no right to enforce any of the agreements relating to the design and construction of the Project, the timely completion of which is one of the critical assumptions made by the C&W Reports in their respective analyses of projected Revenues.

Limited Liquidity of the Series 2012A Bonds

There is currently no secondary market for the Series 2012A Bonds. There can be no assurance that a secondary market for the Series 2012A Bonds will develop, or if a secondary market does develop, that it will provide Bondholders with liquidity or that it will continue for the life of the Series 2012A Bonds. Consequently, any purchaser of the Series 2012A Bonds must be prepared to hold such securities until the maturity or redemption of such securities.

SECTION III: PLAN OF FINANCE

Use of Proceeds of Series 2012A Bonds

The proceeds of the Series 2012A Bonds, less certain financing, legal and miscellaneous expenses, are expected to be approximately $1,000,000,000 and will be used to pay the remaining expected cost of the Subway Extension and the Public Amenities (but with respect to the Public Amenities, only Phase I of the Public Amenities as referred to below in "SECTION IV: THE PROJECT — Public Amenities"), and the remaining expected cost of Property Acquisition for the Public Amenities, including reimbursement to the City for amounts previously advanced for such costs. See "SECTION X: ESTIMATED SOURCES AND USES OF FUNDS" herein.

Issuance of Additional Bonds

The Indenture requires that all Senior Bonds issued prior to the Conversion Date be Supported Bonds. As the current maximum of $3 billion of Supported Bonds imposed by the Indenture and the Support and Development Agreement will have been reached upon the issuance of the Series 2012A Bonds, the Corporation may not issue additional Bonds supported by Interest Support Payments, other than for refunding purposes, unless the City is authorized by appropriate City Council resolution to pay, and the Support and Development Agreement provides for the payment of, Interest Support Payments on a greater amount of Bonds. Following the issuance of the Series 2012A Bonds, the Corporation may issue up to $500 million of additional Senior Bonds prior to the Conversion Date, provided such amount is authorized by City Council resolution to be subject to the Support and

Development Agreement, without meeting the debt service coverage tests contained in the Indenture for the issuance of additional Bonds, but may not issue additional Senior Bonds in excess of such amount, other than for refunding purposes. The Corporation may issue Subordinate Bonds without limitation on the principal amount, but subject to certain other conditions contained in the Indenture including a prohibition that, prior to the Conversion Date, the interest payable in any Fiscal Year on Subordinate Bonds may not exceed $30 million and no Subordinate Bond may mature prior to the latest date on which any Outstanding Senior Bond matures. After the Conversion Date, the Corporation may issue additional Senior Bonds or Subordinate Bonds without limitation as to principal amount, maturity date or interest payable annually upon compliance with the debt service coverage tests and certain other conditions contained in the Indenture. See "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS — Additional Bonds" herein.

SECTION IV: THE PROJECT

Overview

The Project consists of (i) the Subway Extension, (ii) the construction of the Public Amenities, (iii) the acquisition of certain transferable development rights generated by the ERY to facilitate development elsewhere in the Project Area and (iv) Property Acquisition.

Total costs for the Project are estimated by the Corporation to be $3.0 billion, including $107 million for contingencies for the Subway Extension (as described below). All property interests necessary for construction and operation of the Subway Extension have been acquired; the one easement that has not yet been acquired for the secondary entrance to the 34th Street subway station (anticipated to be completed in spring 2015) is not needed for the subway station to commence operation. Construction of the Subway Extension is 65% complete and is expected to be operational by late 2013. Construction of Phase 1 of the Public Amenities (as described in this section below entitled "Public Amenities") is expected to commence in 2012, and a portion of Phase 1 is expected to be completed in 2013, with the remaining part of Phase 1 expected to be completed in 2014. The Official City map establishing the Hudson Park and Boulevard was filed in 2006. The acquisition from the TBTA of certain transferable development rights generated by the ERY has been completed, as have all Property Acquisitions (but for the subway easement referred to above in this paragraph).

Additional parks and open spaces may be created in the Project Area beyond those being financed by the Corporation as part of the Project. Such additional parks and open spaces, including the portion of the Hudson Park and Boulevard between West 36th Street and West 42nd Street, may be built by developers pursuant to the Project Area Zoning Regulations in exchange for DIB Payments. Such additional parks, if undertaken, are expected to be completed after 2014.

To encourage and facilitate private commercial and residential development in the Project Area, changes have been made to the City's zoning regulations for the Project Area. In January 2005, October 2005, October 2006 and December 2009, the City Council adopted revised zoning regulations for the Project Area with the exception of the Javits Marshalling Yard. Previously zoned primarily for low- and medium-density manufacturing and commercial uses, the Project Area has been rezoned to encourage substantial medium- to high-density commercial office and residential development. The Project Area Zoning Regulations now allow developers to increase the size of their buildings through the use of various zoning mechanisms intended to encourage such development. C&W has reviewed the new zoning regulations and believes, on the basis of existing data and on the assumptions and limitations (in particular, the Limiting Conditions, Chapter 1.B.) described in the C&W 2011 Report, that the Project Area as rezoned can accommodate more development than that projected in the C&W 2006 Report.

According to the C&W 2011 Report, the 5 key elements of the redevelopment plan for the Project Area to support its evolution into a mixed-use, 24/7 district are: (i) zoning for mixed-use development, (ii) enhanced access to mass transit, (iii) availability of large commercial sites, (iv) creation of new public open spaces and cultural amenities, and (v) renovation of the Jacob K. Javits Convention Center.

C&W has projected in the C&W 2011 Report that future demand would support approximately 50.6 million square feet ("msf") of development within the Project Area, including 7.3 msf of developments (6.2 msf of residential and 1.1 msf of hotel) built to date, and new commercial office space (25.3 msf), new residential space (13.9 msf), new hotel space (2.3 msf) and new retail space (1.8 msf) expected to be built during the 2012-2041 periods studied in the C&W 2011 Report. Such projections are based on a number of assumptions and limitations (in particular, the Limiting Conditions, Chapter 1.B.) described in the C&W 2011 Report, including, among other things, timely completion of the Subway Extension and of Phase 1 of the Public Amenities, and the accuracy of economic projections. See the C&W 2011 Report in Appendix E-1 attached hereto and "SECTION VIII: CUSHMAN & WAKEFIELD, INC. REPORT" herein.

Hudson Yards Development Corporation

To manage implementation of the Project, the City has created HYDC, a local development corporation organized under the State Not-For-Profit Corporation Law. The HYDC is governed by a Board of Directors which consists of thirteen persons, a majority of whom serve at the pleasure of the Mayor of the City, holding the following positions: Commissioner, New York City Department of Parks and Recreation; Chairperson, New York City Planning Commission; Chairperson, Manhattan Community Board No. 4; Deputy Mayor for Economic Development for The City of New York; Commissioner, New York City Department of Housing Preservation and Development; Director, OMB; Speaker of the Council; Council member representing Council District No. 3; Deputy Mayor for Operations for The City of New York; Manhattan Borough President; Comptroller for The City of New York; Commissioner of the New York City Department of Small Business Services; and President of New York City Economic Development Corporation.

HYDC has a staff of 9 headed by Ann Weisbrod as President. Ms. Weisbrod was formerly the Director of Hudson Yards Development in the Office of the Deputy Mayor for Economic Development and Rebuilding. Prior to that she was Director of Real Estate Development for the MTA, Vice President for Economic Development for the Alliance for Downtown New York and Senior Vice President of Development for the New York City Economic Development Corporation. HYDC is working to implement design and construction of the various elements of the Project in coordination with the City Law Department for property acquisition and condemnation, the MTA for design and construction of the Subway Extension, and the New York City Economic Development Corporation for construction of the Public Amenities, private developers active in the Project Area and OMB and the Corporation for cost containment and financing. As provided in the Support and Development Agreement, the Corporation is responsible for paying HYDC's expenses but is not responsible for any liabilities of HYDC except as set forth in the Support and Development Agreement. The Corporation and HYDC are each separate legal entities.

Subway Extension

Status of Property Acquisition and of Construction

All property interests necessary for construction and operation of the Subway Extension have been acquired; the one easement that has not yet been acquired for the secondary entrance to the 34th Street subway station (anticipated to be completed in spring 2015) is not needed for the subway station to commence operation. Construction of the Subway Extension is 65% complete and the Subway Extension is expected to be operational by late 2013.

Scope of Subway Extension

The Subway Extension consists of the No. 7 subway line being extended approximately two miles from its current terminus on West 41st Street between Seventh and Eighth Avenues westward under West 41st Street to Eleventh Avenue and then southward under Eleventh Avenue. The projected route of the Subway Extension is shown in purple on the Project Area Map included herein immediately preceding the Summary Statement. The Subway Extension includes the construction of a terminal station at West 34th Street and Eleventh Avenue. The subway tracks will extend beyond the terminal station to West 25th Street and Eleventh Avenue to permit the storage of six subway trains to enhance operational reliability.

Subway Extension MOU

In order to implement the Subway Extension, the City, the Corporation, HYDC and the MTA entered into a Memorandum of Understanding for the Subway Extension, dated September 28, 2006 (the "Subway Extension MOU"), which provides for the construction of the Subway Extension by the MTA Capital Construction Company ("MTACC") and establishes procedures to be followed during the process of design completion, awarding of contracts and construction. The Subway Extension MOU may be terminated by the Corporation or the City if, at any time prior to the completion of the Subway Extension, the Corporation determines that it will be unable to fund the Subway Extension in the amount of the then-applicable Agreed Capital Investment. In the event the Subway Extension MOU is terminated for such reason, the Corporation and the City shall be required to reimburse MTA, MTACC and the New York City Transit Authority for the actual, out-of-pocket liabilities incurred in connection with the Subway Extension prior to the date of termination, including any charges relating to termination of any project contract. In addition, the City would be responsible for the maintenance of, or shall assume possession of, any physical improvements constructed in conformity with the terms of the Subway Extension MOU, but not put into service as a result of such termination.

Itemized Budget

Pursuant to the Subway Extension MOU, a Project Committee (the "Project Committee") was established with six voting members: three from the MTA, two from HYDC and one from the Corporation. A unanimous vote of the Project Committee is required to approve consultant construction management contracts and construction contracts. The Project Committee is also responsible for approving, by unanimous vote, an itemized budget (the "Itemized Budget") and schedule for construction of the Subway Extension, the award of contracts for the Subway Extension, change orders which would increase costs more than 5% and any funding necessary for the Subway Extension in excess of the Itemized Budget to be provided by the Corporation, HYDC or the City. The Itemized Budget may be modified from time to time but the Agreed Capital Investment (*i.e.*, that amount which the City, the Corporation or HYDC have agreed pursuant to the Subway Extension MOU to furnish for the design and construction of the Subway Extension) may not be increased without the unanimous consent of the Project Committee, except in the event of certain actions of the Corporation, HYDC or the City described below. MTACC, with the assistance of a consultant construction management firm, is responsible for construction of the Subway Extension, including developing, advertising and awarding contracts, subject to the approval of the Project Committee. The Subway Extension MOU provides that the construction of the Subway Extension shall be undertaken by MTACC in accordance with the Itemized Budget and the schedule agreed to by the Project Committee.

In 2006, the Project Committee approved the original Itemized Budget in the amount of $2 billion plus a $100 million contingency for the Subway Extension and a construction schedule with a completion date during 2013. The Project Committee has met on an approximately monthly basis since November 2006. In 2011, the Project Committee approved a new Itemized Budget in the amount of $2.260 billion plus a $107 million contingency for the Subway Extension. As a result, the Agreed Capital Investment pursuant to the Subway Extension MOU is now $2.367 billion, inclusive of the $107 million contingency.

Although the original budget of $2.1 billion for the Subway Extension has increased by $267 million, it is expected that offsetting adjustments and savings from certain aspects of the Subway Extension and the Public Amenities will permit the completion of the Subway Extension on schedule by late 2013 without additional bond financing beyond the $3 billion of financing provided by the Series 2007A Bonds and the Series 2012A Bonds. HYDC and OMB have identified cost savings and unused contingencies elsewhere within the Project budget in an amount sufficient to fund $235 million of such increase. The City is funding the remaining $32 million of such increase, which is for certain 11th Avenue reconstruction work necessary to construct the Subway Extension. The City has also committed to provide additional funding for property acquisition litigation costs if necessary.

Cost Estimates

Current cost estimates for the Subway Extension are based on the amounts of the five construction contracts which the MTA has already awarded for the Subway Extension (which awarded contracts represent, in the aggregate, more than 90% of the total construction cost of the Subway Extension), the MTA's cost estimate for the one construction contract remaining to be awarded for the Subway Extension, the MTA's estimate of other remaining costs, and amounts paid to date for the design and construction of the Subway Extension. In the event of cost overruns for the construction of the Subway Extension beyond the funds available therefor and the unwillingness of any party to provide such additional funds, then the completion of the Subway Extension could be delayed or prevented. See "SECTION II: RISK FACTORS — Need for Additional Funds" herein.

Subway Extension MOU Is Not Security for Bonds

Although the Subway Extension MOU sets forth the understanding of the Corporation, the City, HYDC and the MTA (on behalf of itself, the New York City Transit Authority and the MTACC) regarding the matters described above, the Subway Extension MOU will not be assigned to the Trustee or pledged as security for the Series 2012A Bonds. While no assurance can be given that the Subway Extension MOU will be legally enforceable, the parties have carried out their commitments under the Subway Extension MOU since 2006, and the Corporation expects the commitments made in the Subway Extension MOU to be carried out by the parties thereto.

Funding for the Subway Extension Under the Indenture

In recognition of the importance to the Project of having sufficient funds to complete the Subway Extension, pursuant to the Indenture, money within the separate subaccount for funding the Subway Extension can only be applied to such purpose, and the Corporation may direct the transfer of money from within the separate subaccount for funding the Public Amenities to the Subway Extension subaccount (but not vice versa).

Public Amenities

Plans for the Project Area include the construction of the first segment of the Hudson Park and Boulevard ("Phase 1") between Tenth and Eleventh Avenues from West 33rd Street to West 36th Street. The Hudson Park and Boulevard may be further extended, if such extension is undertaken, from West 36th Street to West 42nd Street. All properties necessary for Phase 1 of the Hudson Park and Boulevard have been acquired. Construction of Phase 1 is being financed by the Corporation as part of the Project. Final design of Phase 1 is complete. Construction of Phase 1 is expected to commence in 2012 and a portion of Phase 1 is expected to be completed in 2013, with the remaining part of Phase 1 expected to be completed in 2014.

Neither property acquisition for, nor construction of, the portion of Hudson Park and Boulevard north of West 36th Street ("Phase 2"), is expected to be financed by the Corporation. If it is effected, Phase 2 would not be constructed until after 2014. The Project Area Zoning Regulations provide an incentive mechanism that will encourage, though not require, property owners in the Project Area to convey to the City privately-owned property required for construction of Phase 2, and/or to fund construction of portions of Phase 2. A 100% schematic design of Phase 2 has been created to facilitate the construction of Phase 2 upon receipt of funding therefor from private parties or other sources.

In the mid-block between Ninth and Tenth Avenues, between West 34th Street and West 40th Street, small parks serving the immediate residential neighborhood may be constructed by private developers in exchange for a building height bonus in the Project Area Zoning Regulations.

ERY Transferable Development Rights

Pursuant to the City-MTA Railyards Agreement, the Corporation purchased from the TBTA (with proceeds of the Series 2007A Bonds) a $200 million interest in 4.56 million square feet of development rights generated by the ERY ("ERY Transferable Development Rights"), which development rights can be sold to owners of certain other properties in the Project Area for the purpose of increasing the density of new development at such properties. Pursuant to the City-MTA Railyards Agreement, the Corporation has the right to all proceeds from the sale of ERY Transferable Development Rights until it has received an amount equal to $200 million (*i.e.,* the Series 2007A Bond proceeds used to purchase the ERY Transferable Development Rights) plus the amount of interest paid by the Corporation on borrowed funds (*i.e.,* the interest cost of the Series 2007A Bonds) used to purchase the ERY Transferable Development Rights. The MTA has the right to all additional proceeds realized from the sale of ERY Transferable Development Rights.

SECTION V: STATUS OF DEVELOPMENT WITHIN THE PROJECT AREA

ERY and WRY

The largest undeveloped area within Hudson Yards is the approximately 26 acres of open rail yards serving the operational needs of both the Long Island Railroad and Pennsylvania Station, which yards are bounded by Tenth and Twelfth Avenues and by West 30th and West 33rd Streets. The portion of the rail yards to the east of Eleventh Avenue consists of approximately 13 acres and is referred to as either the “Eastern Railyard” or “ERY”; and the portion of the rail yards to the west of Eleventh Avenue also consists of approximately 13 acres and is referred to as either the “Western Railyard” or “WRY.” The ERY and the WRY are identified on the map of the Project Area shown at the front of this Official Statement just prior to the Summary Statement.

The ERY and the WRY were rezoned by the City Council in January 2005 and December 2009, respectively, to permit the development of the Project Area as described in this Official Statement. The new zoning is set forth in the Project Area Zoning Regulations.

The MTA has agreed in the City-MTA Railyards Agreement that, if it leases the ERY or the WRY for development, such leases will require the developer to pay PILOT Payments (“Railyard PILOT Payments”) on UTEP Eligible Commercial Projects in amounts no less than the PILOT amounts payable according to the Project Area UTEP, and Railyard PILOT Payments for other development equal to full real property taxes in the amounts that would have been levied by the City if the Railyards were privately owned. The MTA has further agreed that it shall direct payment to, or pay over to the Corporation (or to the City upon the Corporation’s direction) all such Railyard PILOT Payments and substantially all payments in lieu of mortgage recording taxes.

In 2007, the MTA issued a request for proposals for the development of both the ERY and the WRY, and in 2008 designated The Related Companies, L.P. (“Related”) as the developer. Related’s current equity partner is Oxford Properties Group, an entity that invests in and manages real estate assets on behalf of the Ontario Municipal Employees Retirement System or “OMERS”, one of Canada’s largest pension plans. Subsequent to such designation, in April 2010, the MTA and two separate affiliates of Related (the “ERY Related Tenant” and the “WRY Related Tenant,” respectively, and, together, the “Related Tenants”) entered into two Contracts to Enter Into a Lease (the “Railyard Contracts”), pursuant to each of which the Related Tenant agreed that it will enter into a lease (each with the MTA and The Long Island Railroad Company), one with respect to the ERY and the other with respect to the WRY. Each lease will be for a 99-year lease term that can be severed into separate leases for separate development parcels, with options to purchase the severed parcels. Each Related Tenant is required to enter into a lease for the ERY or the WRY, as the case may be, prior to commencing construction on the ERY or the WRY. The Railyard Contracts further provide that:

(i) the ERY Related Tenant is required to enter into the lease for the ERY within 90 days following the quarterly period during which certain minimum “triggers” related to levels of (a) commercial office availability as reflected by reported office vacancy rates, (b) commercial construction activity as reflected by reported architectural billings and (c) residential condominium and cooperative apartment pricing as reflected by reported sales prices per square foot, shall simultaneously have been achieved and remain in effect; and

(ii) the WRY Related Tenant is required to enter into the lease for the WRY within one year of the ERY Related Tenant entering into the lease for the ERY.

In connection with the proposed development by Related of the ERY and the WRY, it has been reported in news sources, among other matters, that:

- Approximately 12.0 msf of mixed-use development is planned by Related for the Railyards, which development will require that Related construct platforms in stages over the active Railyards at a cost reportedly in excess of $1 billion.

- Related is actively marketing the two proposed ERY office towers to a number of potentially large tenants, under plans which call for approximately 4.5 msf of commercial office space, and an approximately 1.7 msf residential tower on the southeast corner of the ERY site.
- Related plans to build approximately 500,000 to 750,000 square feet ("sf") of retail space in a vertical shopping mall on the site of the ERY, and is seeking major retailers to serve as anchor tenants for the retail component.
- Related also intends to develop the ERY site to include 300,000 sf of hotel space.
- On the WRY, Related has plans to build approximately 4.0 msf of residential space, 200,000 sf of retail space, a 1.8 msf office tower, and six acres of public open space.
- On the southern edge of the ERY site, a five-story, approximately 100,000 sf structure to be known as the "Culture Shed" is planned to be constructed and to provide a forum for art exhibitions, concerts, film screenings and other special events to be held on site. The planning for the "Culture Shed" is in its initial phase, and funding will be sought from private donations.
- On the WRY, plans also call for a 120,000 sf school.

Recent Developments

Since 2005, approximately 6.8 msf of development has been completed within the Hudson Yards Financing District, representing approximately $5 billion in private-sector investment, primarily in residential and hotel construction. Approximately 5,300 units, comprising approximately 5.4 msf, of new residential properties (both rental and condominium) have been developed since 2005. More than 1.4 msf of hotel development has occurred, comprising approximately 2,900 rooms. Plans for office development in the Project Area continue to be in the initial tenant procurement phase, as the Subway Extension nears completion in late 2013.

Office Development

Of the 15 large commercial sites within the Project Area that C&W analyzed, eight of those sites have been acquired and/or fully or partially assembled by major developers, which include Brookfield Properties, The Related Companies, Extell Development, The Moinian Group, Sherwood Equities, Alloy Development, Rockrose Development and Mercedes-Benz (USA). See Chapter 3 of the C&W 2011 Report attached as Appendix E-1 hereto for a detailed analysis of those sites.

As noted above under "— ERY and WRY," Related has begun a marketing effort to secure tenants to occupy 4.5 gross msf of Class A commercial office space planned for its ERY site. Related's marketing efforts have been directed at a number of potential large tenants.

Brookfield Properties, a leading U.S. office real estate investment trust ("Brookfield"), is reportedly raising private equity capital to fund the construction of a platform over its 209,000 sf site on Ninth Avenue between West 31st and West 33rd Streets for a development plan that includes 4.5 msf of office, residential and retail uses. Extell Development and The Moinian Group have commenced pre-development work at their sites, located at the southeast and northeast corners, respectively, of West 34th Street and Eleventh Avenue; each of the two developers has assembled sites that can accommodate commercial development of 1.5 msf or greater. In May 2011, Sherwood Equities purchased the 25,000 sf parcel at 360 Tenth Avenue, which can accommodate commercial development of approximately 550,000 sf. Additional sites have been fully or partially assembled, including the Alloy Development site on West 36th Street and Tenth Avenue, and the Rockrose Development site on West 38th Street and Eleventh Avenue.

Residential Development

Between 2005 and 2011, 12 new residential construction projects were completed within the Project Area, comprising approximately 4.78 msf and 5,200 units. Related's "MiMA", a 651-unit luxury condominium and rental tower located at 440 West 42nd Street, opened in March 2011. The mixed-use project also includes a hotel, which is discussed in "— Hotel Development" below. In addition, TF Cornerstone's 855-unit "505W37" opened in 2010, Silverstein Properties' 1,349-unit "Silver Towers" opened in 2009, Glenwood Management's 573-unit "Emerald Green" opened in 2009, The Moinian Group's 482-unit "Atelier" opened in 2006, and Extell Development Company's 551-unit "Orion" opened in 2005. Furthermore, between 2006 and 2010, three renovation projects representing approximately 0.2 msf have been completed within the Project Area. Three new properties, totaling approximately 0.3 msf and 363 units, are under construction and are scheduled for completion over the next two years. C&W reports that 14 other developments of approximately 14.6 msf are in the planning stages; more than half of the units for these developments (amounting to approximately 6,000 units) are proposed by Related for the ERY and the WRY. See Chapter 4 of the C&W 2011 Report attached as Appendix E-1 hereto for a detailed analysis of recent residential development within the Project Area.

Hotel Development

Between 2005 and 2011, 12 new hotels, comprising approximately 2,900 rooms and approximately 1.13 msf, were completed. Yotel, a 669-room hotel and the first U.S. outpost of a new British micro-room concept, opened in June 2011 as part of Related's mixed-use "MiMA" property. Other new completions include Staybridge Suites, a 310-room hotel which opened in 2010, Holiday Inn Express, Hampton Inn and Candlewood Suites, each of which opened in 2009, Wyndham Garden Hotel, a 224-room hotel which opened in 2008, and Element NY Times Square South, a 346-room hotel which opened in 2006. Two hotels, totaling 300 rooms collectively, are under renovation and are scheduled to be completed in 2012. Three new hotels are under construction: the TRYP by Wyndham, a 175-room hotel at 345 West 35th Street which is scheduled to open in 2012, the Out NYC Urban Resort, with a 127-room Axel hotel at 510 West 42nd Street which is scheduled to open in 2012, and Fairfield Inn & Suites, a 239-room hotel at 325 West 33rd Street which is scheduled to open in 2013. In addition, Related has announced its plans for 300,000 sf of hotel space within the ERY site. See Chapter 5 of the C&W 2011 Report attached as Appendix E-1 hereto for a detailed analysis of recent hotel development within the Project Area.

Retail Development

The newly constructed residential buildings in the Project Area offer street-level retail amenities aimed at providing residents with convenient places to shop and eat. For example, TF Cornerstone's rental towers at 505 West 37th Street were built with seven ground floor retail spaces, all of which are currently leased. Related's "MiMA" property will house three theaters for New York's Signature Theatre Company, as well as rehearsal spaces and a lobby with a café and bookstore. Related has also announced that its proposed development plans for the ERY will include a 500,000 to 750,000 sf shopping center within the mixed-use towers planned for that site. Related is seeking major retailers as anchor tenants.

Complementary Projects

A number of projects in proximity to the Project Area are in various stages of planning, development or construction. The following is a brief description of the current status of these complementary projects.

Moynihan Station

Moynihan Station (formerly the Farley Post Office), located between West 31st and 33rd Streets from Eighth to Ninth Avenues, is undergoing the first phase of redevelopment into a new train station which will ultimately serve Amtrak and the Long Island Rail Road. The Moynihan Station Development Corporation (a subsidiary of the New York State Urban Development Corporation doing business as Empire State Development Corporation, "ESDC") is working on the overall development in partnership with the Port Authority, the designated lead agency in overseeing and managing the design and construction work. The design work is underway, and construction work, which is expected to begin in late 2011, will focus on below-grade public improvements and the creation of a train shed to support the new train station. The project is currently funded through a combination of federal grants and matching funds from the MTA and the Port Authority. Once completed, the initial phase of the Moynihan Station redevelopment project will allow for more rail passengers to exit Penn Station west of Eighth Avenue.

Related and Vornado Realty Trust, which were designated as developers by the Moynihan Station Development Corporation, are partnering to transform Moynihan Station into a retail center. However, the private development portion of Moynihan Station remains subject to further agreement between the development team and the relevant governmental officials.

Javits Convention Center

The Jacob K. Javits Convention Center (the "Javits Convention Center"), located to the west of the Project Area between Eleventh and Twelfth Avenues and between West 34th and West 40th Streets, is currently implementing an expansion and renovation project. The size and scope of the project has been considerably reduced in comparison to initial plans. The expansion portion of the project consists of the construction of Javits Center North, a structure providing an additional 80,000 gross sf of exhibition space. Construction of Javits Center North is complete, and the venue housed its first event in July 2010. The renovation portion of the project includes replacement of the roof, upgrades of building systems, renovations to the curtain wall and skylights, and reconfiguration and landscaping of the main entrance. The renovations are anticipated to be completed by the fall of 2013.

Javits Marshalling Yard

The full block between West 33rd Street and West 34th Street at Eleventh Avenue (the "Javits Marshalling Yard"), which is located within the Project Area, is currently used for truck marshalling and storage for the Javits Convention Center. The Javits Marshalling Yard has not yet been made available for development. The Convention Center Development Corporation (a subsidiary of ESDC), which owns the Javits Convention Center and the Javits Marshalling Yard, is updating its environmental review of the Javits Marshalling Yard in anticipation of issuing a request for proposals for private development in the future.

Madison Square Garden

Madison Square Garden ("MSG"), located at Eighth Avenue between West 31st and West 33rd Streets, is currently undergoing substantial interior renovations, reportedly costing $850 million. The renovations are projected to be completed in time for the 2013-14 sports seasons. Previously announced plans to relocate MSG to the Farley Post Office have been abandoned.

High Line Park

The High Line Park, extending into the lower end of the Project Area, is a park built atop an elevated former rail line running between Tenth and Eleventh Avenues from Gansevoort Street to West 30th Street. The southern section of the park opened in June 2009, and the northern section, from West 20th to West 30th Streets, opened in June 2011. Plans for the third phase for High Line Park, which borders the WRY and a portion of the ERY, are anticipated to be incorporated into Related's plans for its development of the WRY and the ERY.

Port Authority Bus Terminal

The Port Authority Bus Terminal ("PABT"), located between Eighth and Ninth Avenues and between West 40th and West 42nd Streets, could also be the subject of redevelopment in the years ahead. Plans for an approximate 1.5 msf mixed-use development atop the bus terminal have been publicly discussed for more than a decade by Vornado Realty Trust ("Vornado"), the Port Authority's designated developer. The Port Authority last gave Vornado an extension for the project development in 2010, and it is unclear whether the Port Authority will be willing to grant Vornado further extensions.

Access to the Region's Core (ARC)

The Access to the Region's Core (ARC) was a light rail tunnel project beneath the Hudson River designed to connect Frank R. Lautenberg Station in Secaucus, New Jersey to a new train station below West 34th Street, between Sixth and Eighth Avenues, with connections into New York City's Pennsylvania Station. The proposed

$8.7 billion project, which would have nearly doubled existing train travel capacity, was canceled by New Jersey Governor Chris Christie in October 2010 because of escalating estimates of the project's cost.

SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS

General

The Bonds are special obligations of the Corporation secured by and payable solely from the Revenues as described herein in accordance with the Indenture. *The Corporation has no taxing powers. The Bonds are not a debt of the City and, except as expressly stated herein, the City has no obligation to pay or provide for any of the debt service on the Bonds.*

The Revenues of the Corporation are described below and consist of: payments in lieu of real property and mortgage recording taxes made pursuant to agreements between owners of property in the Project Area and the IDA or the MTA; payments by the City equal to real property taxes and payments in lieu of real property taxes received by the City from owners of New Developments in the Project Area that do not otherwise enter into PILOT Agreements with the IDA or the MTA in respect of New Developments; payments by the City to enable the Corporation to pay interest on Supported Bonds; certain payments ("TDR Payments") from the sale by the Corporation of the interest in the ERY Transferable Development Rights purchased by the Corporation from TBTA; and payments by property owners pursuant to certain density bonus programs offered by the City for development in the Project Area. The projected amounts of such Revenues (other than Interest Support Payments) are reviewed in the C&W 2011 Report, based on certain assumptions and limitations (in particular, the Limiting Conditions, Chapter 1.B.) stated therein including the completion of the Subway Extension, the Property Acquisition and the Public Amenities (limited as described above in "SECTION IV: THE PROJECT — Public Amenities") during 2013, a forecast of economic growth and demographic changes from 2011 to 2051 (per Moody's Analytics, Chapter 2 of the C&W 2011 Report), and the continuation of the current incentives and the Project Area Zoning Regulations for development in the Project Area. See "SECTION VIII: CUSHMAN & WAKEFIELD, INC. REPORT" herein.

Debt Service Payments

Although the Corporation has begun receiving Revenues, it does not expect to generate sufficient Revenues from development in the Project Area to pay all the interest due on its Bonds for the foreseeable future. See "SECTION IX: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION" herein. Prior thereto, the Corporation expects that it will receive such additional funds as are necessary to pay interest on up to $3 billion of its Bonds from the City pursuant to the Support and Development Agreement described below. The City paid approximately $43 million in Interest Support Payments in fiscal year 2011. The obligation of the City to make such payments continues as long as any Supported Bonds are outstanding. Payments by the City to the Corporation pursuant to the Support and Development Agreement are subject to annual appropriation. The Indenture provides that, except as provided in the following paragraph, the Corporation is not obligated to make any principal payments on its Bonds prior to the Conversion Date (defined below). The City is not obligated to make any payments to the Corporation to pay principal on the Bonds. See "Interest Support Payments" below.

After the date on which a Series of Senior Bonds (such as the Series 2007A Bonds and the Series 2012A Bonds) are first callable and prior to the Conversion Date, all Revenues received by the Corporation in a Fiscal Year remaining after funding the Corporation's expenses and interest on the Bonds for such Fiscal Year and interest on the Bonds for the subsequent Fiscal Year, must be used to purchase or, if a Series of Senior Bonds is then subject to redemption, to redeem, such Senior Bonds. The Corporation has covenanted with the holders of the Series 2012A Bonds that, to the extent practicable, redemptions through Sinking Fund Installments, in addition to being *pro rata* within each Series of Senior Bonds, will also be *pro rata* among the Series of Senior Bonds so to be redeemed. The Series 2007A Bonds are subject to optional redemption on or after February 15, 2017, and the Series 2012A Bonds are subject to optional redemption on or after February 15, 2021. Therefore, no such Revenues can be applied to redeem the Series 2012A Bonds prior to February 15, 2021. The Corporation may, alternatively, direct the application of Revenues to the purchase of any Senior Bonds of any maturity, including the Series 2007A Bonds and the Series 2012A Bonds, whether or not then subject to redemption, and without any limitation of *pro rata* allocation, at a purchase price of not greater than par together with accrued interest. However, if, during a Fiscal Year, the City has made Interest Support Payments for the Corporation's Supported Bonds, then the Corporation must first reimburse the City for such Interest Support Payments prior to purchasing or redeeming any such Series of Senior Bonds.

Revenues of the Corporation

The Revenues of the Corporation, except for the Interest Support Payments payable by the City, are expected to be generated by private development in the Project Area and, to the extent such Revenues are not sufficient for the Corporation to pay all the interest due on its Supported Bonds, from payments by the City to the Corporation each year pursuant to the Support and Development Agreement, subject to annual appropriation, in the amount necessary to pay such interest on up to $3 billion of its Supported Bonds (or, as described below, a greater amount authorized by appropriate City Council resolution). The Revenues are described below. The C&W Reports review the amounts expected to be received from the Revenues derived from development in the Project Area and concludes that such amounts are reasonable. Such analysis is based on assumptions and limitations (in particular, the Limiting Conditions, Chapter 1.B.) described in the C&W Reports. See "SECTION VIII: CUSHMAN & WAKEFIELD, INC. REPORT" herein.

Interest Support Payments

The Hudson Yards Support and Development Agreement dated as of December 1, 2006 and entered into by and among the Corporation, HYDC and the City (the "Support and Development Agreement") obligates the City, subject to annual appropriation, to pay to the Corporation not later than four business days prior to each interest payment date on Supported Bonds, including the Series 2007A Bonds and the Series 2012A Bonds, Interest Support Payments in an amount equal to the difference between the amount of funds available to the Corporation to pay interest on the Supported Bonds and the amount of interest due on such Supported Bonds on such interest payment date. The City is obligated to pay, and the Support and Development Agreement provides for the payment of, Interest Support Payments, subject to annual appropriation, on up to $3 billion of the Corporation's Bonds as long as any such Bonds are outstanding (or a greater amount authorized by an appropriate City Council resolution). Pursuant to the Indenture and the Support and Development Agreement, Interest Support Payments are required to be made in connection with all Supported Bonds, which includes all Senior Bonds issued prior to the Conversion Date and only those Subordinate Bonds designated at the time of issuance as Supported Bonds, and, without regard to the $3 billion limit, may include Senior Bonds or Subordinate Bonds issued to refinance Supported Bonds. The Support and Development Agreement requires the Mayor of the City to include in the expense budget submitted in each fiscal year of the City to the City Council for the succeeding fiscal year of the City an amount, taking into account the expected Revenues of the Corporation, sufficient to make the Interest Support Payments in each such fiscal year. In resolutions adopted January 19, 2005 and October 11, 2006, the City Council recognized the importance to the City of the redevelopment of the Project Area and supported an undertaking by the City, subject to annual appropriation, to make the Interest Support Payments. A summary of the Support and Development Agreement is attached hereto as Appendix B. See "SECTION IX: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION" herein for a discussion of various scenarios showing the length of time the City may need to make Interest Support Payments.

The City paid approximately $43 million in Interest Support Payments in fiscal year 2011. In addition, the City has appropriated an amount sufficient to make Interest Support Payments to the extent required in fiscal year 2012.

Interest Support Payments are subject to annual appropriation by the City and to the availability of money for such payments. The Support and Development Agreement and the City's obligation to make such payments do *not constitute debt of the City under or within the meaning of the State Constitution or the Local Finance Law of the State. The City is not legally required to make annual appropriations for such payments. The ability of the City to fulfill its obligations under the Support and Development Agreement to make Interest Support Payments may depend on the financial condition of the City. See Appendix D for information about the City.*

Recurring Revenues

Payments in Lieu of Taxes. New privately owned commercial developments in the Project Area on privately-owned sites are subject to City property taxes unless granted discretionary benefits by the IDA under its statutory authority or by other governmental entities, such as the MTA, under authority which permits such entities to grant exemptions from City real property taxes. As an inducement to commercial development in the Project Area and to encourage job growth and the economic well being of the City, the IDA adopted a Uniform Tax Exemption Policy for the Project Area, except for the WRY and the Javits Marshalling Yard, in August 2006, which was amended and restated on August 3, 2010, and then further amended on November 9, 2010 (the "Project Area UTEP") that includes a schedule (set forth in Section 3 of the C&W 2011 Report) for IDA PILOT Payments for property owners that enter into IDA PILOT Agreements. The schedule provides a discount for 19 years from the real property taxes that would otherwise be due, and an annual rate of increase that is equal to the lesser of 3% or the actual increase in assessed valuation of the property. Beginning with the twentieth year, the amount payable is equal to the amount of real property taxes levied by the City without any discount. IDA PILOT Agreements for the Project Area are expected to last for 35 years and can be extended up to another 64 years. Developers entering into IDA PILOT Agreements may also receive an exemption of up to 100% of sales taxes due on construction materials and tenant improvement materials. Developers are expected to participate in the IDA PILOT Payment program because the IDA PILOT Payments during the first 19 years will be lower than the otherwise applicable real estate taxes on their projects.

The Corporation, the IDA and the City entered into the IDA PILOT Assignment and Agreement dated as of December 1, 2006 (the "IDA Assignment Agreement") pursuant to which the IDA has assigned the IDA PILOT Payments to the Corporation and the City has agreed to such assignment. In accordance with the IDA Assignment Agreement, IDA PILOT Payments will be made to the Trustee. The IDA and the City have each agreed in the IDA Assignment Agreement that any such payments received by the IDA or the City will be promptly paid to the Corporation or the Trustee. The IDA has also agreed in the IDA Assignment Agreement not to directly or indirectly rescind, amend, modify or deviate from the Project Area UTEP in any respect without the prior written consent of the Corporation except that the IDA may, without the consent of the Corporation, amend or modify the Project Area UTEP if (i) as a result of a change in State law, the Project Area UTEP is no longer consistent therewith, (ii) such amendment or modification is required in order for the Project Area UTEP to conform to the applicable State laws, (iii) the IDA, not less than 30 days prior to it taking any action to amend or modify the Project Area UTEP, delivered to the Corporation a copy of the proposed amendment or modification of the Project Area UTEP and (iv) the IDA certified to the Corporation, in writing, that such amendment or modification is solely required in order for the Project Area UTEP to conform to the applicable State law. The City has agreed in the IDA Assignment Agreement not to take any action that would limit or alter the rights vested in the Corporation under the IDA Assignment Agreement, any IDA PILOT Agreement, PILOT Mortgage or instrument of assignment executed pursuant to the IDA Assignment Agreement or in or to the IDA PILOT Payments or that would in any way impair the rights and remedies of the holders of or the security for the Bonds. The Corporation covenants in the Indenture not to consent or acquiesce in any amendment to or deviation from the Project Area UTEP unless the Corporation delivers a written certification to the Trustee that the proposed amendment or deviation will facilitate the further commercial development of the Project Area or such amendment or deviation is consented to by holders of not less than a majority in aggregate principal amount of the Outstanding Bonds affected by any such amendment as specified in the Indenture. The IDA Assignment Agreement terminates when all principal and interest has been paid on the Corporation's Bonds.

Each property owner that enters into an IDA PILOT Agreement with the IDA will secure its payment obligations under such agreement by a first mortgage (the "PILOT Mortgage") to the IDA. The IDA will assign each IDA PILOT Agreement and each PILOT Mortgage to the Corporation which will assign such obligations to the Trustee. Upon a failure of a property owner to make the IDA PILOT Payment in accordance with the IDA PILOT Agreement, the Trustee may exercise the rights and remedies set forth in the corresponding PILOT Mortgage, which include the right to institute proceedings to foreclose the lien of a PILOT Mortgage. Failure of a property owner to make IDA PILOT Payments could result in loss of the property owner's interest in the property.

The MTA has agreed in the City-MTA Railyards Agreement that, if it leases the ERY or the WRY for development, such leases will require the developer to pay PILOT Payments ("Railyard PILOT Payments") on UTEP Eligible Commercial Projects in amounts no less than the PILOT amounts payable according to the Project Area UTEP, and Railyard PILOT Payments for other development equal to full real property taxes in the amounts that would have been levied by the City if the ERY or the WRY were privately owned. The MTA has further agreed that it shall direct payment to, or pay over to the Corporation (or to the City upon the Corporation's direction) all such Railyard PILOT Payments. The Corporation has covenanted in the Indenture that as long as any Bonds are Outstanding, it will not consent to the payment of any Railyard PILOT Payments to any person other than the Corporation.

In addition to the IDA and the MTA, certain governmental entities including the CCDC and the Port Authority have the authority to enter into agreements with developers in the Project Area to provide development incentives in exchange for reduction or elimination of real property taxes otherwise payable to the City. The Corporation expects, based on previous experience when such agreements have been entered into, that such governmental entities will reimburse the City for lost real property taxes although there can be no assurance that reimbursement of such lost real property taxes will take place. The Support and Development Agreement provides that any PILOT Payments made by other governmental entities to the City as the result of development in the Project Area will be treated as Tax Receipts in the calculation of Tax Equivalency Payments to be made by the City as described below.

Tax Equivalency Payments. The Support and Development Agreement also obligates the City to pay to the Corporation beginning with the City's 2008 fiscal year (ending June 30, 2008), subject to annual appropriation, an amount equal to the amount of real property taxes and payments in lieu of real property taxes collected by the City on New Developments (as defined below) in the Project Area ("Tax Equivalency Payments"). Although Tax Equivalency Payments are expected to be generated primarily from residential and hotel development, such payments will also be generated from commercial developments that are not eligible to enter into PILOT Agreements or that have elected not to enter into PILOT Agreements and from payments in lieu of real property taxes received by the City pursuant to agreements between developers of New Developments in the Project Area and governmental bodies other than the IDA or MTA. Such payment is to be made each year in two installments, occurring not later than the first day of August and the first day of February of each Fiscal Year, subject to adjustment as provided in the next sentence, each in an amount equal to 50% of (i) the *ad valorem* real property taxes levied by the City on New Developments in the Project Area not subject to a PILOT Agreement that are payable during such Fiscal Year, and (ii) the PILOT Payments projected by the City to be received during such Fiscal Year. The amount payable by the City on each such date is to be adjusted to reflect the amount, if any, by which the Tax Receipts (as defined below) collected during the six month period that commenced on the closer of the January 1st or July 1st immediately preceding such payment date either exceeded or was less than the amount payable on such payment date. In resolutions adopted January 19, 2005, October 27, 2005, October 11, 2006 and December 21, 2009, the City Council recognized the importance to the City of the redevelopment of the Project Area and supported an undertaking by the City, subject to appropriation, to make the Tax Equivalency Payments. A summary of the Support and Development Agreement is attached hereto as Appendix B.

For purposes hereof, the terms listed below have the following meanings:

New Development means the construction of a building or other improvement within the Project Area for residential, commercial or other use or uses, or the Substantial Rehabilitation of an existing building or improvement within the Project Area, in each case evidenced by the issuance of a temporary or permanent certificate of occupancy on or after January 19, 2005.

Substantial Rehabilitation means any one or a combination of (i) work necessary to bring a building into compliance with all applicable laws and regulations, including but not limited to the installation, replacement or repair of heating, plumbing, electrical and related systems and the elimination of hazardous violations in the building in accordance with state and local laws and regulations, (ii) reconstruction or work to improve the habitability or prolong the useful life of a structure or (iii) an addition to an existing building that substantially increases the square footage or floor area thereof which, in each case, results in at least a 20% increase over the prior year's assessed value of the building or structure.

Tax Receipts means all *ad valorem* real property taxes and PILOT Payments collected by the City in respect of New Developments, including any amounts collected (i) as a consequence or result of enforcement proceedings, (ii) as interest or penalties for the failure to make timely payment to the City of the *ad valorem* real property taxes levied against such New Development, (iii) as the proceeds of any sale of tax liens related to a New Development, and (iv) as a consequence or result of the enforcement of a PILOT Agreement, including the foreclose of any mortgage securing the same.

The Support and Development Agreement obligates the City to retain in its possession for a reasonable period of years records of all Tax Receipts collected during a fiscal year sufficient to identify each New Development, not subject to a PILOT Agreement, the *ad valorem* real property taxes levied against each such New Development during such fiscal year and the Tax Receipts collected during such fiscal year in connection with each such New Development, which records shall be subject at all reasonable times during normal business hours to the inspection of the Corporation, the Trustee and their respective agents and representatives. At the written request of the Corporation or the Trustee, copies of such records shall be delivered to the Corporation and the Trustee.

The City has established procedures that allow it to identify New Developments and to identify payments of real property taxes by the owners of New Developments or the proceeds of the sale of tax liens if such taxes are not paid. Pursuant to the Support and Development Agreement, the Mayor of the City is required to submit to the City Council for each fiscal year an appropriation for the amount necessary to permit the City to pay the Tax Equivalency Payment in such fiscal year. The City has no obligation to appropriate funds to make Tax Equivalency Payments and the City's agreement to make such payments is not debt of the City.

The C&W 2011 Report assumes that developers of residential rental properties (Class 2) in the Project Area will participate in the 421-a tax program (the "421-a Program") which provides for certain reductions in real property taxes under certain conditions. The 421-a Program expires June 15, 2015. See "Appendix E-1: Cushman & Wakefield, Inc. 2011 Report" for a brief description provided by the City of the 421-a Program.

An overview and general information provided by the City about the levy and collection of real property taxes by the City is presented in the C&W 2011 Report and the C&W 2006 Report attached to this Official Statement as Appendices E-1 and E-2, respectively.

Tax Equivalency Payments are subject to annual appropriation by the City and to the availability of money for such payments. The Support and Development Agreement and the City's obligation to make such payments do not constitute debt of the City under or within the meaning of the State Constitution or the Local Finance Law of the State. The City is not legally required to make annual appropriations for such payments.

One-Time Development Revenues

District Improvement Fund Bonus ("DIB") Payments. As authorized in the Project Area Zoning Regulations, commercial and residential developments in certain portions of the Project Area are eligible to increase their density in exchange for DIB Payments. The Project Area Zoning Regulations establish as-of-right base floor area ratios ("FAR") in the Project Area for development, generally 6.5 for residential development and 10 for commercial development. Developments in certain portions of the Project Area may increase their FAR, up to an amount specified in the Project Area Zoning Regulations, in exchange for DIB Payments. See the C&W 2011 Report attached hereto as Appendix E-1 for a discussion of FAR.

In the case of lots zoned for residential use, acquisition of additional density in exchange for DIB Payments (the "DIB Program") also requires participation in the Inclusionary Housing Bonus ("IHB") program, which requires that DIB Program square footage be applied for in a fixed ratio, on a *pari passu* basis, with IHB square footage. In a situation where the base residential zoning is 6.5 FAR and the maximum residential FAR is 12, there would be two bonus tiers. In the first tier, from 6.5 FAR to 9 FAR, 5/11ths of the bonus would be achieved through the DIB Program and 6/11ths would be achieved through IHB, resulting in a requirement that 10-15% of the total square footage of the building meet affordable housing guidelines set by the City's Department of Housing Preservation and Development. In the second tier from 9 FAR to 12 FAR, 5/11ths of the bonus would be achieved through the DIB Program and 6/11ths through IHB, resulting in an additional 10-15% of the total square footage of the building meeting affordable housing guidelines.

The amount per square foot of the DIB Payment required by the Project Area Zoning Regulations is currently $118.59 per zoning square feet of bonus received. The Chair of the City Planning Commission is required to adjust the amount of DIB Payment per square foot on August 1 of each year based on changes in the Consumer Price Index established by the U.S. Bureau of Labor Statistics.

The Corporation and the City have entered into the DIB Assignment Agreement pursuant to which and in accordance with the Project Area Zoning Regulations adopted by the City Council, the City has assigned to the Corporation the DIB Payments. The Project Area Zoning Regulations direct that the DIB Payments be paid directly to the Corporation. The City has agreed in the DIB Assignment Agreement that the City will not take any action that would limit or alter the rights vested in the Corporation under the Project Area Zoning Regulations or the DIB Assignment Agreement or in and to the DIB Payments and that the City will not take any action that would in any way impair the rights and remedies of the holders or the security for the Bonds.

<u>ERY Transferable Development Rights</u>. Pursuant to the City-MTA Railyards Agreement, the Corporation purchased from the TBTA for $200 million (paid with proceeds of the Series 2007A Bonds) a $200 million interest in 4.56 million square feet of development rights generated by the ERY ("ERY Transferable Development Rights"), which development rights can be sold to owners of certain other properties in the Project Area for the purpose of increasing the density of new development at such properties. Pursuant to the City-MTA Railyards Agreement, the Corporation has the right to all proceeds from the sale of ERY Transferable Development Rights until it has received an amount equal to $200 million (*i.e.*, the Series 2007A Bond proceeds used to purchase the ERY Transferable Development Rights) plus the amount of interest paid by the Corporation on borrowed funds (*i.e.*, the interest cost of the Series 2007A Bonds) used to purchase the ERY Transferable Development Rights. The MTA has the right to all additional proceeds realized from the sale of ERY Transferable Development Rights.

HYDC adopted its ERY TDR Pricing Policy for the sale of ERY Transferable Development Rights, which policy is to remain in effect until the MTA has elected to assume control of dispositions of ERY Transferable Rights pursuant to the City-MTA Railyards Agreement. Pursuant to the ERY TDR Pricing Policy: (i) all sales to eligible property owners of ERY Transferable Development Rights will require a single lump sum payment of cash paid at closing; (ii) all such sales require the approval of the Corporation (and do not require MTA approval provided that the price is not less than that established in the ERY TDR Pricing Policy); and (iii) the price per square foot of ERY Transferable Development Rights is equal to 60% (or such other percentage as later established by HYDC with the consent of the Corporation) of the final appraised value per square foot of zoning floor area of the fee of the receiving parcel, which price will not require MTA approval provided that such price meets a certain minimum threshold price as set forth in the ERY TDR Pricing Policy. The minimum threshold price is subject to re-negotiation with the MTA on and after September 28, 2020.

<u>Payments In Lieu of Mortgage Recording Taxes</u>. The Project Area UTEP provides for a 100% exemption from the mortgage recording tax for mortgages securing construction and permanent financing for UTEP Eligible Commercial Projects in the Project Area. However, the Project Area UTEP requires the recipient of such exemption to make payments in lieu of the mortgage recording tax ("PILOMRT Payments") in an amount equal to 100% of the mortgage recording tax that would otherwise be due in the absence of such exemption. Pursuant to current New York State law, the mortgage recording tax applicable to a mortgage on commercial real estate in the Project Area is calculated at the rate of $2.80 for each $100, or major fraction thereof, of the principal amount of the mortgage where the mortgage is $500,000 or more. Where the mortgage is less than $500,000, the mortgage recording tax applicable to a mortgage on commercial real estate in the Project Area is $2.05 for each $100, or major fraction thereof, of the principal amount of the mortgage.

Pursuant to the IDA Assignment Agreement, the IDA has assigned the PILOMRT Payments to the Corporation and the City has agreed to such assignment. The IDA and the City have each agreed in the IDA Assignment Agreement that any such payments received by the IDA or the City will be promptly paid to the Corporation or the Trustee.

The MTA has agreed in the City-MTA Railyards Agreement that if it leases the ERY or the WRY for development, such leases must require the developer to pay PILOMRT Payments equal to 100% of the otherwise applicable mortgage recording tax. The MTA has further agreed that such PILOMRT Payments are to be paid to the Corporation (or to the City upon the Corporation's direction), except that the MTA will retain such portion of the

PILOMRT Payments equal to the percentage of mortgage recording tax which the MTA generally receives under the New York State law, currently 10.7% of the total tax.

See "SECTION VII: HISTORICAL SUMMARY OF CASH FLOWS" herein for information concerning historical receipts of Revenues by the Corporation through the 2011 fiscal year.

Bond Insurance

The scheduled payment of principal of and interest on the Series 2012A Bonds bearing interest at 5% (the "Insured Bonds") when due will be insured by Assured Guaranty Municipal Corp. ("AGM"). Concurrently with the issuance of the Insured Bonds, AGM will issue its Municipal Bond Insurance Policy for the Insured Bonds (the "Policy"). Information about AGM is set forth in Appendix H. A specimen of the Policy is set forth in Appendix I. The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

So long as certain events of default with respect to AGM have not occurred, AGM will be deemed the holder of the Insured Bonds with the right to exercise any right or power, consent to a waiver, amendment or modification of the Indenture, or request or direct the Trustee to take any action under the Indenture. In addition, if AGM has paid either the interest or principal on the Insured Bonds, such interest or principal payment will be considered to be unpaid by the Corporation, and AGM will be subrogated to the rights of the holders of the Insured Bonds.

Certain Rights of AGM

As a condition to issuance of the Policy, the Insurer required, and the Third Supplemental Trust Indenture provides, that the Insurer would have certain rights and powers. Among those rights and powers are:

(i) that the Insured will be considered the Holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any action that the Holder of the Insured Bonds are entitled to take pursuant to the Indenture pertaining to defaults and remedies and the duties and obligations of the Trustee;

(ii) that the Insurer will be a third party beneficiary of the rights and powers granted to it by the Indenture; and

(iii) that the Insurer will be subrogated to the rights of the Holders of the Insured Bonds in certain circumstances.

For a more complete description of the Insurer's rights contained in the Third Supplemental Trust Indenture, see Appendix A attached to this Official Statement.

Conversion Date

The Corporation is not obligated to make any payments of principal of the Bonds, including the Series 2012A Bonds, prior to maturity unless and until the Corporation receives Revenues in amounts sufficient to make such payments, in accordance with the Indenture. After the date on which a Series of Senior Bonds (such as the Series 2007A Bonds and the Series 2012A Bonds) are first callable and prior to the Conversion Date, all Revenues received by the Corporation in a Fiscal Year remaining after funding the Corporation's expenses and interest on the Bonds for such Fiscal Year and interest on the Bonds for the subsequent Fiscal Year, must be used to purchase or, if a Series of Senior Bonds is then subject to redemption, to redeem, such Senior Bonds. If the Corporation redeems one or more Series of Senior Bonds, such redemption will be *pro rata* among the Series of Senior Bonds so to be redeemed, and *pro rata* within each Series of Senior Bonds to be redeemed. The Series 2007A Bonds are subject to optional redemption on or after February 15, 2017, and the Series 2012A Bonds are subject to optional redemption on or after February 15, 2021. Therefore, no such Revenues can be applied to redeem the Series 2012A Bonds prior to February 15, 2021. The Corporation may, alternatively, direct the application of Revenues to the purchase of any Senior Bonds of any maturity, including the Series 2007A Bonds and the Series 2012A Bonds, whether or not then subject to redemption, and without any limitation of *pro rata* allocation, at a purchase price of not greater than par together with accrued interest. However, if, during a Fiscal Year, the City has made Interest Support Payments for the Corporation's Supported Bonds, then the Corporation must first reimburse the City for such Interest Support Payments prior to purchasing or redeeming any such Series of Senior Bonds.

Not later than June 30 of the Fiscal Year during which the Conversion Date occurs, the Corporation must have established a schedule of Sinking Fund Installments for all its Outstanding Bonds such that level or annually declining debt service payments are due on all Outstanding Bonds. Once established, it is provided in the Indenture that Sinking Fund Installments are required to be made only if money is available therefor in accordance with the Indenture. To the extent that money is insufficient to pay in whole or in part a Sinking Fund Installment on Outstanding Bonds of a stated Series and maturity, the unpaid principal amount of such Sinking Fund Installment is to be added to the next succeeding Sinking Fund Installment for the Bonds of such Series and maturity, and interest will continue to accrue on such unpaid principal. See "SECTION XI: THE SERIES 2012A BONDS — Redemption of Series 2012A Bonds" herein for a description of how the amounts and dates of such Sinking Funds Installments are to be established. The Corporation has covenanted with the holders of the Series 2012A Bonds that, to the extent practicable, redemptions through Sinking Fund Installments, in addition to being *pro rata* within each Series of Senior Bonds, will also be *pro rata* among the Series of Senior Bonds to be redeemed.

The Indenture defines "Conversion Date" as the date on which the Corporation has certified to the Trustee that for each of the two immediately preceding Fiscal Years the Corporation has received Net Recurring Revenues for each such Fiscal Year, as shown on the audited financial statements for such Fiscal Year prepared in accordance with generally accepted accounting principles applicable to the Corporation, of (i) not less than 125% of Maximum Annual Debt Service on all then Outstanding Senior Bonds and (ii) not less than 105% of Maximum Annual Debt Service on all then Outstanding Bonds. For this purpose, Maximum Annual Debt Service is to be calculated as of the Conversion Date. There can be no assurance that the Conversion Date will occur prior to the maturity of the Series 2012A Bonds. See "SECTION IX: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION" herein for a discussion of various scenarios for the payment of principal of the Series 2012A Bonds.

Net Recurring Revenues means, as of any particular date of calculation and (i) when used in connection with any prior Fiscal Year, the amount of PILOT Payments and Tax Equivalency Payments paid during such prior Fiscal Year, less the lesser of the Operating Cap or the actual Corporation Expenses for such Fiscal Year, and (ii) when used in connection with any then current or future Fiscal Year, the Projected Recurring Revenues (defined in Appendix A) for such Fiscal Year less the Operating Cap for such Fiscal Year, assuming there are not Tax Obligations (defined in Appendix A) payable during such Fiscal Year.

Maximum Annual Debt Service means, as of any particular date of calculation and with respect to any Outstanding Senior Bonds or Subordinate Bonds of a specified priority, an amount equal to the greatest amount required in the then current or any future Fiscal Year to pay the principal and Sinking Fund Installments of and interest on such Senior Bonds or Subordinate Bonds payable during such Fiscal Year as calculated in accordance with the Indenture.

Operating Cap means the sum of (i) during the Fiscal Year ending June 30, 2012, $1,159,274 and, (ii) during each Fiscal Year thereafter, an amount equal to 103% of the Operating Cap for the prior Fiscal Year, plus, in each case, Tax Obligations (as defined in Appendix A to this Official Statement) the Corporation estimates to be payable during such Fiscal Year or to be reserved for estimated payments to be payable in subsequent Fiscal Years.

Additional Bonds

The Indenture requires that all Senior Bonds issued prior to the Conversion Date be Supported Bonds. As the $3 billion maximum for Supported Bonds imposed by the Indenture will have been reached upon the issuance of the Series 2012A Bonds, the Corporation may not issue additional Bonds supported by Interest Support Payments, other than for refunding purposes, unless the City is authorized by appropriate City Council resolution to pay, and the Support and Development Agreement provides for the payment of, Interest Support Payments on the principal amount of Bonds that would be supported by Interest Support Payments after issuance of such additional amount of Bonds. Following the issuance of the Series 2012A Bonds, the Corporation may issue up to $500 million of additional Senior Bonds prior to the Conversion Date, provided such amount is authorized by City Council resolution to be subject to the Support and Development Agreement, without meeting the debt service coverage tests contained in the Indenture for the issuance of additional Bonds, but may not issue additional Senior Bonds in excess of such amount, other than for refunding purposes. There can be no assurance that completion of the Project will not require the issuance of additional Bonds. See "SECTION II: RISK FACTORS" herein. The Indenture permits the Corporation to issue Subordinate Bonds without regard to the $3.5 billion limit on Senior Bonds, but contains limitations on the issuance of Bonds as described below.

Prior to the Conversion Date, (i) no Bond may mature prior to February 15, 2047, (ii) no amortization may be scheduled on any Bond prior to maturity, (iii) no Senior Bonds may be issued as Option Bonds, Capital Appreciation Bonds, Deferred Income Bonds or Variable Interest Rate Bonds, (iv) no Subordinate Bond may mature prior to the latest date on which any Outstanding Senior Bond matures and (v) the interest payable in any Fiscal Year on Subordinate Bonds may not exceed $30 million.

After the Conversion Date, except for Bonds issued pursuant to the Indenture for refunding purposes, Bonds may not be issued unless (a) the amount of the Net Recurring Revenues for the immediately preceding Fiscal Year for which audited financial statements of the Corporation are available is at least (x) equal to 125% of the aggregate amount of principal, Sinking Fund Installments and interest that was paid during such Fiscal Year on the then Outstanding Senior Bonds and (y) equal to 105% of the aggregate amount of principal, Sinking Fund Installments and interest that was paid during such Fiscal Year on the then Outstanding Bonds and (b) the amount of the Net Recurring Revenues for the Fiscal Year during which such Bonds are issued and for each succeeding Fiscal Year during which Bonds will be Outstanding after giving effect to the issuance of such Bonds for each Fiscal Year is at least (x) equal to 125% of the Maximum Annual Debt Service calculated only with respect to Senior Bonds after giving effect to the issuance of the Senior Bonds then to be issued and (y) equal to 105% of the Maximum Annual Debt Service on all Outstanding Bonds after giving effect to the issuance of the Subordinate Bonds then to be issued.

Refunding Bonds may be issued at any time *provided* that the Maximum Annual Debt Service on the Refunding Bonds does not exceed the Maximum Annual Debt Service on the Bonds to be refunded. Refunding Bonds issued as Senior Bonds prior to the Conversion Date will be supported by Interest Support Payments.

Funds and Accounts

General

The Indenture has created specific funds and separate accounts within the funds to be held and maintained by the Trustee as security for the payment of the principal and Redemption Price of and interest on the Corporation's Bonds, including the Series 2012A Bonds. These funds include: (i) the Revenue Fund; (ii) the Construction Fund; (iii) the Debt Service Fund; (iv) the Corporation Expense Fund; and (v) the Surplus Fund. All money at any time deposited in any of such funds will be held in trust for the benefit of the holders of the Corporation's Bonds, including the Series 2012A Bonds, except as provided in the Indenture, but will nevertheless be disbursed, allocated and applied solely for the uses and purposes as described under the Indenture.

Construction Fund

The Indenture requires that certain of the proceeds from the sale of the Series 2012A Bonds be deposited in the Construction Fund, along with any money paid to the Corporation for the acquisition, construction, reconstruction, rehabilitation or improvement of the Project, including the proceeds of any insurance or condemnation award. Proceeds deposited in the Construction Fund will be used only to pay the Costs of Issuance of the Corporation's Bonds, including the Series 2012A Bonds, the costs of the Project, including capitalized interest on such Bonds, and the expenses of HYDC. Payments from the Project Account of the Construction Fund will be made by the Trustee according to a requisition signed by an Authorized Officer of the Corporation and an appropriate officer of HYDC stating, with respect to each payment to be made, the names of the payees, the amount of payment, the purpose for such payment and that such purpose constitutes a proper purpose for which money in the Construction Fund may be applied and has not been the basis of any previous withdrawal from the Construction Fund.

The Indenture establishes separate subaccounts in the Project Account for various purposes including the Subway Extension Subaccount, the Public Amenities Subaccount and the TDRs Purchase Subaccount. Except as otherwise provided in the Indenture, (i) money in the Subway Extension Subaccount may only be used to pay the Project Costs of the Subway Extension, (ii) money in the Public Amenities Subaccount may only be used to pay the Project Costs of the Public Amenities, (iii) money in the TDRs Purchase Subaccount may only be used to pay the purchase price of the TDRs at the time, in the amounts and in accordance with the City-MTA Railyards Agreement, (iv) money in the Cost of Issuance Account may only be used to pay the Costs of Issuance and (v) money in the Capitalized Interest Account may only be used to pay interest on Outstanding Bonds. However, money in the Public Amenities Subaccount may at any time be withdrawn and transferred to the Subway Extension Subaccount or the HYDC Expense Account and money in the TDRs Purchase Subaccount may at any time be withdrawn and transferred to the Subway Extension Subaccount or the Public Amenities Subaccount, in each case in accordance with the written direction of the Corporation.

Application of Revenues Prior to Conversion Date

Revenues received by the Corporation prior to the Conversion Date or on or after a Payment Default (as defined in Appendix A) will be applied by the Trustee in the following order of priority:

first: to the Corporation Expense Fund, the amount required to make the amount deposited therein during such Fiscal Year equal to the lesser of (i) the Corporation Expenses for such Fiscal Year, exclusive of Termination Payments, and (ii) the Operating Cap for such Fiscal Year;

second: unless a Payment Default has occurred, to the Senior Bond Account of the Debt Service Fund, the amount required to pay (i) interest on Outstanding Senior Bonds (other than Funded Bonds) payable during the Fiscal Year and (ii) Hedge Agreement Payments and interest on Parity Reimbursement Obligations as the same become due and payable during such Fiscal Year, in each case relating to Senior Bonds;

third: unless a Payment Default has occurred, to the Corporation Expense Fund, the amount required, if any, to make the amount deposited therein during such Fiscal Year equal to the Corporation Expenses for such Fiscal Year;

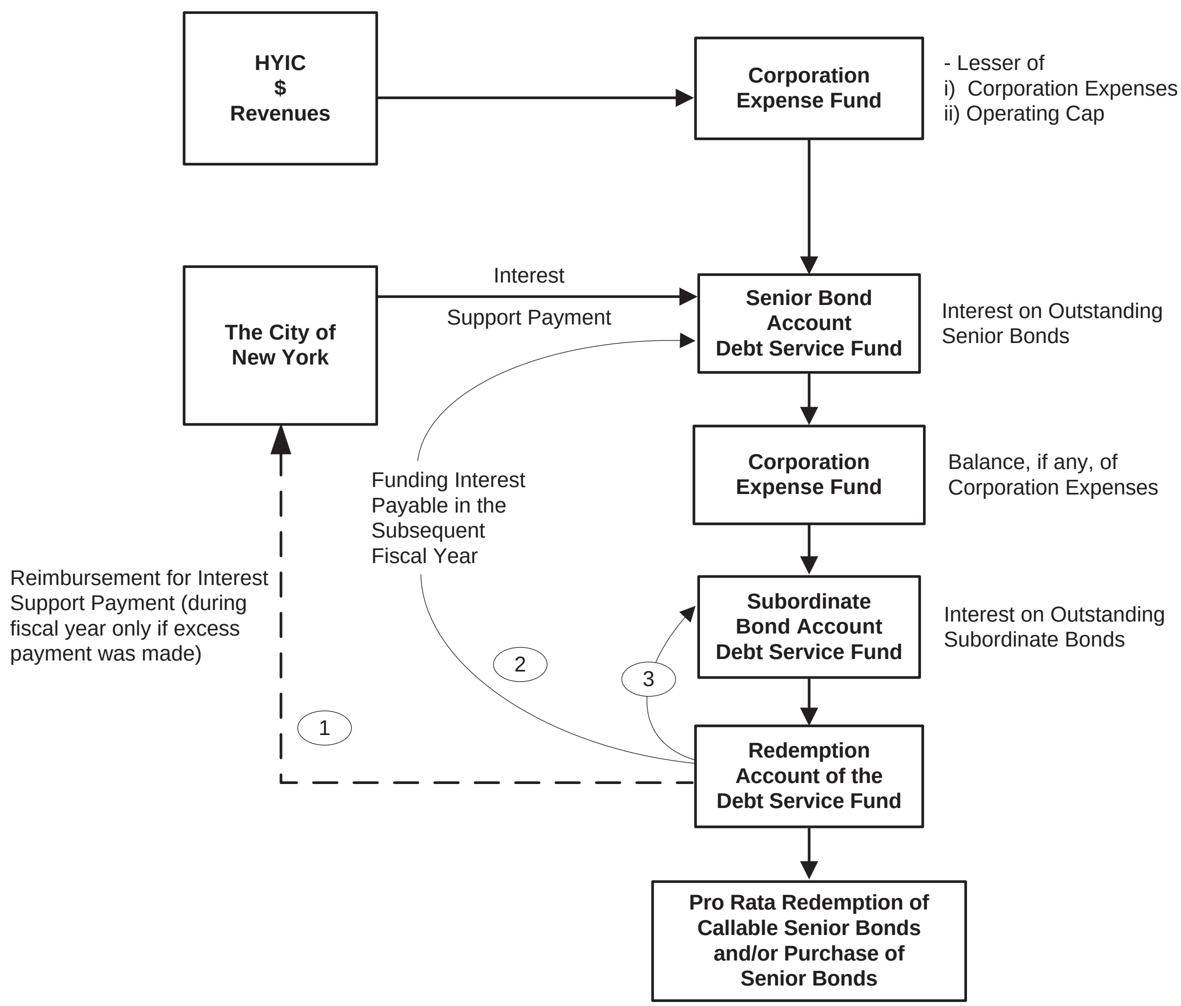
fourth: unless a Payment Default has occurred, to the Subordinate Bond Account of the Debt Service Fund, the amount required to pay (i) interest on Outstanding Subordinate Bonds (other than Funded Bonds) payable during such Fiscal Year and (ii) Hedge Agreement Payments and interest on Parity Reimbursement Obligations as the same become due and payable during such Fiscal Year, in each case relating to Subordinate Bonds; *provided, however*, that if on the date of deposit or payment the interest at which a Variable Interest Rate Bond will bear interest during such Fiscal Year is not known, the Trustee will calculate such interest based upon a rate per annum certified to it by the Corporation as the rate the Corporation has assumed such Variable Interest Rate Bond will bear; and

fifth: to the Redemption Account, the balance of such Revenues.

Prior to the occurrence of a Payment Default, Revenues deposited in the Redemption Account of the Debt Service Fund during a Fiscal Year are to be used as follows: (i) first, to reimburse the City for Interest Support Payments made during the then current Fiscal Year by the City; (ii) second, on June 30 of such Fiscal Year an amount of money in the Redemption Account, up to the amount of interest on Outstanding Senior Bonds payable during the next succeeding Fiscal Year, will be transferred to the Senior Bond Account of the Debt Service Fund and an amount of money, up to the amount of interest on Outstanding Subordinate Bonds payable during the next succeeding Fiscal Year, will be transferred to the Subordinate Bond Account of the Debt Service Fund; (iii) third, if any Outstanding Senior Bonds are subject to redemption at the option of the Corporation during the then current Fiscal Year, the money in the Redemption Account not required to be applied pursuant to clauses (i) or (ii) will be applied either to purchase at the direction of the Corporation such Senior Bonds at a purchase price not to exceed the Redemption Price of such Senior Bonds on the next date during such Fiscal Year on which such Senior Bonds are redeemable at the option of the Corporation or to redeem at the direction of the Corporation such Senior Bonds; and (iv) fourth, money remaining in the Redemption Account on June 30 of any Fiscal Year prior to the Fiscal Year during which the Conversion Date occurs are, at the written direction of the Corporation, to be paid or transferred to either or both (A) the Corporation Expense Fund to fund the lesser of (i) the Corporation Expenses for the next succeeding Fiscal Year and (ii) the Operating Cap for such Fiscal Year, and (B) the Revenue Fund, in the respective amounts set forth in such direction. Money remaining in the Redemption Account on June 30th of the Fiscal Year during which the Conversion Date occurs are to be withdrawn and transferred to the Revenue Fund for application as described under "— Application of Revenues On and After Conversion Date."

Funds in the Redemption Account subsequent to a Payment Default are to be applied to the payment of interest and principal as required by the Indenture as described below under "Payment Default" and in Appendix A hereto.

Set forth below is a chart showing the flow of funds for Revenues received by the Corporation prior to the Conversion Date:



Application of Revenues On and After Conversion Date

Revenues received by the Corporation during a Fiscal Year on and after the Conversion Date, absent a Payment Default, will be applied by the Trustee in the following order of priority:

first: to the Corporation Expense Fund, the amount required to make the amount deposited therein during such Fiscal Year equal to the lesser of (i) the Corporation Expenses for such Fiscal Year, exclusive of Termination Payments, and (ii) the Operating Cap for such Fiscal Year;

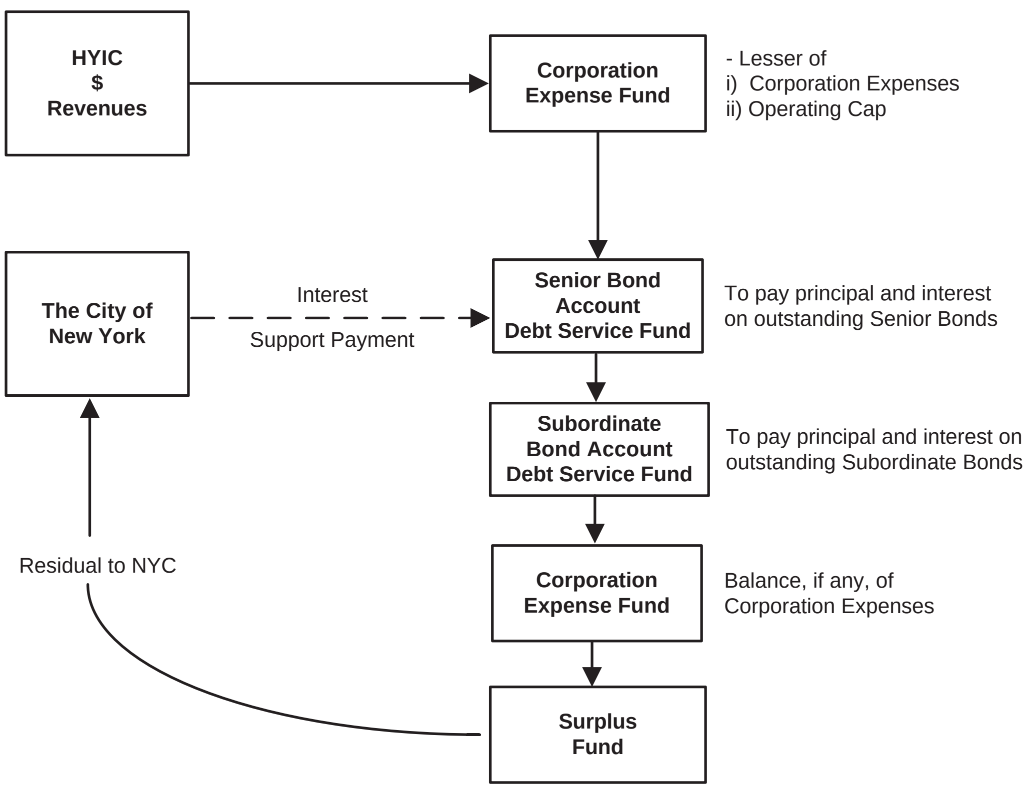
second: to the Senior Bond Account of the Debt Service Fund, the amount required to pay (i) the Debt Service on Outstanding Senior Bonds payable during the then current Fiscal Year and (ii) Hedge Agreement Payments and the principal of and interest on any Parity Reimbursement Obligations as the same is due and payable during such Fiscal Year, in each case relating to Senior Bonds; *provided, however,* that Revenues received after February 15 of such Fiscal Year will also be paid to the Senior Bond Account of the Debt Service Fund in amounts required to pay the Debt Service on Outstanding Senior Bonds payable during the next succeeding Fiscal Year;

third: to the Subordinate Bond Account of the Debt Service Fund, the amount required to pay (i) the Debt Service on Outstanding Subordinate Bonds payable during such Fiscal Year and (ii) Hedge Agreement Payments and the principal of and interest on any Parity Reimbursement Obligations as the same is due and payable during such Fiscal Year, in each case relating to Subordinate Bonds; *provided, however,* that Revenues received after February 15 of such Fiscal Year will also be paid to the Subordinate Bond Account of the Debt Service Fund in amounts required to pay the Debt Service on Outstanding Subordinate Bonds payable during the next succeeding Fiscal Year;

fourth: to the Corporation Expense Fund, the amount required, if any, to make the amount deposited therein during such Fiscal Year equal to the Corporation Expenses for such Fiscal Year; and

fifth: to the Surplus Fund, the balance of such Revenues.

Set forth below is a chart showing the flow of funds for Revenues received by the Corporation on or after the Conversion Date unless a Payment Default has occurred:



Events of Default

The Indenture specifies certain events which, if they occur, will result in an event of default and provides certain remedies in case of an event of default which are discussed below. An event of default shall exist under the Indenture if:

(a) payment of the principal or Sinking Fund Installment of or interest on any Senior Bond shall not be made by the Corporation when due and payable; or

(b) if no Senior Bonds are Outstanding, the Corporation has failed at any time to pay the principal or Sinking Fund Installment of or interest on any Subordinate Bond when due and payable; or

(c) with respect to a Tax Exempt Bond, there has been a Determination of Taxability; or

(d) the Corporation defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Indenture or in the Bonds or in any Supplemental Indenture on the part of the Corporation to be performed and such default continues for 30 days after written notice specifying such default and requiring same to be remedied has been given to the Corporation by the Trustee, which may give such notice in its discretion and must give such notice at the written request of the Holders of not less than 25% in principal amount of the Outstanding Bonds, unless, if such default is not capable of being cured within 30 days, the Corporation has commenced to cure such default within said 30 days and diligently prosecutes the cure thereof; or

(e) the Corporation (1) is generally not paying its debts as they become due, (2) commences a voluntary case or other proceeding seeking liquidation, reorganization, dissolution, rehabilitation or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or consents to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, (3) makes a general assignment for the benefit of its creditors, (4) declares a moratorium or (5) takes any corporate action to authorize any of the foregoing; or

(f) a trustee in bankruptcy, custodian or receiver for the Corporation or any substantial part of its property has been appointed and the same has not been discharged within 60 days after such appointment.

Upon the happening of an event described in clause (a) above, if any Senior Bonds are outstanding, or clause (b) above if only Subordinate Bonds are outstanding (a "Payment Default"), the Outstanding Bonds (other than Funded Bonds) will be subject to mandatory redemption in accordance with the Indenture. See "APPENDIX A: CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" herein; but see "SECTION II: RISK FACTORS — No Acceleration of Series 2012A Bonds or of Revenues Upon a Payment Default" herein. Upon the happening and continuance of any event of default specified above, other than a Payment Default, then and in every such case, the Trustee may proceed, and upon the written request of the Holders of not less than a majority in principal amount of the Outstanding Bonds or, in the case of a happening and continuance of an event of default specified in paragraph (c) above, upon the written request of the Holders of not less than a majority in principal amount of the Outstanding Bonds of the Series affected thereby, must proceed (subject to the provisions of the Indenture) to protect and enforce the Trustee's rights and the rights of the Bondholders under the Indenture or under any Supplemental Indenture or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained in the Indenture or under any Supplemental Indenture or in aid or execution of any power therein granted, or for an accounting against the Corporation as if the Corporation were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee deems most effectual to protect and enforce such rights, including the enforcement of its rights and remedies, as assignee, under any of the IDA Assignment Agreement, the DIB Assignment Agreement, each PILOT Agreement, each PILOT Mortgage, the Support and Development Agreement, the MTA Agreement or the TFA Funding Agreement assigned to it.

Payment Default

As provided above, if a payment of the principal or Sinking Fund Installment of or interest on any Senior Bonds (or on any Subordinate Bonds if no Senior Bonds are then Outstanding) is not made by the Corporation when due and payable, such failure constitutes an "event of default" under the Indenture, which "event of default" also constitutes a "Payment Default." After the Conversion Date, the obligation of the Corporation under the Indenture to pay Sinking Fund Installments on Outstanding Bonds of a stated Series and maturity is only to the extent that money is available therefor in accordance with the Indenture (*i.e.*, a Payment Default under the Indenture arising from a failure to pay a Sinking Fund Installment will only occur if money was available under the Indenture for such payment *but not so applied*). See "SECTION XI: THE SERIES 2012A BONDS — Redemption of Series 2012A Bonds — Sinking Fund Installments" herein.

It is provided in the Indenture in relevant part that, subsequent to the occurrence of a Payment Default, the money in each fund, account or subaccount established under the Indenture is to be transferred to the Redemption Account and applied in the following order of priority:

(a) first, to the payment of interest on all arrears in payment of the principal of or interest on Outstanding Senior Bonds at the respective rates of interest specified in such Bond *pro rata* based upon the amount of interest payable to each registered owner of Outstanding Senior Bonds;

(b) second, on each Interest Payment Date, to the interest due and past due on such Interest Payment Date on all Outstanding Senior Bonds, *pro rata* based upon the amount of interest payable to each person entitled thereto; and

(c) third, to redeem on February 15th of each Fiscal Year, at a Redemption Price equal to one hundred percent (100%) of the principal amount of the Senior Bonds to be redeemed, Outstanding Senior Bonds of each Series. The Senior Bonds of each such Series will, as nearly as practicable taking into consideration the minimum denominations for such Senior Bonds, be redeemed *pro rata* based, first, upon the relationship that the principal amount of Senior Bonds of each Series that is then Outstanding bears to the aggregate principal amount of Senior Bonds of all such Series then Outstanding, and, then, within a Series, upon the principal amount of each maturity of the Senior Bonds of such Series and maturity that is then Outstanding bears to the aggregate principal amount of the Senior Bonds of such Series then Outstanding.

Although the declaration of a Payment Default under the Indenture results in the Senior Bonds becoming subject to mandatory redemption as provided above, such declaration does not effect either any acceleration of the principal of the Bonds, nor any acceleration of any of the Revenues pledged as payment of the Bonds. Further, such declaration does not accelerate the obligation of the City to pay Interest Support Payments pursuant to the Support and Development Agreement, which obligation of the City (subject to annual legislative appropriation) is stated therein to continue for so long as Supported Bonds (such as the Series 2012A Bonds) remain Outstanding.

SECTION VII: HISTORICAL SUMMARY OF CASH FLOWS

The two tables below set forth for fiscal years 2006 through 2011, inclusive, (i) the unaudited cash receipts and disbursements for the Corporation's operations, and (ii) the audited summary of revenues and expenses of the Corporation, excluding from both such tables the proceeds of the Series 2007A Bonds. The accompanying footnotes provide explanatory reconciliation between the two tables.

During the period set forth in the tables there were no PILOT Agreements entered into with developers of commercial office space in the Project Area and, therefore, no PILOT Payments or PILOMRT Payments were received. Tax Equivalency Payments totaling $53.8 million reflect aggregate real property taxes collected by the City over the period resulting from residential and hotel New Developments in the Project Area. DIB Payments totaling $85.1 million reflect the aggregate purchase by developers of additional commercial and residential bonus development rights through the District Improvement Bonus program over the period. The Corporation has not yet sold any ERY Transferable Development Rights during the period and, therefore, has received no payments therefor. Upon delivery of the Series 2007A Bonds, the Corporation entered into fixed rate repurchase agreements for the net proceeds which matured in March 2011. Interest receipts reflect earnings on the declining balance of such proceeds through the maturity date of the repurchase agreements and short-term U.S. government obligation interest rates thereafter.

The Corporation's actual operating disbursements during the period were substantially less than the Series 2007A Bonds structuring assumption. Debt service disbursements reflect the interest due on the Series 2007A Bonds during the period.

HUDSON YARDS INFRASTRUCTURE CORPORATION
Historic Summary of Cash Flows Excluding Bond Proceeds[1] **- UNAUDITED**
(Amounts in thousands)

	Fiscal Year Ended June 30,					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
Cash Receipts:						
Payments in Lieu of Real Estate Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Tax Equivalency Payments from The City of New York[2]	-	-	8,800	5,731	13,318	25,938
District Improvement Bonus	11,120	52,330	12,538	4,488	-	4,635
Payments in Lieu of Mortgage Recording Tax	-	-	-	-	-	-
Eastern Rail Yards Development Rights Sales	-	-	-	-	-	-
Interest Support Payments from The City of New York	-	-	-	-	-	42,667
Grant from The City of New York[3]	-	-	-	15,000	-	-
Interest Receipts[4]	59	12,878	90,111	70,368	46,728	30,676
Total Cash Receipts	11,179	65,208	111,449	95,587	60,046	103,916
Cash Disbursements:						
Operating[5]	1,500	2,931	594	617	4,844	843
Debt Service[6]	-	-	112,125	97,500	97,500	97,500
Total Cash Disbursements	1,500	2,931	112,719	98,117	102,344	98,343
Net Receipts/Disbursements	9,679	62,277	(1,270)	(2,530)	(42,298)	5,573
Cash and Investments[7] - beginning balance	-	9,679	71,956	70,686	68,156	25,858
Cash and Investments[7] - ending balance	$ 9,679	$71,956	$ 70,686	$68,156	$ 25,858	$ 31,431

(Footnotes on following page)

HUDSON YARDS INFRASTRUCTURE CORPORATION

Summary of Revenues and Expenses Excluding Bond Proceeds[1] **- Derived from Audited Financial Statements**

(Amounts in thousands)

	Fiscal Year Ended June 30,					
	2006	2007	2008	2009	2010	2011
Revenues:						
Payments in Lieu of Real Estate Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Tax Equivalency Payments from The City of New York[2]	-	5,008	1,683	7,840	13,318	25,937
District Improvement Bonus	11,120	57,938	6,930	4,488	-	4,635
Payments in Lieu of Mortgage Recording Tax	-	-	-	-	-	-
Eastern Rail Yards Development Rights Sales	-	-	-	-	-	-
Interest Support Payments from The City of New York	-	-	-	-	-	42,667
Grant from The City of New York[3]	-	-	-	15,000	-	-
Interest Earnings[4]	59	43,257	127,305	57,630	19,960	2,629
Total Gross Revenues	11,179	106,203	135,918	84,958	33,278	75,868
Expenses:						
Operating Expenses[5]	393	4,210	7,310	4,022	2,158	(582)
Bond Interest[6]	-	46,542	89,122	87,576	86,030	85,652
Total Expenses	393	50,752	96,432	91,598	88,188	85,070
Net Revenues/Expenses	$10,786	$ 55,451	$ 39,486	$ (6,640)	$(54,910)	$ (9,202)

1 This summary excludes the proceeds of the Series 2007A Bonds

2 Tax Equivalency Payment amounts reported on an accrual basis vary based on timing from those reported on a cash basis.

3 This grant was made out of the City's year-end surplus resources and eliminated the need for the City to provide Interest Support Payments in the subsequent year.

4 Investment Earnings, but not cash basis Interest Receipts, includes the impact of changes in fair values of the Corporation's investments and flexible repurchase agreements in addition to timing differences between the two.

5 Operating Expenses, but not Operating Cash Disbursements, for fiscal years 2007 through 2010 include arbitrage rebate amounts accrued but not payable until fiscal year 2012. Operating Cash Disbursements also includes certain project and bond issuance costs that were not paid out of proceeds of the Series 2007A Bonds.

6 Each fiscal year's Bond Interest expense (but not cash basis Debt Service) is offset by the value of the interest paid on the proceeds of the Series 2007A Bonds used to purchase the Transferable Development Rights, which is added to the recoverable value of the Transferable Development Rights. This adjustment will continue until such time as the Transferable Development Rights are sold and the Corporation recovers its investment therein.

7 Cash and investments, which are included at cost on the summary of cash flows, does not include amounts derived from proceeds of the Series 2007A Bonds.

SECTION VIII: CUSHMAN & WAKEFIELD, INC. REPORT

The Corporation retained Cushman & Wakefield, Inc. ("C&W") in 2006 to analyze real estate market fundamentals and development from 2006 to 2035 for the Hudson Yards redevelopment area and to review the reasonableness of the projected real estate related revenues from this development (the "C&W 2006 Report"). In 2011 the Corporation retained C&W to update the C&W 2006 Report with a new analysis (such new analysis being the "C&W 2011 Report" and, together with the C&W 2006 Report, collectively referred to as the "C&W Reports"). Based on an economic and demographic forecast provided by Moody's Analytics (formerly Moody's Economy.com)*, C&W has forecast real estate demand over a 30-year period (2012-2041) for the Project Area. Using this demand forecast, together with historical tax revenue data from the City's Department of Finance and a tax revenue calculation model provided by the City's Office of Management and Budget ("OMB"), OMB used its tax revenue calculation model to project the annual real estate-related revenues that are expected to be received by the Corporation through 2050. The City's projected Revenues were reviewed in the C&W Reports, which conclude that the OMB tax revenue calculation model methodology and its projections of Revenues, based on the assumptions and limitations (in particular, the Limiting Conditions, Chapter 1.B.) contained in the C&W Reports, are reasonable. One of the limitations of the C&W Reports is that their conclusions are based on the analysis of data provided to C&W by Moody's Analytics and the City, which data is assumed to be correct.

C&W and its affiliates and alliance partners constitute one of the largest international real estate service providers with over 234 offices in 61 countries across the world. C&W represents clients in the buying, selling, financing, leasing, managing and valuing of assets, and provides strategic planning and research, portfolio analysis, site selection and space location, among other advisory services. From time to time, C&W and its affiliates may have provided and in the future may provide or seek to provide real estate related services to the Corporation, HYDC or the City.

The C&W 2011 Report is attached hereto as Appendix E-1 and the C&W 2006 Report is attached hereto as Appendix E-2. The C&W Reports are not summarized in this Official Statement and the statements about the C&W Reports in this Official Statement are qualified by reference to the entire C&W Reports. *Prospective investors should read the C&W 2006 Report and the C&W 2011 Report each in its entirety, paying specific attention to the respective assumptions and limitations described therein.*

In forecasting the future demand for real estate, C&W relied upon and assumed the correctness of a certain economic and demographic forecast for a 40-year period provided by Moody's Analytics, which is set forth in Chapter 2 of the C&W 2011 Report. The C&W Reports take into account the Great Recession of 2007-2009 and incorporate updated assumptions about the long-run growth path of the U.S. and New York City economies. Moody's Analytics forecasts that the national and regional (including the City's) economies will experience a recession every nine years, similar in length and magnitude to the average of the three most recent recessions in 1990-1991, 2001 and 2007-2009. Moody's Analytics expects that the first of these recessions will begin in 2016, with three subsequent recessions to begin in 2025, 2034 and 2043. C&W also relied upon a number of assumptions, including, but not limited to, the completion of the Project during 2013; the projected completion dates of major public sector investments in the Project Area; the existence of commercial office development sites in Midtown Manhattan, excluding the Project Area, that could accommodate development in the future (roughly 14.5 msf of space) based on current zoning; the current and planned 10.7 msf of office towers at the World Trade Center site; the need to build a platform over certain operating railyards, including the ERY and the WRY, which are both to be developed by the Related Companies though controlled by the MTA; and the existence and continuing availability of current zoning and current development incentive programs in the Project Area. The C&W 2011 Report does not, among other things, analyze the possible effects of a deep economic recession of the magnitude experienced by the City in the 1970s.

Potential risks arising from unforeseen economic, political and fiscal policy or events were not accounted for in the real estate demand forecasts or in the review of projected Revenues. Additional assumptions and limitations made by C&W and Moody's Analytics are described in the C&W Reports.

---

* Moody's Analytics is an independent provider of data, analysis, modeling and forecasts on national and regional economies, financial markets and credit risk, and is an affiliate of Moody's Investors Service (one of the rating agencies that has rated the Series 2012A Bonds).

Revenue Projections Reviewed by the Report

The C&W Reports review Revenues (other than Interest Support Payments) projected through 2050 to be generated by a 30-year forecast of development within the Project Area. The C&W Reports review projected Revenues by development category (*i.e.*, office buildings, residential, hotels and retail space). While projected Revenues for each development category include all of the pledged Revenues related to real estate development and taxation within the Project Area (as described in "SECTION V: SECURITY AND SOURCES OF PAYMENT OF BONDS"), the C&W Reports do not attempt in every instance to separately itemize sources of Revenue within each development category. For example, the C&W Reports do not differentiate between PILOT Payments expected to be received directly by the Corporation and payments in lieu of taxes or real estate taxes from New Developments to be paid to the Corporation as Tax Equivalency Payments. Nevertheless, the aggregate Revenues (other than Interest Support Payments) reviewed in the C&W Reports represent the total amount of projected Revenues pledged under the Indenture. The C&W 2011 Report concludes that the projected Revenues generated from projected new office, residential, hotel and retail developments totaling $36.9 billion during the period from 2012 to 2050 are reasonable, given the correctness of assumptions and limitations outlined therein (in particular, the Limiting Conditions, Chapter 1.B.).

Set forth below is a brief summary of the development projections for each real estate sector contained in the C&W 2011 Report — office, residential, hotel and retail, as well as non-recurring Revenues such as TDR Payments, DIB Payments and PILOMRT payments — from which the Revenue estimates were generated. The analysis and conclusions contained in the C&W 2011 Report regarding specific real estate sectors are subject to certain limitations and assumptions, which are described in the C&W 2011 Report.

Office Buildings

The C&W 2011 Report concludes that the projections for the number of office workers ("office-using employment") provided by Moody's Analytics for the New York region are the primary driver of demand for and completion of office space construction. Growth in office-using employment reflects structural changes in the regional (and City's) economy in which, over the long term, services employment has grown while industrial employment has declined. This long-term growth trend is expected to continue well into the future, according to Moody's Analytics. The C&W 2006 Report was premised on a continuation of the trend, which persisted through the 1990s until the recovery from the 2001 recession, of firms leaving the City for the suburbs. The C&W 2011 Report shows that following the Great Recession of 2007-2009, Manhattan's premier office space market has experienced an ongoing recovery in terms of rental and occupancy rates, sales, and some new construction. An important change is Moody's Analytics projection that the former "outflow" trend of New York City businesses has reversed over the past several years and that this reversal will continue through the extended forecast horizon. Thus, a larger share of Moody's Analytics' projected office using employment in the broader New York City region is expected to occur in Manhattan. The accuracy of future economic and demographic projections made by Moody's Analytics is among the assumptions used in the C&W 2011 Report.

These projections were used in the analysis of the region's competitive markets to determine the share of regional office space absorption that Midtown Manhattan ("Midtown") and, more specifically, the Project Area, are projected to capture. Because of its advantages, Midtown is expected to retain a greater share of this new office-using employment and therefore of new office space. A substantial share of Midtown's growth will likely be accommodated in the Project Area, due to the shortage of alternative sites. The projected timing and share of development of commercial sites in the Project Area assumes that the Project is completed during 2013. As mass transit access is essential to initiate development of the Eleventh Avenue commercial sites, if the Subway Extension is delayed past 2013, it is likely that development of some of these sites will be delayed.

C&W studied 15 large sites in the Project Area that were considered appropriate for Class A office development. The projected demand for office space and resulting completions of approximately 25.3 msf would be less than the zoned office capacity of approximately 28.8 msf for the 15 sites studied. Other sites within the Project Area zoned for office space could augment this amount over the forecast period. As a result of the WRY re-zoning in 2009 and other changes, current assumed zoned office capacity has increased to approximately 28.8 msf since the C&W 2006 Report. While demand has increased from the C&W 2006 Report to 25.3 msf, it is projected currently to occur at a slower rate than the forecasted rate of development assumed in the C&W 2006 Report. Revenues from office building development are projected to be $14.9 billion during the period from 2016 to 2050.

Residential

The C&W 2011 Report notes that overall, housing demand has been strong in New York City for decades and that household formation growth (which is the primary driver of new housing demand) has been particularly robust in recent years. While housing demand typically appears to exceed household growth, it may also be influenced by other factors. Between 2000 and 2008, New York City — particularly Manhattan — experienced significant housing expansion. Following the housing market's peak in 2008, and as the economy deteriorated and credit conditions tightened rapidly, the growth in housing development and price appreciation in Manhattan's residential market declined sharply. The lack of construction financing, dating back to late 2007, has curtailed the residential inventory brought to market as of late 2010. The number of permits issued in Manhattan fell drastically in 2009 and 2010. Market statistics for 2010 reveal price stability, although below 2008 peaks, in both the residential condominium and cooperative markets. Much of the 5,200 units of residential housing within the Project Area that were completed between 2005 and 2011 were financed prior to the 2008-2009 recession. As of the second quarter of 2011, overall residential rents have slightly increased or held steady.

While the underlying assumptions for new household formation in Manhattan provided by Moody's Analytics were used as the primary demand driver in the C&W 2011 Report to forecast new housing demand for Manhattan, a replacement factor to account for housing stock removed from inventory and other demand not derived from household formation, was also incorporated in the C&W 2011 Report. The forecast share of Manhattan housing demand for the Project Area was estimated based on the recent share of new housing in the Project Area and adjacent west side neighborhoods as well as the assumed infrastructure improvements. New residential construction, however, is not as heavily reliant on easy mass transit access as office buildings and thus if the Subway Extension is delayed, the C&W 2011 Report concludes that it would not likely hinder the forecast completions of residential developments.

The C&W 2011 Report projects that as the demand for housing in Manhattan increases during the forecast period, the Project Area is expected to capture a 20 percent share of the overall demand. Over the forecast period, construction completions are expected to total 13.9 msf or roughly 14,300 units by 2041. This development is expected to substantially absorb the residential development capacity permissible under the Project Area Zoning Regulations. Revenues from residential development are projected to total $16.1 billion during the period from 2012 to 2050.

Hotels

The C&W 2011 Report notes that hotel demand has been very strong in New York City for decades, particularly in Manhattan, and that in 2010, the City experienced a record-high number of visitors. While overall demand for hotel rooms (or change in occupied rooms) is expected to grow, the current hotel room supply, even with many recent additions, is extremely tight. Hotel market conditions in Manhattan are continuing to experience positive growth and strong recovery after the 2008 and 2009 declines suffered from the Great Recession. As of second quarter 2011, Manhattan occupancy reached 80.2 percent, not yet returning to the historic peak of 85.9 percent in 2007. The C&W 2011 Report notes that the occupancy rate has remained higher than 80 percent for the past seven years, the strongest run on record.

The mixed uses of new development within the Project Area as projected in the C&W 2011 Report are expected to generate three primary sources of hotel room demand: the expansion of the Javits Convention Center, business visitors to the new offices built in the Project Area, and leisure and business "inflow" visitors from other areas in Manhattan into the Project Area.

The hotel construction schedule is based on an average annual growth rate in hotel room supply supported by the demand generators as projected in the C&W 2011 Report. The Project Area is expected to gain a share of the City's new hotel supply resulting in approximately 2.3 msf of new hotel construction over the forecast period or roughly 7,150 hotel rooms, inclusive of the hotels completed between 2006 and 2011, by 2041. Revenues from hotel development are projected to be almost $3 billion for the period from 2012 to 2050.

Retail Space

The City's retail market, in addition to a large resident customer base, is also supported by the very high number of visitors to New York City, which reached a record high in 2010. The most prominent visitor activity is shopping; the relatively weaker U.S. dollar has bolstered foreign tourist retail activity since 2009. The demand for retail space in the Project Area will be generated from the new office employees and related business travelers, residents, visitors to the Javits Convention Center and other "inflow" leisure visitors and residents to the Project Area from other areas in Manhattan and the region. Although the overall Manhattan retail average asking rents have not returned to the peak attained in 2008, availabilities are beginning to tighten. As is the case throughout most of Manhattan, the Project Area retail development is expected to be incorporated primarily at street-level in new commercial and residential buildings.

The cumulative demand is projected to result in 1.8 msf of retail space construction completions during the period from 2012 to 2041. Revenues from retail development are projected to be $1.1 billion for the period from 2012 to 2050.

Non-Recurring Revenues

In order to achieve the development potential within each commercial and residential site within the Project Area, the Project Area Zoning Regulations provide for additional density through the making of DIB Payments and, if further elected, the purchase of ERY Transferable Development Rights (*i.e.*, TDR Payments). Combined, a total of approximately 11.2 msf of TDR and DIB development rights are expected to be purchased in the Project Area based on the development forecast for all property types. Since the date of the C&W 2006 Report, approximately 850,000 sf of DIB development rights have been purchased yielding approximately $85 million of DIB Payments. Revenues from payments in lieu of mortgage recording taxes ("PILOMRT") are expected to be realized before the estimated completions of residential and office projects (assuming a 3-year construction period). Payments from the aggregate Revenues from TDR Payments, DIB Payments and PILOMRT payments through 2050 are estimated to be $1.8 billion.

Aggregate Annual Revenues

Aggregate annual Revenues (other than Interest Support Payments) from all sources as forecast in the C&W 2011 Report are shown in the following table for each Fiscal Year of the Corporation:

Fiscal Year	Forecast Revenues
2012	$ 44,967,961
2013	107,283,320
2014	113,072,332
2015	155,016,012
2016	120,087,109
2017	120,749,441
2018	155,890,392
2019	286,070,391
2020	243,472,033
2021	310,173,664
2022	364,534,196
2023	330,222,838
2024	381,388,369
2025	420,757,071
2026	414,971,800
2027	467,372,894
2028	586,110,569
2029	599,831,016
2030	670,203,277
2031	743,832,196
2032	800,478,332
2033	884,737,498
2034	970,817,700
2035	1,024,485,024
2036	1,119,329,788
2037	1,295,934,542
2038	1,351,576,351
2039	1,385,523,412
2040	1,483,042,457
2041	1,620,724,232
2042	1,698,860,970
2043	1,780,464,325
2044	1,859,731,676
2045	1,939,581,406
2046	2,023,884,618
2047	2,111,994,205
2048	2,205,465,410
2049	2,307,626,797
2050	2,417,568,934
Total	$36,917,834,558

C&W Reports' Assumptions and Limitations

The conclusions of the C&W Reports are premised on numerous assumptions (including, without limitation, no change in the Project Area Zoning Regulations, no significant changes to City zoning to create new markets that would be competitive to the Project Area, and completion of the Subway Extension in 2013), limitations, reliances and limiting conditions described throughout the C&W Reports, which are attached hereto as Appendices E-1 and E-2. In the event that assumptions or reliances upon which the C&W Reports are premised prove to be incorrect, the Corporation may not receive the Revenues in the amounts or at the times expected. Additional risks exist which may cause the Revenues not to be realized in the amounts or at the times projected. See "SECTION II: RISK FACTORS" herein.

SECTION IX: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION

Introduction

The following discussion describes the methodology and assumptions used to estimate the principal repayment characteristics, including post-conversion Sinking Fund Installments and average lives for the Bonds. In addition, sensitivity analyses are provided which evaluate the impact of different Revenue generation scenarios on such principal repayment characteristics, including Sinking Fund Installments established after the Conversion Date.

Bond Structuring Methodology

The Series 2012A Bonds are being issued as Term Bonds, but there will be no Sinking Fund Installments scheduled when such Bonds are issued. Prior to the Conversion Date, the Corporation is not obligated to make Sinking Fund Installments on the Bonds nor is the Corporation permitted to issue any Bonds which mature prior to February 15, 2047 or on a date that is earlier than the maturity date of any then Outstanding Bond.

The following schedules set forth, for each 12-month period ending June 30 of the years shown, the amounts required to be paid by the Corporation for the payment of interest and principal on the Series 2007A Bonds and the Series 2012A Bonds, together with an assumed additional $500 million of Senior Bonds delivered on February 15, 2016 and a principal amount of Subordinate Bonds (with an annual interest payment limit of $30 million) delivered on February 15 of that year in which Revenues (without Interest Support Payments) are sufficient to pay interest on all Senior Bonds and Subordinate Bonds, in each case payable on their respective payment dates of each such period assuming the following:

- Revenues are received in the amounts set forth in the Forecast Revenues reviewed in the C&W 2011 Report;
- Corporation operating expenses are $1.126 million in the Fiscal Year ending June 30, 2011 and grow by 3% each Fiscal Year thereafter;
- There is no investment income on either the Construction Fund or the Debt Service Fund;
- Funds Available for Debt Service are aggregate Revenues (other than Interest Support Payments) less the Corporation's operating expenses;
- Prior to Conversion, Funds Available for Debt Service also include prefunded interest from the prior Fiscal Year Revenues but exclude amounts applied to prefund interest for the subsequent Fiscal Year;
- Prior to Conversion, Net Revenues are first used to pay interest on the Bonds. Once current interest expenses are met, the Corporation pre-funds the interest required for the next Fiscal Year. Once interest expenses for the next Fiscal Year are funded and beginning on the first optional redemption date for the Outstanding Bonds, excess Net Revenues are used to pay down principal through mandatory redemption;
- Interest Support Payments are made in each Fiscal Year that Revenues are insufficient to pay current interest expenses;

- Additional Senior Bonds in the amount of $500 million are issued on February 15, 2016 at an assumed interest rate of 7% and with a final stated maturity of February 15, 2047;
- Subordinate Bonds are issued on February 15 of the applicable year of the subject Forecast (*i.e.*, that year in which Revenues, excluding Interest Support Payments, are sufficient to pay interest on all Senior Bonds and Subordinate Bonds Outstanding) at an assumed interest rate (subject to an annual interest payment limit of $30 million) and with no principal payments prior to February 15, 2047; and
- Sinking Fund Installments are established in accordance with the requirements for Conversion under the Indenture and such Sinking Fund Installments are structured *pro rata* among all Series of Outstanding Bonds and among the maturities within a Series of Outstanding Bonds.

The schedules provided below show projected available funds and debt service on the Bonds based on the assumed receipt of (i) the amount of projected Forecast Revenues, (ii) 80% of the Forecast Revenues, (iii) 60% of the Forecast Revenues, (iv) 60% of the Forecast Revenues assuming no new development for five years, and (v) 40% of the Forecast Revenues. C&W takes no responsibility for the calculations in this section.

Forecast Revenues: Projected Available Funds and Principal Retirement

12-Month Period Ending June 30,	Funds Available for Debt Service ($)	Interest Support Payment ($)	Principal of Series 2007A($)	Principal of Series 2012A($)	Current Interest on Series 2007A($)	Current Interest on Series 2012A($)	Debt Service on Series 2007A($)	Debt Service on Series 2012A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2012	43,808,687	70,533,327	—	—	97,500,000	16,842,014	97,500,000	16,842,014	—	114,342,014	114,342,014	—
2013	106,089,268	47,035,732	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2014	111,842,458	41,282,542	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2015	153,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2016	119,406,577	33,718,423	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2017	119,405,524	68,719,476	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2018	154,506,158	33,618,842	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2019	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	—
2020	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	—
2021	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	—
2022	325,790,000	—	61,520,000	30,765,000	97,500,000	55,625,000	159,020,000	86,390,000	107,665,000	218,125,000	325,790,000	—
2023	334,405,119	—	69,755,000	34,880,000	94,500,900	53,913,713	164,255,900	88,793,713	122,075,000	212,338,013	334,413,013	—
2024	384,626,475	—	102,200,000	51,100,000	91,100,350	51,973,525	193,300,350	103,073,525	178,850,000	205,776,475	384,626,475	1,655,835
2025	427,259,158	—	132,055,000	66,030,000	86,118,100	49,131,088	218,173,100	115,161,088	231,100,000	196,163,288	427,263,288	1,408,667
2026	424,494,163	—	137,575,000	68,785,000	79,680,425	45,458,163	217,255,425	114,243,163	240,755,000	183,741,638	424,496,638	1,145,781
2027	648,055,430	—	40,180,000	20,105,000	72,973,650	41,632,000	113,153,650	61,737,000	70,325,000	170,801,050	241,126,050	408,182,371
2028	583,043,927	—	42,335,000	21,170,000	71,014,850	40,513,675	113,349,850	61,683,675	74,090,000	167,021,125	241,111,125	343,139,149
2029	595,933,804	—	44,615,000	22,305,000	68,951,025	39,336,100	113,566,025	61,641,100	78,075,000	163,038,775	241,113,775	356,801,137
2030	666,946,434	—	47,015,000	23,505,000	66,776,050	38,095,375	113,791,050	61,600,375	82,275,000	158,842,225	241,117,225	427,112,466
2031	740,573,674	—	49,535,000	24,770,000	64,484,075	36,787,900	114,019,075	61,557,900	86,690,000	154,419,925	241,109,925	500,689,477
2032	797,226,202	—	52,200,000	26,100,000	62,069,250	35,410,075	114,269,250	61,510,075	91,350,000	149,760,325	241,110,325	557,274,229
2033	881,493,803	—	55,005,000	27,500,000	59,524,500	33,958,263	114,529,500	61,458,263	96,255,000	144,850,263	241,105,263	641,475,644
2034	966,916,604	—	57,965,000	28,985,000	56,843,000	32,428,575	114,808,000	61,413,575	101,440,000	139,676,575	241,116,575	727,479,836
2035	1,021,125,665	—	61,080,000	30,535,000	54,017,200	30,816,288	115,097,200	61,351,288	106,885,000	134,224,188	241,109,188	781,087,909
2036	1,115,996,402	—	64,365,000	32,180,000	51,039,550	29,117,763	115,404,550	61,297,763	112,635,000	128,479,113	241,114,113	875,859,110
2037	1,292,626,366	—	67,820,000	33,910,000	47,901,750	27,327,763	115,721,750	61,237,763	118,685,000	122,425,013	241,110,013	1,052,397,267
2038	1,348,299,794	—	71,465,000	35,730,000	44,595,525	25,441,525	116,060,525	61,171,525	125,060,000	116,045,700	241,105,700	1,107,970,571
2039	1,382,277,871	—	75,310,000	37,655,000	41,111,600	23,454,038	116,421,600	61,109,038	131,790,000	109,323,738	241,113,738	1,141,834,592
2040	1,479,830,414	—	79,355,000	39,680,000	37,440,225	21,359,488	116,795,225	61,039,488	138,875,000	102,240,063	241,115,063	1,239,275,059
2041	1,617,556,244	—	83,620,000	41,810,000	33,571,675	19,152,300	117,191,675	60,962,300	146,335,000	94,775,525	241,110,525	1,376,881,802
2042	1,695,733,723	—	88,115,000	44,055,000	29,495,200	16,826,625	117,610,200	60,881,625	154,200,000	86,910,025	241,110,025	1,454,937,083
2043	1,777,384,540	—	92,850,000	46,420,000	25,199,600	14,376,075	118,049,600	60,796,075	162,485,000	78,621,775	241,106,775	1,536,459,272
2044	1,857,110,896	—	97,840,000	48,920,000	20,673,175	11,793,950	118,513,175	60,713,950	171,220,000	69,888,175	241,108,175	1,615,638,274
2045	1,936,761,765	—	103,100,000	51,550,000	15,903,475	9,072,763	119,003,475	60,622,763	180,425,000	60,685,088	241,110,088	1,695,396,535
2046	2,020,852,418	—	108,640,000	54,320,000	10,877,350	6,205,275	119,517,350	60,525,275	190,120,000	50,987,225	241,107,225	1,779,610,366
2047	2,108,732,168	—	114,485,000	57,235,000	5,581,150	3,183,713	120,066,150	60,418,713	200,340,000	40,768,263	241,108,263	1,867,623,905
	29,893,611,730	294,908,341	2,000,000,000	1,000,000,000	2,363,943,650	1,309,858,026	4,363,943,650	2,309,858,026	3,500,000,000	5,217,395,576	8,717,395,576	21,491,336,337

This scenario assumes Forecast Revenues in each Forecast Year. Subordinate Bonds are assumed to be issued in 2018 with no principal payments prior to 2047. Conversion is achieved in 2026 and the average life of the Senior Bonds is 23.55 years.

80% of Forecast Revenues: Projected Available Funds and Principal Retirement

12-Month Period Ending June 30,	Funds Available for Debt Service ($)	Interest Support Payment ($)	Principal of Series 2007A($)	Principal of Series 2012A($)	Current Interest on Series 2007A($)	Current Interest on Series 2012A($)	Debt Service on Series 2007A($)	Debt Service on Series 2012A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2012	34,815,095	79,526,919	—	—	97,500,000	16,842,014	97,500,000	16,842,014	—	114,342,014	114,342,014	—
2013	84,632,604	68,492,396	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2014	89,227,992	63,897,008	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2015	122,746,039	30,378,961	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2016	94,764,914	58,360,086	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2017	95,255,636	92,869,364	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2018	123,328,080	64,796,920	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2019	188,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2020	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	—
2021	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	—
2022	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	—
2023	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	—
2024	242,865,000	—	14,135,000	7,070,000	97,500,000	55,625,000	111,635,000	62,695,000	24,740,000	218,125,000	242,865,000	1,861,700
2025	334,496,339	—	67,260,000	33,630,000	96,810,925	55,231,738	164,070,925	88,861,738	117,705,000	216,795,213	334,500,213	1,736,672
2026	334,951,761	—	71,135,000	35,570,000	93,532,000	53,361,063	164,667,000	88,931,063	124,490,000	210,468,563	334,958,563	1,598,823
2027	377,422,213	—	99,225,000	49,615,000	90,064,175	51,382,488	189,289,175	100,997,488	173,645,000	203,777,213	377,422,213	1,359,212
2028	475,313,800	—	160,500,000	80,245,000	85,226,950	48,622,650	245,726,950	128,867,650	280,870,000	194,443,800	475,313,800	1,037,927
2029	670,169,403	—	50,070,000	25,050,000	77,402,575	44,159,013	127,472,575	69,209,013	87,635,000	179,347,038	266,982,038	405,410,472
2030	532,748,667	—	52,775,000	26,385,000	74,961,650	42,765,638	127,736,650	69,150,638	92,355,000	174,636,688	266,991,688	267,197,348
2031	591,657,277	—	55,610,000	27,805,000	72,388,875	41,297,975	127,998,875	69,102,975	97,315,000	169,672,600	266,987,600	326,045,363
2032	636,991,892	—	58,600,000	29,300,000	69,677,875	39,751,313	128,277,875	69,051,313	102,550,000	164,441,938	266,991,938	371,296,950
2033	704,412,260	—	61,750,000	30,875,000	66,821,125	38,121,500	128,571,125	68,996,500	108,060,000	158,929,875	266,989,875	438,643,532
2034	772,542,795	—	65,065,000	32,530,000	63,810,800	36,404,075	128,875,800	68,934,075	113,860,000	153,121,675	266,981,675	507,451,196
2035	816,101,470	—	68,565,000	34,285,000	60,638,875	34,594,588	129,203,875	68,879,588	119,990,000	147,001,713	266,991,713	550,308,379
2036	892,010,592	—	72,255,000	36,120,000	57,296,325	32,687,488	129,551,325	68,807,488	126,440,000	140,552,263	266,992,263	626,115,003
2037	1,033,330,244	—	76,135,000	38,070,000	53,773,900	30,678,300	129,908,900	68,748,300	133,240,000	133,756,100	266,996,100	767,324,271
2038	1,077,890,234	—	80,225,000	40,115,000	50,062,325	28,560,663	130,287,325	68,675,663	140,395,000	126,594,438	266,989,438	811,771,563
2039	1,105,091,119	—	84,535,000	42,270,000	46,151,350	26,329,263	130,686,350	68,599,263	147,940,000	119,048,213	266,988,213	838,855,434
2040	1,183,152,474	—	89,085,000	44,535,000	42,030,275	23,978,000	131,115,275	68,513,000	155,890,000	111,096,425	266,986,425	916,795,205
2041	1,293,358,909	—	93,875,000	46,935,000	37,687,375	21,500,725	131,562,375	68,435,725	164,280,000	102,717,350	266,997,350	1,026,850,131
2042	1,355,923,341	—	98,915,000	49,460,000	33,110,975	18,889,950	132,025,975	68,349,950	173,105,000	93,887,275	266,992,275	1,089,282,639
2043	1,421,272,209	—	104,235,000	52,115,000	28,288,875	16,138,738	132,523,875	68,253,738	182,410,000	84,582,863	266,992,863	1,154,480,319
2044	1,485,206,686	—	109,835,000	54,915,000	23,207,425	13,239,838	133,042,425	68,154,838	192,210,000	74,778,313	266,988,313	1,217,811,801
2045	1,548,876,322	—	115,735,000	57,870,000	17,852,975	10,185,188	133,587,975	68,055,188	202,540,000	64,447,013	266,987,013	1,281,603,329
2046	1,616,091,326	—	121,965,000	60,980,000	12,210,900	6,966,175	134,175,900	67,946,175	213,435,000	53,560,475	266,995,475	1,348,945,192
2047	1,686,333,327	—	128,515,000	64,255,000	6,265,100	3,574,175	134,780,100	67,829,175	224,900,000	42,088,375	266,988,375	1,419,344,952
	23,893,605,019	458,321,654	2,000,000,000	1,000,000,000	2,526,773,625	1,402,762,551	4,526,773,625	2,402,762,551	3,500,000,000	5,501,587,426	9,001,587,426	15,373,127,411

This scenario assumes 80% of Forecast Revenues in each Forecast Year. Subordinate Bonds are assumed to be issued in 2019 with no principal payments prior to 2047. Conversion is achieved in 2028 and the average life of the Senior Bonds is 25.22 years.

60% of Forecast Revenues: Projected Available Funds and Principal Retirement

12-Month Period Ending June 30,	Funds Available for Debt Service ($)	Interest Support Payment ($)	Principal of Series 2007A($)	Principal of Series 2012A($)	Current Interest on Series 2007A($)	Current Interest on Series 2012A($)	Debt Service on Series 2007A($)	Debt Service on Series 2012A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2012	25,821,503	88,520,511	-	-	97,500,000	16,842,014	97,500,000	16,842,014	-	114,342,014	114,342,014	-
2013	63,175,940	89,949,060	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	153,125,000	153,125,000	-
2014	66,613,526	86,511,474	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	153,125,000	153,125,000	-
2015	91,742,837	61,382,163	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	153,125,000	153,125,000	-
2016	70,747,492	82,377,508	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	153,125,000	153,125,000	-
2017	71,105,748	117,019,252	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	188,125,000	188,125,000	-
2018	92,150,001	95,974,999	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	188,125,000	188,125,000	-
2019	170,216,474	17,908,526	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	188,125,000	188,125,000	-
2020	144,614,686	43,510,314	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	188,125,000	188,125,000	-
2021	184,591,609	3,533,391	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	188,125,000	188,125,000	-
2022	188,125,000	-	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	188,125,000	188,125,000	-
2023	218,125,000	-	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	218,125,000	218,125,000	-
2024	218,125,000	-	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	218,125,000	218,125,000	1,875,000
2025	218,125,000	-	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	218,125,000	218,125,000	1,875,000
2026	218,125,000	-	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	218,125,000	218,125,000	1,875,000
2027	218,125,000	-	-	-	97,500,000	55,625,000	97,500,000	55,625,000	-	218,125,000	218,125,000	1,875,000
2028	261,115,000	-	24,565,000	12,285,000	97,500,000	55,625,000	122,065,000	67,910,000	42,990,000	218,125,000	261,115,000	1,781,256
2029	357,599,300	-	81,020,000	40,510,000	96,302,450	54,941,650	177,322,450	95,451,650	141,785,000	215,814,300	357,599,300	2,685,181
2030	406,193,363	-	113,145,000	56,570,000	92,352,725	52,688,288	205,497,725	109,258,288	198,000,000	208,193,363	406,193,363	1,570,084
2031	453,611,339	-	146,320,000	73,165,000	86,836,900	49,541,588	233,156,900	122,706,588	256,065,000	197,550,888	453,615,888	1,297,659
2032	490,932,400	-	175,515,000	87,750,000	79,703,800	45,471,800	255,218,800	133,221,800	307,145,000	183,787,400	490,932,400	1,017,080
2033	711,172,378	-	65,750,000	32,885,000	71,147,450	40,590,688	136,897,450	73,475,688	115,075,000	167,278,338	282,353,338	430,119,970
2034	578,260,353	-	69,280,000	34,635,000	67,942,150	38,761,463	137,222,150	73,396,463	121,235,000	161,093,013	282,328,013	297,941,319
2035	611,127,542	-	73,000,000	36,500,000	64,564,750	36,834,875	137,564,750	73,334,875	127,750,000	154,576,625	282,326,625	330,076,462
2036	668,073,882	-	76,925,000	38,465,000	61,006,000	34,804,563	137,931,000	73,269,563	134,620,000	147,710,063	282,330,063	386,911,245
2037	774,078,970	-	81,065,000	40,530,000	57,255,900	32,664,963	138,320,900	73,194,963	141,860,000	140,474,263	282,334,263	492,799,200
2038	807,517,072	-	85,420,000	42,710,000	53,303,975	30,410,475	138,723,975	73,120,475	149,485,000	132,849,300	282,334,300	526,111,430
2039	827,935,296	-	90,015,000	45,005,000	49,139,750	28,034,738	139,154,750	73,039,738	157,525,000	124,814,488	282,339,488	546,399,477
2040	886,507,737	-	94,855,000	47,425,000	44,751,525	25,531,325	139,606,525	72,956,325	165,995,000	116,347,500	282,342,500	604,830,639
2041	969,178,946	-	99,950,000	49,975,000	40,127,350	22,893,313	140,077,350	72,868,313	174,910,000	107,425,263	282,335,263	687,367,372
2042	1,016,127,344	-	105,320,000	52,665,000	35,254,775	20,113,450	140,574,775	72,778,450	184,315,000	98,023,875	282,338,875	734,163,845
2043	1,065,168,142	-	110,980,000	55,490,000	30,120,425	17,183,975	141,100,425	72,673,975	194,215,000	88,116,950	282,331,950	783,048,367
2044	1,113,287,917	-	116,950,000	58,475,000	24,710,150	14,097,338	141,660,150	72,572,338	204,660,000	77,677,888	282,337,888	830,515,891
2045	1,160,978,853	-	123,235,000	61,615,000	19,008,825	10,844,663	142,243,825	72,459,663	215,660,000	66,677,438	282,337,438	878,336,623
2046	1,211,324,035	-	129,855,000	64,930,000	13,001,125	7,417,325	142,856,125	72,347,325	227,250,000	55,085,700	282,335,700	928,828,044
2047	1,263,934,485	-	136,835,000	68,415,000	6,670,700	3,805,588	143,505,700	72,220,588	239,460,000	42,870,988	282,330,988	981,603,498
	17,893,654,171	686,687,199	2,000,000,000	1,000,000,000	2,650,700,725	1,473,474,076	4,650,700,725	2,473,474,076	3,500,000,000	5,650,709,651	9,150,709,651	9,454,904,640

This scenario assumes 60% of Forecast Revenues in each Forecast Year. Subordinate Bonds are assumed to be issued in 2022 with no principal payments prior to 2047. Conversion is achieved in 2032 and the average life of the Senior Bonds is 26.49 years.

60% of Forecast Revenues Assuming No New Development for 5 Years: Projected Available Funds and Principal Retirement

12-Month Period Ending June 30,	Funds Available for Debt Service ($)	Interest Support Payment ($)	Principal of Series 2007A($)	Principal of Series 2012A($)	Current Interest on Series 2007A($)	Current Interest on Series 2012A($)	Debt Service on Series 2007A($)	Debt Service on Series 2012A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2012	16,144,994	98,197,020	—	—	97,500,000	16,842,014	97,500,000	16,842,014	—	114,342,014	114,342,014	—
2013	20,592,796	132,532,204	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2014	23,027,472	130,097,528	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2015	24,836,461	128,288,539	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2016	27,592,605	125,532,395	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2017	41,564,347	146,560,653	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2018	84,304,559	103,820,441	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2019	90,179,679	97,945,321	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2020	125,372,294	62,752,706	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2021	98,658,123	89,466,877	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2022	98,787,434	89,337,566	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2023	122,611,586	65,513,414	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2024	188,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	1,875,000
2025	188,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	1,875,000
2026	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	1,875,000
2027	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	1,875,000
2028	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	1,875,000
2029	228,240,000	—	5,780,000	2,890,000	97,500,000	55,625,000	103,280,000	58,515,000	10,115,000	218,125,000	228,240,000	3,049,403
2030	323,851,313	—	60,725,000	30,365,000	97,218,225	55,464,238	157,943,225	85,829,238	106,270,000	217,581,313	323,851,313	1,905,890
2031	329,854,325	—	67,420,000	33,710,000	94,257,875	53,775,200	161,677,875	87,485,200	117,985,000	211,869,325	329,854,325	1,808,500
2032	364,317,638	—	90,735,000	45,370,000	90,971,150	51,900,088	181,706,150	97,270,088	158,790,000	205,527,638	364,317,638	1,636,106
2033	455,317,663	—	147,615,000	73,805,000	86,547,825	49,376,388	234,162,825	123,181,388	258,325,000	196,992,663	455,317,663	1,288,122
2034	464,802,675	—	160,970,000	80,485,000	79,351,600	45,270,975	240,321,600	125,755,975	281,695,000	183,107,675	464,802,675	1,948,007
2035	706,315,102	—	80,855,000	40,435,000	71,504,300	40,794,000	152,359,300	81,229,000	141,500,000	167,966,600	309,466,600	398,265,203
2036	569,101,970	—	85,200,000	42,600,000	67,562,600	38,544,850	152,762,600	81,144,850	149,100,000	160,361,050	309,461,050	260,931,916
2037	588,857,915	—	89,780,000	44,885,000	63,409,100	36,175,225	153,189,100	81,060,225	157,110,000	152,346,925	309,456,925	280,567,153
2038	632,891,754	—	94,600,000	47,300,000	59,032,325	33,678,500	153,632,325	80,978,500	165,550,000	143,902,275	309,452,275	324,471,580
2039	690,324,406	—	99,685,000	49,845,000	54,420,575	31,047,438	154,105,575	80,892,438	174,450,000	135,003,963	309,453,963	381,758,015
2040	727,093,238	—	105,045,000	52,520,000	49,560,925	28,274,800	154,605,925	80,794,800	183,825,000	125,627,275	309,452,275	418,380,382
2041	794,832,620	—	110,690,000	55,345,000	44,439,975	25,353,363	155,129,975	80,698,363	193,710,000	115,746,688	309,456,688	485,956,376
2042	899,092,494	—	116,635,000	58,320,000	39,043,850	22,274,788	155,678,850	80,594,788	204,115,000	105,334,738	309,449,738	590,056,208
2043	895,219,901	—	122,915,000	61,450,000	33,357,900	19,030,725	156,272,900	80,480,725	215,095,000	94,363,525	309,458,525	585,999,537
2044	957,070,162	—	129,515,000	64,765,000	27,365,800	15,612,550	156,880,800	80,377,550	226,660,000	82,802,150	309,462,150	647,127,743
2045	1,049,598,389	—	136,480,000	68,235,000	21,051,950	12,010,013	157,531,950	80,245,013	238,835,000	70,619,163	309,454,163	739,805,855
2046	1,145,233,620	—	143,815,000	71,905,000	14,398,550	8,214,425	158,213,550	80,119,425	251,675,000	57,781,775	309,456,775	835,599,354
2047	1,200,444,370	—	151,540,000	75,770,000	7,387,575	4,214,700	158,927,575	79,984,700	265,195,000	44,254,225	309,449,225	890,995,145
	14,826,756,904	1,270,044,664	2,000,000,000	1,000,000,000	2,755,882,100	1,533,479,276	4,755,882,100	2,533,479,276	3,500,000,000	5,763,655,976	9,263,655,976	6,860,925,495

This scenario assumes 60% of Forecast Revenues in each Forecast Year assuming no new development for five years. Subordinate Bonds are assumed to be issued in 2025 with no principal payments prior to 2047. Conversion is achieved in 2034 and the average life of the Senior Bonds is 27.57 years.

40% of Forecast Revenues: Projected Available Funds and Principal Retirement

12-Month Period Ending June 30,	Funds Available for Debt Service ($)	Interest Support Payment ($)	Principal of Series 2007A($)	Principal of Series 2012A($)	Current Interest on Series 2007A($)	Current Interest on Series 2012A($)	Debt Service on Series 2007A($)	Debt Service on Series 2012A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2012	16,827,910	97,514,103	—	—	97,500,000	16,842,014	97,500,000	16,842,014	—	114,342,014	114,342,014	—
2013	41,719,276	111,405,724	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2014	43,999,059	109,125,941	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2015	60,739,635	92,385,365	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2016	46,730,070	106,394,930	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	153,125,000	153,125,000	—
2017	46,955,860	141,169,140	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2018	60,971,923	127,153,077	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2019	113,002,396	75,122,604	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2020	95,920,280	92,204,720	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2021	122,556,876	65,568,124	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2022	144,255,711	43,869,289	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2023	130,484,429	57,640,571	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	—
2024	149,027,500	39,097,500	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	1,875,000
2025	164,725,395	23,399,605	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	1,875,000
2026	162,360,214	25,764,786	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	1,875,000
2027	183,268,047	4,856,953	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	188,125,000	188,125,000	1,875,000
2028	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	1,875,000
2029	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	3,075,000
2030	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	2,175,000
2031	218,125,000	—	—	—	97,500,000	55,625,000	97,500,000	55,625,000	—	218,125,000	218,125,000	2,175,000
2032	248,285,000	—	17,235,000	8,615,000	97,500,000	55,625,000	114,735,000	64,240,000	30,160,000	218,125,000	248,285,000	2,098,514
2033	351,536,996	—	77,165,000	38,580,000	96,659,800	55,145,788	173,824,800	93,725,788	135,035,000	216,503,888	351,538,888	1,822,525
2034	390,655,788	—	103,665,000	51,830,000	92,898,000	52,999,788	196,563,000	104,829,788	181,410,000	209,245,788	390,655,788	2,700,911
2035	415,630,013	—	123,505,000	61,755,000	87,844,325	50,116,738	211,349,325	111,871,738	216,135,000	199,495,013	415,630,013	1,619,408
2036	455,667,775	—	153,020,000	76,515,000	81,823,450	46,681,625	234,843,450	123,196,625	267,790,000	187,877,775	455,667,775	1,321,494
2037	529,459,050	—	203,415,000	101,705,000	74,363,725	42,425,475	277,778,725	144,130,475	355,975,000	173,484,050	529,459,050	878,158
2038	710,489,561	—	103,285,000	51,645,000	64,447,250	36,768,125	167,732,250	88,413,125	180,750,000	154,350,375	335,100,375	376,514,135
2039	550,666,034	—	108,830,000	54,415,000	59,412,100	33,895,400	168,242,100	88,310,400	190,455,000	144,635,100	335,090,100	216,544,182
2040	589,757,103	—	114,680,000	57,335,000	54,106,650	30,868,563	168,786,650	88,203,563	200,685,000	134,398,113	335,083,113	255,481,535
2041	644,926,088	—	120,840,000	60,420,000	48,516,000	27,679,288	169,356,000	88,099,288	211,470,000	123,611,288	335,081,288	310,476,500
2042	676,276,062	—	127,335,000	63,670,000	42,625,050	24,318,413	169,960,050	87,988,413	222,840,000	112,244,763	335,084,763	341,645,763
2043	709,029,910	—	134,185,000	67,095,000	36,417,475	20,776,775	170,602,475	87,871,775	234,825,000	100,267,100	335,092,100	374,195,352
2044	741,432,661	—	141,400,000	70,700,000	29,875,950	17,044,625	171,275,950	87,744,625	247,450,000	87,645,275	335,095,275	405,812,169
2045	773,124,854	—	149,000,000	74,500,000	22,982,700	13,111,938	171,982,700	87,611,938	260,750,000	74,344,838	335,094,838	437,662,941
2046	806,581,058	—	157,000,000	78,500,000	15,718,950	8,967,875	172,718,950	87,467,875	274,750,000	60,329,525	335,079,525	471,307,295
2047	841,535,644	—	165,440,000	82,720,000	8,065,200	4,601,313	173,505,200	87,321,313	289,520,000	45,561,713	335,081,713	506,453,932
	11,891,098,175	1,212,672,435	2,000,000,000	1,000,000,000	2,863,256,625	1,594,743,739	4,863,256,625	2,594,743,739	3,500,000,000	5,910,836,614	9,410,836,614	3,723,334,813

This scenario assumes 40% of Forecast Revenues in each Forecast Year. Subordinate Bonds are assumed to be issued in 2027 with no principal payments prior to 2047. Conversion is achieved in 2037 and the average life of the Senior Bonds is 28.67 years.

Effect of Changes in Revenue Generation Scenarios

Weighted Average Lives. The table below has been prepared to show the effect of changes in the Revenue generation scenarios on weighted average lives. The tables are based on the assumptions set forth under "Bond Structuring Methodology" (including the issuance of additional Senior Bonds and Subordinate Bonds as set forth above) and assumptions for each principal retirement schedule shown above, including the Forecast Revenues, 80% of Forecast Revenues, 60% of Forecast Revenues, 60% of Forecast Revenues assuming no new development for five years, and 40% of Forecast Revenues. In each scenario, Revenues do not include Interest Support Payments. In each scenario, if actual Revenue generation in the Project Area is as forecast and assumed, and events occur as assumed, the weighted average lives (in years) of the Senior Bonds, and the Conversion Date, will be as set forth in the table below. The table presented below is for illustrative purposes only. Actual Revenue generation in the Project Area cannot be definitively forecast. To the degree actual Revenue generation varies from the alternative scenarios presented below, the weighted average lives (and the Conversion Date) for the Senior Bonds will be either shorter (sooner) or longer (later) than projected below.

Scenario	Average Life of the Senior Bonds	Conversion Date
Forecast Revenues	23.55	2026
80% of Forecast Revenues	25.22	2028
60% of Forecast Revenues	26.49	2032
60% of Forecast Revenues assuming no new development for five years	27.57	2034
40% of Forecast Revenues	28.67	2037

SECTION X: ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources of Funds	
Principal Amount of Series 2012A Bonds	$1,000,000,000
Original Issue Premium	30,927,000
Total Sources	$1,030,927,000
Uses of Funds	
Deposit to Project Account	$1,023,873,784
Deposit to Costs of Issuance Account (including bond insurance premium)	1,564,542
Underwriters' Discount	5,488,674
Total Uses	$1,030,927,000

SECTION XI: THE SERIES 2012A BONDS

General

The Series 2012A Bonds will be issued as Senior Bonds, dated their date of delivery and will bear interest as described on the cover of this Official Statement. The Series 2012A Bonds are subject to optional and mandatory redemption prior to maturity as described under "Redemption of Series 2012A Bonds."

Principal of, redemption premium, if any, and interest on, the Series 2012A Bonds will be payable in lawful money of the United States of America. The Series 2012A Bonds will be issued only as fully registered bonds without coupons in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2012A Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

Interest on the Series 2012A Bonds will be payable to the registered owner thereof as shown on the registration books kept by the Trustee at the close of business on the Record Date which will be the last day (whether or not a Business Day) of the calendar month next preceding an interest payment date.

The Series 2012A Bonds are being issued as Term Bonds, but no Sinking Fund Installments will be scheduled when such Bonds are issued. Prior to the Conversion Date, the Corporation is not obligated to make Sinking Fund Installments on the Series 2012A Bonds nor is the Corporation permitted to issue any Bonds which mature prior to February 15, 2047 or on a date that is earlier than the maturity date of any then Outstanding Bond.

After the Conversion Date, the Indenture requires that the Corporation establish a schedule of Sinking Fund Installments for its outstanding Bonds, including the Series 2007A Bonds and the Series 2012A Bonds, as described below under "Redemption of Bonds — Sinking Fund Installments." Following establishment of the Sinking Fund Installment schedule, the Corporation is required to use its Revenues, not including the Interest Support Payments, after payment of its expenses (but not in excess of the Operating Cap), first to fund principal due on Senior Bonds before the payment of interest on such Bonds. If the principal due on Senior Bonds has been funded, but there are not sufficient Revenues remaining to pay all the interest due on Senior Bonds, the Corporation will have the Interest Support Payments available to it, subject to annual appropriation by the City, to pay the full interest due on the Supported Bonds.

Redemption of Series 2012A Bonds

Optional Redemption

The Series 2012A Bonds are subject to redemption prior to maturity at the election of the Corporation, in whole or in part in any order at any time, at a redemption price equal to 100% of the principal amount of 2012A Bonds to be redeemed beginning on February 15, 2021, plus accrued interest, if any, to the redemption date. Any Series 2012A Bond that is defeased to maturity will remain subject to optional redemption by the Corporation.

Mandatory Redemption

After the date on which a Series of Senior Bonds (such as the Series 2007A Bonds and the Series 2012A Bonds) are first callable and prior to the Conversion Date, all Revenues received by the Corporation in a Fiscal Year remaining after funding the Corporation's expenses and interest on the Bonds for such Fiscal Year and interest on the Bonds for the subsequent Fiscal Year, must be used to purchase or, if a Series of Senior Bonds is then subject to redemption, to redeem, such Senior Bonds. If the Corporation redeems one or more Series of Senior Bonds, such redemption will be *pro rata* among the Series of Senior Bonds so to be redeemed, and *pro rata* within each Series of Senior Bonds to be redeemed. The Series 2007A Bonds are subject to optional redemption on or after February 15, 2017, and the Series 2012A Bonds are subject to optional redemption on or after February 15, 2021. Therefore, no such Revenues can be applied to redeem the Series 2012A Bonds prior to February 15, 2021. The Corporation may, alternatively, direct the application of Revenues to the purchase of any Senior Bonds of any maturity, including the Series 2007A Bonds and the Series 2012A Bonds, whether or not then subject to redemption, and without any limitation of *pro rata* allocation, at a purchase price of not greater than par together with accrued interest. However, if, during a Fiscal Year, the City has made Interest Support Payments for the Corporation's Supported Bonds, then the Corporation must first reimburse the City for such Interest Support Payments prior to purchasing or redeeming any such Series of Senior Bonds.

The Bonds are further subject to mandatory redemption in whole upon the occurrence of a Payment Default. See "APPENDIX A — CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Summary of Certain Provisions of the Indenture — Mandatory Redemptions Upon Payment Default" and "SECTION V: SECURITY AND SOURCES OF PAYMENT OF BONDS — Payment Default" herein. See also "SECTION II: RISK FACTORS — No Acceleration of Bonds or of Revenues Upon a Payment Default" herein.

Sinking Fund Installments

The Indenture provides that the Corporation, not later than June 30th of the Fiscal Year during which the Conversion Date occurs, is to establish and file with the Trustee a schedule of principal amortization through Sinking Fund Installments for all, but not less than all, of the Series 2012A Bonds and all other then Outstanding Bonds issued prior to the Conversion Date. The Sinking Fund Installments to be established must:

(a) with respect to the Senior Bonds of a Series, provide for the *pro rata* redemption of the Senior Bonds of such Series and be payable during the Fiscal Year next succeeding the Conversion Date and each Fiscal Year thereafter, but not later than the Fiscal Year next preceding the date such Senior Bond matures;

(b) be payable on February 15 of each Fiscal Year, or, if such date is not an interest payment date for a Variable Interest Rate Bond, on the interest payment date next succeeding such February 15th;

(c) be established so that each Sinking Fund Installment of a Senior Bond is in integral multiples of $5,000;

(d) be established so that the principal amount of Bonds to be redeemed each Fiscal Year through such Sinking Fund Installments will be in amounts that produce aggregate Debt Service payable during each Fiscal Year on all Outstanding Bonds, to and including the Fiscal Year during which such Bonds mature, that is substantially equal or that declines annually; and

(e) not provide for any Sinking Fund Installment on a Subordinate Bond to be scheduled to be paid prior to the last date on which any Sinking Fund Installment of a Senior Bond is scheduled to be paid.

Once established, it is provided in the Indenture that Sinking Fund Installments are required to be made only if money is available therefor in accordance with the Indenture. To the extent that money is insufficient to pay in whole or in part a Sinking Fund Installment on Outstanding Bonds of a stated Series and maturity, the unpaid principal amount of such Sinking Fund Installment is to be added to the next succeeding Sinking Fund Installment for the Bonds of such Series and maturity, and interest will continue to accrue on such unpaid principal.

The Corporation has covenanted with the holders of the Series 2012A Bonds that, to the extent practicable, redemptions through Sinking Fund Installments, in addition to being *pro rata* within each Series of Senior Bonds, will also be *pro rata* among the Series of Senior Bonds to be redeemed.

The schedule of Sinking Fund Installments filed with the Trustee must be accompanied by (i) a certificate of an Authorized Officer of the Corporation to the effect that such Sinking Fund Installments comply with the requirements of clauses (a), (b), (c) and (d) above and (ii) supporting schedules establishing such compliance.

The Trustee is to give notice in the name of the Corporation of the Sinking Fund Installments so established by the Corporation, which notice is to specify the Bonds of the Series and maturities for which Sinking Fund Installments have been established and the Sinking Fund Installments established for the Bonds of each Series and maturity. The notice will be given by mailing a copy of such notice not less than 30 days nor more than 60 days after such schedule of Sinking Fund Installments was filed with the Trustee, by first class mail, postage prepaid, to the registered owners of the Bonds affected thereby at their last known addresses, if any, appearing on the registration books not more than ten Business Days prior to the date such notice is given. Upon giving such notice, the Trustee will certify to the Corporation that it has mailed such notice or caused such notice to be mailed in the manner required. Such certificate will be conclusive evidence that such notice was given in the manner required by the Indenture. The failure of any Holder of a Bond to receive such notice will not affect the validity of the schedule of Sinking Fund Installments established by the Corporation.

At the option of the Corporation, the principal amount of any Series 2012A Bonds entitled to a Sinking Fund Installment that have been defeased, purchased or redeemed may be credited against the Sinking Fund Installments due in any one or more years on such Series 2012A Bonds in any order the Corporation may determine in its discretion.

Redemption of Senior Bonds Prior to a Payment Default

It is provided in the Indenture that, prior to the occurrence of a Payment Default, money in the Redemption Account during a Fiscal Year is to be applied during such Fiscal Year in the following order of priority:

First: paid to the City to reimburse the City for Interest Support Payments theretofore made during the then current Fiscal Year;

Second: an amount of money up to the amount of interest on Outstanding Senior Bonds payable during the next succeeding Fiscal Year, for transfer to the Senior Bond Account of the Debt Service Fund, and, an amount of money, up to the amount of interest on Outstanding Subordinate Bonds payable during the next succeeding Fiscal Year, for transfer to the Subordinate Bond Account of the Debt Service Fund;

Third: during any Fiscal Year in which no Senior Bonds are subject to redemption at the option of the Corporation, money in the Redemption Account may be applied, at the direction of the Corporation given or confirmed in writing, to the purchase of Outstanding Senior Bonds at a purchase price not to exceed the Redemption Price of such Senior Bonds on the first date on which such Senior Bonds are redeemable at the option of the Corporation;

Fourth: if any Outstanding Senior Bonds are subject to redemption at the option of the Corporation during the then current Fiscal Year, the remaining money in the Redemption Account must be applied at the direction of the Corporation to purchase such Senior Bonds at a purchase price not to exceed the Redemption Price of such Senior Bonds on the next date during such Fiscal Year on which such Senior Bonds are redeemable at the option of the Corporation or to redeem such Senior Bonds. The Senior Bonds to be so redeemed are the Senior Bonds of each maturity within a Series that are subject to redemption during such Fiscal Year which, as nearly as practicable taking into consideration the minimum denominations of such Bonds, will be redeemed (x) *pro rata* among each such Series based upon the relationship that the principal amount of Senior Bonds of each such Series that are redeemable during such Fiscal Year bears to the aggregate principal amount of Senior Bonds that are redeemable during such Fiscal Year, and (y) *pro rata* within each

Series based upon the relationship that the principal amount of Senior Bonds of each maturity within a Series that is so redeemable bears to the aggregate principal of Senior Bonds that are redeemable during such Fiscal Year. The particular Bonds of each Series and maturity to be so redeemed will be selected, by lot, in accordance with the Indenture, unless a Supplemental Indenture provides otherwise with respect to Senior Bonds authorized thereby; and Fifth: (x) money remaining in the Redemption Account on June 30th of any Fiscal Year prior to the Fiscal Year during which the Conversion Date occurs are, at the written direction of the Corporation, to be paid or transferred to either or both (A) the Corporation Expense Fund to fund the lesser of (i) the Corporation Expenses for the next succeeding Fiscal Year, exclusive of Termination Payments payable during such Fiscal Year, and (ii) the Operating Cap for such Fiscal Year, and (B) the Revenue Fund, in the respective amounts set forth in such direction; and (y) money remaining in the Redemption Account on June 30th of the Fiscal Year during which the Conversion Date occurs are to be withdrawn and transferred to the Revenue Fund for application in accordance with the Indenture. See Appendix A attached to this Official Statement.

Selection of Series 2012A Bonds to be Redeemed

In the event less than all of the Series 2012A Bonds of like maturity, interest rate and yield are to be redeemed prior to maturity either at the option of the Corporation or through mandatory Sinking Fund Installments, the Trustee is to select by lot the particular Series 2012A Bonds of such maturity, interest rate and yield to be redeemed, using such method of selection as it deems proper in its discretion.

Notice of Redemption

The Trustee, not less than 30 days or more than 60 days prior to the redemption date, will give notice by first-class mail, postage prepaid, to the registered owners of Series 2012A Bonds to be redeemed, at their last addresses as the same appear on the bond registration books of the Trustee. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2012A Bonds, notice of redemption is to be sent to DTC. No assurance can be given by the Corporation that DTC and DTC participants will promptly transmit notices of redemption to Beneficial Owners.

Book-Entry Only System

DTC, as an automated clearinghouse for securities transactions, will act as securities depository for the Series 2012A Bonds. Purchasers of beneficial ownership interests in the Series 2012A Bonds will not receive certificates representing their interests in the Series 2012A Bonds purchased. The Series 2012A Bonds 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 fully-registered bond certificate will be issued for each maturity of the Series 2012A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any such maturity exceeds $500 million, one bond certificate will be issued with respect to each $500 million of principal amount of such maturity and an additional bond certificate will be issued with respect to any remaining principal amount of such maturity.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC National Securities Clearing Corporation and Fixed Income Securities Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2012A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012A Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bond certificates representing their ownership interests in the Series 2012A Bonds, except in the event that use of the book-entry system for the Series 2012A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012A Bonds deposited by Direct Participants with DTC are registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2012A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012A Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices will be sent to Cede & Co. If less than all of the Series 2012A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2012A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Corporation 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 Series 2012A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of redemption proceeds and principal and interest on the Series 2012A Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, disbursement of such payments to the Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

The Corporation and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2012A Bonds registered in its name for the purpose of payment of the principal of or interest on the Series 2012A Bonds, giving any notice permitted or required to be given to registered owners under the Indenture registering the transfer of the Series 2012A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Corporation and the Trustee do not have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Series 2012A Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Corporation (kept by the Trustee) as being a registered owner, with respect to: the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal of or interest on the Series 2012A Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Corporation; or other action taken by DTC as a registered owner. Interest and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Participants or the Indirect Participants.

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

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF ALL OF THE SERIES 2012A BONDS, REFERENCES HEREIN TO THE OWNERS, HOLDERS OR BONDHOLDERS OF THE SERIES 2012A BONDS (OTHER THAN UNDER "SECTION XII: TAX MATTERS" HEREIN) MEANS CEDE & CO. AND MEANS THE BENEFICIAL OWNERS.

For every transfer and exchange of beneficial ownership of the Series 2012A Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its service with respect to the Series 2012A Bonds at any time by giving reasonable notice to the Corporation or the Trustee and discharging its responsibilities with respect thereto under applicable law, or the Corporation may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event the Corporation may retain another securities depository for the Series 2012A Bonds as appropriate or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Corporation directs the Trustee to deliver such bond certificates, such Series 2012A Bonds may thereafter be exchanged for denominations and of the same maturity as set forth in the Indenture, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Corporation. The record date for payment of interest on the Series 2012A Bonds is the last day (whether or not a Business Day) of the calendar month next preceding an interest payment date.

The information under this subheading "*Book-Entry Only System*" concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation believes to be reliable, but the Corporation takes no responsibility for the accuracy thereof.

Unless otherwise noted, certain of the information contained under this subheading "*Book-Entry Only System*" has been extracted from information furnished by DTC. The Corporation does not 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 2012A Bonds and the Indenture including the events of default under the Indenture and the remedies of the Bondholders thereunder, which include mandatory redemption of the Series 2012A Bonds under certain circumstances, see "APPENDIX A — CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

SECTION XII: THE CORPORATION

The Corporation is a local development corporation incorporated under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law. The Corporation is a non-stock, membership corporation governed by a board of directors. The members of the Corporation are the same as the directors of the Corporation as listed below. The Board of Directors of the Corporation is comprised of five directors serving *ex-officio*, a majority of whom serve at the pleasure of the Mayor, consisting of the Deputy Mayor for Economic Development (Robert K. Steel), the Deputy Mayor for Operations (Caswell F. Holloway), the Director of Management and Budget (Mark Page), the City Comptroller (John C. Liu) and the Speaker of the City Council (Christine Quinn).

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

Alan L. Anders, President

Mr. Anders was appointed Treasurer on January 25, 2005 and was subsequently appointed President on October 12, 2006. Mr. Anders also serves as Deputy Director for Finance for 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, Vice President and Secretary

Ms. Henning was appointed Secretary on January 25, 2005. 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.

Michele Levine, Comptroller

Ms. Levine was appointed Assistant Comptroller on October 12, 2006, and Comptroller in March 2011. Ms. Levine is a graduate of the State University of New York at Binghamton and the Maxwell School of Citizenship and Public Administration of Syracuse University.

F. Jay Olson, Treasurer

Mr. Olson was appointed Deputy Treasurer on January 25, 2005 and was subsequently appointed Treasurer on October 12, 2006. He is a graduate of Northwestern University, the University of Texas at Austin and the John F. Kennedy School of Government at Harvard University.

Prescott D. Ulrey, Assistant Secretary

Mr. Ulrey was appointed Assistant Secretary on January 25, 2005. Mr. Ulrey 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.

Philip Wasserman, Deputy Treasurer

Mr. Wasserman was appointed Deputy Treasurer in January 2009. He is a graduate of Cornell University, the University of Texas at Austin and Columbia University. He is a professional engineer.

Jeffrey M. Werner, Assistant Secretary

Mr. Werner was appointed Assistant Secretary on January 25, 2005. Mr. Werner is a graduate of Bowdoin College and Columbia University Law School.

Robert Balducci, Deputy Comptroller

Mr. Balducci was appointed Deputy Comptroller in March 2011, after acting as Assistant Comptroller since January 2009. He is a graduate of Baruch College of The City University of New York.

Kemraj Narine, Assistant Comptroller

Mr. Narine was appointed Assistant Comptroller in March 2011. He is a graduate of York College of The City University of New York.

SECTION XIII: TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2012A Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2012A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2012A Bonds. Pursuant to the Indenture and the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate"), the Corporation has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2012A Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Corporation has made certain representations and certifications in the Indenture and the Tax Certificate. Bond Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the Corporation described above, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2012A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State and Local Taxes

Bond Counsel is also of the opinion that interest on the Series 2012A Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. Bond Counsel expresses no opinion as to other State of New York or local tax consequences arising with respect to the Series 2012A Bonds nor as to the taxability of the Series 2012A Bonds or the income therefrom under the laws of any state other than the State of New York.

Original Issue Premium

The Series 2012A Bonds bearing interest at 5¾% (the "Premium Bonds") are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Ancillary Tax Matters

Ownership of the Series 2012A Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit. Ownership of the Series 2012A Bonds may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2012A Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Series 2012A Bonds is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2012A Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in Appendix G attached hereto. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2012A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Federal Tax Law and Post Issuance Events

On September 12, 2011, the President released a legislative proposal that would, among other things, subject interest on tax-exempt bonds (including the Series 2012A Bonds) to a federal income tax for taxpayers with incomes above certain thresholds for tax years beginning after 2012. The proposal has not yet passed either of the two Houses of Congress and it is not possible to predict whether this proposal will be enacted into law. If enacted into law, such a proposal could affect the value or marketability of tax-exempt bonds (including the Series 2012A Bonds).

More generally, from time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for federal income tax purposes of the interest on the Series 2012A Bonds, and thus on the economic value of the Series 2012A Bonds. This could result from reductions in federal income tax rates, changes in the structure of the federal income tax rates, changes in the structure of the federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the Series 2012A Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the Series 2012A Bonds may be proposed or enacted.

Prospective purchasers of the Series 2012A Bonds should consult their own tax advisers regarding the impact of any change in law on the Series 2012A Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2012A Bonds may affect the tax status of interest on the Series 2012A Bonds. Bond Counsel expresses no opinion as to any federal, State or local tax law consequences with respect to the Series 2012A Bonds, or the interest thereon, if any action is taken with respect to the Series 2012A Bonds or the proceeds thereof upon the advice or approval of other counsel.

SECTION XIV: UNDERWRITING

The Series 2012A Bonds are being purchased for reoffering by the Underwriters for whom J.P. Morgan Securities LLC and Goldman, Sachs & Co. are acting as lead managers. The Underwriters will purchase the Series 2012A Bonds from the Corporation at an aggregate underwriters' discount of $5,488,673.96. The Underwriters will be obligated to purchase all the Series 2012A Bonds if any such Series 2012A Bonds are purchased.

The Series 2012A 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.

In addition, certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the Corporation as Underwriters) for the distribution of the Series 2012A Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation with such broker-dealers.

SECTION XV: RATINGS

The Series 2012A Bonds, other than the Insured Bonds, are rated "A2" by Moody's Investors Service ("Moody's"), "A" by Standard & Poor's Ratings Services ("Standard & Poor's") and "A" by Fitch, Inc. The Corporation expects the Insured Bonds to be rated "Aa3" (negative outlook) and "AA+" (CreditWatch negative) by Moody's and Standard & Poor's, respectively, based on the ratings of AGM.

Each such rating above reflects only the view of the rating agency issuing such rating and is not a recommendation by such rating agency to purchase, sell or hold the obligations rated or as to the market price or suitability of such obligations for a particular investor. Generally, a rating agency bases its ratings and outlook (if any) on the information and material furnished to it and on investigations, studies and assumptions of its own. An explanation of the significance of any ratings may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings will be in effect for any given period of time or that they will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings may have an adverse effect on the market price of the Series 2012A Bonds.

SECTION XVI: LITIGATION

There is not now pending any litigation (i) restraining or enjoining the issuance or delivery of the Series 2012A Bonds or questioning or affecting the validity of the Series 2012A Bonds or the proceedings and authority under which they are issued; (ii) contesting the creation, organization or existence of the Corporation, or the title of the directors or officers of the Corporation to their respective offices; or (iii) questioning the right of the Corporation to enter into the Indenture and to pledge the funds and other money and securities purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture. As described below, certain litigation exists relating to the Project.

Since 2006, the City commenced several condemnation proceedings to acquire property interests necessary for the Project. The City has acquired title, by condemnation, to all such property interests, and the only issue still pending in each such condemnation proceeding is the compensation to be paid by the City to the former owners of such property interests. The potential future compensation to be paid by the City for the property interests acquired for the Project by condemnation, and associated litigation costs, has been estimated based on available information, and such estimated amounts are accounted for in the Project budget.

SECTION XVII: LEGAL MATTERS

All legal matters incident to the authorization, issuance and delivery of the Series 2012A Bonds are subject to the approval of Nixon Peabody LLP, New York, New York, Bond Counsel to the Corporation. A form of the opinion of Bond Counsel is attached hereto as Appendix G. Certain legal matters are subject to the approval of the New York City Corporation Counsel, counsel to the Corporation and the City, Orrick Herrington & Sutcliffe LLP, New York, New York, Special Disclosure Counsel to the City, and Hawkins Delafield & Wood LLP, New York, New York, counsel to the Underwriters.

SECTION XVIII: CONTINUING DISCLOSURE

To the extent that (i) Rule 15c2-12 (the “Rule”) of the Securities and Exchange Commission (“SEC”) promulgated under the Securities Exchange Act of 1934, as amended (the “1934 Act”), requires the Underwriters to determine, as a condition to purchasing the Series 2012A Bonds, that the parties to the hereinafter defined Continuing Disclosure Agreements will covenant to the effect of the provisions hereinafter summarized, and (ii) the Rule as so applied is authorized by a Federal law that as so construed is within the powers of Congress, the Corporation, the City and the Trustee will enter into a written agreement to provide continuing disclosure (the “City Continuing Disclosure Agreement”), and the Corporation and the Trustee will enter into a written agreement to provide continuing disclosure (the “HYIC Continuing Disclosure Agreement” referred to herein, collectively, as the “Continuing Disclosure Agreements” and, individually, as a “Continuing Disclosure Agreement”), each for the benefit of the holders of the Series 2012A Bonds.

Under the City Continuing Disclosure Agreement, the City will undertake for the benefit of the holders of the Series 2012A Bonds to provide within 185 days after the end of each fiscal year, to the Electronic Municipal Market Access system (“EMMA”) (www.emma.msrb.org) established by the Municipal Securities Rulemaking Board (the “MSRB”), core financial information and operating data for the prior fiscal year, including (i) the City’s audited general purpose financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time and (ii) material historical quantitative data on the City’s revenues, expenditures, financial operations and indebtedness generally of the type found in Sections IV, V and VIII and under the captions “2006-2010 Summary of Operations” in Section VI and “Pension Systems” in Section IX of Appendix D to this Official Statement.

Under the HYIC Continuing Disclosure Agreement, the Corporation has undertaken for the benefit of the holders of the Series 2012A Bonds to provide:

(a) by November 30, 2011 and by November 30 of each subsequent Fiscal Year, to EMMA, core financial information for the prior Fiscal Year including (i) its audited financial statements prepared in accordance with generally accepted accounting principles stating the amount of each type of Revenue (*e.g.*, Interest Support Payments, Tax Equivalency Payments, PILOT Payments, PILOMRT Payments, DIB Payments and payments for ERY Transferable Development Rights), received by the Corporation for such year, (ii) the aggregate amount of money paid to the MTA for the Subway Extension and any changes in the Itemized Budget for the Subway Extension, (iii) information as to each PILOT Agreement assigned to the Corporation during such year, including identification of the property covered and a schedule or description of amounts payable during the term of such agreement, (iv) information updating that set forth in "SECTION V: STATUS OF DEVELOPMENT WITHIN THE PROJECT AREA" and "SECTION VII: HISTORICAL SUMMARY OF CASH FLOWS", (v) in the Fiscal Year in which the Conversion Date occurs, the schedule of Sinking Fund Installments established for all Outstanding Bonds, and (vi) in any Fiscal Year prior to the Conversion Date during which excess Revenues are used to purchase or redeem Bonds, the amount of such purchases and redemptions, and the affected Series and maturities of such Bonds so purchased or redeemed; and

(b) in a timely manner not in excess of 10 Business Days after its occurrence, to EMMA, notice of any of the following events with respect to the Series 2012A Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2012A Bonds, or other material events affecting the tax status of the Series 2012A Bonds; (7) modifications to rights of the holders of the Series 2012A Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2012A Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Corporation or the City (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Corporation or the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Corporation or the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Corporation or the City); (13) the consummation of a merger, consolidation, or acquisition involving the Corporation or the City or the sale of all or substantially all of the assets of the Corporation or the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee of the change of name of a trustee, if material; and (15) failure of the Corporation to comply with clause (a) above.

The Corporation will not undertake to provide any notice with respect to credit enhancement if the credit enhancement is added after the primary offering of the Series 2012A Bonds, the Corporation does not apply for or participate in obtaining the enhancement and the enhancement is not described in this Official Statement. In the previous five years, the Corporation has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

No Bondholder may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of either Continuing Disclosure Agreement or for any remedy for breach thereof, unless such Bondholder shall have filed with the City or the Corporation, as the case may be, evidence of ownership and a written notice of and request to cure such breach, and the City or the Corporation, as the case may be, shall have refused to comply within a reasonable time. All Proceedings shall be instituted only as specified herein, in the Federal or State courts located in the Borough of Manhattan, State and City of New York, and for the equal benefit of all holders of the outstanding 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 City Continuing Disclosure Agreement may only take effect if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted; the City Continuing Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of award of the Series 2012A 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 Bondholders, as determined by parties unaffiliated with the City (such as, but without limitation, the City's financial advisor or bond counsel) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the 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 issuance of the Series 2012A Bonds, ceases to be in effect for any reason, and the City elects that the City Continuing Disclosure Agreement shall be deemed terminated or amended (as the case may be) accordingly.

An amendment to the HYIC Continuing Disclosure Agreement 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 HYIC, or type of business conducted; the HYIC Continuing Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of award of the Series 2012A 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 Bondholders, as determined by parties unaffiliated with the Corporation (such as, but without limitation, the Corporation'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 issuance of the Series 2012A Bonds, ceases to be in effect for any reason, and the Corporation elects that the HYIC Continuing Disclosure Agreement shall be deemed terminated or amended (as the case may be) accordingly.

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

Failure of any party to perform its obligations under the City Continuing Disclosure Agreement or the HYIC Continuing Disclosure Agreement shall not constitute an "event of default" under the Indenture or any other agreement executed and delivered in connection with the issuance of the Series 2012A Bonds. In addition, if all or a portion of the Rule ceases to be in effect for any reason, then the information required to be provided under the City Continuing Disclosure Agreement or the HYIC Continuing Disclosure Agreement, insofar as the provision of the Rule no longer in effect required the provision of such information, will no longer be required to be provided.

SECTION XIX: FINANCIAL STATEMENTS

The audited financial statements for the fiscal years of the Corporation ended June 30, 2011 and 2010 are attached hereto as Appendix F. Marks Paneth & Shron LLP, the Corporation's independent auditor, has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Marks Paneth & Shron LLP relating to the Corporation's financial statements for the fiscal years ended June 30, 2011 and 2010, which is a matter of public record, is included in this Official Statement. However, Marks Paneth & Shron LLP has not performed any procedures on any financial statements or other financial information of the Corporation, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

SECTION XX: MISCELLANEOUS

The references herein to the Indenture, the Support and Development Agreement, the Continuing Disclosure Agreements, the IDA Assignment Agreement, the DIB Assignment Agreement, the Subway Extension MOU and the City-MTA Railyards Agreement are summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Indenture, the Support and Development Agreement, the Continuing Disclosure Agreements, the IDA Assignment Agreement, the DIB Assignment Agreement, the Subway Extension MOU and the City-MTA Railyards Agreement for full and complete statements of such provisions. Copies of the Indenture, the Support and Development Agreement, the Continuing Disclosure Agreements, the IDA Assignment Agreement, the DIB Assignment Agreement, the Subway Extension MOU and the City-MTA Railyards Agreement are available at the offices of the Trustee.

Neither this Official Statement nor any statement which may have been made orally or in writing shall be construed as a contract or as a part of a contract with the original purchasers or any holders of the Series 2012A Bonds.

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

HUDSON YARDS INFRASTRUCTURE CORPORATION

Dated: October 20, 2011

APPENDIX A

CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

Definitions of Certain Terms

"**Accreted Value**" means with respect to any Capital Appreciation Bond (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Indenture authorizing such Capital Appreciation Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the immediately preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve (12) thirty-day months, and (2) the difference between the Accreted Values for such Valuation Dates.

"**Agreement**" means each of and singularly the IDA Assignment Agreement, the DIB Assignment Agreement, each PILOT Agreement, each PILOT Mortgage, the Support Agreement, the MTA Agreement and the TFA Funding Agreement.

"**Amortized Value**" has the meaning given to it in the Indenture.

"**Appreciated Value**" means with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Indenture authorizing such Deferred Income Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the immediately preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve (12) thirty-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of calculation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date.

"**Authorized Officer**" means (i) in the case of the Corporation, the Chairman, the Vice-Chairman, the President, a Vice-President, the Treasurer, an Assistant Treasurer, the Comptroller, a Deputy Comptroller, the Secretary, and an Assistant Secretary, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Corporation to perform such act or execute such document; (ii) in the case of the City, when used with reference to any act or document, means the person identified in the Indenture or in the Agreement as authorized to perform such act or execute such document, and in all other cases means the Mayor of the City, the Deputy Mayor for Operations, the Deputy Mayor for Economic Development, the Director of Management and Budget or an officer or employee of the City authorized in a written instrument signed by the Mayor or by the Charter of the City or its Administrative Code to act on behalf of the Mayor; and (iii) in the case of the Trustee, a Vice President, an Assistant Vice President, an Assistant Secretary, an Assistant Treasurer or any other corporate trust officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee.

"**Available TFA Commitment**" means, as of any particular date of calculation, the principal amount of promissory notes of the Corporation available to be purchased by TFA pursuant to the TFA Funding Agreement.

"**Bond**" means any bond of the Corporation authorized and issued pursuant to the Indenture and to a Supplemental Indenture, and, except as expressly limited by the Indenture or otherwise expressly provided in the Indenture, any Hedge Agreement Payments and Parity Reimbursement Obligations of the Corporation; ***provided, however***, that a Parity Reimbursement Obligation shall not be considered a Bond for purposes of Article II ("Authorization and Issuance of the Bonds"), Article III ("General Terms and Provisions of Bonds"), Article IV ("Redemption of Bonds"), Article XI ("Defaults and Remedies") or Article XII ("Defeasance") of the Indenture and the provisions of Article IX ("Supplemental Indentures") and Article X ("Amendments of Indenture") of the Indenture shall not apply to amendments of a Parity Reimbursement Obligation or of the agreement with the Provider thereof.

"**Bond Counsel**" means Nixon Peabody LLP or an attorney or another law firm appointed by the Corporation having a national reputation in the law of public finance and whose opinions are generally accepted by purchasers of municipal bonds.

"**Bondholder**," "**Holder of Bonds**" or "**Holder**" or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Bond.

"**Bond Insurance Premium Reserve**" means the reserve established within the Corporation Expense Fund for the payment of premiums payable during a future Fiscal Year for one or more financial guaranty insurance policies with respect to Bonds, in an amount that, from and after the third Fiscal Year preceding the date on which any such premium is payable, is equal to the aggregate premiums payable during the next succeeding three Fiscal Years during which such premiums are payable.

"**Book Entry Bond**" means a Bond authorized to be issued to, and issued to and registered in the name of, a Depository for the participants in such Depository.

"**Business Day**" means any day which is not a Saturday, Sunday, a day on which the Trustee or banking institutions chartered by the State or the United States of America are legally authorized to close in The City of New York, or a day that is a legal holiday for the City; ***provided***, ***however***, that, with respect to Option Bonds or Variable Interest Rate Bonds of a Series, such term means any day which is not a Saturday, Sunday, a day on which the Trustee, the New York Stock Exchange, banking institutions chartered by the State or the United States of America or the issuer of a Credit Facility or Liquidity Facility for such Bonds are legally authorized to close in The City of New York, or a day that is a legal holiday for the City.

"**Capital Appreciation Bond**" means any Bond as to which interest is compounded on each Valuation Date therefor and is payable only at the maturity or prior redemption thereof.

"**Capitalized Interest Account**" means the account within the Construction Fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**City**" means The City of New York, a municipal corporation of the State, constituting a political subdivision thereof.

"**Code**" means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"**Construction Fund**" means the fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Conversion**" means as of any particular date of calculation that the Net Recurring Revenues for each of the two immediately preceding Fiscal Years, as shown on the audited financial statements for such Fiscal Years prepared in accordance with generally accepted accounting principles applicable to the Corporation, were (i) not less than one hundred twenty-five percent (125%) of Maximum Annual Debt Service on then Outstanding Senior Bonds and (ii) not less than one hundred five percent (105%) of Maximum Annual Debt Service on then Outstanding Bonds. For purposes of determining Conversion, Maximum Annual Debt Service shall be calculated assuming that the Conversion Date is the date on which the calculation is made.

"**Conversion Date**" means the date on which the Corporation delivers to the Trustee a certificate (i) to the effect that the Corporation has determined that the Net Recurring Revenues for each of the two immediately preceding Fiscal Years, as shown on the audited financial statements for such Fiscal Years prepared in accordance with generally accepted accounting principles applicable to the Corporation, were (A) not less than one hundred twenty-five percent (125%) of Maximum Annual Debt Service on then Outstanding Senior Bonds and (B) not less than one hundred five percent (105%) of Maximum Annual Debt Service on then Outstanding Bonds, in each case calculating Maximum Annual Debt Service assuming that the Conversion Date is the date on which the calculation is made and (ii) setting forth the calculation on which such determination was made.

"**Corporation**" means Hudson Yards Infrastructure Corporation, a local development corporation organized and existing under the Not-For-Profit Corporation Law of the State of New York, and its successors and assigns.

"**Corporation Expense Fund**" means the fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Corporation Expenses**" means for any Fiscal Year the amount set forth in the Corporation's budget prepared for such Fiscal Year in accordance with the provisions of the Indenture described below under the heading "Budget of Corporation Expenses" for all other costs, fees and expenses of the Corporation of any kind arising out of or incurred in connection with maintaining its corporate existence and in furtherance of its corporate purposes, powers or duties, including, without limitation:

(i) salaries;

(ii) insurance premiums, including but not limited to insurance premiums on financial guaranty insurance policies issued in connection with Bonds that are due during such Fiscal Year and that were due, but not paid, during a prior Fiscal Year, and interest, if any, payable on any unpaid premiums;

(iii) fees, charges expenses, regularly scheduled payments, indemnities and other similar charges payable to or for (a) Providers, (b) auditing, legal, financial and investment advisory and other professional and consulting services, (c) fiduciaries, paying agents, transfer agents and other agents, and (d) printing, advertisements and publication or other distribution of notices;

(iv) any and all other fees, charges and expenses required or permitted to be incurred by the Corporation or required to be paid by the Corporation;

(v) Tax Obligations;

(vi) Termination Payments; and

(vii) the amount required to establish and maintain the Bond Insurance Premium Reserve at its requirement, but, in no event shall such amount in any Fiscal Year exceed the premium payable on financial guaranty insurance policies during the next succeeding Fiscal Year during which such premiums are payable; ***provided***, ***however***, that Corporation Expenses do not include the principal of or interest on any indebtedness of the Corporation.

"**Costs of Issuance**" means the items of expense incurred in connection with the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee or a Depository, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of Bonds, premiums, fees and charges for insurance on Bonds, commitment fees or similar charges of a Remarketing Agent or relating to a Credit Facility, a Liquidity Facility or a Hedge Agreement, and other costs, charges and fees in connection with the foregoing.

"**Costs of Issuance Account**" means the account within the Construction Fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Counterparty**" means any person with which the Corporation has entered into a Hedge Agreement, and such person's successors and assigns.

"**Credit Facility**" means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement or other agreement, facility or insurance or guaranty arrangement pursuant to which the Corporation or the Trustee is entitled to obtain money to pay the principal, purchase price or Redemption Price of Bonds due in accordance with their terms or tendered for purchase or redemption, plus accrued interest thereon to the date of payment, purchase or redemption thereof whether or not the Corporation is in default under the Indenture, which is issued or extended by:

(i) a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law;

(ii) a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law;

(iii) a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America;

(iv) a savings bank;

(v) a saving and loan association;

(vi) an insurance company or association chartered or organized under the laws of any state of the United States of America;

(vii) the Government National Mortgage Association or any successor thereto or the Federal National Mortgage Association or any successor thereto;

(viii) an entity affiliated with or which is a subsidiary of any entity described above or affiliated with or a subsidiary of any registered securities dealer; or

(ix) any other entity approved by the Corporation.

"**Debt Service**" means, when used in connection with any particular Outstanding Bonds and for any period, the principal and Sinking Fund Installments of and interest on such Bonds payable during such period, exclusive of the principal and Sinking Fund Installments of or interest on Funded Bonds; ***provided***, ***however***, that if the interest at which a Variable Interest Rate Bond will bear interest at any time during such period is not known, the Trustee shall calculate such interest based upon a rate per annum certified to it by the Corporation as the rate the Corporation has assumed such Variable Interest Rate Bond will bear.

"**Debt Service Fund**" means the fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Defeasance Security**" means:

(i) a Government Obligation, including the interest component of REFCORP bonds for which the separation of principal and interest is made by request of the Federal Reserve Bank of New York in book-entry form, that is not subject to redemption prior to maturity other than at the option of the holder thereof or that has been irrevocably called for redemption on a stated future date; or

(ii) an Exempt Obligation (a) that is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (b) the timely payment of the principal or redemption price thereof and interest thereon is fully secured by a fund consisting only of cash or obligations described in clause (i) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (a) above, and (c) that at the time an investment therein is made is rated in the highest rating category by at least two Rating Services;

provided, ***however***, that such term shall not mean any interest in a unit investment trust or mutual fund or in "CATS," "TIGRS" or "TRS".

"**Deferred Income Bond**" means any Bond as to which interest accruing thereon prior to the Interest Commencement Date therefor is compounded on each Valuation Date for such Deferred Income Bond, payable at maturity or earlier redemption, and interest accruing from and after the Interest Commencement Date is payable on the Interest Payment Dates therefor.

"**Depository**" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Supplemental Indenture authorizing a Series of Bonds to serve as securities depository for Bonds of such Series.

"**Determination of Taxability**" means, when used with respect to a Tax Exempt Bond, a final determination by any court of competent jurisdiction or a final determination by the Internal Revenue Service to which the Corporation shall consent or from which no timely appeal shall have been taken, in each case to the effect that interest on such Bond is includable in the gross income of the Holder thereof for purposes of federal income taxation.

"**DIB Assignment Agreement**" means the DIB Assignment and Agreement, dated as of December 1, 2006, by and between the City and the Corporation, as from time to time amended or supplemented in accordance therewith and with the Indenture.

"**DIB Payments**" means payments of contributions to the Hudson Yards District Improvement Fund established pursuant to Section 93-31 of the City's zoning resolution, pursuant to which the Chairperson of the City Planning Commission has been authorized to make certain benefits available to the developers of certain buildings and improvements within the District, as a bonus.

"**Eligible Investments**" means:

(i) Defeasance Securities;

(ii) Government Obligations;

(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, payable on demand or on a specified date no more than three months after the date acquired as an investment under the Indenture, if such deposits or instruments are at the time an investment therein is made rated "A-1+" by S&P and "P-1" by Moody's;

(iv) Exempt Obligations that at the time an investment therein is made are rated at least in one of the two highest long term rating categories by at least two Rating Services, without regard to qualification of such rating by symbols such as "+" or "-" and numerical notation;

(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 two hundred seventy (270) days after the date acquired as an investment under the Indenture that is at the time an investment therein is made rated in the highest rating category by at least two Rating Services;

(vi) repurchase obligations with respect to any security described in clause (i) or (ii) above entered into with (a) a primary dealer, depository institution or trust company (acting as principal) that at the time an investment therein is made is rated "A-1" by S&P and "P-1" by Moody's (if payable on demand or on a specified date no more than three months after the date acquired as an investment under the Indenture) or at least "Aa1" by Moody's and in one of the two highest long term rating categories by S&P, or (b) any financial institution or corporation, any insurance company, a registered broker/dealer or domestic commercial bank, in each case whose long term debt obligations are rated "investment grade" by at least two Rating Services; ***provided, however,*** that (1) a specific written agreement governs the transactions, (2) the securities that are the subject of the repurchase agreement are held free and clear of any lien, by the Trustee or an independent third party acting solely as the agent of the Trustee that is (A) a Federal Reserve Bank or (B) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than twenty-five million dollars ($25,000,000), and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, and (3) the agreement provides that the securities that are the subject of the repurchase agreement are required to be repurchased either on demand or within one year after their date of purchase;

(vii) securities bearing interest or sold at a discount (payable on demand or on a specified date no more than ninety (90) days after the date acquired as an investment under the Indenture) that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and are rated "P-1" by Moody's and "A-1+" by S&P 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 and held as investments under the Indenture to exceed twenty percent (20%) of the aggregate principal amount of all Eligible Investments then held under the Indenture;

(viii) units of taxable money market funds which are regulated investment companies and seek to maintain a constant net asset value per share and which at the time an investment therein is made are rated at least "Aa1" by Moody's and at least "AAm" or "AAm-G" by S&P, including if so rated any such 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 Corporation 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 with any financial institution or corporation, any insurance company, a registered broker/dealer or a domestic commercial bank 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, at least in one of the two highest long term rating categories by at least two Rating Services, without regard to qualification of such rating by symbols such as "+" or "-" and numerical notation; ***provided***, ***however***, that in the event that such rating is suspended, withdrawn or reduced below the rating assigned to Outstanding Bonds without regard to any Credit Facility either (a) the Corporation has an option to terminate such agreement or contract or (b) such agreement or contract is required to be collateralized by securities described in clause (i) or (ii) above or by obligations of the Government National Mortgage Association or any successor thereto; ***provided***, ***further***, that (1) a specific written agreement governs the transactions, (2) the collateral securities, if any, are held free and clear of any lien, by the Trustee or by a trustee of an independent third party acting solely as the agent of the Trustee that is (A) a Federal Reserve Bank or (B) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than twenty-five million dollars ($25,000,000), and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the agreement has a term of thirty days or less, or either the Trustee, if the Trustee holds the collateral, or a custodian of the collateral or a valuation agent selected by the Corporation, will value the collateral securities no less frequently than monthly, and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation, and (4) the fair market value of the collateral securities in relation to the amount of the obligation, including principal and interest, is equal to at least one hundred two percent (102%); and

(x) other obligations or securities that either (i) under the applicable standards and guidelines of each Rating Service are investments in which money in a particular fund or account under the Indenture may be invested by the Corporation, or (ii) as to the investment therein for any fund or account the Corporation has received Rating Confirmation.

"**Exempt Obligation**" means an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code.

"**Fiscal Year**" means a period of twelve (12) consecutive months beginning July 1st of a calendar year and ending on June 30th of the next succeeding calendar year or any other twelve month period as the Corporation may select as its fiscal year.

"**Fitch**" means Fitch, Inc. and its successors and assigns; ***provided***, ***however***, that references in the Indenture to Fitch shall be effective so long as Fitch is a Rating Service.

"**Funded Bond**" means as of any particular date of determination a Bond for which provision for payment has not been made in accordance with the provisions of the Indenture described below under the heading "Defeasance" and remains Outstanding, but for which:

(i) the Trustee or another banking institution then holds, in trust, either money in an amount which shall be sufficient, or Eligible Investments the principal of and interest on which when due will provide money which, together with the money, if any, so held, shall be sufficient in the judgment of a firm of certified public accountants to pay when due the principal, Sinking Fund Installments, if any, or

Redemption Price, if applicable, of and interest due and to become due on said Bond on or prior to the redemption date or maturity date thereof, as the case may be; and

(ii) in case all or any portion of said Bond is to be redeemed on any date prior to its maturity, the Corporation shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Indenture notice of redemption on said date of such Bond or portion thereof;

provided, ***however***, that such Bond shall no longer be a Funded Bond if at any time the money and Eligible Investments are no longer sufficient to meet the aforesaid requirements.

"**Government Obligation**" means:

(i) a direct obligation of, or an obligation the timely payment of the principal of and interest on which is guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Federal Farm Credit System; and

(ii) an obligation of the United States of America which has been stripped by the United States Department of the Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Corporation obtains Rating Confirmation with respect thereto).

"**Hedge Agreement**" means any financial arrangement entered into by the Corporation with another person that (i) is executed in connection with Senior Bonds and is an Interest Rate Exchange Agreement, an interest rate cap or collar or other exchange or rate protection transaction, or (ii) is an agreement for the forward purchase of securities for the investment of money of the Corporation in any fund or account established by the Indenture.

"**Hedge Agreement Payment**" means any periodic or regularly scheduled payment required to be made by the Corporation pursuant to a Hedge Agreement, but does not include a Termination Payment.

"**HYDC**" means Hudson Yards Development Corporation, a local development corporation created and existing pursuant to the Not-For-Profit Corporation Law of the State of New York, and its successors and assigns.

"**HYDC Expense Account**" means the account within the Construction Fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**IDA Assignment Agreement**" means the PILOT Assignment and Agreement, dated as of December 1, 2006, by and among the City, NYC IDA and the Corporation, as from time to time amended or supplemented in accordance therewith and with the Indenture.

"**Indenture**" means the Trust Indenture dated as of December 1, 2006, as amended by a First Supplemental Trust Indenture, dated as of December 1, 2006 and a Second Supplemental Trust Indenture, dated as of February 1, 2008, and as further amended and restated as of September 1, 2011, between the Corporation and the Trustee, as from time to time further amended or supplemented by Supplemental Indentures in accordance with the terms and provisions of the Indenture.

"**Insurance Policy**" means the insurance policy issued by the Insurer guaranteeing the scheduled payment of the principal of and interest on the Insured Bonds.

"**Insured Bonds**" means the Series 2012A Bonds bearing interest at the rate of 5% per annum.

"**Insurer**" means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

"**Insurer Default**" means with respect to the Insurer, any of the following:

(i) there shall occur a failure of the Insurer to make payment under the Insurance Policy issued by it in connection with the Insured Bonds; or

(ii) the Insurance Policy shall have been declared null and void or unenforceable in a final determination by a court of law.

"**Interest Commencement Date**" means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof after which interest accruing thereon shall be payable on each Interest Payment Date succeeding such Interest Commencement Date.

"**Interest Deficiency Notice**" shall have the meaning given to such term in the Support Agreement.

"**Interest Payment Date**" means, when used in connection with any particular Senior Bond or Subordinate Bond, each date on which interest thereon is payable in accordance with the terms thereof.

"**Interest Rate Exchange Agreement**" means an agreement entered into by the Corporation in connection with the issuance of or which relates to any Bonds which provides that during the term of such agreement the Corporation is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on a notional amount equal to the principal amount of such Bonds and that the Counterparty is to pay to the Corporation an amount based on the interest accruing on such notional amount at a fixed or variable rate, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement.

"**Interest Support Payments**" means the payments required to be made by the City pursuant to Section 4.02 of the Support Agreement.

"**Liquidity Facility**" means a letter of credit, surety bond, loan agreement, Standby Purchase Agreement, line of credit or other agreement or arrangement pursuant to which money may be obtained upon the terms and conditions contained therein for the purchase or redemption of Option Bonds tendered for purchase or redemption in accordance with the terms of the Indenture and of the Supplemental Indenture authorizing such Bonds, which is issued or provided by:

(i) a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law;

(ii) a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law;

(iii) a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America;

(iv) a savings bank;

(v) a saving and loan association;

(vi) an insurance company or association chartered or organized under the laws of any state of the United States of America,

(vii) the Government National Mortgage Association or any successor thereto or the Federal National Mortgage Association or any successor thereto;

(viii) an entity affiliated with or which is a subsidiary of any entity described above or affiliated with or a subsidiary of any registered securities dealer; or

(ix) any other entity approved by the Corporation.

"**Maximum Annual Debt Service**" means, as of any particular date of calculation and with respect to any Outstanding Senior Bonds or Subordinate Bonds of a Priority, an amount equal to the greatest amount required in the then current or any future Fiscal Year to pay the Debt Service on such Senior Bonds or Subordinate Bonds payable during such Fiscal Year; ***provided***, ***however***, that for purposes of this definition:

(i) in determining whether there is a Conversion and in making the calculation required by the Indenture in connection with the issuance of Refunding Bonds prior to Conversion having occurred, the principal amount of Bonds issued prior to the Conversion Date will be considered to amortize as required by the provisions of the Indenture described below under the heading "Amortization after Conversion Date" assuming that the Conversion Date is the date on which such determination or calculation is made;

(ii) the Accreted Value of a Capital Appreciation Bond and the Appreciated Value of a Deferred Income Bond becoming due at maturity or through a mandatory Sinking Fund Installment shall be included in the calculations of interest and principal payable during the Fiscal Year in which such Capital Appreciation Bond or Deferred Income Bond matures or in which such Sinking Fund Installment is due;

(iii) the principal of an Option Bond Outstanding during any Fiscal Year shall be included only in the years and in the respective principal amounts due on the dates on which Sinking Fund Installments are due and on the stated maturity date thereof;

(iv) it shall be assumed that a Variable Interest Rate Bond, prior to its conversion to bear interest at a fixed rate to its maturity, bears interest during any Fiscal Year at the lesser of:

(1) a fixed rate of interest equal to that rate, as determined by an Authorized Officer of the Corporation, on a Business Day not more than twenty (20) days prior to the date of initial issuance of such Variable Interest Rate Bond, that such Variable Interest Rate Bond would have had to bear to be marketed at par on such date as a fixed rate obligation maturing on the maturity date of such Variable Interest Rate Bond; and

(2) if the Corporation has in connection with such Variable Interest Rate Bond entered into (A) an Interest Rate Exchange Agreement which provides that the Corporation is to pay to another person an amount determined based upon a fixed rate of interest on the Outstanding principal amount of the Variable Interest Rate Bonds to which such agreement relates and the Counterparty pays with respect to a like principal amount a variable rate expected to be reasonably equivalent to the variable rate of interest on such Bonds, or (B) a Hedge Agreement in the nature of an interest rate cap or collar, then either the interest fixed rate set forth in or determined in accordance with such Interest Rate Exchange Agreement or the maximum rate set forth in such Hedge Agreement, as applicable; and

(v) the principal and Sinking Fund Installments of and interest on Funded Bonds shall be excluded from such calculation.

"**Maximum Interest Rate**" means, with respect to any particular Variable Interest Rate Bond, the numerical rate of interest, if any, established as the maximum rate at which such Variable Interest Rate Bond may bear interest at any time.

"**Minimum Interest Rate**" means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, if any, established as the minimum rate at which such Variable Interest Rate Bond may bear interest at any time.

"**Moody's**" means Moody's Investors Service and its successors and assigns; ***provided***, ***however***, that references in the Indenture to Moody's shall be effective so long as Moody's is a Rating Service.

"**MTA**" means any of the Metropolitan Transportation Authority, the Triborough Bridge and Tunnel Authority and The Long Island Rail Road Company, and any of their successors or assigns.

"**MTA Agreement**" means the Rail Yards Agreement, dated as of September 28, 2006, among Metropolitan Transportation Authority, Triborough Bridge and Tunnel Authority, The Long Island Rail Road Company and the City.

"**Net Recurring Revenues**" means, as of any particular date of calculation and (i) when used in connection with any prior Fiscal Year, the amount of PILOT Payments and Tax Equivalency Payments paid during such prior Fiscal Year, ***less*** the lesser of the Operating Cap and the actual Corporation Expenses for such Fiscal Year, and (ii) when used in connection with any then current or future Fiscal Year, the Projected Recurring Revenues for such Fiscal Year less the Operating Cap for such Fiscal Year, assuming there are not Tax Obligations payable during such Fiscal Year.

"**New Development**" means the construction of a building or other improvement within the Project Area for residential, commercial or other use or uses, or the "Substantial Rehabilitation," as such term is defined in the Support Agreement, of an existing building or improvement within the Project Area, in each case evidenced by the issuance of a temporary or permanent certificate of occupancy on or after January 19, 2005.

"**NYC IDA**" means New York City Industrial Development Agency, a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York, and its successors and assigns.

"**Operating Cap**" means the sum of (i) during the Fiscal Year ending June 30, 2007, one million dollars ($1,000,000) and, (ii) during each Fiscal Year thereafter, an amount equal to one hundred three percent (103%) of the Operating Cap for the prior Fiscal Year, plus Tax Obligations the Corporation estimates to be payable during such Fiscal Year or to be reserved for estimated payments to be payable in subsequent Fiscal Years.

"**Opinion of Bond Counsel**" means, when used in reference to any act, an opinion to the effect that such act is authorized or permitted by the Indenture and will not adversely affect the exclusion of interest on any Tax Exempt Bond from the gross income of the Holder thereof for purposes of federal income taxation.

"**Option Bond**" means any Senior Bond or Subordinate Bond which by its terms may be tendered by and at the option of the owner thereof for purchase or redemption by the Corporation prior to the stated maturity thereof, or the maturity of which may be extended by and at the option of the owner thereof.

"**Outstanding**", when used in reference to Bonds, means, as of a particular date, all Bonds authenticated and delivered under the Indenture and under any applicable Supplemental Indenture and all Parity Reimbursement Obligations except:

(i) any Bond cancelled by the Trustee at or before such date;

(ii) any Bond deemed to have been paid in accordance with the provisions of the Indenture described below under the heading "Defeasance";

(iii) any Bond paid pursuant to the Indenture or any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Indenture;

(iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Supplemental Indenture authorizing such Bonds on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Indenture and in the Supplemental Indenture authorizing such Bonds; and

(v) Parity Reimbursement Obligations arising out of a Credit Facility if and to the extent that such Parity Reimbursement Obligations are evidenced by Bonds to which the Credit Facility relates and such Bonds are registered in the name of the Provider thereof or its nominee.

"**Parity Reimbursement Obligation**" means an obligation of the Corporation to pay or reimburse the Provider of a Credit Facility or Liquidity Facility for amounts paid thereunder, including interest thereon, whether or not such obligation is evidenced by a note, bond or similar instrument, but which is secured by a security interest in, pledge of and lien on the Trust Estate on a parity with the lien created by the Indenture for the payment of the Bonds of the Priority to which such Credit Facility or Liquidity Facility relates.

"**Paying Agent**" means, with respect to the Bonds of any Series, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Indenture or of a Supplemental Indenture or any other Indenture of the Corporation adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

"**Payment Default**" means, as of any particular date of determination and so long as any Senior Bonds are Outstanding, an event of default described in clause (a) of the section below entitled "Events of Default", and, if no Senior Bonds are Outstanding, an event of default described in clause (b) of the section below entitled "Events of Default".

"**PILOMRT Payments**" means payments in lieu of any mortgage recording taxes (i) made pursuant to a PILOT Agreement, (ii) made to the Corporation pursuant to the MTA Agreement or (iii) made to the Corporation on or after the date of issuance of the Initial Bonds in connection with New Developments in the Project Area by any of (A) the New York State Urban Development Corporation doing business as the Empire State Development Corporation, or any of its subsidiaries, and (B) The Port Authority of New York and New Jersey.

"**PILOT Agreement**" means, each and singularly, an agreement entered into on or after January 1, 2006 (i) by and between the NYC IDA and another party pursuant to Section 858(15) of the General Municipal Law, pursuant to which, *inter alia*, such person agrees to make payments to the NYC IDA in lieu of the payment of *ad valorem* real property taxes to the City in connection with property located in the Project Area, (ii) by and between the MTA and another person pursuant to which, *inter alia*, such person agrees to make payments in lieu of the payment of *ad valorem* real property taxes to the MTA or the City in connection with property located in the Project Area, which payments are payable to the Corporation pursuant to the MTA Agreement, and (iii) by and between New York State Urban Development Corporation, doing business as the Empire State Development Corporation, The Port Authority of the States of New York and New Jersey or any other governmental entity, or any of their subsidiaries, and another person pursuant to which, *inter alia*, such person agrees to make payments in lieu of the payment of *ad valorem* real property taxes to the governmental party thereto or the City in connection with property located in the Project Area, which payments are payable to the Corporation.

"**PILOT Payments**" means payments in lieu of *ad valorem* real property taxes made pursuant to a PILOT Agreement.

"**Pledged Funds**" means the Revenue Fund, the Construction Fund, the Debt Service Fund and the Surplus Fund, each and every account and subaccount in any such fund, and any fund or account established pursuant to a Supplemental Indenture therein designated as a Pledged Fund.

"**Priority**" means, when used in connection with any Bond, the relative rank or right of payment of such Bond out of the Revenues and the Trust Estate as shall be set forth in the Supplemental Indenture authorizing such Bond; ***provided***, ***however***, that a Senior Bond shall rank and have a right of payment equal with all other Senior Bonds and no Bond shall rank or have a right of payment that is equal or prior to the Senior Bonds.

"**Project**" means, collectively, the Public Amenities and the Subway Extension, as more particularly described in Exhibit B annexed to the Indenture, and the acquisition of an interest in the TDRs.

"**Project Account**" means the account within the Construction Fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Project Area**" means the geographic area within the City in the Borough of Manhattan referred to as the "Hudson Yards Financing District" in Resolution Number 547 of 2006 of the City's City Council.

"**Project Cost Requisition**" means a requisition signed by an Authorized Officer of the Corporation and an appropriate officer of HYDC, substantially in the form annexed to the Indenture as Exhibit A, stating with respect to each payment to be made to any person, (i) the names of the payees, (ii) the purpose for which payment is to be made in terms sufficient for identification, (iii) the respective amount of each such payment and (iv) that such purpose constitutes a proper purpose for which money in the Construction Fund may be applied and has not been the basis of any previous withdrawal from the Construction Fund.

"**Project Costs**" means costs and expenses or the refinancing of costs and expenses incurred in connection with the Project, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and material men, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of the Project, (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of the Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising the Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the City, HYDC or the Corporation shall be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of the Project, (vii) any sums required to reimburse any person for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with the Project, (viii) costs and expenses of HYDC, including but not limited to, in connection with the performance of its duties under the Support Agreement and its activities to facilitate other development of the Project Area, and (xi) fees, expenses and liabilities of the Corporation incurred in connection with the Project, including but not limited to litigation expenses, judgments, settlements and compromises, and in connection with any other agreement of the City, HYDC or the Corporation ancillary to the Project.

"**Projected Recurring Revenues**" means, as of any particular date of calculation and for any Fiscal Year (i) the lower of (A) the stated PILOT Payments scheduled to be paid under each PILOT Agreement during such Fiscal Year and (B) the *ad valorem* real property taxes for the property subject to a PILOT Agreement that would have been payable during the Fiscal Year immediately preceding the Fiscal Year of calculation but for the PILOT Agreement, **plus** (ii) the Tax Equivalency Payments paid by the City during the Fiscal Year immediately preceding the date of calculation.

"**Provider**" means the provider or issuer of a Credit Facility or a Liquidity Facility, and its successors and assigns.

"**Provider Payments**" means the amount, certified by a Provider to the Trustee, as payable to such Provider on account of amounts advanced by it under a Credit Facility or a Liquidity Facility, including interest on amounts advanced and fees and charges with respect thereto.

"**Public Amenities**" means the work or improvement so designated and more particularly defined in Exhibit B annexed to the Indenture.

"**Rating Confirmation**" means the written confirmation of each Rating Service to the effect that the rating assigned, without regard to any Credit Facility, to each of the Bonds rated by such Rating Service will remain unchanged and will not be withdrawn, suspended or reduced as a consequence of some act or occurrence.

"**Rating Service**" means as of any particular date of determination each of Fitch, Moody's and S&P, or their respective successors, which then has a rating on Outstanding Bonds assigned at the request of the Corporation.

"**Record Date**" means, when used in relation to the Bonds of a Series, the date specified as the record date for such Bonds in the Supplemental Indenture authorizing such Bonds.

"**Redemption Account**" means the account within the Debt Service Fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Redemption Price**" when used with respect to a Bond means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption prior to maturity thereof pursuant to the Indenture or to the applicable Supplemental Indenture.

"**Refunding Bond**" means any Bond issued pursuant to the Indenture to pay or provide for the payment of Bonds.

"**Remarketing Agent**" means the person appointed by or pursuant to a Supplemental Indenture authorizing the issuance of Option Bonds to remarket such Option Bonds tendered or deemed to have been tendered for purchase in accordance with such Supplemental Indenture.

"**Remarketing Agreement**" means, with respect to Option Bonds of a Series, an agreement between the Corporation and the Remarketing Agent relating to the remarketing of such Bonds.

"**Reserved Rights**" means, when used with respect to any Agreement to which the Corporation is a party or that has been assigned to it that is a part of the Trust Estate, any right or privilege thereunder to give notices, consents or approvals, to agree to amendments, modifications or supplements thereto, to enforce the obligations of any other party thereto, and any agreement by another party thereto to indemnify the Corporation or to hold it harmless, but in all such cases subject to the limitations or conditions expressly imposed thereon by the Indenture.

"**Revenue Fund**" means the fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Revenues**" means, when used in connection with any Fiscal Year, all amounts received by the Corporation during such Fiscal Year from (i) PILOT Payments, (ii) PILOMRT Payments, (iii) Tax Equivalency Payments, (iv) DIB Payments, (v) Interest Support Payments, (vi) the sale or other transfer of the TDRs or the air rights or development rights appurtenant to other real property located within the Project Area, in each case after deduction therefrom of the costs incurred in connection with such sale or transfer and any amounts required to be applied as a consequence of such sale or transfer to the purchase, redemption or defeasance of Bonds in order to maintain the tax-exempt status of interest on any Tax Exempt Bonds, (vii) rentals, if any, paid to the Corporation, (viii) Termination Payments received by the Corporation, and (ix) proceeds of (A) any foreclosure sale, (B) exercise of an owners right of redemption or (C) any other sale or disposition by the Corporation, in each case, of property subject to a PILOT Mortgage or that has been acquired by the Corporation upon or in lieu of the foreclosure of such PILOT Mortgage.

"**S&P**" means Standard & Poor's Rating Services and its successors and assigns; ***provided***, ***however***, that references in the Indenture to S&P shall be effective so long as S&P is a Rating Service.

"**Senior Bond**" means any Bond so designated in the Supplemental Indenture authorizing issuance of such Bond, which, whether or not so stated in the Supplemental Indenture authorizing such Senior Bond, shall be of equal Priority with all other Senior Bonds and shall have a Priority over all Subordinate Bonds.

"**Senior Bond Account**" means the account within the Debt Service Fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Serial Bond**" means any Bond so designated in the Supplemental Indenture authorizing issuance of such Bond.

"**Series**" means all of the Bonds authenticated and delivered on original issuance and pursuant to the Indenture and to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

"**Sinking Fund Installment**" means, as of any date of calculation, the amount of money required to be paid on a single future date for the retirement of a Term Bond that matures after said future date, but does not include any amount payable by the Corporation by reason only of the maturity of such Term Bond.

"**Standby Purchase Agreement**" means an agreement by and between the Corporation and another person, pursuant to which such person is obligated to purchase an Option Bond tendered for purchase and not remarketed to another purchaser.

"**Subordinate Bond**" means any Bond so designated in the Supplemental Indenture authorizing issuance of such Bond.

"**Subordinate Bond Account**" means the account within the Debt Service Fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**Substantial Completion**" means,

(i) when used in connection with the Subway Extension or the Public Amenities, as more particularly described in Exhibit B annexed to the Indenture, that HYDC has certified to the Corporation and the City that all of the following shall have occurred:

(a) copies of all temporary or permanent certificates of occupancy required in connection therewith, if any, have been delivered to HYDC;

(b) all work required by the plans and specifications and construction documents, including but not limited to required commissioning, has been completed, except for minor or insubstantial details of construction, decoration, mechanical adjustment (including without limitation testing of mechanical systems and associated commissioning work) or installation; ***provided, however***, that, with respect to mechanical systems, an item is minor or insubstantial if it does not interfere with the ability of such system to meet the performance criteria set forth in the construction documents; and

(c) any work remaining to be done shall be of a nature as will not materially interfere with the normal use and occupancy for its intended purpose; and

(ii) when used in connection with the TDRs, that the Corporation has fully paid the purchase price therefor as certified to the Trustee by the Corporation; and

(iii) when used in connection with the Project, that the Corporation has received the foregoing certifications with respect to the Subway Extension and the Public Amenities and has certified the Substantial Completion of the TDRs.

"**Subway Extension**" means the work or improvements so designated and more particularly described in Exhibit B annexed to the Indenture.

"**Supplemental Indenture**" means any Indenture of the Corporation amending or supplementing the Indenture or any prior Supplemental Indenture executed and becoming effective in accordance with the terms and provisions of the Indenture.

"**Support Agreement**" means the Hudson Yards Support and Development Agreement, dated as of December 1, 2006, by and among the City, HYDC and the Corporation, as from time to time amended and supplemented in accordance therewith and with the Indenture.

"**Supported Bonds**" means Bonds that, pursuant to the Support Agreement, the City is obligated to make Interest Support Payments in connection with the interest payable thereon, which shall include (i) the Outstanding Senior Bonds issued prior to the Conversion Date and (ii) the Outstanding Senior Bonds issued after the Conversion Date and the Outstanding Subordinate Bonds whenever issued designated as Supported Bonds in the Supplemental Indenture authorizing the issuance of such Senior Bonds or Subordinate Bonds.

"**Tax Equivalency Payments**" means the payments required to be made by the City pursuant to Section 4.01 of the Support Agreement.

"**Tax Exempt Bond**" means any Bond as to which Bond Counsel has rendered an opinion to the effect that interest on it is excluded from gross income for purposes of federal income taxation.

"**Tax Obligations**" means for any Fiscal Year the amount required by the Code to be paid by the Corporation during such Fiscal Year to the United States of America as rebate payments, yield reduction payments, penalties and interest.

"**Term Bond**" means a Bond so designated and payable from Sinking Fund Installments.

"**Termination Payment**" means any payment required to be made upon and solely as a consequence of the termination of a Hedge Agreement.

"**TDRs**" means the transferable development rights appurtenant to the property within the Project Area designated as the "Eastern Rail Yards," as defined in the MTA Agreement, in which the Corporation is to purchase an interest pursuant to the MTA Agreement.

"**TFA**" means New York City Transitional Finance Authority, a public benefit corporation of the State of New York, and its successors and assigns.

"**TFA Funding Agreement**" means an agreement by and between the Corporation and the TFA to be entered after the date of the Indenture substantially in the form annexed as Exhibit C to the Indenture, as from time to time amended and supplemented in accordance therewith and with the Indenture.

"**TFA Proceeds**" means the proceeds of the Corporation's promissory notes purchased by TFA pursuant to the TFA Funding Agreement.

"**TFA Proceeds Account**" means the account within the Debt Service Fund so designated, created and established pursuant to the provisions of the Indenture described below under the heading "Establishment of Funds and Accounts".

"**TFA Supported Bonds**" means any Subordinate Bond so designated in the Supplemental Indenture authorizing issuance of such Subordinate Bond.

"**Trust Estate**" has the meaning given to such term in the granting clause of the Indenture.

"**Trustee**" means U.S. Bank National Association appointed as Trustee for the Bonds pursuant to the Indenture and having the duties, responsibilities and rights provided for in the Indenture, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Indenture.

"**UTEP-Hudson Yards**" has the meaning given to such term in the IDA Assignment Agreement.

"**Valuation Date**" means (i) with respect to any Capital Appreciation Bond, the date or dates set forth in the Supplemental Indenture authorizing such Bond on which specific Accreted Values are assigned to such Capital Appreciation Bond, and (ii) with respect to any Deferred Income Bond, the date or dates prior to the Interest Commencement Date set forth in the Supplemental Indenture authorizing such Bond on which specific Appreciated Values are assigned to such Deferred Income Bond.

"**Variable Interest Rate**" means the rate or rates of interest to be borne by a Senior Bond or Subordinate Bond which is or may be varied from time to time in accordance with the method of determining such interest rate or rates established for such Bond; ***provided, however***, that such variable interest rate may be subject to a Maximum Interest Rate and a Minimum Interest Rate and that there may be an initial rate specified, in each case as provided in such Supplemental Indenture.

"**Variable Interest Rate Bond**" means any Senior Bond or Subordinate Bond that bears a Variable Interest Rate; ***provided, however***, that from and after the date on which the interest rate on such Senior Bond or Subordinate Bond shall have been fixed for the remainder of the term thereof, such Senior Bond or Subordinate Bond shall no longer be a Variable Interest Rate Bond.

(Indenture Section 1.01)

Summary of Certain Provisions of the Indenture

The following is a summary of certain provisions of the Indenture. Such summary does not purport to be complete and reference is made to the Indenture for full and complete statements of such and all provisions.

Granting Clause

In order to secure the payment of the principal and Redemption Price of and interest on the Bonds and the performance and observance of all of the covenants and conditions contained in the Indenture or in the Bonds, the Corporation has executed and delivered the Indenture and has conveyed, granted, assigned, transferred, pledged, set over and confirmed and granted a security interest in, to the Trustee, its successor or successors and its or their assigns forever, with power of sale, all and singular, the following real and personal property (such property sometimes referred to as the "**Trust Estate**"):

(i) All right, title and interest of the Corporation in, to and under the IDA Assignment Agreement, the DIB Assignment Agreement, the PILOT Agreements now existing and hereafter entered into, the PILOT Mortgages now existing and hereafter entered into, the MTA Agreement and the Support Agreement, including, without limitation, the present and continuing right to make claim for, collect and receive the payments thereunder and the right to bring actions and proceedings for the enforcement thereof;

(ii) All right title and interest of the Corporation in, to and under the Revenues, including, without limitation, the present and continuing right to make claim for, collect and receive the Revenues, and the right to bring actions and proceedings for the enforcement thereof;

(iii) Except as otherwise expressly provided in the Indenture, all of the Corporation's right, title and interest in money and securities on deposit with the Trustee in the Pledged Funds; ***provided***, ***however***, that the priority in which such money and securities are applied to the repayment of the Bonds shall be as expressly specified in the Indenture; and

(iv) Any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred to the Trustee as and for additional security under the Indenture by the Corporation or by any person on behalf of the Corporation, including without limitation the money and securities of the Corporation held by the Trustee as security for the Bonds;

to have and to hold, all and singular, the properties and the rights and privileges conveyed by the Indenture, assigned and pledged by the Corporation or intended so to be, to the Trustee and its successors and assigns forever, in trust, nevertheless, with power of sale and for the benefit and security of each and every owner of the Bonds issued and to be issued under the Indenture, without preference, priority or distinction as to participation in the lien, benefit and protection of the Indenture of one Bond of a Priority over or from the other Bonds of such Priority, by reason of date or order of issuance or negotiation or maturity thereof, or for any other reason whatsoever, except as otherwise expressly provided in the Indenture, so that each of such Bonds of such Priority shall have the same right, lien and privilege under the Indenture and shall be equally secured by the Indenture with the same effect as if the same shall have been made, issued and negotiated simultaneously with the delivery of the Indenture and were expressed to mature on one and the same date; subject to, so long as no Payment Default shall have occurred and be continuing under the Indenture, the Reserved Rights of the Corporation.

If the Corporation or its successors or assigns shall pay or cause to be paid the principal of such Bonds with interest, according to the provisions set forth in the Bonds and each of them or shall provide for the payment of such Bonds by depositing or causing to be deposited with the Trustee the entire amount of funds or securities requisite for payment thereof, when and as authorized by the provisions of Indenture described below under the heading "Defeasance", and shall also pay or cause to be paid all other sums payable under the Indenture by the Corporation, then these presents and the estate and rights granted by the Indenture shall cease, determine and become void, and the Trustee, on payment of its lawful charges and disbursements then unpaid, on demand of the Corporation and upon the payment of the cost and expenses thereof, shall duly execute, acknowledge and deliver to the Corporation such instruments of satisfaction or release as may be specified by the Corporation as necessary or proper to discharge the Indenture, including, if appropriate, any required discharge of record, and if necessary shall grant, reassign and deliver to the Corporation, its successors or assigns, all and singular the property, rights, privileges and interest by it granted, conveyed and assigned by the Indenture, and all substitutes therefor, or any part thereof, not previously disposed of or released as provided in the Indenture; otherwise the Indenture shall be and remain in full force.

Authorization of Bonds

Bonds of the Corporation to be designated as "Hudson Yards Revenue Bonds" are authorized to be issued pursuant to the Indenture and the Indenture creates a continuing pledge and lien to secure the payment of the principal and Redemption Price of and interest on all Outstanding Bonds. The Bonds will be special obligations of the Corporation payable solely from the Trust Estate in the manner more particularly described in the Indenture. The aggregate principal amount of Bonds which may be executed, authenticated and delivered is not limited except as provided by the Indenture.

(Indenture Section 2.01)

Issuance of Bonds and Additional Bonds

The issuance of Bonds shall be authorized by a Supplemental Indenture or Supplemental Indentures. The Bonds will be executed by the Corporation and delivered to the Trustee. The Corporation shall, in addition to other requirements of the Indenture, deliver to the Trustee:

(a) a copy of the Indenture and the Supplemental Indenture authorizing such Bonds, certified by an Authorized Officer of the Corporation;

(b) a copy of each of the IDA Assignment Agreement, the DIB Assignment Agreement, each PILOT Agreement and PILOT Mortgage theretofore assigned to the Corporation, the Support Agreement and the MTA Agreement, in each case certified by an Authorized Officer of the Corporation;

(c) if a Credit Facility or Liquidity Facility is to be provided in connection with the issuance of the Bonds of such Series, such Credit Facility or Liquidity Facility;

(d) except in the case of Senior Bonds that are Refunding Bonds issued pursuant to the Indenture as described below under the heading "Refunding Bonds", if such Bonds are Senior Bonds to be issued prior to the Conversion Date, a certificate of an Authorized Officer of the Corporation to the effect that the principal amount of all Senior Bonds issued pursuant to this heading, after giving effect to issuance of the Senior Bonds then to be issued, does not exceed three billion five hundred million dollars ($3,500,000,000);

(e) if such Bonds are Supported Bonds, a certificate of an Authorized Officer of the Corporation to the effect that the issuance thereof complies with the provisions of the Indenture regarding limitations on Bonds;

(f) if such Bonds are TFA Supported Bonds, a copy of the TFA Funding Agreement certified by an Authorized Officer of the Corporation and a certificate of an Authorized Officer of the Corporation to the effect that, after giving effect to issuance of such Bonds, the principal amount of all Outstanding TFA Supported Bonds does not exceed the Available TFA Commitment;

(g) except in the case of Refunding Bonds issued pursuant to the Indenture and Bonds issued prior to the Conversion Date, a certificate of an Authorized Officer of the Corporation (i) setting forth

(A) the Net Recurring Revenues for the immediately preceding Fiscal Year for which audited financial statements of the Corporation are available, (B) the Debt Service paid during such Fiscal Year on Senior Bonds and (C) the Debt Service paid during such Fiscal Year on all Bonds, and (ii) a statement to the effect that the amount set forth in (A) is at least (x) equal to one hundred twenty-five percent (125%) of the amount set forth in (B) and (y) equal to one hundred five percent (105%) of the amount set forth in (C);

(h) except in the case of Refunding Bonds issued pursuant to the Indenture and Bonds issued prior to the Conversion Date, a certificate of an Authorized Officer of the Corporation (i) setting forth (A) the Net Recurring Revenues for the Fiscal Year during which such Bonds are issued and for each succeeding Fiscal Year during which Bonds will be Outstanding after giving effect to the issuance of such Bonds, (B) the Maximum Annual Debt Service calculated only with respect to Senior Bonds after giving effect to the issuance of the Senior Bond then to be issued, and (C) the Maximum Annual Debt Service calculated only with respect to all Outstanding Bonds after giving effect to the issuance of the Subordinate Bonds then to be issued, and (ii) a statement to the effect that the amount set forth in (A) for each Fiscal Year is at least (x) equal to one hundred twenty-five percent (125%) of the amount set forth in (B) and (y) equal to one hundred five percent (105%) of the amount set forth in (C);

(i) a written order as to the delivery of such Bonds, signed by an Authorized Officer of the Corporation, describing the Bonds to be delivered, designating the purchaser or purchasers to whom such Bonds are to be delivered and stating the consideration for such Bonds;

(j) a certificate of an Authorized Officer of the Corporation to the effect that (1) the Corporation is not, and, as a result of the issuance of such Bonds, shall not be, in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture; ***provided***, ***however***, that such certificate shall not be required if after issuance thereof the Corporation shall no longer be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture; and (2) no default under any Agreement to which it is a party has occurred and will be continuing;

(k) a certificate of an Authorized Officer of the City to the effect that it is not in default under any Agreement to which it is a party;

(l) a certificate of an officer of the NYC IDA to the effect that it is not in default under the IDA Assignment Agreement; and

(m) an opinion of Bond Counsel to the effect that, in the opinion of Bond Counsel, the Indenture and the applicable Supplemental Indenture authorizing the Series of Bonds have been duly and lawfully authorized, executed and delivered by the Corporation; that the Indenture and the applicable Supplemental Indenture are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms; that the Indenture creates the valid pledge and the valid lien upon the Revenues which it purports to create, subject only to the provisions of the Indenture permitting the withdrawal, payment, setting apart or appropriation thereof for the purposes and on the terms and conditions set forth in the Indenture and each applicable Supplemental Indenture; and that the Corporation is duly authorized and entitled to issue such Series of Bonds and, upon the execution and delivery thereof and upon authentication by the Trustee, such Series of Bonds will be duly and validly issued and will constitute valid and binding special obligations of the Corporation entitled to the benefits of the Indenture; ***provided, however***, that such opinion may be qualified to the extent that enforceability of rights and remedies may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally or as to the availability of any particular remedy.

(Indenture Section 2.02)

Refunding Bonds

A Series of Refunding Bonds may be authenticated and delivered pursuant to the Indenture only upon receipt by the Trustee of the documents required above under "Issuance of Bonds and Additional Bonds" and of:

(a) irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all Bonds to be refunded that are to be redeemed prior to their respective maturity dates on the redemption date specified in such instructions;

(b) either (i) money in an amount sufficient to effect payment of the principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to their respective maturity or redemption dates, which money shall be held by the Trustee in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to comply with the defeasance provisions of the Indenture, and money required pursuant to said defeasance provisions, which Defeasance Obligations and money shall be held in trust and used only as provided in the defeasance provisions of the Indenture; and

(c) a certificate of an Authorized Officer of the Corporation, together with supporting schedules, to the effect that the Maximum Annual Debt Service on the Refunding Bonds does not exceed the Maximum Annual Debt Service on the Bonds to be refunded. For purposes of the calculation required by this certificate prior to Conversion having occurred, it shall be assumed that the Conversion Date is the date on which such calculation is made.

(Indenture Section 2.03)

Parity Reimbursement Obligations and Hedge Agreement Payments

In connection with a Series of Bonds, the Corporation may obtain or cause to be obtained one or more Credit Facilities, Liquidity Facilities or Hedge Agreements. In connection therewith the Corporation may enter into such agreements with the Provider of such Credit Facility or Liquidity Facility or the Counterparty to a Hedge Agreement providing for, *inter alia*: (i) the payment of fees and expenses to such Provider or Counterparty; (ii) the terms and conditions of such Credit Facility, Liquidity Facility or Hedge Agreement; (iii) the Series of Bonds to which it relates; and (iv) the security, if any, for the Corporation's obligations thereunder.

The Corporation may in an agreement with the Provider of such Credit Facility or Liquidity Facility or the Counterparty to a Hedge Agreement agree to directly reimburse the Provider for amounts paid by it pursuant to the Credit Facility or Liquidity Facility, together with interest thereon, or to make Hedge Agreement Payments to the Counterparty (collectively, the "Reimbursement Obligation"); provided, however, that no Reimbursement Obligation under a Credit Facility or Liquidity Facility shall be created, for purposes of the Indenture, until amounts are paid under the Credit Facility or Liquidity Facility. Any obligation to reimburse the provider of a Credit Facility or Liquidity Facility or to make Hedge Agreement Payments may be a Parity Reimbursement Obligation secured by a pledge of and a lien on the Trust Estate on a parity with the lien created under the Indenture for the Bonds of the Priority to which they relate, except that, in the case of a Hedge Agreement, only the obligation to make Hedge Agreement Payments, but not Termination Payments, may be secured by a lien on the Trust Estate that is on a parity with the lien created by the Indenture. A Parity Reimbursement Obligation shall be deemed to be a part of the Series of Bonds to which the Credit Facility, Liquidity Facility or Hedge Agreement which gave rise to such Parity Reimbursement Obligation relates.

(Indenture Section 2.05)

Additional Obligations

The Corporation reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate indentures or agreements of the Corporation, so long as the same is not, except as provided in the Indenture, entitled to a charge or lien on or right prior or equal to the charge or lien in the Trust Estate created by the Indenture.

(Indenture Section 2.06)

Authorization of Redemption

Bonds subject to redemption prior to maturity pursuant to the Indenture or to a Supplemental Indenture shall be redeemable, in accordance with the Indenture, at such times, at such Redemption Prices and upon such terms as may otherwise be specified in the Indenture or in the Supplemental Indenture authorizing such Series.

(Indenture Section 4.01)

Redemption at the Election of the Corporation

In the case of any redemption of Bonds other than as provided in the provisions of the Indenture described below under the heading "Redemption Other than at Corporation's Election", the Corporation shall give written notice to the Trustee of its election to redeem, of the Series and of the principal amounts of the Bonds of each maturity of such Series to be redeemed. Such notice shall be given not less than forty-five (45) days prior to the redemption date or such lesser number of days as the Trustee may approve. The Series, maturities and principal amounts thereof to be so redeemed shall be determined by the Corporation in its sole discretion, subject to any limitations with respect thereto contained in the Indenture or in the Supplemental Indenture authorizing such Series. The Corporation shall pay to the Trustee on or prior to the redemption date an amount which, in addition to other amounts available therefor held by the Trustee, is sufficient to redeem on the redemption date at the Redemption Price thereof, together with interest accrued and unpaid thereon to the redemption date, all of the Bonds to be so redeemed.

(Indenture Section 4.02)

Redemption Other Than at Corporation's Election

Whenever by the terms of the Indenture Bonds are required to be redeemed pursuant to the provisions of the Indenture described below under the heading "Redemption Account" or through the application of mandatory Sinking Fund Installments or otherwise as provided in the Supplemental Indenture authorizing such Bonds, the Trustee shall select the particular Bonds of the Series and maturities to be redeemed in the manner described below under the heading "Selection of Bonds to be Redeemed", give the notice of redemption and pay out of money available therefor the Redemption Price thereof, together with interest accrued and unpaid thereon to the redemption date, to the appropriate Paying Agents in accordance with the terms of the Indenture.

(Indenture Section 4.03)

Selection of Bonds to be Redeemed

Unless otherwise provided in the Supplemental Indenture authorizing the issuance of Bonds of a Series, in the event of redemption of less than all of the Outstanding Bonds of like Series, maturity and tenor, the Trustee shall assign to each Outstanding Bond of the Series, maturity and tenor to be redeemed a distinctive number for each unit of the principal amount of such Bond equal to the lowest denomination in which the Bonds of such Series are authorized to be issued and shall select by lot, using such method of selection as it shall deem proper in its discretion, from the numbers assigned to such Bonds as many numbers as, at such unit amount equal to the lowest denomination in which the Bonds of such Series are authorized to be issued for each number, shall equal the principal amount of such Bonds to be redeemed. In making such selections the Trustee may draw the Bonds by lot (i) individually or (ii) by one or more groups, the grouping for the purpose of such drawing to be by serial numbers (or, in the case of Bonds of a denomination of more than the lowest denomination in which the Bonds of such Series are authorized to be issued, by the numbers assigned thereto as provided in this heading) which end in the same digit or in the same two digits. In case, upon any drawing by groups, the total principal amount of Bonds drawn shall exceed the amount to be redeemed, the excess may be deducted from any group or groups so drawn in such manner as the Trustee may determine. The Trustee may in its discretion assign numbers to aliquot portions of Bonds and select part of any Bond for redemption. The Bonds to be redeemed shall be the Bonds to which were assigned numbers so selected; ***provided***, ***however***, that only so much of the principal amount of each such Bond of a denomination of more than the lowest denomination in which the Bonds of such Series are authorized to be issued shall be redeemed as shall equal the lowest denomination in which the Bonds of such Series are authorized to be issued for each number assigned to it and so selected.

For purposes of this heading, the lowest denomination in which a Capital Appreciation Bond is authorized to be issued shall be the lowest Accreted Value authorized to be due at maturity on such Bonds, and the lowest denomination in which a Deferred Income Bond is authorized to be issued shall be the lowest Appreciated Value on the Interest Commencement Date authorized for such Bonds.

(Indenture Section 4.04)

Notice of Redemption

Whenever Bonds are to be redeemed, the Trustee shall give notice of the redemption of the Bonds in the name of the Corporation which notice shall specify: (i) the Bonds to be redeemed which shall be identified by the designation of the Bonds given in accordance with the provisions of the Indenture described above under the heading "Authorization of Bonds", the maturity dates and interest rates of the Bonds to be redeemed and the date such Bonds were issued; (ii) the numbers and other distinguishing marks of the Bonds to be redeemed, including CUSIP numbers; (iii) the redemption date; (iv) the Redemption Price; (v) with respect to each such Bond, the principal amount thereof to be redeemed; (vi) that, except in the case of Book Entry Bonds, such Bonds will be redeemed at the principal corporate trust office of the Trustee giving the address thereof and the telephone number of the Trustee to which inquiries may be directed; (vii) that no representation is made as to the correctness of the CUSIP number either as printed on the Bonds or as contained in such notice and that an error in a CUSIP number as printed on a Bond or as contained in such notice shall not affect the validity of the proceedings for redemption; and (viii) if the Corporation's obligation to redeem the Bonds is subject to conditions, a statement to that effect and of the conditions to such redemption. Such notice shall further state that, if on such date all conditions to redemption have been satisfied, there shall become due and payable on such date upon each Bond to be redeemed the Redemption Price thereof, together with interest accrued and unpaid thereon to the redemption date, and that, from and after such date, payment having been made or provided for, interest thereon shall cease to accrue. Such notice shall be given by mailing a copy of such notice not less than thirty (30) days nor more than sixty (60) days prior to the redemption date or, in the case of Variable Interest Rate Bonds or Option Bonds, such shorter period as shall be established by the Supplemental Indenture authorizing such Bonds. Such notice shall be sent by first class mail, postage prepaid, to the registered owners of the Bonds which are to be redeemed, at their last known addresses, if any, appearing on the registration books not more than ten (10) Business Days prior to the date such notice is given. Upon giving such notice, the Trustee shall promptly certify to the Corporation that it has mailed or caused to be mailed such notice to the Holders of the Bonds to be redeemed in the manner provided in the Indenture. Such certificate shall be conclusive evidence that such notice was given in the manner required by the Indenture. The failure of any Holder of a Bond to be redeemed to receive such notice shall not affect the validity of the proceedings for the redemption of the Bonds.

(Indenture Section 4.05)

Payment of Redeemed Bonds

Notice having been given by mail in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, except in the case of book-entry Bonds, upon presentation and surrender of such Bonds, at the office or offices specified in such notice, and, in the case of Bonds presented by other than the registered owner, together with a written instrument of transfer duly executed by the registered owner or his duly authorized attorney, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest accrued and unpaid to the redemption date. If, on the redemption date, money for the redemption of all Bonds or portions thereof of any like Series, maturity and tenor to be redeemed, together with interest accrued and unpaid thereon to the redemption date, shall be held by the Trustee and Paying Agents so as to be available therefor on such date and if notice of redemption shall have been mailed as aforesaid, then, from and after the redemption date, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds shall no longer be considered to be Outstanding under the Indenture. If such money shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

(Indenture Section 4.06)

Pledge of Trust Estate

The Corporation, to secure the payment of the principal and Redemption Price of and interest on the Bonds and performance and observance of all of the covenants and conditions contained in the Indenture or in the Bonds, has by the Granting Clause of the Indenture conveyed, granted, assigned, transferred, pledged, set over and confirmed and granted a security interest in and does convey, grant, assign, transfer, pledge, set over and confirm and grant a security interest in, unto the Trustee, its successor or successors and its or their assigns forever, with power of sale, the Trust Estate. The Bonds shall be special obligations of the Corporation payable solely from and secured by a pledge of, lien on and security interest in the Trust Estate, which pledge, lien and security interest shall constitute a first lien thereon.

(Indenture Section 5.01)

Establishment of Funds and Accounts

The following funds and separate accounts within funds are established by the Indenture and shall be held and maintained by the Trustee:

- Revenue Fund;
- Construction Fund, consisting of:

  Project Account;
  Costs of Issuance Account;
  Capitalized Interest Account; and
  HYDC Expense Account;
- Debt Service Fund, consisting of:

  Senior Bond Account;
  Subordinate Bond Account;
  TFA Proceeds Account; and
  Redemption Account;
- Corporation Expense Fund; and
- Surplus Fund.

All money at any time deposited in any fund, account or subaccount created and pledged by the Indenture or by any Supplemental Indenture or required thereby to be created shall be held in trust for the benefit of the Holders of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Indenture; ***provided***, ***however***, that the money derived from the remarketing of Option Bonds tendered or deemed to have been tendered for purchase or redemption in accordance with the Supplemental Indenture authorizing the issuance of such Bonds or derived from a Liquidity Facility or a Credit Facility relating to such Bonds, and any fund or account established by or pursuant to such Supplemental Indenture for the payment of the purchase price or Redemption Price of Option Bonds so tendered or deemed to have been tendered, shall not be held in trust for the benefit of the Holders of Bonds other than the Holders of such Option Bonds, and such money and each such fund and account are pledged by the Indenture for the payment of the purchase price or Redemption Price of such Option Bonds.

(Indenture Section 5.02)

Application of Bond Proceeds

Upon the receipt of proceeds from the sale of a Series of Bonds, the Corporation shall apply such proceeds as specified in the Indenture and in the Supplemental Indenture authorizing such Series.

Unless otherwise specified in the Supplemental Indenture authorizing the issuance of a Series of Bonds, the accrued interest, if any, received upon the delivery of such Series shall be deposited in the Senior Bond Account or Subordinate Bond Account, as applicable, of the Debt Service Fund.

(Indenture Section 5.03)

Construction Fund

(a) The Project Account shall consist of the Subway Extension Subaccount, the Public Amenities Subaccount and the TDRs Purchase Subaccount. In addition, any account or subaccount within the Construction Fund may contain one or more other accounts and subaccounts as the Corporation may deem proper. There shall be established a separate account within the Capitalized Interest Account for each Series of Bonds for which proceeds are to be set aside for payment of Capitalized Interest thereon. As soon as practicable after the delivery of each Series of Bonds, there shall be deposited into each account and subaccount within the

Construction Fund the amount required to be deposited therein pursuant to the Supplemental Indenture authorizing such Series, ***except*** that Project Costs consisting of the purchase price for the TDRs payable pursuant to the MTA Agreement shall be paid in accordance with the direction of the Corporation directly to the person entitled thereto.

(b) Except as otherwise provided in the Indenture, (i) money in the Subway Extension Subaccount shall only be used to pay the Project Costs of the Subway Extension, (ii) money in the Public Amenities Subaccount shall only be used to pay the Project Costs of the Public Amenities, (iii) money in the TDRs Purchase Subaccount shall only be used to pay the purchase price of the TDRs at the time, in the amounts and in accordance with the MTA Agreement, (iv) money in the Costs of Issuance Account shall only be used to pay the Costs of Issuance and (v) money in the Capitalized Interest Account shall only be used to pay interest on Outstanding Bonds; ***provided***, ***however***, that money in the Public Amenities Subaccount may at any time be withdrawn and transferred to the Subway Extension Subaccount or the HYDC Expense Account and money in the TDRs Purchase Subaccount may at any time be withdrawn and transferred to the Subway Extension Subaccount or the Public Amenities Subaccount, in each case in accordance with the written direction of the Corporation.

(c) Except as provided in paragraph (e) of this heading, payments from the Project Account or the Costs of Issuance Account shall be made by the Trustee in accordance with a Project Cost Requisition. Money in a subaccount within the Capitalized Interest Account shall, on the fourth Business Day next preceding an Interest Payment Date for the Bonds for which such subaccount has been established, be transferred by the Trustee to the Senior Bond Account or Subordinate Bond Account of the Debt Service Fund, as applicable, in such amounts as may be required to pay when due the interest on such Bonds payable on such Interest Payment Date. Money in the HYDC Expense Account shall be paid by the Trustee to HYDC in accordance with the direction of the Corporation given or confirmed in writing.

(d) The income or interest earned on investments held for the credit of the Construction Fund shall be withdrawn by the Trustee, as received, and deposited, first, in the Senior Bond Account of the Debt Service Fund until the amount therein is equal to the interest payable on Outstanding Senior Bonds (other than Funded Bonds) during the then current and the next succeeding Fiscal Years, and, then, in the Subordinate Bond Account of the Debt Service Fund until the amount therein is equal to the interest payable on Outstanding Subordinate Bonds (other than Funded Bonds) during the then current and next succeeding Fiscal Years. Income or interest earnings in excess of the amount required to make such deposits shall, as received, be withdrawn and deposited in the Redemption Account for application in accordance with the provisions of the Indenture as described below under the heading “Redemption Account”.

(e) Money, if any, remaining (i) in the Costs of Issuance Account after all Costs of Issuance have been paid or provision has been made for their payment in accordance with the written direction of an Authorized Officer of the Corporation or (ii) in the Subway Extension Subaccount, the Public Amenities Subaccount, the TDRs Purchase Subaccount or the Costs of Issuance Account, after Substantial Completion of the respective component of the Project for which such subaccount has been established and provision in accordance with the direction of an Authorized Officer of the Corporation for the payment of any Project Costs then unpaid and for the payment of claims and the discharge of or security for liens arising out of construction of the applicable component of the Project, may at the written direction of an Authorized Officer of the Corporation be withdrawn and transferred to any one or more of the subaccounts within the Project Account and the Redemption Fund in accordance with such direction.

Money remaining in the Project Account after Substantial Completion of the Project and after provision in accordance with the direction of an Authorized Officer of the Corporation for the payment of any Project Costs then unpaid and for the payment of claims and the discharge of or security for liens arising out of construction of the Project, shall be applied as follows:

Unless a Payment Default has occurred:

(i) prior to the Conversion Date, to the Redemption Account for application in accordance with the provisions of the Indenture described below under the heading “Redemption Account”; or

(ii) on or after the Conversion Date, in accordance with the written direction of an Authorized Officer of the Corporation, (i) to the purchase or redemption of Bonds, (ii) to make provision for payment of Outstanding Bonds in accordance with the provisions of the Indenture described below under subparagraph (b) of the heading "Defeasance" or (iii) as may otherwise be set forth in such direction if the Trustee shall have also received an Opinion of Bond Counsel.

Notwithstanding any other provision of this heading, if a Payment Default has occurred, the money in each account and subaccount of the Construction Fund shall be transferred to the Redemption Account for application in accordance with the provisions of the Indenture described below under subparagraph (b)(iv) of the heading "Redemption Account".

(Indenture Section 5.04)

Application of Revenues

Prior to Conversion Date or on and after a Payment Default. The Revenues received prior to the Conversion Date or on and after a Payment Default shall be applied by the Trustee in the following order of priority:

First: To the Corporation Expense Fund, the amount required to make the amount deposited therein during such Fiscal Year equal to the lesser of (i) the Corporation Expenses for such Fiscal Year, exclusive of Termination Payments, and (ii) the Operating Cap for such Fiscal Year;

Second: Unless a Payment Default has occurred, to the Senior Bond Account of the Debt Service Fund, the amount required to pay (i) interest on Outstanding Senior Bonds (other than Funded Bonds) payable during such Fiscal Year and (ii) Hedge Agreement Payments and interest on Parity Reimbursement Obligations as the same become due and payable during such Fiscal Year, in each case relating to Senior Bonds;

Third: Unless a Payment Default has occurred, to the Corporation Expense Fund, the amount required, if any, to make the amount deposited therein during such Fiscal Year equal to the Corporation Expenses for such Fiscal Year;

Fourth: Unless a Payment Default has occurred, to the Subordinate Bond Account of the Debt Service Fund, the amount required to pay (i) interest on Outstanding Subordinate Bonds (other than Funded Bonds) payable during such Fiscal Year and (ii) Hedge Agreement Payments and interest on Parity Reimbursement Obligations as the same become due and payable during such Fiscal Year, in each case relating to Subordinate Bonds; ***provided, however,*** that if on the date of deposit or payment the interest at which a Variable Interest Rate Bond will bear interest during such Fiscal Year is not known, the Trustee shall calculate such interest based upon a rate per annum certified to it by the Corporation as the rate the Corporation has assumed such Variable Interest Rate Bond will bear; and

Fifth: To the Redemption Account, the balance of such Revenues.

On and After the Conversion Date. The Revenues received on and after the Conversion Date, but prior to a Payment Default, shall be applied by the Trustee as provided in this paragraph. The Revenues received during a Fiscal Year shall be applied in the following order of priority:

First: To the Corporation Expense Fund, the amount required to make the amount deposited therein during such Fiscal Year equal to the lesser of (i) the Corporation Expenses for such Fiscal Year, exclusive of Termination Payments, and (ii) the Operating Cap for such Fiscal Year;

Second: To the Senior Bond Account of the Debt Service Fund, the amount required to pay (i) the Debt Service on Outstanding Senior Bonds payable during the then current Fiscal Year and (ii) Hedge Agreement Payments and the principal of and interest on any Parity Reimbursement Obligations as the same is due and payable during such Fiscal Year, in each case relating to Senior Bonds; ***provided, however,*** that Revenues received after February 15 of such Fiscal Year shall also be paid to the Senior Bond Account of the Debt Service Fund in amounts required to pay the Debt Service on Outstanding Senior Bonds payable during the next succeeding Fiscal Year;

Third: To the Subordinate Bond Account of the Debt Service Fund, the amount required to pay (i) the Debt Service on Outstanding Subordinate Bonds payable during such Fiscal Year and (ii) Hedge Agreement payments and the principal of and interest on any Parity Reimbursement Obligations as the same is due and payable during such Fiscal Year, in each case relating to Subordinate Bonds; ***provided,***

however, that Revenues received after February 15 of such Fiscal Year shall also be paid to the Subordinate Bond Account of the Debt Service Fund in amounts required to pay the Debt Service on Outstanding Subordinate Bonds payable during the next succeeding Fiscal Year;

Fourth: To the Corporation Expense Fund, the amount required, if any, to make the amount deposited therein during such Fiscal Year equal to the Corporation Expenses for such Fiscal Year; and

Fifth: To the Surplus Fund, the balance of such Revenues.

(Indenture Section 5.06)

Debt Service Fund

(a) The Trustee shall make the payments from each account of the Debt Service Fund as set forth below.

(i) **Senior Bond Account**. The Trustee shall pay from the Senior Bond Account the following amounts and in the following order of priority:

First, the principal and Sinking Fund Installments of all Outstanding Senior Bonds (other than Funded Bonds) and the principal of any Parity Reimbursement Obligations relating to Senior Bonds as the same is due and payable; and

Second, the interest on all Outstanding Senior Bonds (other than Funded Bonds) as the same is due and payable, including upon redemption prior to maturity of any Outstanding Senior Bond, Hedge Agreement Payments relating to Senior Bonds and interest on any Parity Reimbursement Obligations relating to Senior Bonds as the same is due and payable.

Money in the Senior Bond Account shall, upon a Payment Default, be transferred to the Redemption Account and applied in accordance with the provisions of the Indenture described below under subparagraph (b)(iv) of the heading "Redemption Account".

(ii) **Subordinate Bond Account**. The Trustee shall pay from the Subordinate Bond Account the following amounts and in the following order of priority:

First, the interest on all Outstanding Subordinate Bonds that are Supported Bonds (other than Funded Bonds) in direct order of Priority as the same is due and payable, including upon redemption prior to maturity of such Outstanding Subordinate Bond;

Second, the interest on all other Outstanding Subordinate Bonds (other than Funded Bonds) in direct order of Priority as the same is due and payable, including upon redemption prior to maturity of any Outstanding Subordinate Bond as the same is due and payable, and Hedge Agreement Payments relating to Subordinate Bonds and interest on any Parity Reimbursement Obligations relating to Subordinate Bonds as the same is due and payable; and

Third, the principal and Sinking Fund Installments of all Outstanding Subordinate Bonds (other than Funded Bonds) and the principal of any Parity Reimbursement Obligations relating to Senior Bonds as the same is due and payable, in each case in direct order of Priority.

Money in the Subordinate Bond Account shall, upon a Payment Default, be transferred to the Redemption Account and applied in accordance with the provisions of the Indenture described below under subparagraph (b)(iv) of the heading "Redemption Account".

(iii) **TFA Proceeds Account.** Except as otherwise expressly provided in the Indenture, the TFA Proceeds Account shall be solely for the benefit of and secure the Outstanding TFA Supported Bonds, and no Holder of any Bond other than a TFA Supported Bond shall have any right or interest in the money and investments from time to time held in the TFA Proceeds Account. All TFA Proceeds shall, upon receipt by the Corporation, be deposited in the TFA Proceeds Account. The Trustee shall pay from the TFA Proceeds Account the principal and Sinking Fund Installments of and interest on Outstanding TFA Supported Bonds (other than Funded Bonds), when due, to the extent not paid from the Subordinate Bond Account, and the Provider Payments, when due, to each Provider of a Liquidity Facility or Credit Facility in connection with TFA Supported Bonds. Money in the TFA Proceeds Account shall, upon a Payment Default, be transferred to the Redemption Account and applied in accordance with the provisions of the Indenture described below under subparagraph (b)(iii) of the heading "Redemption Account".

(iv) **<u>Redemption Account</u>**. The Trustee shall pay from the Redemption Account the Redemption Price of all Outstanding Bonds redeemed pursuant to the provisions of the Indenture described below under the heading "Redemption Account".

Amounts paid to a Paying Agent for payments pursuant to this heading shall be irrevocably pledged to and applied to such payments.

(b) Notwithstanding the provisions of this heading, the Corporation may, at any time subsequent to the first day of any Fiscal Year, but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due on Outstanding Senior Bonds or Subordinate Bonds, direct the Trustee to purchase, with money on deposit in the Senior Bond Account or Subordinate Bond Account, as applicable, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Bonds to be redeemed from such Sinking Fund Installment payable from such account; ***provided***, ***however***, that no money in the Senior Bond Account or the Subordinate Bond Account shall be so applied unless after such purchase the amount in such account is at least equal to the principal and Sinking Fund Installments of and interest due and to become due on Outstanding Bonds payable from such account during the then current Fiscal Year. Any Bond so purchased or otherwise purchased and delivered to the Trustee shall be cancelled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Corporation. The principal amount of each Bond so cancelled shall be credited against the applicable Sinking Fund Installment due on such date.

(Indenture Section 5.07)

Redemption Account

(a) Prior to the occurrence of a Payment Default, money in the Redemption Account during a Fiscal Year shall be applied during such Fiscal Year in the order of priority set forth below:

(i) First, money in the Redemption Account shall be paid to the City to reimburse it for Interest Support Payments theretofore made during the then current Fiscal Year;

(ii) Second, an amount of money in the Redemption Account, up to the amount of interest on Outstanding Senior Bonds payable during the next succeeding Fiscal Year, shall be transferred to the Senior Bond Account of the Debt Service Fund and an amount of money, up to the amount of interest on Outstanding Subordinate Bonds payable during the next succeeding Fiscal Year, shall be transferred to the Subordinate Bond Account of the Debt Service Fund;

(iii) Third, during any Fiscal Year in which no Senior Bonds are subject to redemption at the option of the Corporation, money in the Redemption Account may be applied, at the direction of the Corporation given or confirmed in writing, to the purchase of Outstanding Senior Bonds at a purchase price not to exceed the Redemption Price of such Senior Bonds on the first date on which such Senior Bonds are redeemable at the option of the Corporation;

(iv) Fourth, if any Outstanding Senior Bonds are subject to redemption at the option of the Corporation during the then current Fiscal Year, the money in the Redemption Account not required to be applied pursuant to clauses (i) or (ii) of this paragraph (a), at the direction of the Corporation given or confirmed in writing and in accordance with such direction shall be applied to purchase such Senior Bonds at a purchase price not to exceed the Redemption Price of such Senior Bonds on the next date during such Fiscal Year on which such Senior Bonds are redeemable at the option of the Corporation or to redeem such Senior Bonds. The Senior Bonds to be so redeemed shall be the Senior Bonds of each maturity within a Series that are subject to redemption during such Fiscal Year and shall, as nearly as practicable taking into consideration the minimum denominations of such Bonds, be redeemed (x) *pro rata* among each such Series based upon the relationship that the principal amount of Senior Bonds of each such Series that are redeemable during such Fiscal Year bears to the aggregate principal amount of Senior Bonds that are redeemable during such Fiscal Year, and (y) *pro rata* within each such Series based upon the relationship that the principal amount of Senior Bonds of each maturity within a Series that is so redeemable bears to the aggregate principal of Senior Bonds that are redeemable during such Fiscal Year. The particular Bonds of each Series and maturity to be redeemed pursuant to this paragraph (a) shall be selected, by lot, in accordance with the provisions of the Indenture described above under the heading "Selection of Bonds to be Redeemed", unless a Supplemental Indenture provides otherwise with respect to Senior Bonds authorized thereby; and

(v) Fifth: (x) money remaining in the Redemption Account on June 30th of any Fiscal Year prior to the Fiscal Year during which the Conversion Date occurs shall, at the written direction of the Corporation, be paid or transferred to either or both (A) the Corporation Expense Fund to fund the lesser of (i) the Corporation Expenses for the next succeeding Fiscal Year, exclusive of Termination Payments payable during such Fiscal Year, and (ii) the Operating Cap for such Fiscal Year, and (B) the Revenue Fund, in the respective amounts set forth in such direction; and (y) money remaining in the Redemption Account on June 30th of the Fiscal Year during which the Conversion Date occurs shall be withdrawn and transferred to the Revenue Fund for application in accordance with the provisions of the Indenture as described above under the heading "Application of Revenues — On and After the Conversion Date".

(b) Subsequent to the occurrence of a Payment Default, money in each fund, account or subaccount established pursuant to the Indenture shall be transferred to the Redemption Account and the money in the Redemption Account shall be applied as follows:

(i) Money from the TFA Proceeds Account of the Debt Service Fund transferred pursuant to the provisions of the Indenture described herein under subparagraph (a)(iii) of the heading "Debt Service Fund" shall be applied in the following order of priority:

First, to the payment to the registered owners of the Outstanding TFA Supported Bonds, interest on all arrears in payment of the principal of or interest on Outstanding TFA Supported Bonds at the respective rates of interest specified in such Bonds *pro rata* based upon the amount of interest payable to each such registered owner;

Second, on each Interest Payment Date, to the interest due and past due on such Interest Payment Date on all Outstanding TFA Supported Bonds, *pro rata* based upon the amount of interest payable to each person entitled thereto; and

Third, to redeem on February 15th of each Fiscal Year, at a Redemption Price equal to one hundred percent (100%) of the principal amount of TFA Supported Bonds to be redeemed, Outstanding TFA Supported Bonds of each Series. The TFA Supported Bonds of each such Series shall, as nearly as practicable taking into consideration the minimum denominations for such Bonds, be redeemed *pro rata* based, first, upon the relationship that the principal amount of TFA Supported Bonds of each Series that is then Outstanding bears to the aggregate principal amount of TFA Supported Bonds of all such Series then Outstanding, and, then, within a Series, upon the principal amount of each maturity of the TFA Supported Bonds of such Series and maturity that is then Outstanding bears to the aggregate principal amount of the TFA Supported Bonds of such Series then Outstanding.

(ii) All other money in the Redemption Account shall be applied in the following order of priority:

First, to the payment to the registered owners of the Outstanding Senior Bonds, interest on all arrears in payment of the principal of or interest on Outstanding Senior Bonds at the respective rates of interest specified in such Bond *pro rata* based upon the amount of interest payable to each such registered owner;

Second, on each Interest Payment Date, to the interest due and past due on such Interest Payment Date on all Outstanding Senior Bonds, *pro rata* based upon the amount of interest payable to each person entitled thereto; and

Third, to redeem on February 15th of each Fiscal Year, at a Redemption Price equal to one hundred percent (100%) of the principal amount of the Senior Bonds to be redeemed, Outstanding Senior Bonds of each Series. The Senior Bonds of each such Series shall, as nearly as practicable taking into consideration the minimum denominations for such Senior Bonds, be redeemed *pro rata* based, first, upon the relationship that the principal amount of Senior Bonds of each Series that is then Outstanding bears to the aggregate principal amount of Senior Bonds of all such Series then Outstanding, and, then, within a Series, upon the principal amount of each maturity of the Senior Bonds of such Series and maturity that is then Outstanding bears to the aggregate principal amount of the Senior Bonds of such Series then Outstanding.

(iii) If no Senior Bonds are then Outstanding, money in the Redemption Account shall be applied in the following order of priority:

First, in order of Priority of the Outstanding Subordinate Bonds, to the payment to the registered owners of the Outstanding Subordinate Bonds, interest on all arrears in payment of the principal of or interest on Outstanding Subordinate Bonds at the respective rates of interest specified in such Bond *pro rata* within a Priority based upon the amount of interest payable to each such registered owner;

Second, on each Interest Payment Date, to the interest due and past due on such Interest Payment Date on all Outstanding Subordinate Bonds in order of Priority and *pro rata* within a Priority based upon the amount of interest payable to each person entitled thereto; and

Third, to redeem on February 15th of each Fiscal Year, at a Redemption Price equal to one hundred percent (100%) of the principal amount of Subordinate Bonds to be redeemed, Outstanding Subordinate Bonds of each Series in order of Priority of such Subordinate Bonds. The Subordinate Bonds of each such Series within a Priority shall, as nearly as practicable taking into consideration the minimum denominations for such Bonds, be redeemed *pro rata* based, first, upon the relationship that the principal amount of Subordinate Bonds of each such Series and Priority that is then Outstanding bears to the aggregate principal amount of Subordinate Bonds of all such Series and Priority then Outstanding, and, then, within a Series, upon the principal amount of each maturity of the Subordinate Bonds of such Series and maturity that is then Outstanding bears to the aggregate principal amount of the Subordinate Bonds of such Series then Outstanding.

For the purposes of the payments to be made pursuant to this paragraph (b), (i) a Capital Appreciation Bond from and after its maturity date shall bear interest at the Default Rate applicable thereto specified in the Supplemental Indenture authorizing the issuance thereof and (ii) the principal amount of a Capital Appreciation Bond or Deferred Income Bond shall be its Accreted Value or Appreciated Value on the date of its redemption.

Unless otherwise provided in the Supplemental Indenture authorizing the issuance of Bonds of a Series, the particular Bonds of each Series and maturity to be so redeemed pursuant to this heading shall be selected, by lot, in accordance with the provisions of the Indenture described above under the heading "Selection of Bonds to be Redeemed".

(Indenture Section 5.08)

Corporation Expense Fund

Money in the Corporation Expense Fund shall be used only for the payment of Corporation Expenses and shall be withdrawn by the Corporation at such times and in such amounts as the Corporation considers necessary to make such payments, including withdrawals of amounts for deposit to one or more accounts of the Corporation established for the convenience of the Corporation in effecting payment of Corporation expenses. Money in the Bond Insurance Reserve shall be applied to pay the premiums payable by the Corporation during the then current Fiscal Year on financial guaranty insurance policies to the extent that the other money in the Corporation Expense Fund is not sufficient to make such payment.

Money in the Corporation Expense Fund (other than the Bond Insurance Reserve) on June 30th of a Fiscal Year shall, after provision for payment of any Corporation Expenses for such Fiscal Year due but then unpaid, shall be withdrawn by the Trustee and, prior to the Conversion Date, deposited to the Redemption Account, or, subsequent to the Conversion Date, at the written direction of the Corporation to any one or more of the funds or accounts under the Indenture in the respective amounts set forth in such direction; ***provided, however,*** that the Corporation may elect by written notice to the Trustee to retain in the Corporation Expense Fund an amount not to exceed the lesser of (i) the Corporation Expenses for the next succeeding Fiscal Year, exclusive of Termination Payments payable during such Fiscal Year, and (ii) the Operating Cap for such Fiscal Year.

(Indenture Section 5.09)

Surplus Fund

Money in the Surplus Fund may be applied, free and clear of any lien or trust thereon for the benefit of the Bondholders, for any corporate purpose of the Corporation, including, but not limited to, payments to the City. Such payment shall be made by the Trustee at the times and in the amounts set forth in the written direction of the Corporation; ***provided***, ***however***, that any such money not paid to the City shall only be applied by the Corporation either for (i) the payment of any obligations of the Corporation for which money in any other fund or account established by the Indenture may be applied, (ii) improvements of or additions to the components of the Project that constitute the Subway Extension or the Public Amenities or (iii) other expenditures consistent with the corporate purposes of the Corporation that are primarily for the benefit of or directly relate to Hudson Yards Financing District, as such district may from time to time be defined by the City's City Council; ***provided***, ***further***, that, subject to the provisions of the Indenture described above under the heading "Debt Service Fund", if any note, bond or other evidence of indebtedness of the Corporation is then held by the New York City Transitional Finance Authority, money in the Surplus Fund shall not, without the consent of TFA, be applied to any purpose other than the payment when due or prepayment in whole or in part of such indebtedness and the accrued and unpaid interest thereon.

Notwithstanding the foregoing, subsequent to the occurrence of a Payment Default, money in the Surplus Fund shall be transferred to the Redemption Account and applied in accordance with the provisions of the Indenture described below under subparagraph (b) of the heading "Redemption Account".

(Indenture Section 5.10)

Application of Money in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Indenture, if at any time:

(i) the amounts held in the Senior Bond Account of the Debt Service Fund are sufficient to pay the principal or Redemption Price of all Outstanding Senior Bonds and the interest accrued and unpaid and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, or to make provision pursuant to the provisions of the Indenture described below under subparagraph (b) of the heading "Defeasance" for the payment of such Bonds at the maturity or redemption dates thereof; or

(ii) the amounts held in the Subordinate Bond Account of the Debt Service Fund are sufficient to pay the principal or Redemption Price of all Outstanding Subordinate Bonds and the interest accrued and unpaid and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, or to make provision pursuant to the provisions of the Indenture described below under subparagraph (b) of the heading "Defeasance" for the payment of such Bonds at the maturity or redemption dates thereof;

then, in each such case the Corporation may (i) direct the Trustee to redeem such Bonds, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds by the Indenture and by each Supplemental Indenture, or (ii) give the Trustee irrevocable instructions in accordance with the provisions of subparagraph (b) under the heading "Defeasance" described below and make provision for the payment of such Bonds at the maturity or redemption dates thereof in accordance therewith.

(Indenture Section 5.11)

Transfer of Investments

Whenever money in any fund or account established under the Indenture is to be paid in accordance with the Indenture to another such fund or account, such payment may be made, in whole or in part, by transferring to such other fund or account investments held as part of the fund or account from which such payment is to be made, whose value, together with the money, if any, to be transferred, is at least equal to the amount of the payment then to be made; ***provided*, *however***, that no such transfer of investments would result in a violation of any investment standard or guideline applicable to such fund.

(Indenture Section 5.12)

Investment of Funds and Accounts Held by the Trustee

Money held under the Indenture, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee in any Eligible Investments in accordance with the direction of an Authorized Officer of the Corporation given in writing, which direction shall specify the particular investment to be made; ***provided*, *however***, that money in the Debt Service Fund shall only be invested in Eligible Investments of the type described in clause (ii), (iii), (vi) or (viii) of the definition of the term "Eligible Investments" set forth above, but, with respect to Eligible Investments described in said clause (viii), only if at the time such investment is made such securities are rated in the highest rating category of each Rating Service. Each investment shall permit the money so deposited or invested to be available for use at the times at, and in the amounts in, which the Corporation reasonably believes such money will be required for the purposes of the Indenture. In computing the amount in any fund or account held by the Trustee under the Indenture, obligations purchased as an investment of money therein or held therein shall be valued at the market value thereof, plus accrued interest to the date of valuation.

(Indenture Section 6.01)

Payment of Principal and Interest

The Corporation shall pay or cause to be paid every Bond, including interest thereon, on the dates and at the places and in the manner provided in the Bonds according to the true intent and meaning thereof.

(Indenture Section 7.01)

Corporate Existence

The Corporation shall maintain its existence as a local development corporation under the New York Not-for-Profit Corporation Law and shall not amend its certificate of incorporation in any manner that would have the effect of expanding its corporate purposes or restricting the corporate action for which the affirmative vote of an independent director is required.

(Indenture Section 7.05)

Accounts and Audits

The Corporation shall keep proper books of records and accounts (separate from all other records and accounts), which may be kept on behalf of the Corporation by the Trustee, in which complete and correct entries shall be made of its transactions relating to each Series of Bonds, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Corporation, shall be subject to the inspection of the Trustee, each Provider or of any Holder of a Bond or a representative of any of the foregoing duly authorized in writing. The Corporation shall cause such books and accounts to be audited annually after the end of its fiscal year by an independent certified public accounting firm selected by the Corporation. Annually within thirty (30) days after receipt by the Corporation of the report of such audit, a signed copy of such report shall be furnished to the Trustee, to each Provider and to the City. A copy of the most recently audited financial statements of the Corporation, together with a copy of the accountant's report thereon, shall, upon receipt of a written request therefor, and payment of any reasonable fee or charge made in connection therewith, be furnished to the registered owner of a Bond or any beneficial owner of a Book Entry Bond requesting the same.

(Indenture Section 7.06)

Creation of Liens

Except as permitted by the Indenture, the Corporation shall not create or cause to be created any lien or charge prior or equal to that of the Bonds on the Trust Estate; ***provided*, *however***, that nothing contained in the Indenture shall prevent the Corporation from issuing bonds, notes or other obligations or otherwise incurring indebtedness so long as the charge or lien on the Trust Estate created to secure the same is not prior or equal to the charge or lien on the Trust Estate created by the Indenture.

(Indenture Section 7.07)

Notice of Default; Enforcement of Agreements

The Corporation as soon as practicable shall give written notice to the Trustee and to each Provider of the occurrence of a default under any of the Agreements. The Corporation, prior to the occurrence of a Payment Default, may and, at the direction of the Holders of a majority in principal amount of the Outstanding Bonds, shall take all legally available action to cause each party to an Agreement to perform fully its obligation thereunder in the manner and at the times provided in such Agreement.

(Indenture Section 7.08)

Offices for Payment and Registration of Bonds

The Corporation shall at all times maintain an office or agency in the State where Bonds may be presented for payment, which office or agency may be at or through the principal corporate trust office of the Trustee. The Corporation may, pursuant to a Supplemental Indenture, designate an additional Paying Agent or Paying Agents where Bonds of the Series authorized thereby or referred to therein may be presented for payment. The Corporation shall at all times maintain an office or agency in the State where Bonds may be presented for registration, transfer or exchange and the Trustee is appointed as its agent to maintain such office or agency for the registration, transfer or exchange of Bonds. The provisions of this heading shall be subject to the provisions of the Indenture.

(Indenture Section 7.10)

Amendment of Agreements

(a) Except as otherwise provided in the Indenture, an Agreement may not be amended, changed, modified or terminated, nor shall the Corporation consent or acquiesce in any amendment, change, modification or termination of an Agreement, nor may any provision thereof be waived by the Corporation, without the consent of the Holders of Outstanding Bonds as provided in the Indenture, if such amendment, change, modification, termination or waiver (i) reduces the amount payable on any date or delays the date on which such payment is to be made, (ii) waives or surrenders any right of the Corporation or its assignor, (iii) modifies the events which constitute events of default under such Agreement or diminishes, limits or conditions the rights of the Corporation or its assignor under, or remedies which upon the occurrence of a default may be exercised by, the Corporation or its assignor under such Agreement, or (iv) adversely affects the Holders of Outstanding Bonds in any material respect.

No such amendment, change, modification, termination or waiver shall take effect unless consented to in writing by (a) the Holders of at least a majority in principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the amendment, change, modification, termination or waiver, the Holders of not less than a majority in principal amount of the Bonds of the Series so affected and then Outstanding; ***provided***, ***however***, that (i) Funded Bonds shall not be deemed to be Outstanding for purposes of any calculation of Outstanding Bonds under this heading and (ii) if such amendment, change, modification, termination or waiver will, by its terms, not take effect so long as any Bonds of any specified Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this heading.

(b) An Agreement may be amended, changed or modified or any provision thereof waived in any other respect without the consent of the Holders of Outstanding Bonds if the same does not adversely affect the Holders of such Bonds in any material respect, except that no amendment, change, modification or alteration of an Agreement to cure any ambiguity or defect or inconsistent provision therein or to insert such provisions clarifying matters or questions arising thereunder as are necessary or shall be made unless such amendment, change, modification or waiver is not contrary to or inconsistent with the Agreement as theretofore in effect and unless consented to by the Trustee.

(c) No amendment, change, modification or termination of an Agreement or waiver of a provision thereof shall be made other than pursuant to a written instrument signed by the parties thereto. No such amendment, change, modification or waiver shall become effective unless there has been delivered to the Trustee an opinion of Bond

Counsel to the effect that the same will not adversely affect the exclusion of interest on any Tax Exempt Bond from gross income for purposes of federal income taxation. A copy of each such amendment, change, modification, termination or waiver shall be filed with the Trustee.

(d) For the purposes of this heading, the purchasers of the Bonds of a Series, whether purchasing as underwriters upon their initial issuance, for resale upon a remarketing or reoffering of such Bonds, or otherwise, upon such purchase may consent to an amendment, change, modification, termination or waiver permitted by this heading with the same effect as a consent given by the Holder of such Bonds.

For the purposes of this heading, (i) only the Holders of TFA Supported Bonds shall be deemed to be affected by an amendment, modification, alteration or waiver of any provision of the TFA Funding Agreement, and (ii) a Series shall be deemed to be adversely affected by an amendment, change, modification, alteration or waiver of any provision of an Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected in any material respect by any amendment, change, modification, alteration or waiver, and any such determination shall be binding and conclusive on the Corporation and all Holders of Bonds.

For the purposes of this heading, the Trustee shall be entitled conclusively to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification, alteration or waiver adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

(Indenture Section 7.11)

Amendment of UTEP

(a) Except as otherwise provided in the Indenture, the Corporation shall not consent to or acquiesce in any amendment to the UTEP or deviation therefrom pursuant to the IDA Assignment Agreement unless either (1) the Corporation delivers to the Trustee its written certification to the effect that in the reasonable judgment of the Corporation such amendment will facilitate the further commercial development of the Project Area or (2) such amendment is consented to in writing by (A) the Holders of at least a majority in principal amount of the Bonds then Outstanding, or (B) in case less than all of the several Series of Bonds then Outstanding are adversely affected by the amendment, change, modification, termination or waiver, the Holders of not less than a majority in principal amount of the Bonds of the Series so affected and then Outstanding; ***provided***, ***however***, that (i) Funded Bonds shall not be deemed to be Outstanding for purposes of any calculation of Outstanding Bonds under this heading and (ii) if such amendment, change, modification, termination or waiver will, by its terms, not take effect so long as any Bonds of any specified Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this heading.

(b) For the purposes of this heading, the purchasers of the Bonds of a Series, whether purchasing as underwriters upon their initial issuance, for resale upon a remarketing or reoffering of such Bonds, or otherwise, upon such purchase may consent to an amendment, change, modification, termination or waiver permitted by this heading with the same effect as a consent given by the Holder of such Bonds.

For the purposes of this heading, a Series shall be deemed to be adversely affected by an amendment, change, modification, alteration or waiver of any provision of an Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected in any material respect by any amendment, change, modification, alteration or waiver, and any such determination shall be binding and conclusive on the Corporation and all Holders of Bonds.

For the purposes of this heading, the Trustee shall be entitled conclusively to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification, alteration or waiver adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

(Indenture Section 7.12)

Budget of Corporation Expenses

The Corporation shall prepare, not later than sixty (60) days after the date Bonds are first issued and delivered under the Indenture, a budget for the then current Fiscal Year of the Corporation Expenses for the balance of such Fiscal Year. At least sixty (60) days prior to the beginning of each Fiscal Year thereafter, the Corporation shall prepare a budget of the Corporation Expenses for such Fiscal Year. Each such budget shall set forth by reasonably descriptive category, both in the aggregate and by month, the Corporation Expenses projected to be payable during such Fiscal Year and during each month thereof. A budget may be amended by the Corporation from time to time during the Fiscal Year. A certified copy of each such budget and amendment thereto shall be promptly filed with the Trustee.

(Indenture Section 7.13)

Notice Regarding Interest Support Payments

The Corporation shall give each Fiscal Year, in accordance with Section 4.02 of the Support Agreement, not later than at the times specified in the Support Agreement (i) a Net Interest Obligation Notice, as such term is defined in the Support Agreement, and (ii) an Interest Deficiency Notice, each of which may be amended or modified as permitted by the Support Agreement.

(Indenture Section 7.14)

TFA Purchase Notice

The Corporation, solely for the benefit of the Holders of Outstanding TFA Supported Bonds, covenants and agrees to give such notice or notices as may be required by the TFA Funding Agreement to be given as a condition precedent to TFA's obligation to purchase promissory notes of the Corporation in such amount and at such times as my be required to assure timely payment of the Debt Service on the Outstanding TFA Supported Bonds.

(Indenture Section 7.15)

Payment of Lawful Charges

The Corporation shall pay or take all legally available action to cause the City to pay all taxes and assessments or other municipal or governmental charges, if any, lawfully levied or assessed upon the Trust Estate, when the same shall become due. Except as otherwise expressly permitted by the Indenture, the Corporation shall not create or suffer to be created any lien or charge upon the Trust Estate, except the pledge and lien created or permitted by the Indenture.

(Indenture Section 7.16)

Assignment of PILOT Agreements

The Corporation shall promptly, but in no event more than fifteen (15) days, after a PILOT Agreement is assigned to the Corporation pursuant to the IDA Assignment Agreement assign the same to the Trustee as further security for the Corporation's obligations under the Indenture by appropriate instruments of transfer and assignment reasonably satisfactory to the Trustee, whereupon such PILOT Agreement and all of the assignor's rights thereunder, including but not limited to the right to payments made and to be made pursuant thereto, shall become a part of the Trust Estate.

(Indenture Section 7.17)

Amortization After Conversion Date

The Corporation shall not later than June 30th of the Fiscal Year during which the Conversion Date occurs establish and file with the Trustee a schedule of principal amortization through Sinking Fund Installments for all, but not less than all, of the Outstanding Bonds of each Series and maturity issued prior to the Conversion Date. The Sinking Fund Installments to be established shall:

(a) with respect to the Senior Bonds of a Series, provide for the *pro rata* redemption of the Bonds of such Series and be payable during the Fiscal Year next succeeding the Conversion Date and each Fiscal Year thereafter, but not later than the Fiscal Year next preceding the date such Senior Bonds mature;

(b) be payable on February 15th of each Fiscal Year, or, if in connection with any Variable Interest Rate Bond, such date is not an Interest Payment Date for such Variable Interest Rate Bond, on the Interest Payment Date next succeeding such February 15th;

(c) be established so that each Sinking Fund Installment of a Senior Bond shall be in integral multiples of five thousand dollars ($5,000);

(d) be established so that the principal amount of Bonds to be redeemed each Fiscal Year through such Sinking Fund Installments shall be in amounts that produce aggregate Debt Service payable during each Fiscal Year on all Outstanding Bonds, to and including the Fiscal Year during which such Bonds mature, that is substantially equal or that declines each Fiscal Year; and

(e) not provide for any Sinking Fund Installment on a Subordinate Bond to be scheduled to be paid prior to the last date on which any Sinking Fund Installment of a Senior Bond is scheduled to be paid.*

The schedule of Sinking Fund Installments filed with the Trustee shall be accompanied by (i) a certificate of an Authorized Officer of the Corporation to the effect that such Sinking Fund Installments comply with the requirements of clauses (a), (b), (c) and (d) of this section, and (ii) supporting schedules establishing that such Sinking Fund Installments so comply.

The Trustee shall give in the name of the Corporation notice of the Sinking Fund Installments so established by the Corporation, which notice shall (i) specify the Bonds of the Series and maturities for which Sinking Fund Installments have been established and the Sinking Fund Installments established for the Bonds of each Series and maturity and (ii) further state that failure to pay any such Sinking Fund Installment shall not constitute an event of default under the Indenture unless money was available therefor in accordance with the Indenture, but not applied to such Sinking Fund Installment. Such notice shall be given by mailing a copy of such notice not less than thirty (30) days nor more than sixty (60) days after such schedule was filed with the Trustee, by first class mail, postage prepaid, to the registered owners of the Bonds affected thereby at their last known addresses, if any, appearing on the registration books not more than ten (10) Business Days prior to the date such notice is given. Upon giving notice in accordance with this paragraph, the Trustee shall certify to the Corporation that it has mailed such notice or caused such notice to be mailed in the manner required by the Indenture. Such certificate shall be conclusive evidence that such notice was given in the manner required by the Indenture. The failure of any Holder of a Bond to receive such notice shall not affect the validity of the schedule of Sinking Fund Installments established by the Corporation.

The schedule of Sinking Fund Installments shall become effective upon the Trustee giving such notice and, unless none of the Bonds of a Series and maturity subject to redemption through such Sinking Fund Installments shall then be Outstanding and, subject to the provisions of the Indenture permitting amounts to be credited to part or all of any one or more Sinking Fund Installments, there shall be due and the Corporation shall be required to pay out of for the redemption of the Bonds of such Series and maturity the amounts set forth in the schedule filed with the Trustee as the Sinking Fund Installment due on such Bond on each date set forth in such schedule as the Sinking Fund Installment payable on such date; ***provided***, ***however***, that such payments shall be required to be made only if money is available therefor in accordance with the Indenture. To the extent that money shall be insufficient to pay in whole or in part a Sinking Fund Installment for Bonds of a stated Series and maturity, the unpaid principal balance

* The Corporation has covenanted with the holders of the Series 2012A Bonds that, to the extent practicable, redemptions through Sinking Fund Installments, in addition to being *pro rata* within each Series of Senior Bonds, will also be *pro rata* among the Series of Senior Bonds so to be redeemed.

of such Sinking Fund Installment shall be added to the next succeeding Sinking Fund Installment for the Bonds of such Series and maturity.

(Indenture Section 7.18)

Limitations on Bonds

The Corporation shall not prior to the Conversion Date:

(a) issue any Bond that matures prior to February 15, 2047 or on a date that is earlier than the maturity date of any then Outstanding Bond;

(b) issue any Bond that is payable from mandatory Sinking Fund Installments, other than Sinking Fund Installments established pursuant to the heading above entitled “Amortization After Conversion Date”;

(c) issue any Bond that is a Supported Bond unless either (i) the principal amount of Supported Bonds issued, after giving effect to the issuance of such Bond, but exclusive of Refunding Bonds that are Supported Bonds, does not exceed three billion dollars ($3,000,000,000) or (ii) the City is then authorized by appropriate resolution of its City Council, and the Support Agreement then obligates the City, to make Interest Support Payments with respect to the principal amount of all Supported Bonds that will be Outstanding after giving effect to the issuance of such Bond;

(d) issue any Senior Bonds, other than Refunding Bonds issued pursuant to the Indenture, if after giving effect to the issuance thereof the principal amount of Senior Bonds issued would exceed three billion five hundred million dollars ($3,500,000,000);

(e) issue any Senior Bond that is a Capital Appreciation Bond, Deferred Income Bond, Variable Interest Rate Bond or Option Bond;

(f) issue any Subordinate Bond if, after giving effect to the issuance thereof, the interest on Outstanding Subordinate Bonds payable during any Fiscal Year exceeds thirty million dollars ($30,000,000) assuming that any Variable Interest Rate Bond bears interest at the Maximum Rate therefor; or

(g) issue a Subordinate Bond that matures prior to the latest date on which any Outstanding Senior Bond matures.

(Indenture Section 7.19)

Extension of PILOT Agreements

The Corporation shall, so long as Bonds remain Outstanding, request the NYC IDA to exercise any right to extend the term of each PILOT Agreement the NYC IDA may have under one or more PILOT Agreements between it and another party.

(Indenture Section 7.20)

MTA PILOT Payments

The Corporation shall not, so long as Bonds are Outstanding, consent to the payment of any PILOT Payments under the MTA Agreement to any person other than the Corporation.

(Indenture Section 7.21)

City’s Failure to Appropriate

The Corporation shall give notice to the Trustee of a failure (i) by the Mayor to include in the expense budget submitted by the Mayor to the City Council in each fiscal year, the amount required by Section 4.06 of the Support Agreement to be included therein for the payment of Tax Equivalency Payments and Interest Support Payments to be made by the City during the City’s next ensuing fiscal year, (ii) by the City duly to appropriate in its budget for a fiscal year upon its initial adoption an amount sufficient to pay the amount set forth by the Corporation in its “Net Interest Obligation Notice,” as such term is defined in the Support Agreement, or duly to enact an increase in the appropriation in such budget within sixty (60) days after the Corporation submits an amendment to said Net Interest Obligation Notice increasing the amount set forth therein or (iii) by the City duly to appropriate in its budget for a fiscal year the amount the Mayor is required by Section 4.06 of the Support Agreement to include therein for payment of Tax Equivalency Payments to be made during such Fiscal Year. Such notice shall be given to the Trustee as soon as practicable after the Corporation obtains knowledge of any such failure.

(Indenture Section 7.22)

Modification and Amendment of the Indenture without Consent

The Corporation may execute and deliver at any time or from time to time Supplemental Indentures: (a) to provide for the issuance of a Series of Bonds pursuant to the provisions of the Indenture and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed; (b) to add additional covenants and agreements of the Corporation for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Indenture; (c) to prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Corporation which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect; (d) to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Indenture; (e) to confirm, as further assurance, any pledge under the Indenture, and the subjection to any lien, claim or pledge created or to be created by the provisions of the Indenture, of the Revenues, or any pledge of any other money, investments thereof or funds; (f) to modify any of the provisions of the Indenture or of any previously adopted Supplemental Indenture in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the effective date of such Supplemental Indenture shall cease to be Outstanding, and all Bonds issued under such Indentures shall contain a specific reference to the modifications contained in such subsequent Supplemental Indenture; or (g) with the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Indenture or to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with the Indenture as theretofore in effect, or to modify any of the provisions of the Indenture or of any previous Supplemental Indenture in any other respect, provided that such modification shall not adversely affect the interests of the Bondholders in any material respect.

(Indenture Section 9.01)

Supplemental Indentures Effective with Consent of Bondholders

The provisions of the Indenture may also be modified or amended at any time or from time to time by a Supplemental Indenture, subject to the consent of the Bondholders in accordance with the provisions of the Indenture, such Supplemental Indenture to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Corporation.

(Indenture Section 9.02)

General Provisions Relating to Supplemental Indentures

The Indenture shall not be modified or amended in any respect except in accordance with and subject to the provisions of the Indenture. Nothing contained in the Indenture shall affect or limit the rights or obligations of the Corporation to make, do, execute or deliver any Supplemental Indenture, act or other instrument pursuant to the provisions of the Indenture or the right or obligation of the Corporation to execute and deliver to the Trustee or any Paying Agent any instrument provided or permitted in the Indenture to be delivered to the Trustee or any Paying Agent.

A copy of every Supplemental Indenture, when filed with the Trustee, shall be accompanied by an opinion of Bond Counsel stating that such Supplemental Indenture has been duly and lawfully adopted in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and is valid and binding upon the Corporation and enforceable in accordance with its terms.

The Trustee is authorized to accept delivery of a certified copy of any Supplemental Indenture permitted or authorized pursuant to the provisions of the Indenture and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on the opinion of Bond Counsel that such Supplemental Indenture is authorized or permitted by the provisions of the Indenture.

No Supplemental Indenture changing, amending or modifying any of the rights or obligations of the Trustee shall become effective without the written consent of the Trustee.

The Corporation, as soon as practicable after a Supplemental Indenture changing, amending or modifying any provisions of the Indenture has become effective, shall give written notice thereof to each Rating Service.

(Indenture Section 9.03)

Powers of Amendment of the Indenture

Any modification or amendment of the Indenture and of the rights and obligations of the Corporation and of the Holders of the Bonds under the Indenture, in any particular, may be made by a Supplemental Indenture, with the written consent given as provided in the provisions of the Indenture described below under the heading "Consent of Bondholders", (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, exclusive of Funded Bonds; ***provided*, *however***, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series, maturity and tenor remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this heading. No such modification or amendment shall permit a change in the amount or date of any Sinking Fund Installment, the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this heading, a Series of Bonds shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, the Bonds of any particular Series or maturity would be affected by any modification or amendment of the Indenture and any such determination shall be binding and conclusive on the Corporation and all Holders of Bonds.

(Indenture Section 10.01)

Consent of Bondholders

The Corporation may at any time execute and deliver a Supplemental Indenture making a modification or amendment permitted by the provisions of the Indenture described above under the heading "Powers of Amendment of the Indenture" to take effect when and as provided in this heading. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to the Bondholders for their consent thereto in form satisfactory to the Trustee, shall promptly after execution and delivery thereof be mailed by the Corporation to the Bondholders (but failure to mail such copy and request to any particular Bondholder shall not affect the validity of the Supplemental Indenture when consented to as provided in this heading). Such Supplemental Indenture shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consent of the Holders of the percentages of Outstanding Bonds specified in the provisions of the Indenture described above under the heading "Powers of Amendment of the Indenture" and (b) an opinion of Bond Counsel stating that such Supplemental Indenture has been duly and lawfully executed, delivered and filed by the Corporation in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture, and is valid and binding upon the Corporation and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as described in this heading. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by the Indenture. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Indenture shall be conclusive proof that the consents have been given by the Holders of the Bonds described in the certificate or certificates of the Trustee. Any consent given by a Bondholder shall be binding upon the Bondholder giving such consent and, anything in the Indenture to the contrary notwithstanding, upon any subsequent Holder of such Bond and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee as described in this heading is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Corporation and the Trustee a written statement that such Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Indenture (which may be referred to as a Supplemental Indenture adopted by the Corporation on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this heading, shall be given to the Bondholders by the Corporation by mailing such notice to the Bondholders. The Corporation shall file with the Trustee proof of the mailing of such notice. A transcript, consisting of the papers required or permitted by this heading to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Indenture making such amendment or modification shall be deemed conclusively binding upon the Corporation, the Trustee, each Pa ying Agent and the Holders of all Bonds upon the filing with the Trustee of proof of the mailing of such notice.

For the purposes of the Indenture, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Corporation, may consent to a modification or amendment permitted by the provisions of the Indenture described herein under the headings "Powers of Amendment of the Indenture" and "Modifications of the Indenture by Unanimous Consent" in the manner described in the Indenture, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; ***provided***, ***however***, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series by the Corporation.

(Indenture Section 10.02)

Modifications of the Indenture by Unanimous Consent

The terms and provisions of the Indenture and the rights and obligations of the Corporation and of the Holders of the Bonds may be modified or amended in any respect upon the execution, delivery and filing with the Trustee by the Corporation of a copy of a Supplemental Indenture certified by an Authorized Officer of the Corporation and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in the provisions of the Indenture described herein under the heading "Consent of Bondholders".

(Indenture Section 10.03)

Events of Default

An event of default under the Indenture and under each Supplemental Indenture (herein called "event of default") shall exist if: (a) payment of the principal or Sinking Fund Installment of or interest on any Senior Bond shall not be made by the Corporation when the same shall become due and payable; or (b) if no Senior Bonds are Outstanding, the Corporation shall have failed at any time to pay the principal or Sinking Fund Installment of or interest on any Subordinate Bond when the same shall have been due and payable; or (c) with respect to a Tax Exempt Bond, there has been a Determination of Taxability; or (d) the Corporation shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Indenture or in the Bonds or in any Supplemental Indenture on the part of the Corporation to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Corporation by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, unless, if such default is not capable of being cured within thirty (30) days, the Corporation has commenced to cure such default within said thirty (30) days and diligently prosecutes the cure thereof; or (e) the Corporation shall (1) be generally not paying its debts as they become due, (2) commence a voluntary case or other proceeding seeking liquidation, reorganization, dissolution, rehabilitation or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, (3) make a general assignment for the benefit of its creditors, (4) declare a moratorium or (5) take any corporate action to authorize any of the foregoing; or (f) a trustee in bankruptcy, custodian or receiver for the Corporation or any substantial part of its property shall have been appointed and the same has not been discharged within sixty (60) days after such appointment.

(Indenture Section 11.01)

Mandatory Redemptions upon Payment Default

Upon the happening of a Payment Default the Outstanding Bonds (other than Funded Bonds) shall be subject to mandatory redemption in accordance with the provisions of the Indenture described herein under subparagraph (b) of the heading “Redemption Account”.

(Indenture Section 11.02)

Enforcement of Remedies; Limitations

Upon the happening and continuance of any event of default specified in the provisions of the Indenture described above under the heading “Events of Default”, other than a Payment Default, then and in every such case, the Trustee may proceed, and upon the written request of the Holders of not less than a majority in principal amount of the Outstanding Bonds or, in the case of a happening and continuance of an event of default specified in the provisions of the Indenture described above in subparagraph (c) under the heading “Events of Default”, upon the written request of the Holders of not less than a majority in principal amount of the Outstanding Bonds of the Series affected thereby, shall proceed (subject to the provisions of the Indenture), to protect and enforce its rights and the rights of the Bondholders under the Indenture or under any Supplemental Indenture or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Indenture or under any Supplemental Indenture or in aid or execution of any power granted in the Indenture or the Supplemental Indenture, or for an accounting against the Corporation as if the Corporation were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights, including the enforcement of its rights and remedies, as assignee, under any Agreement assigned to it.

In the enforcement of any remedy under the Indenture and under each Supplemental Indenture the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Corporation for principal or interest or otherwise under any of the provisions of the Indenture or of any Supplemental Indenture or of the Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Indenture and under any Supplemental Indenture and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Corporation but solely as provided in the Indenture, in any Supplemental Indenture and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the money adjudged or decreed to be payable.

In no event, however, may the Trustee or any Bondholder declare the principal of any Bond or the interest thereon immediately due and payable.

(Indenture Section 11.03)

Bondholders’ Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Holders of a majority in principal amount of the Outstanding Bonds or, in the case of an event of default specified in the provisions of the Indenture described above in subparagraph (c) under the heading “Events of Default”, the Holders of a majority in principal amount of the Outstanding Bonds of the Series affected thereby shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture and under each Supplemental Indenture, provided, such direction shall not be otherwise than in accordance with law and the provisions of the Indenture and of each Supplemental Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Indenture Section 11.05)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Indenture, or for any other remedy under the Indenture unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than a majority in principal amount of the Outstanding Bonds or, in the case of an event of default specified in the provisions of the Indenture described above in subparagraph (c) under the heading "Events of Default", the Holders of not less than a majority in principal amount of the Outstanding Bonds of the Series affected thereby, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

(Indenture Section 11.06)

Remedies Not Exclusive

No remedy conferred in the Indenture upon or reserved to the Trustee or to the Bondholders is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute; provided, however, that neither the Trustee nor any Bondholder may declare the principal of any Bond or the interest thereon immediately due and payable.

(Indenture Section 11.08)

Waiver and Non-Waiver of Default

No delay or omission of the Trustee or any Bondholder to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein. Every power and remedy given by the Indenture to the Trustee and the Bondholders, respectively, may be exercised from time to time and as often as may be deemed expedient.

The Trustee may, and upon written request of the Holders of not less than a majority in principal amount of the Outstanding Bonds or, in the case of an event of default specified in the provisions of the Indenture described above in subparagraph (c) under the heading "Events of Default", the Holders of not less than a majority in principal amount of the Outstanding Bonds of the Series affected thereby, shall waive any default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Indenture or before the completion of the enforcement of any other remedy under the Indenture; ***provided, however,*** that no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

(Indenture Section 11.09)

Funded Bonds Excluded from Calculations

In any calculation of the principal amount of Outstanding Bonds for any purpose required or permitted by the events of default and remedies provisions of the Indenture, no Funded Bond shall be considered to be Outstanding and no Holder of a Funded Bond may exercise any right to give any consent or direction required or permitted by the events of default and remedies provisions of the Indenture.

(Indenture Section 11.10)

Defeasance

If the Corporation shall pay or cause to be paid to the Holders of Bonds of a Series the principal or Redemption Price of and interest thereon, at the times and in the manner stipulated in the Bonds, in the Indenture, and in the applicable Supplemental Indenture, then the pledge of the Trust Estate and all other rights granted by the Indenture to such Bonds shall be discharged and satisfied.

Bonds for the payment or redemption of which money shall have been set aside and shall be held in trust by the Trustee (through deposit of money for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the above paragraph. All Outstanding Bonds of any Series or any maturity within a Series or a portion of a maturity within a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the above paragraph if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Indenture notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient in the judgment of a firm of independent certified public accountants to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (iii) in the event said Bonds are not to be redeemed within the next succeeding sixty (60) days, the Corporation shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of said Bonds at their last known addresses appearing on the registration books, a notice to the Holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this heading, and stating such maturity or redemption date upon which money is to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds, (iv) in the event said Bonds do not then bear interest at a stated rate per annum to their respective maturity dates or are subject to mandatory or optional tender, the Corporation shall have delivered Rating Confirmations to the Trustee, and (v) the Corporation shall have delivered to the Trustee an opinion of Bond Counsel to the effect that said Bonds having been deemed to have been paid as provided in this heading would not (A) cause said Bonds to have been "reissued" for purposes of section 1001 of the Code and (B) adversely affect the exclusion of interest on any Tax Exempt Bond from gross income for purposes of federal income taxation.

The Corporation shall give written notice to the Trustee of its selection of the Series and maturity payment of which shall be made in accordance with this heading. The Trustee shall select the Bonds of like Series and maturity payment of which shall be made in accordance with this heading in the manner provided in the provisions of the Indenture described above under the heading "Selection of Bonds to be Redeemed". Neither the Defeasance Securities nor money deposited with the Trustee pursuant to this heading nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds; ***provided***, ***however***, that any money received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any income or interest earned by, or increment to, the investment of any such money so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required as described above to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: First, to each Provider the Provider Payments which have not been repaid, *pro rata*, based upon the respective Provider Payments then unpaid to each Provider; and, then, the balance thereof to the Corporation. The money so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Indenture.

(Indenture Section 12.01)

No Recourse under Indenture or on the Bonds

All covenants, stipulations, promises, agreements and obligations of the Corporation contained in the Indenture shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Corporation and not of any member, officer or employee of the Corporation, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claims based thereon, on the Indenture or on the Supplemental Indenture against any member, officer or employee of the Corporation or any person executing the Bonds, all such liability, if any, being expressly waived and released by every Holder of Bonds by the acceptance of the Bonds.

(Indenture Section 14.04)

Certain Provisions Relating to Capital Appreciation Bonds and Deferred Income Bonds

For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an “event of default”, as provided in the provisions of the Indenture described above under the heading “Mandatory Redemptions upon Payment Default”, the then current Accreted Value of such Bond shall be deemed to be its principal amount. In computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to the Corporation, the City or the Trustee any notice, consent, request, or demand pursuant to the Indenture for any purpose whatsoever, the Accreted Value of such Bond as at the immediately preceding Valuation Date shall be deemed to be its principal amount. Notwithstanding any other provision of the Indenture, the amount payable at any time with respect to the principal of and interest on any Capital Appreciation Bond shall not exceed the Accreted Value thereof at such time. For purposes of receiving payment of the Redemption Price or principal of a Capital Appreciation Bond called for redemption prior to maturity or the principal of which has been declared to be immediately due and payable pursuant to the provisions of the Indenture described above under the heading “Mandatory Redemptions upon Payment Default”, the difference between the Accreted Value of such Bond when the Redemption Price or principal thereof is due upon such redemption or declaration and the principal of such Bond on the date the Bonds of the Series of which it is a part were first issued shall be deemed not to be accrued and unpaid interest thereon.

For the purposes of (i) receiving payment of the Redemption Price if a Deferred Income Bond is redeemed, or (ii) receiving payment of a Deferred Income Bond if the principal of all Bonds is declared immediately due and payable following an “event of default,” as provided in the provisions of the Indenture described above under the heading “Mandatory Redemptions upon Payment Default”, the then current Appreciated Value of such Bond shall be deemed to be its principal amount. In computing the principal amount of Bonds held by the registered owner of a Deferred Income Bond in giving to the Corporation or the Trustee any notice, consent, request, or demand pursuant to the Indenture for any purpose whatsoever, the Appreciated Value of such Bond as at the immediately preceding Valuation Date shall be deemed to be its principal amount. Notwithstanding any other provision of the Indenture, the amount payable at any time prior to the Interest Commencement Date with respect to the principal of and interest on any Deferred Income Bond shall not exceed the Appreciated Value thereof at such time. For purposes of receiving payment prior to the Interest Commencement Date of the Redemption Price or principal of a Deferred Income Bond called for redemption prior to maturity or the principal of which has been declared to be immediately due and payable pursuant to the provisions of the Indenture described above under the heading “Mandatory Redemptions upon Payment Default”, the difference between the Appreciated Value of such Bond when the Redemption Price or principal thereof is due upon such redemption or declaration and the principal of such Bond on the date the Bonds were first issued shall be deemed not to be accrued and unpaid interest thereon.

(Indenture Section 14.07)

Insurance Provisions

The Insurer is deemed to be the sole holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2012A Bonds insured by it are entitled to take pursuant to the provisions of the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

The Insurer is a third party beneficiary to the Indenture in respect of any rights granted to the Insurer under the Indenture, including the Third Supplemental Trust Indenture.

Any amendment, supplement, modification to, or waiver of, the Indenture or any other transaction document, including any underlying security agreement (each a "Related Document"), that requires the consent of Bondholders or adversely affects the rights and interests of the Insurer is subject to the prior written consent of the Insurer.

The rights granted to the Insurer under the Indenture or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Bondholders or any other person is required in addition to the consent of the Insurer.

No principal of or interest on an Insured Bond paid by the Insurer under the Insurance Policy shall be deemed paid for purposes of the Indenture and the Insured Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Corporation in accordance with the Indenture.

If, on the third Business Day prior to a scheduled Interest Payment Date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, money sufficient to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to a Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Bonds and the amount required to pay principal of the Insured Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Trustee shall designate any portion of payment of principal on Insured Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided, however, that the Trustee's failure to so designate any payment or issue any replacement bond shall have no effect on the amount of principal or interest payable by the Corporation on any Insured Bond or the subrogation rights of the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Insured Bond.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Holders of Insured Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of such Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to such Bondholders in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections of the Indenture regarding payment of Bonds.

Any funds remaining in the Policy Payments Account following an Interest Payment Date shall promptly be remitted to the Insurer.

The Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy.

(Third Supplemental Trust Indenture, Article V)

APPENDIX B

CERTAIN DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SUPPORT AND DEVELOPMENT AGREEMENT

Definitions of Certain Terms

"**Agreement**" means the Hudson Yards Support and Development Agreement, dated as of December 1, 2006, by and among the Corporation, HYDC and the City, as from time to time amended or supplemented in accordance with the terms and provisions of the Agreement and of the Indenture.

"**Bonds**" has the meaning given to such term in the recitals to the Agreement.

"**Capitalized Interest**" means interest for the payment of which money derived from the proceeds of Bonds issued for the payment of such interest, and any interest earnings on such money, is available.

"**City**" means The City of New York, a municipal corporation of the State of New York, constituting a political subdivision thereof.

"**Corporation**" means Hudson Yards Infrastructure Corporation, a local development corporation formed under the Not-for-Profit Corporation Law of the State of New York

"**Designee**" means an officer or employee of the City authorized in a written instrument signed by the Director to act on behalf of the Director under the Agreement.

"**Director**" means the Director of Management and Budget of the City or the Director's Designee.

"**Draw Schedule**" means the schedule certified to the Corporation by HYDC and approved by the Corporation, as annexed to the Agreement as Exhibit B, setting forth the anticipated dates on which the Corporation is reasonably expected to be required to advance money for payments of the Project Costs and the amounts projected to be paid on each such date, as such schedule may from time to time be revised or modified by HYDC and recertified and resubmitted to and approved by the Corporation.

"**Event of Default**" has the meaning given to such term in the provisions of the Agreement described herein under the heading "Events of Default".

"**Fiscal Year**" means a period of twelve (12) consecutive months beginning July 1st in any calendar year and ending on June 30th of the succeeding calendar year.

"**HYDC Budget**" means the budget of HYDC Expenses for a Fiscal Year prepared by HYDC pursuant to the provisions of the Agreement described herein under the heading "HYDC Expenses and Budget", as from time to time amended in accordance with the Agreement and as approved by the Corporation.

"**HYDC Expenses**" means all costs, fees and expenses of HYDC of any kind arising out of or incurred in connection with the performance of its duties and obligations under the Agreement, services performed to facilitate the development of the Project Area and maintaining its corporate existence, and for its administrative and overhead expenses, including without limitation:

(i) salaries;

(ii) insurance premiums;

(iii) fees and expenses of architects, engineers, attorneys and other consultants retained by HYDC;

(iv) fees, charges, expenses, payments, indemnities and other similar charges payable to or for (a) auditing, legal, financial and investment advisory and other professional and consulting services, and (b) printing, advertisements and publication or other distribution of notices; and

(v) any and all other fees, charges and expenses required or permitted to be incurred by HYDC or required to be paid by HYDC.

"**Indenture**" has the meaning given such term in the recitals to the Agreement.

"**Indenture Trustee**" means U.S. Bank National Association or any successor trustee under the Indenture.

"**Initial Bonds**" means the Bonds first issued by the Corporation in connection with the Project.

"**Interest Deficiency Notice**" means with respect to an Interest Payment Date a written notice setting forth the amount by which the interest payable on Supported Bonds on such Interest Payment Date exceeds the money available for the payment thereof, as such notice may from time to time have been amended.

"**Interest Payment Date**" means each date on which interest on Supported Bonds is payable in accordance with their terms.

"**Interest Support Payments**" means the payments required to be made by the City pursuant to the provisions of the Agreement described herein under the heading "Interest Support Payments" in connection with interest on the Corporation's Supported Bonds.

"**MTA Agreement**" has the meaning given such term in the recitals to the Agreement.

"**Net Interest Obligation**" means for any Fiscal Year the amount by which the interest the Corporation projects to be payable during such Fiscal Year on Outstanding Supported Bonds, including the Corporation's estimate of interest payable on Supported Bonds that bear interest at variable interest rates and on Supported Bonds the Corporation anticipates to issue subsequent to the date of such notice, exceeds the Capitalized Interest and other money the Corporation reasonably expects to be available for the payment thereof.

"**Net Interest Obligation Notice**" means a written notice setting forth the Net Interest Obligation for a Fiscal Year, as from time to time amended.

"**New Development**" means the construction of a building or other improvement within the Project Area for residential, commercial or other use or uses, or the Substantial Rehabilitation of an existing building or improvement within the Project Area, in each case evidenced by the issuance of a temporary or permanent certificate of occupancy on or after January 19, 2005.

"**PILOT Agreement**" has the meaning given to such term in the Indenture.

"**PILOT Payment**" means a payment made pursuant to a PILOT Agreement between a governmental body, including any public benefit corporation or other instrumentality of a governmental body, in lieu of *ad valorem* real property tax on a New Development that is paid directly or indirectly to the City.

"**Plans and Specifications**" means the completed final schematic plans, design development drawings, and all other design documents for each separate component of the Project, which shall conform to the schematic drawings approved by the City, as such Plans and Specifications may be modified from time to time in accordance with the provisions of the Agreement described herein under the heading "Approval Process".

"**Project**" has the meaning given to such term in the recitals to the Agreement.

"**Project Area**" means the geographic area within the City in the Borough of Manhattan referred to as the "Hudson Yards Finance District," as more particularly described in Resolution 547 of 2006 of the City's City Council.

"**Project Cost Requisition**" means a requisition signed by the Corporation and delivered to the Indenture Trustee in accordance with the Indenture.

"**Project Costs**" has the meaning given to such term in the Indenture.

"**Substantial Rehabilitation**" means any one or a combination of (i) work necessary to bring a building into compliance with all applicable laws and regulations, including but not limited to the installation, replacement or repair of heading, plumbing, electrical and related systems and the elimination of hazardous violations in the building in accordance with state and local laws and regulations, (ii) reconstruction or work to improve the habitability or prolong the useful life of a structure, or (iii) an addition to an existing building that substantially increases the square footage or floor area thereof, which, in each case, increases the assessed value of such building or structure by twenty percent (20%) or more over the prior year's assessed value.

"**Supported Bonds**" means the Bonds issued prior to the Conversion Date in connection with which Interest Support Payments are required to be made, which shall consist of (i) all Outstanding Senior Bonds issued prior to the Conversion Date and (ii) the Outstanding Senior Bonds issued after the Conversion Date and the Outstanding Subordinate Bonds, whenever issued, designated as Supported Bonds in the Supplemental Indenture authorizing their issuance.

"**Tax Equivalency Payment**" means each payment required to be made by the City pursuant to the provisions of the Agreement described herein under the heading "Tax Equivalency Payments".

"**Tax Receipts**" means all *ad valorem* real property taxes and PILOT Payments collected by the City from owners of New Developments, including any amounts collected (i) as a consequence or result of enforcement proceedings, (ii) as interest or penalties for the failure of any such owner to make timely payment of the *ad valorem* real property taxes levied against such New Development, (iii) as the proceeds of any sale of tax liens related to a New Development and (iv) as a consequence or result of the enforcement of a PILOT Agreement, including the foreclosure of any mortgage securing the same.

(Section 1.01)

General Administration of the Project

(a) HYDC shall serve as the Corporation's development consultant and representative in connection with the planning, design and construction of the Project, and shall use its best efforts to assist governmental or quasi-governmental entities or private developers in completing the Project. HYDC shall accomplish this goal through creative use of the City's land and building resources, public infrastructure investment and available federal, State, City and other financial assistance programs, and by making requisitions from the Corporation for the purpose of receiving payments and/or reimbursements for the foregoing. HYDC shall provide such services as shall be necessary and convenient for the administration, oversight and review of any such planning, design and implementation services undertaken for the Project or any New Development.

(b) HYDC shall (i) continue to cause the planning, design and construction of the Project, (ii) diligently work to prosecute such construction, and (iii) use commercially reasonable efforts to cause the Project to be completed as expeditiously as may be practicable.

(c) HYDC shall perform its work so as to minimize conflicts and inefficiencies of any kind with any and all governmental or quasi-governmental agencies, consultants, contractors, or other parties engaged in the development, construction and improvement of the Project.

(d) Nothing in the Agreement shall prevent the City from using its own employees or retaining any other firm or person in any capacity in connection with the Project.

(Section 2.01)

Land Acquisition and Disposition

HYDC shall promote the development of the Hudson Yards Financing District and the Project by causing the acquisition of properties necessary for the Project, through the negotiation of leases for, or causing the condemnation if necessary, through the appropriate condemning authority, including the City and MTA, and by facilitating such acquisitions, leases and condemnations. To the extent certain City-owned property is surplus to the needs of the Project, HYDC shall promote the development of the Hudson Yards Financing District by causing the disposition of such property.

(Section 2.02)

Approval Process

Except as otherwise determined by the parties to the Agreement:

(a) Prior to devoting substantial staff time to or otherwise undertaking any portion of the Project, any proposed addition to the Project (an "Additional Project Element"), or any New Development (which for purposes of this section shall include conducting a study) (all "Additional Work"), HYDC shall submit a description of the proposed Additional Work, including estimates of a budget, the governmental or quasi-governmental agencies, developers and contractors to be involved in the Additional Project Element, if any, a performance schedule, an estimate of staff time to be spent on the Additional Work, and, where appropriate, square footage, uses and site location of the New Development, to an Authorized Officer of the Corporation.

(b) The Corporation shall approve, disapprove or modify HYDC's request to perform Additional Work promptly after receipt of said description. HYDC shall not authorize or expend any its funds for Additional Work prior to approval of the proposed Additional Work (including the budget and performance schedule therefor and for the Additional Project Element) by the Corporation and authorization under HYDC's applicable corporate procedures. Changes within approved Additional Work budgets in excess of a 15% change in any line, and any other material change in the schedule or Plans and Specifications of an Additional Project (including the addition of a new line in the approved budget), must be furnished to and approved by the Corporation.

(c) HYDC shall not, without the prior written consent of the Corporation, enter into any contract or other binding commitment that requires or provides for the expenditure of proceeds of the Bonds.

(Section 2.03)

Project Planning and Other Services

(a) In connection with the Project and any other Additional Project Element administered by HYDC, subject to the approvals set forth in the provisions of the Agreement described herein under the heading "Approval Process" and consistent with applicable laws, rules and regulations relating to the source of funds, HYDC may undertake, and incur Project Costs for or incur costs to be reimbursed by the Corporation or the City, activities including, without limitation:

(i) working with appropriate governmental and quasi-governmental agencies to obtain and implement financial assistance from federal, State, City and other sources for the development and improvement of the Project Area;

(ii) facilitating the processing of sales, leases, permits and contracts through the City's approval processes;

(iii) assisting in the processing of condemnations, zoning changes, street closings and other land use actions; and

(iv) reviewing feasibility, market and impact studies, surveys, maps, borings, site analyses, plans, specifications, contract documents, appraisals and title searches.

(b) HYDC may review, for conformance with the Project, the Plans and Specifications prepared for any Additional Project Element, including (i) analysis and evaluation of the design of the improvement, plans and specifications, and materials and equipment to be used for the improvement, (ii) review of the design and resolution of any design changes as may arise, (iii) management of fee expenditures in relation to budgets, (iv) management of design to meet Project objectives, and (v) review and comment on design documents during production.

(c) HYDC shall be responsible for assisting each governmental or quasi-governmental agency or developer in those instances where HYDC deems it appropriate in securing and/or making arrangements for procurement of all governmental authorizations, permits and licenses, zoning consents, approvals and variances as may be required for a New Development. However, responsibility for securing such governmental authorizations, permits and licenses, zoning consents, approvals and variances rests with the governmental or quasi-governmental agencies and developers.

(Section 2.03)

Project Implementation

(a) In connection with the Project and any Additional Project Element, subject to the approvals set forth in the provisions of the Agreement described herein under the heading "Approval Process" and consistent with applicable laws, rules and regulations relating to the source of funds, HYDC may facilitate and oversee, and incur Project Costs or incur costs to be reimbursed by the Corporation or the City for, activities including, without limitation:

(i) demolishing or sealing-up vacant buildings;

(ii) preparing City-owned sites for construction, reconstruction or disposition (including, without limitation, grading, foundation improvements and work to alleviate subsurface faults);

(iii) constructing improvements to real property;

(iv) renovating and rehabilitating City-owned buildings or other buildings;

(v) acquiring and managing property;

(vi) constructing drainage, road, utility, parking, security and circulation improvements and facilities on property owned by, or under the control of, the City;

(vii) establishing energy conservation and improvements;

(viii) providing relocation assistance;

(ix) providing construction management or co-ordination;

(x) developing and redeveloping markets, marginal streets, and water front property;

(xi) serving as an agent of the City for the negotiation and processing of the PILOT Agreements with regard to the Project Area;

(xii) providing information regarding the availability of financial assistance for applicants in the City from both public and private sources, in the form of loans, grants, tax incentives or any additional form available;

(xiii) maintaining and updating a ledger setting forth the total amount disbursed with respect to any Project or any Additional Project Element; and

(xiv) reviewing and approving requisitions for payment and the supporting payment breakdown.

(b) HYDC shall not be responsible for construction means, methods, techniques, sequences and procedures employed by contractors in the construction or improvement of the Project Area, but will be responsible to report on these to the Corporation. HYDC shall attend meetings and presentations as necessary and shall provide relevant information for these meetings and prepare meeting minutes.

(c) HYDC shall be the liaison with the governmental and quasi-governmental agencies, and to the extent HYDC deems it necessary, the developers of the Project, any Additional Project Element, or any New Development. In the course of such representation, HYDC may

(i) attend meetings;

(ii) receive and review reports;

(iii) review and discuss elements of the Project or any Additional Project Element, including implementation strategies and progress, value engineering, disputes, design issues, other topics relating to the design and construction of the Project, and any and all relevant reports related thereto generated by parties involved in the Project, and receive briefings on and discuss any aspect of interest related to the Project before any final actions related to such topics are taken or authorized to be taken;

(iv) vote, with the prior approval of the Corporation, on decisions related to the Project and any Additional Project Element;

(v) inspect materials related to the Project and any Additional Project Element, including invoices, materials associated with disputes with contractors and consultants, and materials associated with change orders, and conduct field inspections of the Project and the Additional Project Elements to assess the progress of the Project and the Additional Project Elements; and

(vi) in connection with the extension of the No. 7 line of the subway (the "Subway Extension"), officers of HYDC shall serve on a project committee to oversee the construction of the Subway Extension, in accordance with the No. 7 Extension Memorandum of Understanding among Metropolitan Transportation Authority, on behalf of itself and New York City Transit Authority and MTA Capital Construction, the City, HYDC and the Corporation, as the same may be amended from time to time.

(d) HYDC shall be responsible for all matters pertaining to (i) monitoring compliance with the schedule and budget for the Project; and (ii) close-out of the Project, including, but not limited to, obtaining all necessary guarantees, as-built drawings, certificates of compliance with the Plans and Specifications, certificates of occupancy and other necessary governmental approvals required for occupancy; and certification that the costs of the Project have been paid in full to date, and that all remaining Project Costs will be paid in full with the proceeds of the final disbursement.

(e) Any guaranties and warranties relating to the construction of the Project or any Additional Project Element or materials utilized in connection therewith shall be made for the benefit of HYDC and the Corporation, and, to the extent that the Corporation is not expressly named in any such warranty or guaranty, HYDC shall assign its rights and interest therein to the Corporation, pursuant to an assignment reasonably satisfactory to the Corporation in form and substance. HYDC shall cooperate with the Corporation in the prosecution of any claims against any entity issuing a guaranty and/or warranty for the benefit of the Corporation under the Agreement.

(f) Approval by the Corporation of any construction change orders shall be made in accordance with the provisions of the Agreement described herein under the heading "Approval Process", or as otherwise agreed by HYDC and the Corporation. For purposes of the Agreement, any construction change order which will result in a material modification of the Plans or Specifications shall be approved in writing by the Corporation.

(g) HYDC agrees that it will use its best efforts to cause such construction, reconstruction, rehabilitation and improvement to be completed in accordance with the Plans and Specifications; but if for any reason such construction, reconstruction, rehabilitation and improvement is delayed there shall be no resulting liability on the part of HYDC to the Corporation and no diminution in or postponement of the reimbursement of Project Costs.

(Section 2.04)

Fees

All fees, if any, charged by HYDC shall be approved by the Corporation prior to HYDC's entering into any fee arrangement, except as otherwise provided in the Agreement.

(Section 2.05)

Adequacy, Sufficiency or Suitability

HYDC makes no warranties or representations and accepts no liabilities or responsibilities with respect to or for the adequacy, sufficiency or suitability of or defects in the Plans and Specifications or any contracts or agreements with respect to the construction, reconstruction, rehabilitation or improvement of the Project or any New Development.

(Section 2.08)

Completion Dates

As between the parties to the Agreement, the Subway Extension, the Public Amenities and the purchase of the TDRs shall each be deemed to be complete upon the filing with the Indenture Trustee and the Corporation of a notice of final completion with respect thereto, which shall be issued by an Authorized Officer of HYDC. Such notice shall state (i) that the component of the Project to which it relates has been completed substantially in accordance with the Plans and Specifications, (ii) the date of such completion, (iii) that such component is free and clear of liens and encumbrances or that, in the judgment of HYDC, adequate security has been provided to protect against enforcement of such liens or encumbrances and (iv) the amount, if any, required, in the opinion of such Authorized Officer of HYDC, for the payment of any Project Costs relating thereto then unpaid. The Project shall be deemed complete when certificates of final completion for the Subway Extension, the Public Amenities and the purchase of the TDRs have been filed with the Indenture Trustee and the Corporation. If, upon the completion of a component of the Project or the Project as a whole, there shall be any money remaining in the Construction Fund not required either to provide for the payment of the Project Costs or required to be reserved for payment of claims or to bond or discharge liens arising out of the construction of the Project, such money shall be deposited and applied as provided in the Indenture.

(Section 2.10)

HYDC Expenses and Budget

HYDC shall, not later than sixty (60) days after the date of execution of the Agreement, prepare a budget for the then current Fiscal Year of the HYDC Expenses for the balance of such Fiscal Year. At least sixty (60) days prior to the beginning of each Fiscal Year thereafter, HYDC shall prepare a budget of the HYDC Expenses for such Fiscal Year. Each such budget shall set forth by reasonably descriptive category, both in the aggregate and monthly, the HYDC Expenses projected to be payable during such Fiscal Year and during each month of such Fiscal Year. A budget may be amended by HYDC from time to time during the Fiscal Year. A certified copy of each such budget or amendments thereto shall be promptly filed with the Corporation for the Corporation's approval, which approval will not be unreasonably withheld or delayed.

(Section 2.12)

Issuance of Bonds

In order to provide money for Project Costs, the Corporation will use all reasonable efforts to issue, sell and deliver Bonds at such times and in such amounts as in its discretion it determines is necessary to pay Project Cost Requisitions anticipated in accordance with the then most recent Project Draw Schedule.

(Section 3.01)

Payment of Project Costs

The Corporation agrees to pay, but solely from the proceeds of its Bonds available therefor, all Project Costs identified in properly prepared and executed Project Cost Requisitions.

(Section 3.02)

Advances by the City or HYDC

The Corporation shall reimburse the City and HYDC, but solely from the proceeds of its Bonds available therefor, for amounts advanced or expenses that constitute Project Costs incurred by either of them prior to the date of issuance of the Initial Bonds by the Corporation, provided that reimbursement thereof will not adversely affect the exclusion of interest on any Bonds from gross income for purposes of federal income taxation. The City and HYDC each agree to submit to the Corporation such documents as may be reasonably required by the Corporation to establish the amount and purposes of such advances or expenses and to enable the Corporation and HYDC to execute Project Cost Requisitions for payment thereof in accordance with the Indenture.

(Section 3.03)

HYDC Expenses

The Corporation, not later than the first day of each calendar quarter of a Fiscal Year, shall pay to HYDC the amount set forth in the HYDC Budget for such Fiscal Year as payable during such calendar quarter for HYDC Expenses. All money paid to HYDC pursuant to this heading shall be held by HYDC separate and apart from all other money. Upon the expiration of the Agreement, HYDC shall remit to the Corporation any excess amounts not required for the operations of HYDC during the then current Fiscal Year, as reflected in the HYDC Budget for such Fiscal Year. HYDC shall maintain and provide to the Corporation the records relating to the investment of and income or interest earned on all money advanced to HYDC by the Corporation pursuant to this heading.

(Section 3.04)

Conditions of Bond Closings

Prior to or concurrently with the issuance and delivery of Bonds to the underwriters or purchasers thereof (the "Closing"), the following documents shall be delivered to the Corporation, in each case satisfactory in form and substance to the Corporation and its counsel:

(a) A certificate, dated the date of Closing, of the Director to the effect that: (i) the representations and warranties of the City contained in the Agreement are true and correct in all material respects on and as of the date of Closing as if such representations and warranties had been made on and as of such date; (ii) no "event of default" on behalf of the City under the Agreement has occurred and is continuing; (iii) appropriations have been duly made by the City for the payment of Tax Equivalency Payments and Interest Support Payments to be made during the then current Fiscal Year in an amount at least equal to the amount required by the provisions of the Agreement described below under the heading "Mayoral Budget" to have been included in the expense budget for such Fiscal Year submitted by the Mayor to the City Council; (iv) if any such appropriation is included in a unit of appropriation out of which payments other than Tax Equivalency Payments or Interest Support Payments, as the case may be, may be made, the amount appropriated in such unit of appropriation is at least equal to all payments, including the Tax Equivalency Payments or Interest Support Payments, as applicable, payable, and reasonably expected to be paid, from such unit of appropriation; and (v) as of the date of Closing, the information relating to the City and the Project obtained from the City and contained in the Official Statement does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(b) A certificate, dated the date of Closing, of the appropriate officer of HYDC to the effect that: (i) the representations and warranties of HYDC contained in the Agreement are true and correct in all material respects on and as of the date of Closing as if such representations and warranties had been made on and as of such date; and (ii) no "event of default" on behalf of HYDC under the Agreement has occurred and is continuing; and

(c) Such additional legal opinions, certificates, instruments and other documents as the Corporation or its counsel reasonably may request, satisfactory in the reasonable judgment of the Corporation and its counsel, as the case may be, including, but not limited to, such opinions, certificates and other documents to evidence (i) compliance by the City and HYDC with legal requirements reasonably relating to the transactions contemplated by the Agreement, and (ii) the truth and completeness, as of the date of Closing, of the representations and warranties of the City and HYDC contained in the Agreement and the certificates or other documents referred to therein and of the statements and information contained in the Official Statement with respect to the City, HYDC and the Project.

(Section 3.05)

Tax Equivalency Payments

Subject to adjustment as provided in this heading and to the provisions of the Agreement described herein under the heading "Assignment of Payments by Corporation", not later than the 1st day of August and February of each Fiscal Year, commencing on or after July 1, 2007, the City shall pay to or upon the order of the Corporation fifty percent (50%) of (i) the *ad valorem* real property taxes levied by the City on New Developments that are payable during such Fiscal Year and (ii) the PILOT Payments projected by the City to be received during such Fiscal Year. The amount payable by the City on each such date shall be adjusted to reflect the amount, if any, by which the Tax Receipts collected during the six month period that commenced on the nearer of the January 1st or July 1st immediately preceding such payment date either exceeded or was less than the amount payable on such payment date. The City shall retain in its possession for a reasonable period of years records of all Tax Receipts collected during a Fiscal Year sufficient to identify each New Development, the *ad valorem* real property taxes levied against each New Development during such Fiscal Year and the Tax Receipts collected during such Fiscal Year in connection with each such New Development, which records shall be subject at all reasonable times during normal business hours to the inspection of the Corporation, the Indenture Trustee and their respective agents and representatives. At the written request of the City or the Indenture Trustee, copies of such records shall be delivered to the City and the Indenture Trustee.

(Section 4.01)

Interest Support Payments

Not later than April 1st of each year, the Corporation shall give a Net Interest Obligation Notice to the City setting forth the Net Interest Obligation for the ensuing Fiscal Year. The Corporation from time to time thereafter may amend or modify such notice. The Corporation shall, not later than fifteen days prior to each Interest Payment Date, give an Interest Deficiency Notice to the City setting forth the amount by which the interest payable by the Corporation on such Interest Payment Date exceeds the amount available for the payment thereof, including from Capitalized Interest, which notice may from time to time be amended by the Corporation. The City shall, not later than the four Business Days immediately preceding an Interest Payment Date, pay to or upon the order of the Corporation the amount set forth in the Interest Deficiency Notice relating to such Interest Payment Date.

The Corporation agrees that it will not issue Supported Bonds in an aggregate principal amount that exceeds the principal amount of the Corporation's bonds in connection with which the City Council, by appropriate resolution, has authorized the City to make Interest Support Payments, which amount the Corporation and the City hereby acknowledge that as of the date of the Agreement is three billion dollars ($3,000,000,000), exclusive of Supported Bonds issued to pay or provide for the payment of Supported Bonds.

(Section 4.02)

Nature of Obligations of the City

Except as hereinafter provided in this heading, the obligation of the City to pay the Tax Equivalency Payments and Interest Support Payments shall be absolute and unconditional, and such payments shall be payable without any rights of setoff, recoupment or counterclaim it might have against the Corporation, HYDC, the Indenture Trustee or any other person, or any damage to or destruction to the Project, or the taking by eminent domain of title to or the right of use of all or any part of the Project. If the City shall have paid all Tax Equivalency Payments and Interest Support Payments required by the Agreement and continues to pay the same when due, the City shall not be precluded from bringing any action it may otherwise have against the Corporation or HYDC arising out of the failure of either of them to perform and observe any agreement or covenant, whether expressed or implied, or any duty, liability or obligation of either of them arising out of or in connection with the Agreement.

The City will not terminate the Agreement or be excused from performing its obligations under the Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute a failure of consideration or frustration of purpose, without regard to any default by the Corporation or HYDC, or the failure of the Corporation or HYDC to perform and observe any agreement or covenant, whether expressed or implied, or any duty, liability or obligation of either of them arising out of or in connection with the Agreement.

Notwithstanding anything in the Agreement to the contrary, payment of the Tax Equivalency Payments and the Interest Support Payments and all other obligations of the City under the Agreement shall be subject to and dependent upon appropriations being made from time to time by the City for such purpose.

(Section 4.03)

Assignment of Payments by Corporation

It is understood that all payments by the City to the Corporation under the Agreement are to be pledged and assigned by the Corporation to the payment of outstanding Bonds issued pursuant to the Indenture or otherwise, and the City consents to such assignment. Except as provided in this heading or the Indenture, the Corporation shall not assign the Agreement or any payments under the Agreement without the prior written consent of the City.

(Section 4.04)

Direction as to Payment

Tax Equivalency Payments and Interest Support Payments shall, so long as Bonds are outstanding under the Indenture, be paid by the City, when due, to the Indenture Trustee for deposit in accordance with the Indenture.

(Section 4.05)

Mayoral Budget

The expense budget submitted by the Mayor to the City Council in each Fiscal Year for the succeeding Fiscal Year shall include appropriations for payments to or upon the order of the Corporation of (i) an amount equal to the *ad valorem* real property tax levy made by the City for such Fiscal Year against all New Developments, (ii) PILOT Payments payable to the City during such Fiscal Year and (iii) an amount equal to the Net Interest Obligation set forth in the Net Interest Obligation Notice for such Fiscal Year, which appropriations shall be separate and apart from each other, but either appropriation may be included in a unit of appropriation out of which payments other than the Tax Equivalency Payments or Interest Support Payments may be paid; ***provided***, ***however***, that, if included within a unit of appropriation out of which payments other than the Tax Equivalency Payments and Interest Support Payments may be paid, the amount set forth in said expense budget for such unit of appropriation shall not be less than the amount of all payments, including the Tax Equivalency Payments or Interest Support Payments, payable from such unit of appropriation. If at any time during a Fiscal Year the appropriation enacted for such Fiscal Year is no longer sufficient in amount to pay the Tax Equivalency Payments and Interest Support Payments payable during the balance of such Fiscal Year, the Mayor shall take all action required to seek an increase in the appropriation from which the Tax Equivalency Payments or Interest Support Payments are to be paid so that it shall be sufficient to pay the same for the balance of such Fiscal Year.

To assist the Mayor in the preparation of the expense budget to be submitted to the City Council, the Corporation agrees to give the City a Net Interest Obligation Notice not later than by April 1st of each year.

(Section 4.06)

Indemnification and Limitation on Liability

(a) The City, to the extent permitted by law, (i) releases the Corporation and HYDC and each member, officer and employee of the Corporation or HYDC from claims for damages or liability arising from or out of the design, acquisition, construction, reconstruction, rehabilitation, improvement or use of the Project, and (ii) shall indemnify and hold the Corporation and HYDC and each member, director, officer and employee of the Corporation harmless against any and all liability, loss, cost, damage or claim, and shall pay any and all judgment or expense, of any and all kinds or nature and however arising, imposed by law, including interest thereon, which it or any of them may sustain, be subject to or be caused to incur by reason of any claim, action or proceeding whatsoever, including without limitation, any claim, action or proceeding arising from or out of the design, acquisition, construction, reconstruction, rehabilitation, improvement or use of the Project, or upon or arising out of an allegation that an official statement, prospectus, placement memorandum, offering circular or other offering document prepared in connection with the sale and issuance of Bonds contained an untrue or misleading statement of a material fact or omitted to state a material fact necessary in order to make the statements made therein in light of the circumstances under which they were made not misleading. Notwithstanding the foregoing provisions of this paragraph, neither the Corporation nor HYDC shall be indemnified or held harmless by the City for any Project Costs related to the Subway Extension in excess of $2,100,000,000, exclusive of the costs of acquiring real property or interests therein in connection with the Subway Extension, unless such additional costs were approved in writing by the City prior to being incurred.

(b) The Corporation and HYDC each agree to give the City prompt notice in writing of the assertion of any claim or the institution of each such suit, action or proceeding and to cooperate with the City in the investigation of such claim and the defense, adjustment, settlement or compromise of any such action or proceeding. Neither the Corporation nor HYDC shall settle any such suit, action or proceeding without the prior written consent of the Corporation Counsel of the City.

(c) Except as provided in paragraph (d) of this heading, the City, at its own cost and expense, shall defend any and all suits, actions or proceedings which may be brought or asserted against the Corporation, HYDC or their respective members, directors, officers or employees for which the City may be required to indemnify the Corporation or HYDC or hold the Corporation or HYDC harmless pursuant to paragraph (a) of this heading, but this provision shall not be deemed to relieve any insurance company which has issued a policy of insurance from its obligation to defend the City, the Corporation, HYDC and any other insured named in such policy of insurance in connection with claims, suits or actions covered by such policy.

(d) The Corporation, HYDC and each member, director, officer or employee of the Corporation or HYDC shall, at the cost and expense of the City, be entitled to employ separate counsel in any action or proceeding arising out of any alleged act or omission which occurred or is alleged to have occurred while the member, director, officer or employee was acting within the scope of his or her employment or duties, and to conduct the defense thereof, in which (i) the Corporation Counsel of the City determines, based on his or her investigation and review of the facts and circumstances of the case, that the interests of such person and the interests of the City are in conflict, or in the event the Corporation Counsel determines that no conflict exists, a court of competent jurisdiction subsequently determines that such person is entitled to employ separate counsel, or (ii) such person may have an available defense which cannot as a matter of law be asserted on behalf of such person by the City or by counsel employed by it or (iii) such person may be subject to criminal liability, penalty or forfeiture or (iv) the City has consented to the employment of separate counsel.

(Section 4.07)

Amendment of MTA Agreement

The City shall not, without the prior written consent of the Corporation, amend, change, modify or terminate the MTA Agreement, or waive any provision thereof, if such amendment, change, modification, termination or waiver reduces the amount or delays the date of payment of any amount payable to the Corporation pursuant to Section 2 or 3 of the MTA Agreement. The City acknowledges that the provisions of Sections 2 and 3 of the MTA Agreement are intended to be for the benefit of the Corporation.

(Section 4.08)

City Representations and Warranties

The City represents and warrants as follows:

(a) Legal Entity. The City is a municipal corporation of the State of New York, constituting a political subdivision thereof, duly created and validly existing under the Constitution and laws of the State of New York.

(b) Legal Authority. The City has the good right and lawful authority and power to execute and deliver the Agreement, to perform the obligations and covenants contained in the Agreement and to consummate the transactions contemplated by the Agreement.

(c) Due Authorization. The City has duly authorized by all necessary actions the execution and delivery of the Agreement, the performance of its obligations and covenants under the Agreement, and the consummation of the transactions contemplated by the Agreement.

(d) Validity and Enforceability. The Agreement constitutes a legal, valid and binding obligation of the City, enforceable against the City in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization or other laws relating to the enforcement of creditors' rights generally or the availability of any particular remedy.

(e) No Conflict. The Agreement, the execution and delivery of the Agreement and the performance of the City's obligations under the Agreement (i) do not and will not in any material respect conflict with, or constitute on the part of the City a breach of or default under (a) any existing law, administrative regulation, judgment, order, decree or ruling by or to which it or its revenues, properties or operations are bound or subject or (b) any agreement or other instrument to which the City is a party or by which it or any of its revenues, properties or operations are bound or subject and (ii) will not result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the City's revenues, properties or operations.

(f) Consents and Approvals. All consents, approvals, authorizations or orders of, or filings, registrations or declarations with any court, governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations under the Agreement or the consummation of the transactions contemplated by the Agreement have been duly obtained and are in full force and effect.

(g) No Defaults. The City is not in breach of or default under any agreement or other instrument to which the City is a party or by or to which it or its revenues, properties or operations are bound or subject, or any existing administrative regulation, judgment, order, decree, ruling or other law by or to which it or its revenues, properties or operations are bound or subject, which breach or default is material to the City's ability to perform its obligations under the Agreement; and no event has occurred and is continuing that with the passage of time or the giving of notice, or both, would constitute, under any such agreement or instrument, such a breach or default material to such transactions.

(h) No Litigation. Except as set forth in an official statement, prospectus, placement memorandum or other similar offering document prepared in connection with the issuance and sale of Bonds, no action, suit, proceeding or investigation, in equity or at law, before or by any court or governmental agency or body, is pending or, to the best knowledge of the City, threatened wherein an adverse decision, ruling or finding might impair in any material respect the City's ability to perform its obligations under the Agreement or the validity or enforceability of the Agreement.

(i) Essentiality of the Project. The Project is essential to the proper implementation of the future development and redevelopment of the Project Area.

(j) Not Indebtedness of the City. The Agreement and the obligations of the City under the Agreement do not and will not constitute indebtedness of the City under Article VIII of the Constitution of the State.

(Section 5.01)

HYDC Representations and Warranties

HYDC represents and warrants as follows:

(a) Legal Entity. HYDC is a local development corporation duly created and validly existing under the Not-For-Profit Corporation Law of the State of New York.

(b) Legal Authority. HYDC has the good right and lawful authority and power to execute and deliver the Agreement, to perform the obligations and covenants contained in the Agreement and to consummate the transactions contemplated by the Agreement.

(c) Due Authorization. HYDC has duly authorized by all necessary actions the execution and delivery of the Agreement, the performance of its obligations and covenants under the Agreement, and the consummation of the transactions contemplated by the Agreement.

(d) Validity and Enforceability. The Agreement constitutes a legal, valid and binding obligation of HYDC, enforceable against it in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization or other laws relating to the enforcement of creditors' rights generally or the availability of any particular remedy.

(e) No Conflict. The Agreement, the execution and delivery of the Agreement and the performance of HYDC's obligations under the Agreement (i) do not and will not in any material respect conflict with, or constitute on the part of HYDC a breach of or default under (a) any existing law, administrative regulation, judgment, order, decree or ruling by or to which it or its revenues, properties or operations are bound or subject or (b) any agreement or other instrument to which HYDC is a party or by which it or any of its revenues, properties or operations are bound or subject and (ii) will not result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of HYDC's revenues, properties or operations.

(f) Consents and Approvals. All consents, approvals, authorizations or orders of, or filings, registrations or declarations with any court, governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by HYDC of its obligations under the Agreement or the consummation of the transactions contemplated by the Agreement have been duly obtained and are in full force and effect.

(g) No Defaults. HYDC is not in breach of or default under any agreement or other instrument to which it is a party or by or to which it or its revenues, properties or operations are bound or subject, or any existing administrative regulation, judgment, order, decree, ruling or other law by or to which it or its revenues, properties or operations are bound or subject, which breach or default is material to HYDC's ability to perform its obligations under the Agreement; and no event has occurred and is continuing that with the passage of time or the giving of notice, or both, would constitute, under any such agreement or instrument, such a breach or default material to such transactions.

(h) No Litigation. Except as set forth in an official statement, prospectus, placement memorandum or other similar offering document prepared in connection with the issuance and sale of Bonds, no action, suit, proceeding or investigation, in equity or at law, before or by any court or governmental agency or body, is pending or, to the best knowledge of HYDC, threatened wherein an adverse decision, ruling or finding might impair in any material respect HYDC's ability to perform its obligations under the Agreement or the validity or enforceability of the Agreement.

(Section 5.02)

Corporation Representations and Warranties

The Corporation represents and warrants as follows:

(a) Legal Entity. The Corporation is a local development corporation duly created and validly existing under the Not-For-Profit Corporation Law of the State of New York.

(b) Legal Authority. The Corporation has the good right and lawful authority and power to execute and deliver the Agreement, to perform the obligations and covenants contained in the Agreement and to consummate the transactions contemplated by the Agreement.

(c) Due Authorization. The Corporation has duly authorized by all necessary actions the execution and delivery of the Agreement, the performance of its obligations and covenants under the Agreement, and the consummation of the transactions contemplated by the Agreement.

(d) Validity and Enforceability. The Agreement constitutes a legal, valid and binding obligation of the Corporation, enforceable against it in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization or other laws relating to the enforcement of creditors' rights generally or the availability of any particular remedy.

(e) No Conflict. The Agreement, the execution and delivery of the Agreement and the performance of the Corporation's obligations under the Agreement (i) do not and will not in any material respect conflict with, or constitute on the part of the Corporation a breach of or default under (a) any existing law, administrative regulation, judgment, order, decree or ruling by or to which it or its revenues, properties or operations are bound or subject or (b) any agreement or other instrument to which the Corporation is a party or by which it or any of its revenues, properties or operations are bound or subject and (ii) will not result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the Corporation's revenues, properties or operations.

(f) Consents and Approvals. All consents, approvals, authorizations or orders of, or filings, registrations or declarations with any court, governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Corporation of its obligations under the Agreement or the consummation of the transactions contemplated by the Agreement have been duly obtained and are in full force and effect.

(g) No Defaults. The Corporation is not in breach of or default under any agreement or other instrument to which it is a party or by or to which it or its revenues, properties or operations are bound or subject, or any existing administrative regulation, judgment, order, decree, ruling or other law by or to which it or its revenues, properties or operations are bound or subject, which breach or default is material to the Corporation's ability to perform its obligations under the Agreement; and no event has occurred and is continuing that with the passage of time or the giving of notice, or both, would constitute, under any such agreement or instrument, such a breach or default material to such transactions.

(h) No Litigation. Except as set forth in an official statement, prospectus, placement memorandum or other similar offering document prepared in connection with the issuance and sale of Bonds, no action, suit, proceeding or investigation, in equity or at law, before or by any court or governmental agency or body, is pending or, to the best knowledge of the Corporation, threatened wherein an adverse decision, ruling or finding might impair in any material respect the Corporation's ability to perform its obligations under the Agreement or the validity or enforceability of the Agreement.

(Section 5.03)

Events of Default

An "Event of Default" or a "Default" shall mean, whenever they are used in the Agreement, any one or more of the following events:

(a) Failure by the City to pay or cause to be paid, when due, the Tax Equivalency Payments and Interest Support Payments; or

(b) Failure by any party to the Agreement to observe and perform any covenant, condition or agreement on its part to be observed or performed, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to such party by either of the other parties to the Agreement, unless by reason of the nature of such failure the same cannot be remedied within such thirty (30) day period and within such period commenced to take appropriate actions to remedy such failure and such action is being diligently pursued; or

(c) Any representation or warranty (i) of the City or HYDC contained in the Agreement shall at anytime be untrue in any material respect or (ii) of the Corporation contained in the Agreement shall have been at the time it was made untrue in any material respect; or

(d) A party to the Agreement shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against such party seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it for any substantial part of its property; or such party shall authorize any of the actions set forth above in this subparagraph.

Notwithstanding anything contained in this heading to the contrary, a failure by the City to pay when due any payment required to be made under the Agreement or a failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Agreement, resulting from a failure by the City to appropriate money for such purposes, shall not constitute an Event of Default under the Agreement.

(Section 6.01)

Remedies

Whenever any event of default referred to in the provisions of the Agreement described above under the heading "Events of Default" shall have happened and be continuing, each party to the Agreement may take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant under the Agreement of any other party to the Agreement; ***provided, however***, that (i) the Agreement may not be terminated as a consequence of such event of default and (ii) performance by a non-defaulting party shall not be excused as a consequence of such event of default.

(Section 6.02)

No Remedy Exclusive

No remedy in the Agreement conferred upon or reserved to any party to the Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order for any party to the Agreement to exercise any remedy reserved to it in the Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required in the Agreement.

(Section 6.03)

Termination of Agreement

The Agreement shall terminate on the later of August 31, 2036 or the last day of the calendar month thereafter during which no Bonds are outstanding, except that the City's obligations under the provisions of the Agreement described above under the heading "Indemnification and Limitation on Liability" shall survive termination of the Agreement.

(Section 7.01)

Environmental Quality Review and Historic Preservation

The City, HYDC and the Corporation each covenant that they shall comply with the provisions of Article 8 of the Environmental Conservation Law and any rules and regulations promulgated pursuant thereto and of the provisions of the Historic Preservation Act of 1980 of the State of New York applicable to the Project or additions thereto. As among the City, HYDC and the Corporation, the City shall assume primary responsibility or lead agency status under such laws and shall take such actions as may be required to be taken by the lead agency or agency with primary responsibility thereunder. The Corporation and HYDC will cooperate with and provide assistance to the City in the performance of its duties as lead agency, including the preparation and provision of such documents as may be reasonably requested of the Corporation or HYDC as are necessary to enable the City to comply with such laws.

(Section 7.02)

Cooperation by the City

HYDC shall prepare and submit to the Corporation, and periodically revise as necessary to reflect any changes in the times and amounts of anticipated needs for money to pay the Project Costs, a Draw Schedule. The City and HYDC shall keep the Corporation informed, by notice in writing signed by the Director and an appropriate officer of HYDC, of any unanticipated needs for money to pay the Project Costs. The City and HYDC shall give the Corporation their full cooperation and assistance in all matters relating to financing of the Project.

The City and HYDC, whenever requested by the Corporation, shall provide and certify, or cause to be provided and certified, in form satisfactory to the Corporation, such information concerning either of them, the Project, and such other matters that the Corporation reasonably considers necessary to enable it to complete and publish an official statement, prospectus, placement memorandum, offering circular or other similar document in connection with the sale of Bonds, or to enable the Corporation to make any reports that, in the opinion of counsel to the Corporation, is required by law or regulations of any governmental authority or by contract.

(Section 7.03)

Consent to Sale of Bonds

The Corporation will consult with the Director on the terms and timing of proposed sales of Bonds and the contents of all amendments or supplements to the Indenture, certificates, applications, contracts, official statements, prospectuses, placement memoranda or other similar document relating to the sale of Bonds, notices of sale, advertisements, and other documents relating to financing of the Project. The Corporation shall not enter into any contract for the sale of Bonds, either through negotiated sale or competitive bid, unless the terms and conditions of such sale have been approved by the Director.

(Section 7.04)

Amendments, Changes and Modifications

The Agreement may be amended, changed or modified in any respect provided that each amendment, change or modification is in writing signed by an Authorized Officer of the Corporation and of the City; ***provided***, ***however***, that no amendment, change or modification shall take effect unless and until (i) if the consent of Holders of Outstanding Bonds is required by the Indenture, there shall have been filed with the Indenture Trustee the written consents of the Holders of the percentages of Outstanding Bonds specified in the Indenture, (ii) if the consent of the Indenture Trustee is required by the Indenture, the Indenture Trustee shall have consented thereto and (iii) an executed copy of such amendment, change or modification, certified by an Authorized Officer of the Corporation, shall have been filed with the Indenture Trustee.

(Section 7.07)

APPENDIX C

Project Area Description

The description of the Project Area is as follows:

The Project Area, is defined as that area in the borough of Manhattan beginning at the intersection of 43rd Street and 8th Avenue, continuing southerly along Eighth Avenue to the intersection of 39th Street and 8th Avenue, continuing westerly along 39th Street to a point 150 feet westerly of the intersection of 39th Street and 8th Avenue, continuing from that point southerly along that line to the intersection of that line and 35th Street, continuing easterly from along 35th Street to the intersection of 8th Avenue and 35th Street, continuing southerly along 8th Avenue to the intersection of 33rd Street and 8th Avenue, continuing easterly along 33rd Street to the intersection of 7th Avenue and 33rd Street, continuing southerly along 7th Avenue to the intersection of 31st Street and 7th Avenue, continuing westerly along 31st Street to the intersection of 9th Avenue and 31st Street, continuing southerly along 9th Avenue to the intersection of 30th Street and 9th Avenue, continuing westerly along 30th Street to intersection of 11th Avenue and 30th Street, continuing southerly along 11th Avenue to the intersection of 29th Street and 11th Avenue, continuing westerly along 29th Street to the intersection 12th Avenue and 29th Street, then continuing northerly along 12th Avenue to the intersection of 34th Street and 12th Avenue, continuing easterly along 34th Street to the intersection of 11th Avenue and 34th Street, continuing northerly along 11th Avenue to the intersection of 41st Street and 11th Avenue, continuing westerly along 41st Street to the intersection of 12th Avenue and 41st Street, continuing Northerly along 12th Avenue to the intersection of 43rd Street and 12th Avenue, continuing easterly along 43rd Street to the intersection of 43rd Street and 10th Avenue, continuing southerly along 10th Avenue to the intersection of 10th Avenue and 42nd Street, continuing easterly along 42nd Street to a point 250 feet westerly from the intersection of 42nd Street and 8th Avenue, continuing northerly from that point 100 feet, then continuing westerly 50 feet, then continuing northerly from that point to the intersection of 43rd Street, continuing easterly along 43rd Street to the point of beginning.

A map showing the Project Area is shown at the front of this Official Statement just prior to the Summary Statement.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

THE CITY OF NEW YORK

This Appendix D provides certain information concerning The City of New York (the "City") in connection with the sale of the Hudson Yards Senior Revenue Bonds Fiscal 2012 Series A by the Hudson Yards Infrastructure Corporation.

[THIS PAGE INTENTIONALLY LEFT BLANK]

THE CITY OF NEW YORK

This Appendix consists of information which was furnished to the Corporation by The City of New York (the "City"). Although the Corporation considers the sources to be reliable, the Corporation has made no independent verification of the information presented herein and does not warrant its accuracy. The City will not be liable on the Series 2012A Bonds and the Series 2012A Bonds will not be a debt of the City. The obligation of the City to pay the amounts due under the Support and Development Agreement is subject to, and dependent upon, the making of annual appropriations by the City and the availability of moneys to fund such payments. References in this Appendix to Appendix A refer to Appendix A to this Appendix, references in this Appendix to Appendix B refer to Appendix B to this Appendix and references in this Appendix to Appendix C refer to Appendix C to this Appendix.

SECTION I: INTRODUCTORY STATEMENT

The purpose of this Appendix is to provide information on certain factors affecting the City and its general economic background to those considering purchasing the Series 2012A Bonds.

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

The City, with a population of approximately 8,175,000, is an international center of business and culture. Its non-manufacturing economy is broadly based, with the banking and securities, life insurance, communications, publishing, fashion design, retailing and construction industries accounting for a significant portion of the City's total employment earnings. Additionally, the City is a leading tourist destination. Manufacturing activity in the City is conducted primarily in apparel and printing.

For each of the 1981 through 2010 fiscal years, the City's General Fund had an operating surplus, before discretionary and other transfers, and achieved balanced operating results as reported in accordance with then applicable generally accepted accounting principles ("GAAP"), after discretionary and other transfers and except for the application of Statement No. 49 of the Government Accounting Standards Board ("GASB 49"), as described below. See "SECTION VI: FINANCIAL OPERATIONS—2006-2010 Summary of Operations." City fiscal years end on June 30 and are referred to by the calendar year in which they end. The City has been required to close substantial gaps between forecast revenues and forecast expenditures in order to maintain balanced operating results. There can be no assurance that the City will continue to maintain balanced operating results as required by New York State (the "State") law without proposed tax or other revenue increases or reductions in City services or entitlement programs, which could adversely affect the City's economic base.

As required by the New York State Financial Emergency Act For The City of New York (the "Financial Emergency Act" or the "Act") and the New York City Charter (the "City Charter"), the City prepares a four-year annual financial plan, which is reviewed and revised on a quarterly basis and which includes the City's capital, revenue and expense projections and outlines proposed gap-closing programs for years with projected budget gaps. The City's current financial plan projects budget balance in the 2011 and 2012 fiscal years in accordance with GAAP except for the application of GASB 49. The City's current financial plan projects budget gaps for each of the 2013 through 2015 fiscal years. A pattern of current year balance and projected subsequent year budget gaps has been consistent through the entire period since 1982, during which the City has achieved an excess of revenues over expenditures, before discretionary transfers, for each fiscal year. For information regarding the current financial plan, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS" and "SECTION VII: FINANCIAL PLAN." For information regarding the June 2010 amendment of the Financial Emergency Act with respect to the application of GASB 49 to the City budget, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS." The City is required to submit its financial plans to the New York State Financial Control Board (the "Control Board"). For further information regarding the Control Board, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Review and Oversight.*"

For its normal operations, the City depends on aid from the State both to enable the City to balance its budget and to meet its cash requirements. There can be no assurance that there will not be delays or reductions in State aid to the City from amounts currently projected; that State budgets for future State fiscal years will be adopted by the April 1 statutory deadline, or interim appropriations will be enacted; or that any such reductions or delays will not have adverse effects on the City's cash flow or expenditures. See "SECTION II: RECENT FINANCIAL DEVELOPMENTS—2011-2015 Financial Plan." In addition, the City has made various assumptions with respect to federal aid. Future federal actions, including the possible inability of Congress to approve an increase in the federal debt limit, could have adverse effects on the City's cash flow or revenues.

The Mayor is responsible for preparing the City's financial plan which relates to the City and certain entities that receive funds from the City, including the financial plan for the 2011 through 2014 fiscal years submitted to the Control Board on June 30, 2010 (the "June 2010 Financial Plan"), the financial plan for the 2012 through 2015 fiscal years and Modification No. 11-4 to the June 2010 Financial Plan with respect to fiscal year 2011, submitted to the Control Board on June 29, 2011 (together, the "2011-2015 Financial Plan" or the "Financial Plan"). The City's projections set forth in the Financial Plan are based on various assumptions and contingencies which are uncertain and which may not materialize. Such assumptions and contingencies are described throughout this Appendix and include the condition of the regional and local economies, the provision of State and federal aid, the impact on City revenues and expenditures of any future federal or State legislation and policies affecting the City and the cost of future labor settlements. See "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

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

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

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

SECTION II: RECENT FINANCIAL DEVELOPMENTS

For the 2010 fiscal year, the City's General Fund had a total surplus of $3.651 billion, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, except for the application of GASB 49 as described below, after discretionary and other transfers. The 2010 fiscal year is the thirtieth consecutive year that the City has achieved balanced operating results when reported in accordance with GAAP, except for the application of GASB 49.

2011-2015 Financial Plan

The City's expense and capital budgets for the 2011 fiscal year were adopted on June 29, 2010. The June 2010 Financial Plan, which was consistent with the City's expense and capital budgets as adopted for the 2011 fiscal year, projected revenues and expenses for the 2011 fiscal year balanced in accordance with GAAP, except for the application of GASB 49, as described below. The June 2010 Financial Plan projected gaps of $3.7 billion, $4.6 billion and $5.3 billion in fiscal years 2012 through 2014, respectively.

On June 29, 2011, the City submitted to the Control Board the Financial Plan for the 2011 through 2015 fiscal years, which relates to the City and certain entities that receive funds from the City. The Financial Plan is a modification to the June 2010 Financial Plan, as subsequently modified by the financial plans submitted to the Control Board on July 13, 2010, on November 18, 2010, February 17, 2011 and May 6, 2011 (the "May Financial Plan") and the financial plan for the 2012 through 2015 fiscal years as submitted to the Control Board on June 29, 2011. The Financial Plan projects revenues and expenses for the 2011 and 2012 fiscal years balanced in accordance with GAAP, except for the application of GASB 49, and projects gaps of approximately $4.6 billion, $4.8 billion and $4.9 billion in fiscal years 2013 through 2015, respectively, after the implementation of a gap-closing program described below.

The Financial Plan reflects, since the June 2010 Financial Plan, increases in projected net revenues of $1.3 billion, $1.3 billion, $1.2 billion and $1.0 billion in fiscal years 2011 through 2014, respectively. Changes in projected revenues include: (i) increases in real property tax revenues of $75 million, $199 million, $507 million and $797 million in fiscal years 2011 through 2014, respectively; (ii) increases in personal income tax revenues of $50 million, $230 million, $330 million and $51 million in fiscal years 2011 through 2014, respectively; (iii) increases in business tax revenues of $406 million, $359 million and $81 million in fiscal years 2011 through 2013, respectively, and a decrease in business tax revenues of $78 million in fiscal year 2014; (iv) increases in real property transfer and mortgage recording tax revenues of $119 million and $24 million in fiscal years 2011 and 2012, respectively, and decreases in real property transfer and mortgage recording tax revenues of $90 million and $80 million in fiscal years 2013 and 2014, respectively; (v) increases in sales tax revenues of $383 million, $441 million, $318 million and $267 million in fiscal years 2011 through 2014, respectively; (vi) decreases in cigarette tax revenues of $10 million in fiscal year 2011 and $9 million in each of fiscal years 2012 through 2014; (vii) decreases in State School Tax Relief Program (the "STAR Program") aid of $231 million, $188 million, $194 million and $196 million in fiscal years 2011 through 2014, respectively; (viii) an increase in tax audit revenues of $329 million in fiscal year 2011; (ix) increases in all other taxes of $135 million, $123 million, $131 million and $154 million in fiscal years 2011 through 2014, respectively; and (x) net increases in all other revenues of $32 million, $116 million, $101 million and $119 million in fiscal years 2011 through 2014, respectively.

The Financial Plan also reflects, since the June 2010 Financial Plan, a decrease in projected net expenditures of $1.8 billion in fiscal year 2011 and increases in projected net expenditures of $2.6 billion, $2.4 billion and $1.8 billion in fiscal years 2012 through 2014, respectively. Changes in projected expenditures include: (i) decreases of $150 million, $150 million, $200 million and $200 million in fiscal years 2011 through 2014, respectively, as a result of the amendment of the Financial Emergency Act to permanently waive the budgetary impact of GASB 49, enabling the City to continue to finance certain pollution remediation costs with the issuance of bonds; (ii) increases for education of $853 million in each of fiscal years 2012 through 2014 to compensate for federal funding lost upon the expiration of federal stimulus funding for education; (iii) increases for education of $812 million, $834 million and $834 million in fiscal years 2012 through 2014, respectively, to compensate for reductions in State education aid; (iv) increases in health and social services of $40 million, $81 million, $89 million and $89 million in fiscal years 2011 through 2014, respectively, to cover reductions in State aid; (v) a decrease of $218 million in fiscal year 2011 as a result of additional federal Medicaid participation and increases of $270 million and $390 million in fiscal years 2012 and 2013, respectively, to compensate for the shortfall in previously assumed additional federal Medicaid participation and to adjust for Medicaid participation that was received earlier than anticipated; (vi) decreases of $191 million, $226 million and $307 million in fiscal years 2011, 2013 and 2014, respectively, and an increase of $8 million in fiscal year 2012, as a result of other Medicaid changes; (vii) decreases of $50 million, $90 million, $120 million and $150 million in fiscal years 2011 through 2014, respectively, due to lower judgments and claims settlements; (viii) a decrease of $600 million in fiscal year 2011 and increases of $400 million in each of fiscal years 2012 through 2014, in the reserve for changes in pension funding assumptions and methodology, as a result of adjustments in the expected timing and amount of such changes; (ix) a decrease in pension costs of $10 million in fiscal year 2011 and increases in pension costs of $149 million, $193 million and $135 million in fiscal years 2012 through 2014, respectively; (x) decreases in debt service of $336 million, $778 million, $27 million and $29 million in fiscal years 2011 through 2014, respectively, primarily as a result of lower interest rates and debt refunding; (xi) a reduction in prior year payables of $500 million and a reduction in the general reserve of $260 million in fiscal year 2011; (xii) an increase of $386 million in fiscal year 2012 as a result of City Council restorations and initiatives; (xiii) a net increase of $61 million in funding for the Department of Education ("DOE") in fiscal year 2012, reflecting an increase of $218 million for the retention of pedagogical positions previously planned for elimination offset by $157 million of administrative reforms and efficiencies, a reduction in transportation costs and a transfer of funds from the New York City Educational Construction Fund; (xiv) decreases of $20 million, $107 million and $224 million in fiscal years 2012 through 2014, respectively, associated with the elimination of an assumed 1.25% wage increase in the third year of contracts negotiated in the next round of collective bargaining; (xv) decreases of $50 million in each of fiscal years 2011 and 2012 as a result of increases in federal payments toward retiree health insurance; and (xvi) net increases in other expenses of $508 million, $620 million, $336 million and $402 million in fiscal years 2011 through 2014, respectively.

In addition, the Financial Plan sets forth a gap-closing program to maintain budget balance in fiscal year 2011, to increase the forecast transfer of financial resources from fiscal year 2011 to fiscal year 2012, to achieve budget balance in fiscal year 2012, and to reduce previously projected gaps for each of fiscal years 2013 and 2014. The gap-closing actions include (i) agency programs reflecting reduced agency expenditures or increased revenues totaling $633 million, $1.2 billion, $1.2 billion and $1.1 billion in fiscal years 2011 through 2014, respectively; and (ii) pension reform for new employees resulting in savings of $131 million in fiscal year 2014, which requires State legislation. Of such gap-closing actions, $155 million in fiscal year 2012 was restored during the budget adoption process and is reflected in increased expenditures described above. The agency programs include proposed headcount reductions in fiscal year 2012 through both layoffs and attrition.

The Financial Plan also reflects, since the June 2010 Financial Plan, an increase in the provision for prepayments of future expenses in fiscal year 2011, as a result of decreased expenditures or increased revenues, resulting in the net additional benefit of $3.7 billion in fiscal year 2012.

During the summer of 2011, the national economy slowed resulting in lower job growth. At the same time, United States and world financial markets experienced significant volatility. Financial firms have reported lower earnings in the second quarter of 2011 than their earnings in the first quarter and early indications suggest a weaker third quarter than the second quarter. In addition, several financial firms have announced lay-offs. Continued weakness in the national economy and a decrease in the profitability of financial institutions could have an adverse effect on the City economy.

On October 4, 2011, the Director of Management and Budget of the City directed each City agency to submit plans to decrease spending for the remainder of fiscal year 2012 by an amount equal to two percent of each agency's fiscal year 2012 budget and six percent of each agency's fiscal year 2013 budget. Additionally, the Mayor instituted a hiring freeze, with limited exceptions, for the foreseeable future.

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

The State

The State ended the 2010-2011 fiscal year with a general fund balance of $1.37 billion, including $1.2 billion in reserves. The State Legislature completed action on the $133.4 billion budget for the 2011-2012 fiscal year on March 31, 2011 (the "Enacted Budget"). The State Annual Information Statement dated May 24, 2011 (the "Annual Information Statement") reflects the Enacted Budget. The State expects to update the Annual Information Statement quarterly and released its first quarterly update on August 22, 2011 (the "AIS Update").

In the AIS Update, the State Division of Budget has made no revisions to the projections set forth in the Annual Information Statement. The State Division of Budget estimates that the State's General Fund (the "General Fund") in fiscal year 2011-2012 is balanced on a cash basis of accounting. General Fund receipts, including transfers from other funds, are expected to total $57.3 billion, and General Fund disbursements, including transfers to other funds, are expected to total $56.9 billion. The State Division of Budget expects the General Fund to end fiscal year 2011-2012 with a cash balance of approximately $1.7 billion, an increase of $361 million from fiscal year 2010-2011 results. The State Division of Budget estimates the budget gaps in fiscal years 2012-2013, 2013-2014 and 2014-2015 to be $2.4 billion, $2.8 billion and $4.6 billion, respectively.

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

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

Job Growth

Private sector jobs in the City declined by 140,000, or 4.3%, from a peak in August 2008 to a low in August 2009. From September 2009 through September 2011, private sector jobs in the City increased by 103,000, or 73% of private sector jobs lost. Private sector jobs in the United States declined by 8.8 million, or 7.6%, from a peak in January 2008 to a low in February 2010. From February 2010 through September 2011, private sector jobs in the United States grew by 2.6 million, or 29% of private sector jobs lost. Recent information on job trends at both the national and City levels has caused uncertainty in the outlook for continued growth.

SECTION III: GOVERNMENT AND FINANCIAL CONTROLS

Structure of City Government

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

— *The Mayor.* Michael R. Bloomberg, the Mayor of the City, took office on January 1, 2002, was elected to a second term which commenced on January 1, 2006 and was elected for a third term which commenced on January 1, 2010. The Mayor is elected in a general election for a four-year term and is the chief executive officer of the City. The Mayor has the power to appoint the commissioners of the City's various departments. The Mayor is responsible for preparing and administering the City's annual Expense and Capital Budgets (as defined below) and financial plan. The Mayor has the power to veto local laws enacted by the City Council, but such a veto may be overridden by a two-thirds vote of the City Council. The Mayor has powers and responsibilities relating to land use and City contracts and all residual powers of the City government not otherwise delegated by law to some other public official or body. The Mayor is also a member of the Control Board.

— *The City Comptroller.* John C. Liu, the Comptroller of the City, took office on January 1, 2010. The City Comptroller is elected in a general election for a four-year term and is the chief fiscal officer of the City. The City Comptroller has extensive investigative and audit powers and responsibilities which include keeping the financial books and records of the City. The City Comptroller's audit responsibilities include a program of performance audits of City agencies in connection with the City's management, planning and control of operations. In addition, the City Comptroller is required to evaluate the Mayor's budget, including the assumptions and methodology used in the budget. The Office of the City Comptroller is responsible under the City Charter and pursuant to State law and City investment guidelines for managing and investing City funds for operating and capital purposes. The City Comptroller is also a member of the Control Board and is a trustee, the custodian and the delegated investment manager of the City's five pension systems. The investments of those pension system assets, aggregating approximately $119.6 billion as of July 31, 2011, are made pursuant to the directions of the respective boards of trustees.

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

— *The Public Advocate.* Bill de Blasio, the Public Advocate, took office on January 1, 2010. The Public Advocate is elected in a general election for a four-year term. The Public Advocate is first in the line of succession to the Mayor in the event of the disability of the Mayor or a vacancy in the office, pending an election to fill the vacancy. The Public Advocate appoints a member of the City Planning Commission and has various responsibilities relating to, among other things, monitoring the activities of City agencies, the investigation and resolution of certain complaints made by members of the public concerning City agencies and ensuring appropriate public access to government information and meetings.

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

On November 2, 2010, the City Charter was amended to provide that no person shall be eligible to be elected to or serve in the office of Mayor, Public Advocate, Comptroller, Borough President or Council member if that person has previously held such office for two or more consecutive full terms, unless one full term or more has elapsed since that person last held such office. Such term limit applies only to officials first elected to office on or after November 2, 2010.

City Financial Management, Budgeting and Controls

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

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

Office of Management and Budget

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

State law and the City Charter require the City to maintain its Expense Budget balanced when reported in accordance with GAAP. For fiscal years 2009 and 2010, the City was authorized to phase in implementation of GASB 49 for budgetary purposes. In June 2010, the Financial Emergency Act was amended to permanently waive the budgetary impact of GASB 49 by allowing the City to include certain pollution remediation costs in its capital budget and to finance such costs with the issuance of bonds. In addition to the Budgets, the City prepares a four-year financial plan which encompasses the City's revenue, expenditure, cash flow and capital projections. All Covered Organizations (as defined below) are also required to maintain budgets that are balanced when reported in accordance with GAAP. From time to time certain Covered Organizations have had budgets providing for operations on a cash basis but not balanced under GAAP.

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

Office of the Comptroller

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

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

The Comprehensive Annual Financial Report of the Comptroller (the "CAFR") for the 2010 fiscal year, which includes, among other things, the City's financial statements for the 2010 fiscal year, was issued on October 29, 2010. The CAFR for the 2009 fiscal year received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the thirtieth consecutive year the CAFR has won such award.

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

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

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

Financial Reporting and Control Systems

Since 1978, the City's financial statements have been required to be audited by independent certified public accountants and to be presented in accordance with GAAP. The City has completed thirty consecutive fiscal years with a General Fund surplus when reported in accordance with then applicable GAAP, except with regard to the application of GASB 49.

In June 2004, the Government Accounting Standards Board ("GASB") issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). GASB 45 establishes standards for the measurement, recognition, and display of other post-employment benefits ("OPEB") expense and related liabilities. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits such as life insurance, when provided separately from a pension plan. The approach followed in GASB 45 generally is consistent with the approach adopted with regard to accounting for pension expense and liabilities, with modifications to reflect differences between pension benefits and OPEB. As of June 30, 2010, the City reported an OPEB liability of $75 billion in its government-wide financial statements, based upon an actuarial valuation in accordance with GASB 45. See "APPENDIX B—FINANCIAL STATEMENTS—Note E-5." On September 21, 2011, the Chief Actuary submitted to the City Comptroller an estimate of net OPEB liability of $83.9 billion as of June 30, 2011. There is no requirement to fund the future OPEB obligation. For information on the trust established to fund a portion of the future OPEB liability, see "SECTION VI: FINANCIAL OPERATIONS—2006-2010 Summary of Operations."

In November 2006, GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." GASB 49 sets standards for the accounting and financial reporting for pollution remediation obligations ("PRO"), which are obligations to address the current or potential detrimental effects of existing pollution through activities such as site assessments and cleanups. The City implemented GASB 49 in fiscal year 2009 for financial reporting purposes. For fiscal year 2010, the City reported a PRO liability of $255.4 million, the costs of known pollution which the City is obligated to remediate, estimated as of June 30, 2010. See "APPENDIX B — FINANCIAL STATEMENTS — Note D.4." In addition to requiring recognition of PRO, under GASB 49 costs incurred for pollution remediation are generally reported as operating expenses rather than as capital expenditures. The City reported pollution remediation expenditures of approximately $455.1 million in fiscal year 2010.

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

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

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

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

City funds held for operating and capital purposes are managed by the Office of the City Comptroller, with specific guidelines as to investment vehicles. The City invests primarily in obligations of the United States Government, its agencies and instrumentalities, high grade commercial paper and repurchase agreements with primary dealers. The repurchase agreements are collateralized by United States Government treasuries, agencies and instrumentalities, held by the City's custodian bank and marked to market daily.

More than 97% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of trustees. As of July 31, 2011, aggregate pension assets were allocated approximately as follows: 41.2% U.S. equity; 25.8% fixed income; 18.2% international equity; 6.3% private equity; 2.3% private real estate; 0.3% hedge funds; and 5.9% cash.

Financial Emergency Act and City Charter

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

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

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

The State Covenant is authorized to be included in bonds of the City. Since enactment of this amendment to the Act, the City has not issued bonds containing the State Covenant. However, many City bonds issued prior to the amendment do contain the State Covenant. Because the City has issued such bonds with maturities as long as 30 years, the effect of the amendment was to postpone termination of the Act from July 1, 2008 to 2033 (or earlier if all City bonds containing the State Covenant are discharged). The

State Legislature could, without violation of the State Covenant contained in the City's outstanding bonds, enact legislation that would terminate the Control Board and the Act because, at the time of issuance of those bonds, the termination date of the Act was July 1, 2008 (or the date of the earlier discharge of such bonds).

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

Financial Review and Oversight

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

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

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

SECTION IV: SOURCES OF CITY REVENUES

The City derives its revenues from a variety of local taxes, user charges and miscellaneous revenues, as well as from federal and State unrestricted and categorical grants. State aid as a percentage of the City's revenues has remained relatively constant over the period from 1980 to 2011, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 73.0% of total revenues in the 2012 fiscal year while federal aid, including categorical grants, will provide 10.2%, and State aid, including unrestricted aid and categorical grants, will provide 16.8%. Adjusting the data for comparability, local revenues provided approximately 60.6% of total revenues in 1980, while federal and State aid each provided approximately 19.7%. A discussion of the City's principal revenue sources follows. For additional information regarding assumptions on which the City's revenue projections are based, see "SECTION VII: FINANCIAL PLAN—Assumptions." For information regarding the City's tax base, see "APPENDIX A—ECONOMIC AND DEMOGRAPHIC INFORMATION."

Real Estate Tax

The real estate tax, the single largest source of the City's revenues, is the primary source of funds for the City's General Debt Service Fund. The City expects to derive approximately 41.9% of its total tax revenues and 26.7% of its total revenues for the 2012 fiscal year from the real estate tax. For information concerning tax revenues and total revenues of the City for prior fiscal years, see "SECTION VI: FINANCIAL OPERATIONS—2006-2010 Summary of Operations."

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

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

Fiscal Year	Total Levy(1)	Levy Within Operating Limit	Debt Service Levy(2)	Debt Service Levy as a Percentage of Total Levy	Operating Limit	Levy Within Operating Limit as a Percentage of Operating Limit	Rate Per $100 of Full Valuation(3)	Average Tax Rate Per $100 of Assessed Valuation(4)
				(Dollars in Millions, except for Tax Rates)				
2006	$13,668.1	$11,633.5	$1,141.0	8.3%	$11,666.2	99.7%	$2.49	$12.28
2007	14,291.2	13,094.4	221.0	1.5	13,224.4	99.0	2.30	12.28
2008	14,356.2	10,462.4	2,952.1	20.6	14,949.0	70.0	2.02	11.42
2009(5) . . .	15,903.5	13,213.6	1,168.9	7.6	17,525.7	75.4	1.87	12.28
2010	17,588.1	16,472.3	295.8	1.7	18,641.4	88.4	2.01	12.28
2011	18,323.7	16,418.4	921.2	5.0	18,898.5	86.9	2.17	12.28
2012	19,284.5	17,181.1	1,135.5	5.9	18,936.0	90.7	2.28	12.28

(1) As approved by the City Council.

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

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

(4) The decrease in the average tax rate between fiscal years 2007 and 2008 reflects the 7% decrease effective July 1, 2007. The increase in the average tax rate between fiscal years 2008 and 2009 reflects the recission of the 7% property tax decrease effective January 1, 2009.

(5) Includes the mid-year property tax increase of $576 million, effective January 1, 2009, rescinding the 7% property tax decrease enacted in June 2007.

Assessment

The City has traditionally assessed real property at less than market value. The State Board of Real Property Services (the "State Board") is required by law to determine annually the relationship between taxable assessed value and market value which is expressed as the "special equalization ratio." The special equalization ratio is used to compute full value for the purpose of measuring the City's compliance with the operating limit and general debt limit. For a discussion of the City's debt limit, see "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness*." The ratios are calculated by using the most recent market value surveys available and a projection of market value based on recent survey trends, in accordance with methodologies established by the State Board from time to time. Ratios, and therefore full values, may be revised when new surveys are completed. The ratios and full values shown in the table below, which were used to compute the 2012 fiscal year operating limit and general debt limit, have been established by the State Board and include the results of the fiscal year 2010 market value survey.

BILLABLE ASSESSED AND FULL VALUE OF TAXABLE REAL ESTATE[1]

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

(1) Also assessed by the City, but excluded from the computation of taxable real estate, are various categories of property exempt from taxation under State law. For the 2010 fiscal year, the billable assessed value of all real estate (taxable and exempt) was $243.2 billion comprised of $85.6 billion of fully exempt real estate, $57.9 billion of partially taxable real estate and $99.7 billion of fully taxable real estate.

(2) Figures are based on estimates of the special equalization ratio which are revised annually. These figures are derived from official City Council Tax Resolutions adopted with respect to the 2012 fiscal year. These figures differ from the assessed and full valuation of taxable real estate reported in the CAFR, which excludes veterans' property subject to tax for school purposes and is based on estimates of the special equalization ratio which are not revised annually.

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

Assessment procedures differ for each class of property. For fiscal year 2012, class one was assessed at approximately 6% of market value and classes two, three and four were each assessed at 45.0% of market value. In addition, individual assessments on class one parcels cannot increase by more than 6% per year or 20% over a five-year period. Market value increases and decreases for most of class two and all of class four are phased in over a period of five years. Increases in class one market value in excess of applicable limitations are not phased in over subsequent years. There is also no phase in for class three property.

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

The share of the total levy that can be borne by each class is regulated by the provisions of the State Real Property Tax Law. Each class share of the total tax levy is updated annually to reflect new construction, demolition, alterations or changes in taxable status and is subject to limited adjustment to reflect market value changes among the four classes. Class share adjustments are limited to a 5% maximum increase per year. Maximum class increases below 5% must be, and typically are, approved by the State legislature. Fiscal year 2012 tax rates were set on June 29, 2011 and reflect a 5% limitation on the market value adjustment for 2011. The average tax rate for fiscal year 2012 was maintained at $12.28 per $100 of assessed value.

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

Trend in Taxable Assessed Value

During the decade prior to fiscal year 1993, real estate tax revenues grew substantially. Because State law provides for increases in assessed values of most properties to be phased into property tax bills over five-year periods, billable assessed values continued to grow and real estate tax revenue increased through fiscal year 1993 even as market values declined during the local recession. From fiscal year 1994 through fiscal year 1997 billable assessed values declined, reflecting the impact of the protracted local recession on office vacancy rates and on office building valuations. Billable assessed value resumed slow growth in fiscal year 1998, growing 0.7%, 2.2%, 3.1%, 4.0%, 6.0%, 5.7%, 5.7% and 3.8% in fiscal years 1998 through 2005, respectively.

For fiscal year 2006, billable assessed valuation rose by $7.6 billion to $110.0 billion. The billable assessed valuation as determined by the City Department of Finance rose to $115.1 billion, $124.5 billion, $133.0 billion, $141.8 billion and $147.6 billion for fiscal years 2007 through 2011, respectively. The Department of Finance released the final assessment roll for fiscal year 2012 on May 27, 2011. The billable assessed value rose by $7.8 billion over the 2011 assessment roll to $155.4 billion, a growth of 5.3%. With a forecast decline in the class two and class four market values combined with a deflated level of existing pipeline of deferred assessment increases yet to be phased in, the billable assessed valuations are forecast to grow by 3.0%, 2.4% and 2.2% in fiscal years 2013 through 2015, respectively.

Collection of the Real Estate Tax

Real estate tax payments are due each July 1 and January 1. Prior to January 1, 2009, owners of class one and class two properties assessed at $80,000 or less and cooperatives whose individual units on average are valued at $80,000 or less were eligible to make tax payments in quarterly installments on July 1, October 1, January 1 and April 1. Effective January 1, 2009, owners of all properties assessed at $250,000 or less are eligible to make tax payments in quarterly installments. Prior to January 1, 2009, an annual interest rate of 9% compounded daily was imposed upon late payments on properties with an assessed value of $80,000 or less except in the case of (i) any parcel with respect to which the real estate taxes are held in escrow and paid by a mortgage escrow agent and (ii) parcels consisting of vacant or unimproved land. As of January 1, 2009, the assessed value threshold subject to the late payment interest rate of 9% was raised from $80,000 to $250,000. An interest rate of 18% compounded daily is imposed upon late payments on all other properties. These interest rates are set annually.

The City primarily uses two methods to enforce the collection of real estate taxes. The City has been authorized to sell real estate tax liens on class one properties which are delinquent for at least three years and class two, three and four properties which are delinquent for at least one year. The authorization to sell real estate tax liens was extended through December 31, 2014. In addition, the City is entitled to foreclose delinquent tax liens by *in rem* proceedings after one year of delinquency with respect to properties other than one- and two-family dwellings and condominium apartments for which the annual tax bills do not exceed $2,750, as to which a three-year delinquency rule is in effect.

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

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

From time to time, the City sells tax liens to separate statutory trusts. In fiscal years 2006 through 2011, the City's tax lien program resulted in net proceeds of approximately $93.8 million, $40.2 million, $35.5 million, $33.9 million, $39.0 million and $5.0 million, respectively. The Financial Plan reflects receipt of $82.0 million in fiscal year 2012 from tax lien sales.

Real Estate Tax Collections and Delinquencies

Fiscal Year	Tax Levy(1)	Tax Collections on Current Year Levy(2)	Tax Collections as a Percentage of Tax Levy	Prior Year (Delinquent Tax) Collections	Refunds(3)	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of End of Fiscal Year(4)	Delinquency as a Percentage of Tax Levy	Lien Sale(5)
				(Dollars In Millions)					
2006	$13,668.1	$12,459.0	91.2%	$140.3	$(222.1)	$ (929.9)	$(279.2)	2.04%	$93.8
2007	14,291.2	12,986.7	90.9	159.5	(228.8)	(1,067.4)	(306.4)	2.14	40.2
2008	14,356.2	13,070.7	91.0	194.8	(239.3)	(1,023.6)	(261.9)	1.82	35.5
2009	15,903.5	14,423.4	90.7	162.6	(290.4)	(1,187.3)	(283.9)	1.79	33.9
2010	17,588.1	16,168.6	92.0	215.2	(239.3)	(1,077.6)	(341.9)	1.94	39.0
2011(6)	18,323.7	16,863.4	92.0	226.0	(234.0)	(1,077.4)	(382.9)	2.09	5.0
2012(6)	19,284.5	17,769.5	92.1	210.0	(437.0)	(1,117.8)	(397.2)	2.06	82.0

(1) As approved by the City Council through fiscal year 2012.

(2) Quarterly collections on current year levy.

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

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

(5) Net of reserve for defective liens.

(6) Forecast.

Other Taxes

The City expects to derive 58.1% of its total tax revenues for the 2012 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4½% sales and compensating use tax, commencing August 1, 2009, in addition to the 4% sales and use tax imposed by the State upon receipts from retail sales of tangible personal property and certain services in the City and the 0.375% metropolitan transportation district surcharge imposed by the State for the Metropolitan Transit Authority ("MTA"); (ii) the personal income tax on City residents; (iii) a general corporation tax levied on the income of corporations doing business in the City; and (iv) a banking corporation tax imposed on the income of banking corporations doing business in the City.

For local taxes other than the real estate tax, the City may adopt and amend local laws for the levy of local taxes to the extent authorized by the State. This authority can be withdrawn, amended or expanded by State legislation. Without State authorization, the City may impose real estate taxes to fund general operations in an amount not to exceed 2.5% of property values in the City as determined under a State mandated formula. In addition, the State cannot restrict the City's authority to levy and collect real estate taxes in excess of the 2.5% limitation in the amount necessary to pay principal of and interest on City indebtedness. For further information concerning the City's authority to impose real estate taxes, see "Real Estate Tax" above. Payments by the State to the City of sales tax and stock transfer tax revenues are subject to appropriation by the State. Until the defeasance of all outstanding bonds of the Municipal Assistance Corporation For The City of New York ("MAC") with the proceeds of Sales Tax Asset Receivable Corporation ("STAR Corp.") bonds and MAC funds in fiscal year 2005, such sales tax and stock transfer tax revenues, less State administrative costs, were made available first to MAC for payment of MAC debt service, reserve fund requirements, operating expenses, and administrative expenses of the Control Board and OSDC with the balance payable to the City. Currently, sales tax and stock transfer tax revenues are payable to the City. Administrative expenses of the Control Board and OSDC, which are projected to be approximately $7 million in fiscal year 2012, and State administrative costs are deducted from sales tax revenues payable to the City. A portion of sales tax revenues payable to the City would be paid to the TFA if personal income tax revenues did not satisfy specified debt service ratios.

Revenues from taxes other than the real estate tax in the 2010 fiscal year decreased by $554 million, a decrease of approximately 2.6% from the 2009 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real estate tax, for each of the City's 2006 through 2010 fiscal years.

	2006	2007	2008	2009	2010
			(In Millions)		
Personal Income(1)	$ 7,657	$ 7,933	$ 9,697	$ 7,489	$ 7,576
General Corporation	2,379	3,124	2,932	2,320	1,976
Banking Corporation	656	1,219	628	1,099	969
Unincorporated Business Income	1,308	1,670	1,852	1,785	1,560
Sales	4,418	4,619	4,868	4,594	5,059
Commercial Rent	477	512	545	583	594
Real Property Transfer	1,295	1,723	1,408	742	615
Mortgage Recording	1,353	1,570	1,138	515	366
Utility	391	360	392	398	375
Cigarette	123	122	123	96	94
Hotel	296	326	379	342	363
All Other(2)	448	457	419	475	515
Audits	775	1,085	1,016	948	769
Total	$21,575	$24,719	$25,397	$21,386	$20,832

Note: Totals may not add due to rounding.

(1) Personal Income excludes $350 million, $685 million, $164 million and $138 million retained by the TFA in fiscal years 2006 through 2009, respectively. In fiscal year 2010, Personal Income includes the personal income tax revenues of $191 million retained by the TFA for funding requirements associated with TFA Future Tax Secured Bonds. In fiscal years 2006 through 2010, Personal Income includes $692 million, $928 million, $1.113 billion, $1.039 billion and $718 million, respectively, which was provided to the City by the State as a reimbursement for the reduced personal income tax revenues resulting from the STAR Program. Personal Income taxes flow directly from the State to the TFA, and from the TFA to the City only to the extent not required by the TFA for debt service, reserves, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. Personal Income also reflects the impact of the early provision for TFA debt service in fiscal year 2006 which, when combined with grants to the TFA in fiscal years 2005 and 2007, increased tax revenue by $947 million, $229 million, $391 million, $362 million and $382 million in fiscal years 2006 through 2010, respectively. Personal Income also reflects the impact of $546 million of certain additional grants to the TFA in each of fiscal years 2007 through 2009 which were used by the TFA to pay debt service in fiscal years 2008 through 2010 thereby increasing personal income tax revenues by $546 million in each of those fiscal years.

(2) All Other includes, among others, surtax revenues from New York City Off-Track Betting Corporation ("OTB"), beer and liquor taxes, and the automobile use tax, but excludes the State's STAR Program aid of $857 million, $1.093 billion, $1.255 billion, $1.188 billion and $904 million in fiscal years 2006 through 2010, respectively.

Miscellaneous Revenues

Miscellaneous revenues include revenue sources such as charges collected by the City for the issuance of licenses, permits and franchises, interest earned by the City on the investment of City cash balances, tuition and fees at the Community Colleges, reimbursement to the City from the proceeds of water and sewer rates charged by the New York City Water Board (the "Water Board") for costs of delivery of water and sewer services and paid to the City by the Water Board for its lease interest in the water and sewer system, rents collected from tenants in City-owned property and from The Port Authority of New York and New Jersey (the "Port Authority") with respect to airports, and the collection of fines. The following table sets forth amounts of miscellaneous revenues for each of the City's 2006 through 2010 fiscal years.

	2006	2007	2008	2009	2010
			(In Millions)		
Licenses, Permits and Franchises	$ 418	$ 470	$ 502	$ 493	$ 487
Interest Income	362	473	377	124	22
Charges for Services	611	613	638	687	746
Water and Sewer Payments	990	1,064	1,202	1,284	1,540
Rental Income	209	211	257	255	234
Fines and Forfeitures	723	741	830	802	833
Other	548	671	1,238	981	828
Total	$3,862	$4,243	$5,044	$4,626	$4,690

Note: Totals may not add due to rounding.

Rental income in fiscal years 2006 through 2010 includes approximately $93.5 million, $98 million, $102.7 million, $102.7 million and $102.7 million, respectively, in Port Authority lease payments for the City airports.

Fees and charges collected from the users of the water and sewer system of the City are revenues of the Water Board, a body corporate and politic, constituting a public benefit corporation, all of the members of which are appointed by the Mayor. The Water Board currently holds a long-term leasehold interest in the water and sewer system pursuant to a lease between the Water Board and the City. Water and Sewer Payments includes in fiscal year 2010, $267.3 million for collective bargaining settlements relating to certain water and sewer system workers.

Other miscellaneous revenues for fiscal years 2006, 2008, 2009 and 2010 include $5 million, $552 million, $145.6 million and $121.2 million, respectively, of tobacco settlement receivables ("TSRs") from the settlement of litigation with certain cigarette manufacturers, that were not retained by TSASC for debt service, trapping requirements and operating expenses or for later release to the City. Other miscellaneous revenues for fiscal years 2006 through 2010 do not include TSRs retained by TSASC for debt service, trapping requirements and operating expenses, or for later release to the City totaling $194 million, $208 million, $79 million, $87 million and $69 million, respectively. In June 2003, the downgrade of a major tobacco company below investment grade resulted in a trapping event for TSASC under its indenture pursuant to which it was required to retain a portion of the TSRs it received in a reserve account for the benefit of its bondholders. In February 2006, TSASC restructured all of its outstanding debt through the issuance of refunding bonds under an amended indenture. Pursuant to the TSASC debt restructuring, less than 40% of the TSRs are pledged to the TSASC bondholders and the remainder will flow to the City. The pledged TSRs will fund regularly scheduled TSASC debt service and operating expenses. Any pledged TSRs received in excess of those requirements will be used to pay the newly issued TSASC bonds. No TSRs are required to be retained or trapped for the benefit of bondholders beyond the pledged TSRs. The unpledged TSRs received in fiscal years 2006, 2007 and 2008 and funds in the trapping account were released to the City in fiscal year 2008. For further information see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—4. Miscellaneous Revenues" and "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

Other miscellaneous revenues for fiscal year 2006 include a $49 million payment from the Fiscal Year 2005 Securitization Corp., $45 million from the release of remediation funds in a trust and agency account,

$11 million from the reimbursement of prior year expenditures, $9 million from the reimbursement for landfill closure costs and $7.9 million from HHC for City administrative support. Other miscellaneous revenues for fiscal year 2007 include $170 million from HHC reimbursement, $141 million from the sale of 308 taxi medallions and $39 million from the reimbursement of prior year expenditures. Other miscellaneous revenues for fiscal year 2008 include $180 million from HHC reimbursement, $25 million from asset sales and $48 million from the sale of 109 taxi medallions. Other miscellaneous revenues for fiscal year 2009 include $71 million from HHC reimbursement, $175 million from restitution agreements, $125 million in the refund of FICA overpayments from the period 1989 through 2005 and $106 million from the reimbursement of prior year expenditures. Other miscellaneous revenues for fiscal year 2010 include $133.5 million in settlement revenue from a deferred prosecution, $133.8 million from Battery Park City Authority ("BPCA") joint purpose funds and $122.5 million from the reimbursement of prior year expenditures.

Unrestricted Intergovernmental Aid

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

The following table sets forth amounts of unrestricted federal and State aid received by the City in each of its 2006 through 2010 fiscal years.

	2006	2007	2008	2009	2010
			(In Millions)		
State Per Capita Aid(1)	$327	$20	$242	$327	$(26)
Other(2)	167	15	0	0	8
Total	$494	$35	$242	$327	$(18)

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

(2) Included in the 2006 fiscal year is $142 million of aid associated with the partial State takeover of long-term care Medicaid costs.

Federal and State Categorical Grants

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

The following table sets forth amounts of federal and State categorical grants received by the City for each of the City's 2006 through 2010 fiscal years.

	2006	2007	2008 (In Millions)	2009	2010
Federal					
Community Development(1)	$ 261	$ 241	$ 260	$ 251	$ 263
Social Services	2,181	2,429	2,619	2,758	3,084
Education	1,693	1,745	1,739	1,717	2,911
Other	1,108	1,056	1,074	1,215	1,458
Total	$5,243	$ 5,471	$ 5,692	$ 5,941	$ 7,716
State					
Social Services	$1,906	$ 1,889	$ 2,060	$ 2,034	$ 2,099
Education	6,702	7,145	8,011	8,639	8,078
Higher Education	153	165	174	178	173
Health and Mental Health	415	428	487	468	448
Other	410	559	689	805	847
Total	$9,586	$10,186	$11,421	$12,124	$11,645

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

SECTION V: CITY SERVICES AND EXPENDITURES

Expenditures for City Services

Three types of governmental agencies provide public services within the City's borders and receive financial support from the City. One category is the mayoral agencies established by the City Charter which include, among others, the Police, Fire and Sanitation Departments. Another is the independent agencies which are funded in whole or in part through the City Budget by the City but which have greater independence in the use of appropriated funds than the mayoral agencies. Included in this category are certain Covered Organizations such as HHC and the Transit Authority. A third category consists of certain public benefit corporations (" PBCs") which were created to finance the construction of housing, hospitals, dormitories and other facilities and to provide other governmental services in the City. The legislation establishing this type of agency contemplates that annual payments from the City, appropriated through its Expense Budget, may or will constitute a substantial part of the revenues of the agency. Included in this category is, among others, the City University Construction Fund ("CUCF"). For information regarding expenditures for City services, see "SECTION VI: FINANCIAL OPERATIONS—2006-2010 Summary of Operations."

Federal and State laws require the City to provide certain social services for needy individuals and families who qualify for such assistance. The City receives federal Temporary Assistance for Needy Families ("TANF") block grant funds through the State for the Family Assistance Program. The Family Assistance Program provides benefits for households with minor children subject, in most cases, to a five-year time limit. The Safety Net Assistance Program provides benefits for adults without minor children, families who have reached the Family Assistance Program time limit, and others, including certain immigrants, who are ineligible for the Family Assistance Program but are eligible for public assistance. Historically, the cost of the Safety Net Assistance Program was borne equally by the City and the State. The 2011-2012 State Budget increases the City share of the Safety Net Assistance Program to 71 percent and fully funds the Family Assistance Program with TANF block grant funds thereby eliminating the City Share of 25% for the Family Assistance Program.

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

As of July 2002, the Mayor assumed responsibility for the City's public schools. The Board of Education ("BOE") has been replaced by the DOE which is overseen by a Chancellor, appointed by the Mayor, and the 13-member Panel for Educational Policy where the Mayor appoints 8 members including the Chancellor, and the Borough Presidents each appoint one member. The number of pupils in the school system is estimated to be approximately 1 million in each of the 2012 through 2015 fiscal years. Actual enrollment in fiscal years 2007 through 2011 has been 1,015,586, 1,011,240, 1,011,950, 1,027,497 and 1,039,084, respectively. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. OTHER THAN PERSONAL SERVICES COSTS—*Department of Education.*" The City's system of higher education, consisting of its Senior Colleges and Community Colleges, is operated under the supervision of the City University of New York ("CUNY"). The City is projected to provide approximately 39.6% of the costs of the Community Colleges in the 2012 fiscal year. The State has full responsibility for the costs of operating the Senior Colleges, although the City is required initially to fund these costs.

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

Medicaid provides basic medical assistance to needy persons. The City is required by State law to furnish medical assistance through Medicaid to all City residents meeting eligibility requirements established by the State. Prior to State legislation in fiscal year 2006 capping City Medicaid payments, the State had assumed 81.2% of the non-federal share of long-term care costs, all of the costs of providing medical assistance to the mentally disabled, and 50% of the non-federal share of Medicaid costs for all other clients. As a result of the State legislation capping City Medicaid payments, the State percentage of the non-federal share may vary. The federal government pays 50% of Medicaid costs for federally eligible recipients.

The City's Expense Budget increased during the five-year period ended June 30, 2010, due to, among other factors, the increasing costs of pensions and Medicaid, the costs of labor settlements and the impact of inflation on various other than personal services costs.

Employees and Labor Relations

Employees

The following table presents the number of full-time and full-time equivalent employees of the City, including the mayoral agencies, the DOE and CUNY, at the end of each of the City's 2006 through 2010 fiscal years.

	2006	2007	2008	2009	2010
Education	137,067	137,678	140,268	139,208	136,369
Police	51,223	51,957	51,977	52,304	50,715
Social Services, Homeless and Children's Services	23,178	23,034	23,454	22,841	21,838
City University Community Colleges and Hunter Campus Schools	6,444	6,608	6,936	7,286	7,775
Environmental Protection and Sanitation	15,800	16,092	16,106	15,777	15,317
Fire	16,140	16,216	16,390	16,230	15,970
All Other	53,186	54,697	55,887	55,565	53,699
Total	303,038	306,282	311,018	309,211	301,683

The following table presents the number of full-time employees of certain Covered Organizations, as reported by such Organizations, at the end of each of the City's 2006 through 2010 fiscal years.

	2006	2007	2008	2009	2010
Transit Authority	47,114	47,746	49,055	48,139	46,582
Housing Authority	12,751	12,398	11,800	11,281	11,222
HHC	36,727	37,799	38,439	38,626	37,744
Total(1)	96,592	97,943	99,294	98,046	95,548

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

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

Labor Relations

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

Collective bargaining for City employees is under the jurisdiction of either the New York City Office of Collective Bargaining, which was created under the New York City Collective Bargaining Law, or the New York State Public Employment Relations Board ("PERB"), which was created under the State Employees Fair Employment Act. Collective bargaining matters relating to police, firefighters and pedagogical employees are under the jurisdiction of PERB. Under applicable law, the terms of future wage settlements could be determined through an impasse procedure which, except in the case of pedagogical employees, can result in the imposition of a binding settlement. Pedagogical employees do not have access to binding arbitration but are covered by a fact-finding impasse procedure under which a binding settlement may not be imposed.

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

Pensions

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

Capital Expenditures

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

The City utilizes a three-tiered capital planning process consisting of the Ten-Year Capital Strategy (previously, the Ten-Year Capital Plan), the Four-Year Capital Plan and the current-year Capital Budget. The Ten-Year Capital Strategy, which is published once every two years in conjunction with the Executive Budget, is a long-term planning tool designed to reflect fundamental allocation choices and basic policy objectives. The

Four-Year Capital Plan translates mid-range policy goals into specific projects. The Capital Budget defines for each fiscal year specific projects and the timing of their initiation, design, construction and completion.

On May 6, 2011, the City published the Ten-Year Capital Strategy for fiscal years 2012 through 2021. The Ten-Year Capital Strategy totals $54.1 billion, of which approximately 74% would be financed with City funds, and reflects reductions to the previous Ten-Year Capital Strategy for fiscal years 2010 through 2019. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*"

The Ten-Year Capital Strategy includes, among other items: (i) $20.2 billion to construct new schools and improve existing educational facilities; (ii) $12.6 billion for improvements to the water and sewer system; (iii) $3.4 billion for expanding and upgrading the City's housing stock; (iv) $2.4 billion for reconstruction or resurfacing of City streets; (v) $651.7 million for continued City-funded investment in mass transit; (vi) $3.4 billion for the continued reconstruction and rehabilitation of all four East River bridges and 108 other bridge structures; (vii) $1.2 billion to expand current jail capacity; and (viii) $369.9 million for construction and improvement of court facilities.

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

The City's capital expenditures, including expenditures funded by State and federal grants, totaled $46.9 billion during the 2007 through 2011 fiscal years. City-funded expenditures, which totaled $37.0 billion during the 2007 through 2011 fiscal years, have been financed through the issuance of bonds by the City, the TFA and the Water Authority. The following table summarizes the major categories of capital expenditures in the City's 2007 through 2011 fiscal years.

	2007	2008	2009	2010	2011*	Total
			(In Millions)			
Education	$2,132	$2,358	$ 2,750	$ 2,953	$2,300	$12,494
Environmental Protection	1,949	2,313	2,700	2,625	2,928	12,515
Transportation	757	767	925	1,082	962	4,494
Transit Authority(1)	70	47	77	74	109	377
Housing	436	503	413	429	311	2,091
Hospitals	187	143	189	253	157	928
Sanitation	131	188	230	347	343	1,238
All Other(2)	1,834	2,687	2,759	2,773	2,677	12,731
Total Expenditures(3)	$7,496	$9,005	$10,044	$10,536	$9,787	$46,868
City-funded Expenditures(4)	$5,098	$6,310	$ 7,248	$ 9,824	$8,556	$37,036

* Fiscal year 2011 expenditures are preliminary and subject to change.

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

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

(3) Total Expenditures for the 2007 through 2011 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures for the 2007 through 2010 fiscal years are derived from the CAFR.

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

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

SECTION VI: FINANCIAL OPERATIONS

The City's Basic Financial Statements and the independent auditors' opinion thereon are presented in "APPENDIX B—FINANCIAL STATEMENTS." Further details are set forth in the CAFR for the fiscal year ended June 30, 2010, which is available for inspection at the Office of the Comptroller. For a summary of the City's significant accounting policies, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A." For a summary of the City's operating results for the previous five fiscal years, see "2006-2010 Summary of Operations" below.

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

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

2006-2010 Summary of Operations

The following table sets forth the City's results of operations for its 2006 through 2010 fiscal years in accordance with GAAP.

The information regarding the 2006 through 2010 fiscal years has been derived from the City's audited financial statements and should be read in conjunction with the notes accompanying this table and the City's 2009 and 2010 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 2006 through 2008 financial statements are not separately presented herein. For further information regarding the City's revenues and expenditures, see "SECTION IV: SOURCES OF CITY REVENUES" and "SECTION V: CITY SERVICES AND EXPENDITURES."

	Fiscal Year(1)				
	Actual				
	2006	2007	2008	2009	2010
			(In Millions)		
Revenues and Transfers					
Real Estate Tax(2)	$12,636	$13,123	$13,204	$14,487	$16,369
Other Taxes(3)(4)	21,575	24,719	25,397	21,386	20,832
Miscellaneous Revenues(3)	3,862	4,243	5,044	4,626	4,690
Other Categorical Grants	1,150	1,037	1,090	1,280	1,579
Unrestricted Federal and State Aid(3)	494	35	242	327	(18)
Federal Categorical Grants	5,243	5,471	5,692	5,941	7,716
State Categorical Grants	9,586	10,186	11,421	12,124	11,645
Less: Disallowances Against Categorical Grants	(542)	(103)	(114)	—	—
Total Revenues and Transfers(5)	$54,004	$58,711	$61,976	$60,171	$62,813
Expenditures and Transfers					
Social Services	$10,148	$11,078	$12,511	$12,151	$12,370
Board of Education	14,794	15,748	16,855	17,774	18,411
City University	550	577	621	658	719
Public Safety and Judicial	6,694	6,842	7,259	7,683	8,000
Health Services	2,758	2,272	1,588	1,843	1,661
Pensions(6)	3,879	4,726	5,616	6,265	6,631
Debt Service(3)(7)	4,510	4,334	5,371	1,603	3,596
MAC Administrative Expenses(3)	10	10	3	—	—
All Other(7)(8)	10,656	12,999	12,147	12,189	11,420
Total Expenditures and Transfers(5)	$53,999	$58,706	$61,971	$60,166	$62,808
Surplus(7)(8)	$ 5	$ 5	$ 5	$ 5	$ 5

(Footnotes on next page)

(Footnotes from previous page)

---

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

(2) In fiscal years 2006 through 2010, Real Estate Tax includes $165.4 million, $165.1 million, $142.2 million, $148.7 million and $185.9 million, respectively, which was provided to the City by the State as a reimbursement for the reduced property tax revenues resulting from the State's STAR Program.

(3) Other Taxes and MAC Administrative Expenses include amounts paid to MAC by the State for operating expenses and State oversight costs from sales tax receipts, stock transfer tax receipts and State per capita aid otherwise payable by the State to the City. For more information see "SECTION IV: SOURCES OF CITY REVENUES—Other Taxes." Other Taxes excludes $350 million, $685 million, $164 million and $138 million of personal income taxes in fiscal years 2006 through 2009, respectively, retained by the TFA. In fiscal year 2010, the funding requirements associated with TFA Future Tax Secured Bonds of $191 million is included in Debt Service as a debt service expense and the personal income tax revenues retained by the TFA of $191 million for such funding requirements is included in Other Taxes as revenues to the City. Debt Service does not include debt service on TSASC bonds and, through fiscal year 2009, does not include the funding requirements associated with TFA Future Tax Secured Bonds. Miscellaneous Revenues includes TSRs that are not retained by TSASC for debt service and operating expenses.

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

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

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

(7) Surplus is the surplus after discretionary and other transfers and expenditures. The City had general fund operating revenues exceeding expenditures of $3.651 billion, $2.919 billion, $4.640 billion, $4.670 billion and $3.756 billion before discretionary and other transfers and expenditures for the 2010, 2009, 2008, 2007 and 2006 fiscal years, respectively. Discretionary and other transfers are included in Debt Service and for transit and other subsidies, including grants and payments to the TFA, in All Other.

(8) All Other includes grants to the TFA of $546 million in each of fiscal years 2007 through 2009, which were used by the TFA for TFA funding requirements in each of fiscal years 2008 through 2010, and resulted in increased personal income tax revenues of $546 million in each of fiscal years 2008 through 2010. All Other includes a payment to the TFA of $718 million in fiscal year 2007 for the early retirement of TFA debt due in fiscal years 2009 and 2010 which resulted in increased personal income tax revenues of $33 million, $362 million and $382 million in fiscal years 2008 through 2010, respectively. All Other includes deposits into a trust of $1 billion and $1.5 billion in fiscal years 2006 and 2007, respectively, to fund a portion of the future costs of OPEB for current and future retirees. All Other includes prepayments into the OPEB trust of $460 million and $225 million in fiscal years 2008 and 2009, respectively, resulting in lowered OPEB expense of $235 million in fiscal year 2009 and $225 million in fiscal year 2010.

Forecast of 2011 Results

The following table compares the forecast for the 2011 fiscal year contained in the June 2010 Financial Plan, which was submitted to the Control Board in June 2010 (the "June 2010 Forecast"), with the forecast contained in the Financial Plan, which was submitted to the Control Board on June 29, 2011 (the "June 2011 Forecast"). Each forecast was prepared on a basis consistent with GAAP except for the application of GASB 49. For information regarding recent developments, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

	June 2010 Forecast	June 2011 Forecast	Increase/(Decrease) from June 2010 Forecast
	(In Millions)		
REVENUES			
Taxes			
General Property Tax	$16,780	$16,860	80
Other Taxes	21,510	22,364	854 (1)
Tax Audit Revenue	622	957	335 (2)
Subtotal — Taxes	$38,912	$40,181	$1,269
Miscellaneous Revenues	5,912	6,253	341 (3)
Unrestricted Intergovernmental Aid	14	51	37
Less: Intra-City Revenues	(1,616)	(1,913)	(297)
Disallowances Against Categorical Grants	(15)	(15)	—
Subtotal – City Funds	$43,207	$44,557	$1,350
Other Categorical Grants	1,234	1,302	68
Inter-Fund Revenues	558	562	4
Federal Categorical Grants	6,796	8,446	1,650 (4)
State Categorical Grants	11,282	11,553	271 (5)
Total Revenues	$63,077	$66,420	$3,343
EXPENDITURES			
Personal Services			
Salaries and Wages	$21,578	$22,105	$ 527 (6)
Pensions	7,612	7,002	(610) (7)
Fringe Benefits	7,638	7,624	(14)
Retiree Health Benefits Trust	(395)	(395)	—
Total – Personal Services	$36,433	$36,336	$ (97)
Other Than Personal Services			
Medical Assistance	5,166	4,819	(347)
Public Assistance	1,563	1,557	(6)
All Other	19,522	20,541	1,019 (8)
Total – Other Than Personal Services	$26,251	$26,917	$ 666
General Obligation, Lease and TFA Debt Service	5,351	4,948	(403) (9)
FY 2010 Budget Stabilization & Discretionary Transfers	(3,642)	(3,646)	(4) (10)
FY 2011 Budget Stabilization	—	3,738	3,738 (11)
General Reserve	300	40	(260)
Total Expenditures	$64,693	$68,333	$3,640
Less: Intra-City Expenses	(1,616)	(1,913)	(297)
Net Total Expenditures	$63,077	$66,420	$3,343

(Footnotes on next page)

(Footnotes from previous page)

---

(1) The increase in Other Taxes is due to increases in sales tax of $372 million, personal income tax of $51 million, banking corporation tax of $497 million, unincorporated business tax of $87 million, real property transfer tax of $160 million, commercial rent tax of $37 million, hotel tax of $51 million, utility tax of $10 million and miscellaneous other taxes of $37 million offset by decreases in general corporation tax of $166 million, mortgage recording tax of $41 million, cigarette tax of $10 million and State STAR aid of $230 million.

(2) The increase in Tax Audit Revenue is primarily due to an increase in general corporation tax.

(3) The increase in Miscellaneous Revenues is due to increases of $42 million in licenses, permits and franchises, $77 million in other miscellaneous revenues, $9 million in rental income, $25 million in charges for services and $297 million in intra-city revenues offset by decreases of $42 million in water and sewer payments, $41 million in fines and forfeitures and $26 million in interest income.

(4) The increase in Federal Categorical Grants is due to increases of $286.4 million in education funding, $272.2 million in social services funding, $188.4 million in police department funding, $150.7 million in housing preservation and development funding, $119.5 million in homeless services funding, $117 million in fire department funding, $98.2 million in transportation funding, $89 million in children's services funding, $69.6 million in health and mental hygiene funding, $40.3 million in community development funding, $54.4 million in miscellaneous agency funding, $31.2 million in information technology and telecommunications funding, $30.6 million in debt service funding, $24.8 million in emergency management funding, $23.2 million in administrative services funding, $18.8 million in youth and community development funding, $16.9 million in environmental protection funding, $15.1 million in aging services funding and $23.6 million in other grants offset by a decrease of $19.9 million in correction funding.

(5) The increase in State Categorical Grants is due to increases of $165.9 million in education funding, $71 million in transportation funding, $59.7 million in miscellaneous agency funding, $29.5 million in juvenile justice funding, $16 million in health and mental hygiene funding, $13.7 million in administrative services funding, $12.2 million in police department funding and $33.3 million in other grants offset by decreases of $119.6 million in social services funding, $3.3 million in youth and community development funding and $7.4 million in homeless services funding.

(6) The increase in Personal Services — Salaries and Wages is due to an increase of $186 million in budget modifications reflecting increases in federal and categorical expenditures which are offset by federal and categorical grants and an increase of $341 million in net agency expenditures.

(7) The decrease in Personal Services — Pensions is primarily due to the elimination of the $600 million reserve to reflect adjustments in the timing of changes in pension funding assumptions and methodology.

(8) The increase in Other Than Personal Services—All Other is due to an increase of $1.197 billion in budget modifications reflecting increases in federal and categorical expenditures which are offset by federal and categorical grants and an increase of $322 million in net agency expenditures, offset by a decrease of $500 million in prior year payables.

(9) The decrease in General Obligation, Lease and TFA Debt Service is due to lower interest rates on floating rate debt and the elimination of the projected note issuance in fiscal year 2011.

(10) FY 2010 Budget Stabilization reflects the discretionary transfer of $2.888 billion into the General Debt Service Fund in fiscal year 2010 for debt service due in fiscal year 2011 and the payment in fiscal year 2010 of $371 million in TFA funding requirements, $4 million equity contribution to a bond refunding and $383 million in other subsidies otherwise due in fiscal year 2011.

(11) FY 2011 Budget Stabilization reflects the discretionary transfer of $2.784 billion into the General Debt Service Fund and $790 million to the TFA in fiscal year 2011 for debt service due in fiscal year 2012 and payments of $164 million of other subsidies in fiscal year 2011 otherwise due in fiscal year 2012.

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP, except for the application of GASB 49, for the 2011 through 2015 fiscal years as contained in the Financial Plan. This table should be read in conjunction with the accompanying notes, "Actions to Close the Remaining Gaps" and "Assumptions" below. For information regarding recent developments, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

	Fiscal Years(1)(2)				
	2011	2012	2013	2014	2015
			(In Millions)		
REVENUES					
Taxes					
General Property Tax(3)	$16,860	$17,625	$18,203	$18,630	$19,060
Other Taxes(4)(5)	22,364	23,752	24,585	25,321	26,666
Tax Audit Revenue	957	660	659	666	666
Subtotal – Taxes	$40,181	$42,037	$43,447	$44,617	$46,392
Miscellaneous Revenues(6)	6,253	5,955	5,980	6,040	6,060
Unrestricted Intergovernmental Aid	51	37	12	12	12
Less: Intra-City Revenues	(1,913)	(1,549)	(1,526)	(1,523)	(1,523)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal – City Funds	$44,557	$46,465	$47,898	$49,131	$50,926
Other Categorical Grants	1,302	1,193	1,158	1,156	1,153
Inter-Fund Revenues(7)	562	549	501	501	501
Federal Categorical Grants	8,446	6,674	6,389	6,315	6,238
State Categorical Grants	11,553	11,030	11,090	11,163	11,180
Total Revenues	$66,420	$65,911	$67,036	$68,266	$69,998
EXPENDITURES					
Personal Services					
Salaries and Wages	$22,105	$21,502	$21,279	$21,384	$21,377
Pension	7,002	8,424	8,570	8,448	8,694
Fringe Benefits	7,624	7,985	8,376	8,902	9,455
Retiree Health Benefits Trust(8)	(395)	(672)	—	—	—
Subtotal – Personal Services	$36,336	$37,239	$38,225	$38,734	$39,526
Other Than Personal Services					
Medical Assistance	4,819	$ 6,217	$ 6,327	$ 6,463	$ 6,643
Public Assistance	1,557	1,385	1,365	1,365	1,365
All Other(9)	20,541	20,244	20,324	20,863	21,344
Subtotal – Other Than Personal Services	$26,917	$27,846	$28,016	$28,691	$29,352
General Obligation, Lease and TFA Debt Service(10)	4,948	5,813	6,653	6,908	7,265
FY 2010 Budget Stabilization & Discretionary Transfers(11)	(3,646)	—	—	—	—
FY 2011 Budget Stabilization(12)	3,738	(3,738)	—	—	—
General Reserve	40	300	300	300	300
Subtotal — Personal and Other Than Personal Services	$68,333	$67,460	$73,194	$74,633	$76,443
Less: Intra-City Expenses	(1,913)	(1,549)	(1,526)	(1,523)	(1,523)
Total Expenditures	$66,420	$65,911	$71,668	$73,110	$74,920
GAP TO BE CLOSED	$ —	$ —	$ (4,632)	$ (4,844)	$ (4,922)

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

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

(Footnotes continued on next page)

(Footnotes continued from previous page)

$4.994 billion; and (iv) for 2013, total revenues of $65.024 billion and total expenditures of $70.657 billion, with a gap to be closed of $5.633 billion.

The four year financial plan for the 2009 through 2012 fiscal years, as submitted to the Control Board on June 30, 2008, contained the following projections for the 2009-2012 fiscal years: (i) for 2009, total revenues of $59.169 billion and total expenditures of $59.169 billion; (ii) for 2010, total revenues of $60.285 billion and total expenditures of $62.629 billion, with a gap to be closed of $2.344 billion; (iii) for 2011, total revenues of $63.240 billion and total expenditures of $68.398 billion, with a gap to be closed of $5.158 billion; and (iv) for 2012, total revenues of $65.818 billion and total expenditures of $70.926 billion, with a gap to be closed of $5.108 billion.

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

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

(3) For a description of the effects of the increase in the average real estate tax rate effective January 1, 2009, the State's STAR Program, and other real estate tax assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—2. Real Estate Tax."

(4) Personal income taxes flow directly from the State to the TFA, and from the TFA to the City only to the extent not required by the TFA for debt service, reserves, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. Sales taxes will flow directly from the State to the TFA to the extent necessary to provide statutory coverage. Other Taxes includes amounts that are expected to be retained by the TFA for its funding requirements associated with TFA Future Tax Secured Bonds.

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

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

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

(8) Retiree Health Benefits Trust reflects the reduction in contributions to the Trust of $395 million and $672 million in fiscal years 2011 and 2012, respectively. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs."

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

(10) For a discussion of the debt service in General Obligation, Lease and TFA Debt Service, see "SECTION VII : FINANCIAL PLAN — Assumptions — *Expenditure Assumptions*—3. General Obligation, Lease and TFA Debt Service."

(11) FY 2010 Budget Stabilization reflects the discretionary transfer of $2.888 billion into the General Debt Service Fund in fiscal year 2010 for debt service due in fiscal year 2011 and the payment in fiscal year 2010 of $371 million in TFA funding requirements, $4 million equity contribution to a bond refunding and $383 million in other subsidies otherwise due in fiscal year 2011.

(12) FY 2011 Budget Stabilization reflects the discretionary transfer of $2.784 billion into the General Debt Service Fund and $790 million to the TFA in fiscal year 2011 for debt service due in fiscal year 2012 and payments of $164 million of other subsidies in fiscal year 2011 otherwise due in fiscal year 2012.

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

Actions to Close the Remaining Gaps

Although the City has maintained balanced budgets in each of its last thirty fiscal years, except for the application of GASB 49 with respect to fiscal years 2009 and 2010, and is projected to achieve balanced operating results for the 2011 and 2012 fiscal years, except for the application of GASB 49, there can be no assurance that the Financial Plan or future actions to close projected outyear gaps can be successfully implemented or that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

Assumptions

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

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

Revenue Assumptions

1. General Economic Conditions

The Financial Plan assumes a modest rebound in economic activity in calendar year 2011 compared to calendar year 2010. The following table presents a forecast of the key economic indicators for the calendar years 2010 through 2015. This forecast is based upon information available in May 2011.

Forecast of Key Economic Indicators

	Calendar Years					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
U.S. Economy						
Economic Activity and Income						
Real GDP (billions of 2005 dollars)	13,248	13,612	13,989	14,398	14,918	15,393
Percent Change	2.9	2.7	2.8	2.9	3.6	3.2
Non-Agricultural Employment (millions)	129.8	131.3	133.6	136.0	139.0	141.7
Percent Change	(0.7)	1.2	1.7	1.8	2.2	1.9
CPI-All Urban (1982-84=100)	218.1	224.8	229.2	233.4	238.5	243.7
Percent Change	1.6	3.1	1.9	1.8	2.2	2.2
Wage Rate ($ per year)	49,337	50,847	52,473	53,917	55,379	56,950
Percent Change	2.8	3.1	3.2	2.8	2.7	2.8
Personal Income ($ billions)	12,547	13,195	13,678	14,306	15,151	16,028
Percent Change	3.1	5.2	3.7	4.6	5.9	5.8
Pre-Tax Corp Profits ($ billions)	1,801	1,681	1,672	2,065	2,223	2,145
Percent Change	36.8	(6.7)	(0.6)	23.5	7.6	(3.5)
Unemployment Rate (Percent)	9.6	8.8	8.3	7.8	7.1	6.4
10-Year Treasury Bond Rate	3.2	3.7	4.2	4.6	4.8	5.6
Federal Funds Rate	0.2	0.2	1.2	3.4	3.6	4.7
New York City Economy						
Real Gross City Product (billions of dollars)	576.9	580.9	586.2	596.7	612.8	627.7
Percent Change	6.6	0.7	0.9	1.8	2.7	2.4
Non-Agricultural Employment (thousands)	3,708	3,736	3,765	3,797	3,844	3,894
Percent Change	0.4	0.8	0.8	0.8	1.2	1.3
CPI-All Urban NY-NJ Area (1982-84=100)	240.9	248.0	253.4	258.5	264.7	271.0
Percent Change	1.7	3.0	2.2	2.0	2.4	2.4
Wage Rate ($ per year)	78,122	80,612	81,933	83,758	86,207	88,847
Percent Change	5.8	3.2	1.6	2.2	2.9	3.1
Personal Income ($ billions)	431.4	451.6	461.6	479.3	505.2	532.5
Percent Change	3.8	4.7	2.2	3.8	5.4	5.4
New York Real Estate Market						
Manhattan Primary Office Market						
Asking Rental Rate ($ per square foot)	61.94	64.58	67.49	71.16	70.26	74.29
Percent Change	0.0	4.2	4.5	5.4	(1.3)	5.7
Vacancy Rate – Percent	11.0	10.0	9.7	8.8	10.3	10.0

Source: OMB.

2. Real Estate Tax

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

Projections of real estate tax revenues reflect the increase, effective January 1, 2009, in the average tax rate to $12.28 per $100 of assessed value resulting in increased revenues of $1.3 billion, $1.36 billion, $1.39 billion, $1.40 billion and $1.43 billion in fiscal years 2011 through 2015, respectively. The increase rescinded the 7% decrease enacted July 1, 2007.

Projections of real estate tax revenues include net revenues from the sale of real property tax liens of $5 million, $82 million, $46 million, $38 million and $38 million in fiscal years 2011 through 2015, respectively. The authorization to sell such real estate tax liens was extended through December 31, 2014. Projections of real estate tax revenues include the effects of the State's STAR Program which will reduce the real estate tax revenues by an estimated $218 million in fiscal year 2011. Projections of real estate tax revenues reflect the estimated cost of extending the current tax reduction for owners of cooperative and condominium apartments amounting to $419 million, $444 million, $457 million, $466 million and $476 million in fiscal years 2011 through 2015, respectively.

The delinquency rate was 2.0% in fiscal year 2006, 2.1% in fiscal year 2007, 1.8% in fiscal year 2008, 1.8% in fiscal year 2009 and 1.9% in fiscal year 2010. The Financial Plan projects delinquency rates of 2.1% in fiscal years 2011 and 2012 and 2.0% in each of fiscal years 2013 through 2015. For information concerning the delinquency rates for prior years, see "Section IV: Sources of City Revenues—Real Estate Tax—*Collection of the Real Estate Tax*." For a description of proceedings seeking real estate tax refunds from the City, see "Section IX: Other Information—Litigation—*Taxes*."

3. Other Taxes

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

	2011	2012	2013	2014	2015
			(In Millions)		
Personal Income(1)	$ 7,608	$ 8,171	$ 8,601	$ 8,740	$ 9,364
General Corporation	2,300	2,725	2,879	2,992	3,098
Banking Corporation	1,336	1,227	1,104	1,018	1,026
Unincorporated Business Income	1,675	1,799	1,873	1,956	2,041
Sales	5,528	5,797	5,984	6,246	6,526
Commercial Rent	603	622	642	663	686
Real Property Transfer	788	774	767	853	957
Mortgage Recording	414	500	541	621	696
Utility	393	413	427	440	455
Cigarette	70	70	68	66	65
Hotel(2)	424	398	371	388	414
All Other(3)	1,225	1,257	1,328	1,338	1,339
Total	$22,364	$23,752	$24,585	$25,321	$26,666

(Footnotes on next page)

(Footnotes from previous page)

Note: Totals may not add due to rounding.

(1) Personal Income includes $695 million, $775 million, $1.871 billion, $2.049 billion and $2.235 billion of personal income tax revenues projected to be retained by the TFA for debt service and other expenses in the 2011 through 2015 fiscal years, respectively. These projections reflect reductions in personal income tax revenues as a result of the State's STAR Program under law in effect at the date of the Financial Plan in the amount of $494 million, $578 million, $647 million, $645 million and $645 million in the 2011 through 2015 fiscal years, respectively. The State will reimburse the City for reduced revenues resulting from the STAR Program.

(2) Hotel includes the impact of an additional temporary hotel occupancy tax of 0.875 percent resulting in additional revenues of $58 million and $30 million in fiscal years 2011 and 2012, respectively.

(3) All Other includes, among others, beer and liquor taxes and the automobile use tax. All Other also includes $712 million, $792 million, $861 million, $859 million and $859 million in fiscal years 2011 through 2015, respectively, to be provided to the City by the State as reimbursement for the reduced property tax and personal income tax revenues resulting from the State's STAR Program.

The Financial Plan reflects the following assumptions regarding projected baseline revenues from Other Taxes: (i) with respect to the personal income tax, strong growth in fiscal year 2011 reflecting strength in local private employment relative to the nation, strength in Wall Street bonus payouts, and a rebound of non-wage income in calendar year 2010, and the elimination of the STAR rate-cut for filers with State taxable income greater than $500,000, and continued growth in fiscal years 2012 through 2015 reflecting the recovery of the national and local economies; (ii) with respect to the general corporation tax, a rebound in fiscal year 2011 from strong finance sector profitability in calendar year 2010 and a strong non-finance sector, continued high growth in fiscal year 2012 from strong Wall Street profitability in calendar year 2011, and moderate growth in fiscal years 2013 through 2015 reflecting a return to trend levels of Wall Street profitability and the recovery of the national and local economies; (iii) with respect to the banking corporation tax, strong growth in fiscal year 2011 reflecting the extension of federal support, and declining growth for fiscal years 2012 through 2015 due to uncertainty over pending regulatory changes and the withdrawal of federal support; (iv) with respect to the unincorporated business tax, moderate growth in fiscal year 2011 reflecting strong Wall Street profitability in calendar years 2009 and 2010, and continued moderate growth in fiscal years 2012 through 2015 reflecting a return to trend levels of Wall Street profitability and the recovery of the national and local economies; (v) with respect to the sales tax, growth in fiscal year 2011 reflecting strength in local private employment and increased consumption, and trend level growth in fiscal years 2012 through 2015 paralleling growth in wage earnings and the recovery of the local economy; (vi) with respect to real property transfer tax, growth in fiscal year 2011 after three years of decline in fiscal years 2008 through 2010, during which period the local economic slowdown reduced the number and average sales price of transactions in the residential market while the tighter credit market and the re-pricing of real estate related risk slowed the number and value of large commercial real estate transactions, declines in fiscal years 2012 and 2013 as the residential market slows, and a return to growth in fiscal year 2014, as both the volume and price of residential and commercial transactions rebound with the recovery of the local economy; (vii) with respect to mortgage recording tax, growth in fiscal year 2011 after three years of decline in fiscal years 2008 through 2010, during which period the number and the average sales price of transactions in the residential market declined sharply and the tighter lending standards required higher down-payments reduced the average mortgage loan amount subject to tax, and growth continuing through fiscal year 2015, as both the volume and price of residential and commercial transactions rebound with the recovery of the local economy; and (viii) with respect to the commercial rent tax, a slight increase in fiscal year 2011, reflecting improving vacancy rates and asking rents as the local economy recovers from the impact of the national slowdown and contraction in office-using employment, and modest growth from fiscal years 2012 through 2015, as the local office market recovers with employment gains.

4. Miscellaneous Revenues

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

	2011	2012	2013	2014	2015
			(In Millions)		
Licenses, Permits and Franchises	$ 523	$ 527	$ 529	$ 533	$ 535
Interest Income	22	34	107	140	165
Charges for Services	776	795	812	812	813
Water & Sewer Payments (1)	1,290	1,439	1,419	1,447	1,465
Rental Income	252	257	256	264	267
Fines and Forfeitures	807	814	812	811	810
Other	670	540	519	510	482
Intra-City Revenues	1,913	1,549	1,526	1,523	1,523
	$6,253	$5,955	$5,980	$6,040	$6,060

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

Rental Income reflects approximately $102.7 million in each of fiscal years 2011 through 2015 for lease payments for the City's airports.

Other reflects $115 million, $124 million, $124 million, $125 million and $125 million of projected resources in fiscal years 2011 through 2015, respectively, from the receipt by the City of TSRs. For more information, see "Section IV: Sources of City Revenues—Miscellaneous Revenues." Economic and legal uncertainties relating to the tobacco industry and the settlement, including pending anti-trust litigation challenging a State statute implementing the settlement agreement and adjustments provided for under the settlement agreement, may significantly affect the receipt of TSRs by TSASC and the City. Other also reflects, in fiscal year 2011, approximately $70.8 million in settlement revenue from a deferred prosecution and BPCA joint purpose funds of $66.2 million.

5. Unrestricted Intergovernmental Aid

Unrestricted Intergovernmental Aid consists of prior year claims settlements and reflects the elimination of State Revenue Sharing in fiscal years 2011 through 2015. For information concerning projected State budget gaps, and the status of the State budget, see "Section II: Recent Financial Developments—The State."

6. Federal and State Categorical Grants

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

	2011	2012	2013	2014	2015
			(In Millions)		
Federal					
Community Development	$ 287	$ 235	$ 227	$ 220	$ 220
Social Services	3,229	3,137	3,117	3,114	3,114
Education	2,855	1,915	1,913	1,893	1,818
Other	2,075	1,387	1,132	1,088	1,086
Total	$ 8,446	$ 6,674	$ 6,389	$ 6,315	$ 6,238
State					
Social Services	$ 1,862	$ 1,494	$ 1,446	$ 1,442	$ 1,442
Education	8,149	8,116	8,191	8,241	8,240
Higher Education	186	212	212	212	212
Health and Mental Hygiene	461	435	420	419	419
Other	895	773	821	849	867
Total	$11,553	$11,030	$11,090	$11,163	$11,180

The Financial Plan assumes that all existing federal and State categorical grant programs will continue, unless specific legislation provides for their termination or adjustment, and assumes increases in aid where increased costs are projected for existing grant programs. Federal funds for education, primarily provided through the American Recovery and Reinvestment Act ("ARRA") of $1.058 billion, $98 million, $96 million and $76 million are reflected in fiscal years 2011 through 2014, respectively. In addition, the Financial Plan assumes increased federal Medicaid participation of $1.07 billion, $124 million and $32 million in fiscal years 2011 through 2013, respectively. For information on changes to federal Medicaid participation see "Section II: Recent Financial Developments." For information concerning projected State budget gaps and the possible impact on State aid to the City, see "Section I: Introductory Statement" and "Section II: Recent Financial Developments—The State." As of May 31, 2011, approximately 13.3% of the City's full-time and full-time equivalent employees (consisting of employees of the mayoral agencies and the DOE) were paid by Community Development funds, water and sewer funds and from other sources not funded by unrestricted revenues of the City.

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

The City's receipt of categorical aid is contingent upon the satisfaction of certain statutory conditions and is subject to subsequent audits, possible disallowances and possible prior claims by the State or federal governments. The general practice of the State and federal governments has been to deduct the amount of any disallowances against the current year's payment. Substantial disallowances of aid claims may be asserted during the course of the Financial Plan. The amounts of such disallowances attributable to prior years increased from $124 million in the 1977 fiscal year to $542 million in the 2006 fiscal year. The amount of such disallowance was $103 million and $114 million in fiscal years 2007 and 2008, respectively. There were no disallowances in fiscal years 2009 and 2010. As of June 30, 2010, the City had an accumulated reserve of $1.1 billion for all disallowances of categorical aid.

Expenditure Assumptions

1. Personal Services Costs

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

	2011	2012	2013	2014	2015
			(In Millions)		
Wages and Salaries	$22,040	$21,417	$21,112	$21,058	$20,835
Pensions	7,002	8,424	8,570	8,448	8,694
Other Fringe Benefits	7,624	7,985	8,376	8,902	9,455
Retiree Health Benefits Trust	(395)	(672)	—	—	—
Reserve for Collective Bargaining					
Department of Education	12	—	—	—	—
Other	53	85	167	326	542
Reserve Subtotal	65	85	167	326	542
Total	$36,336	$37,239	$38,225	$38,734	$39,526

The Financial Plan projects that the authorized number of City-funded full-time and full-time equivalent employees whose salaries are paid directly from City funds, as opposed to federal or State funds or water and sewer funds, will decrease from an estimated level of 258,736 as of June 30, 2011 to an estimated level of 248,468 by June 30, 2015.

Other Fringe Benefits includes $1.742 billion, $1.937 billion, $2.119 billion, $2.306 billion and $2.496 billion in fiscal years 2011 through 2015, respectively, for OPEB expenditures for current retirees, which costs are currently paid by the City on a pay-as-you-go basis. For information on deposits to the trust to fund a portion of the future cost of OPEB for current and future retirees, see "Section VI: Financial Operations—2006-2010 Summary of Operations." For information on the OPEB reporting requirement, see "Section III: Government and Financial Controls—City Financial Management, Budgeting and Controls—*Financial Reporting and Control Systems,*" and "Appendix B—Financial Statements—Notes to Financial Statements—Note E.5."

Retiree Health Benefits Trust reflects lowered expense of $395 million and $672 million in fiscal years 2011 and 2012, respectively, as a result of reduced contributions to the Retiree Health Benefits Trust Fund in those years.

The Reserve for Collective Bargaining contains funds for the cost of collective bargaining increases for wage increases for prevailing wage employees in the period through the 2008-2010 round of collective bargaining. The Reserve for Collective Bargaining assumes no wage increases for the first three years of the round of collective bargaining following the 2008-2010 round of collective bargaining, followed by annual wage increases of 1.25% thereafter. For additional information, see "Section V: City Services and Expenditures — Employees and Labor Relations — *Labor Relations.*"

For a discussion of the City's pension systems, see "Section IX: Other Information—Pension Systems" and "Appendix B—Financial Statements—Notes to Financial Statements—Note E.6. and Note F."

2. Other Than Personal Services Costs

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

	2011	2012	2013	2014	2015
			(In Millions)		
Administrative OTPS and Energy	$17,350	$17,091	$16,965	$17,424	$17,728
Public Assistance	1,557	1,385	1,365	1,365	1,365
Medical Assistance	4,819	6,217	6,327	6,463	6,643
HHC Support	195	182	163	163	163
Other	2,996	2,971	3,196	3,276	3,453
Total	$26,917	$27,846	$28,016	$28,691	$29,352

Administrative OTPS and Energy

The Financial Plan contains estimates of the City's administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services, and the impact of agency gap-closing actions relating to such expenditures in the 2011 and 2012 fiscal years. Thereafter, to account for inflation, administrative OTPS expenditures are projected to rise by 2.5% annually in fiscal years 2013 through 2015. Energy costs for each of the 2011 through 2015 fiscal years are assumed to increase annually, with total energy expenditures projected at $1.02 billion in fiscal year 2011 and increasing to $2.0 billion by fiscal year 2015.

Public Assistance

The number of persons receiving benefits under cash assistance programs is projected to average 361,000 per month in the 2011 fiscal year. Of total cash assistance expenditures in the City, the City-funded portion is projected to be $599 million in fiscal year 2011, $531 million in fiscal year 2012 and $541 million in each of fiscal years 2013 through 2015, when the City assumes the local share of a State-initiated increase in the basic public assistance grant. The Financial Plan reflects the changes in public assistance funding formulas in the 2011-2012 State Budget including the increase in the City share of the Safety Net Assistance Program to 71 percent and fully funding the Family Assistance Program with TANF funds, which partially offsets the increase in the City share for the Safety Net Assistance Program.

Medical Assistance

Medical assistance payments projected in the Financial Plan consist of payments to voluntary hospitals, skilled nursing facilities, intermediate care facilities, home care, pharmacy, managed care and physicians and other medical practitioners. The City-funded portion of medical assistance payments is estimated at $4.6 billion for the 2011 fiscal year, which is lower than subsequent fiscal years as a result of a temporary increase in the federal share of Medicaid costs under ARRA. In preliminary discussions with the State, the United States Department of Health and Human Services ("HHS"), which administers the Medicaid program, has stated that it may disallow a claim for the federal share of certain Medicaid costs that HHS believes may have been submitted past the deadline for such claims. If it were disallowed, the City would be required to return approximately $137 million that it previously received. Discussions concerning such possible disallowance are ongoing.

The City-funded portion of medical assistance payments is expected to increase to $6.090 billion, $6.200 billion, $6.334 billion and $6.517 billion in fiscal years 2012 through 2015, respectively. Such payments include, among other things, City-funded Medicaid payments, including City-funded Medicaid payments to HHC. City Medicaid costs (including City-funded Medicaid payments to HHC) assumed in the Financial Plan do not include the non-federal share of long-term care costs which have been assumed by the State.

Health and Hospitals Corporation

HHC operates under its own section of the Financial Plan as a Covered Organization. The HHC financial plan projects City-funded expenditures of $186 million in fiscal year 2011 decreasing to $164 million in fiscal year 2015. City-funded expenditures include City subsidy, intra-City payments and grants and exclude prepayments.

On an accrual basis, HHC's total receipts before implementation of the HHC gap-closing program are projected to be $6.6 billion, $6.7 billion, $6.6 billion, $6.6 billion and $6.7 billion in fiscal years 2011 through 2015, respectively. Total disbursements before implementation of the HHC gap-closing program are projected to be $6.8 billion in fiscal year 2011 increasing to $7.6 billion in fiscal year 2015. These projections assume increases in fringe benefits in fiscal years 2011 through 2015. Significant changes have been and may be made in Medicaid, Medicare and other third-party payor programs, which could have adverse impacts on HHC's financial condition.

Other

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

New York City Transit

NYCT operates under its own section of the Financial Plan as a Covered Organization. The financial plan for NYCT covering its 2011 through 2015 fiscal years was prepared in July 2011. The NYCT fiscal year coincides with the calendar year. The NYCT financial plan projects City assistance to the NYCT operating budget of $345 million in 2011 increasing to $405.8 million in 2015, in addition to real estate transfer tax revenue dedicated for NYCT use of $277.4 million in 2011 increasing to $416.4 million in 2015.

The NYCT financial plan includes operational and overtime reductions, updated inflation assumptions and other actions. After reflecting such revenues and actions, the NYCT financial plan projects $8.1 billion in revenues and $10.5 billion in expenses for 2011, leaving a budget gap of $2.4 billion. After accounting for accrual adjustments and cash carried over from 2010, NYCT projects an operating budget gap of $13.6 million in 2011. The NYCT financial plan forecasts operating budget gaps of $0.2 billion in 2012, $0.4 billion in 2013, $0.7 billion in 2014 and $1.1 billion in 2015.

The MTA Board approved the 2010-2014 Capital Program in April 2010 and the State's Capital Program Review Board ("CPRB") approved it on June 2, 2010. The plan includes $23.8 billion for all MTA agencies, including $12.8 billion to be invested in the NYCT core system, $1.7 billion for NYCT network expansion, and $0.2 billion for security. To date, funding sources have been identified for only a portion of the 2010-2014 Capital Program. There can be no assurance that the 2010-2014 Capital Program will be fully funded. If the MTA's capital program is delayed or reduced, ridership and fare revenues may decline which could, among other things, impair the MTA's ability to meet its operating expenses without additional assistance.

The 2010-2014 Capital Program follows the 2005-2009 Capital Program, which provided approximately $17.1 billion for NYCT. In addition, the 2005-2009 Capital Program included approximately $2 billion for extension of the Number 7 subway line and other public improvements which will be funded with proceeds of bonds issued by the Hudson Yards Infrastructure Corporation ("HYIC"). See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Indebtedness of the City and Related Issuers.*"

Department of Education

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

Judgments and Claims

In the fiscal year ended on June 30, 2010, the City expended $568.2 million for judgments and claims, $135.0 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of $637 million, $655.0 million, $685.2 million, $717.8 million and $753.9 million for the 2011 through 2015 fiscal years, respectively. These projections incorporate a substantial amount of claims costs attributed to HHC for which HHC will reimburse the City. These amounts are estimated at $189.9 million for each of fiscal years 2011 through 2015. The City is a party to numerous lawsuits and is the subject of numerous claims and investigations. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 2010 amounted to approximately $5.6 billion. This estimate was made by categorizing the various claims and applying a statistical model, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and by supplementing the estimated liability with information supplied by the City's Corporation Counsel. For further information regarding certain of these claims, see "SECTION IX: OTHER INFORMATION—Litigation."

In addition to the above claims, numerous real estate tax *certiorari* proceedings involving allegations of inequality of assessment, illegality and overvaluation are currently pending against the City. The City's Financial Statements for the fiscal year ended June 30, 2010 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2010, could amount to approximately $899 million. Provision has been made in the Financial Plan for estimated refunds of $234 million, $437 million, $365 million, $380 million and $389 million for the 2011 through 2015 fiscal years, respectively. For further information concerning these claims, certain remedial legislation related thereto and the City's estimates of potential liability, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

3. GENERAL OBLIGATION, LEASE AND TFA DEBT SERVICE

Debt service estimates for fiscal years 2011 through 2015 include debt service on outstanding general obligation bonds and conduit debt, and the funding requirements associated with outstanding TFA Future Tax Secured Bonds, and estimates of debt service costs of, or funding requirements associated with, future general obligation, conduit and TFA Future Tax Secured debt issuances based on projected future market conditions. Such debt service estimates also include estimated payments pursuant to interest rate exchange agreements but do not reflect receipts pursuant to such agreements.

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

The Financial Plan reflects general obligation debt service of $3.66 billion, $3.97 billion, $4.44 billion, $4.53 billion and $4.71 billion in fiscal years 2011 through 2015, respectively, conduit debt service of $214 million, $280 million, $338 million, $333 million and $325 million in fiscal years 2011 through 2015, respectively, and TFA funding requirements of $1.07 billion, $1.57 billion, $1.87 billion, $2.05 billion and $2.24 billion in fiscal years 2011 through 2015, respectively.

Certain Reports

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

On July 25, 2011, the City Comptroller released a report commenting on the City's adopted budget for fiscal year 2012 and the Financial Plan. In his report, the City Comptroller identified net risks for fiscal years 2012 through 2015 which, when added to the results projected in the Financial Plan, would result in gaps of $1.97 billion, $5.30 billion, $5.07 billion and $5.09 billion, respectively. The differences from the Financial Plan projections result in part from the City Comptroller's expenditure projections, which exceed those in the Financial Plan by $1.85 billion, $912 million, $1.02 billion and $1.10 billion in fiscal years 2012 through 2015, respectively, resulting from: (i) wage increases as a result of collective bargaining with the City's teacher and school administrator unions, which would result in increased costs of $1.70 billion, $897 million, $900 million and $900 million in fiscal years 2012 through 2015, respectively; (ii) increased overtime expenditures of $210 million in fiscal year 2012 and $100 million in each of fiscal years 2013 through 2015; (iii) uncertainty of savings from planned pension reform of $131 million and $252 million in fiscal years 2014 and 2015, respectively; and (iv) projected savings in judgments and claims expenditures of $55 million, $85 million, $115 million and $150 million in fiscal years 2012 through 2015, respectively. The differences from the Financial Plan also result from the City Comptroller's revenue projections. The report estimates that (i) property tax revenues will be lower by $39 million and $17 million in fiscal years 2013 and 2014, respectively, and higher by $14 million in fiscal year 2015; (ii) personal income tax revenues will be lower by $27 million in fiscal year 2012 and higher by $65 million, $314 million and $191 million in fiscal years 2013 through 2015, respectively; (iii) business tax revenues will be lower by $231 million and $116 million in fiscal years 2012 and 2013, respectively, and higher by $95 million and $252 million in fiscal years 2014 and 2015, respectively; (iv) sales tax revenues will be higher by $19 million, $87 million and $156 million in fiscal years 2013 through 2015, respectively; and (v) real-estate related tax revenues will be higher by $140 million, $318 million, $308 million and $325 million in fiscal years 2012 through 2015, respectively. The revenue projections result in lower net tax revenues of $118 million in fiscal year 2012, and higher net tax revenues of $247 million, $787 million and $938 million in fiscal years 2013 through 2015, respectively.

On July 25, 2011, the staff of OSDC released a report on the Financial Plan. The report notes that while the budget is balanced, it relies on $5.1 billion in nonrecurring resources, including the fiscal year 2011 surplus and a drawdown from the Retiree Health Benefits Trust, which will have to be replaced in subsequent years. The report also notes that though the Financial Plan includes few immediate risks, a number of issues require close monitoring, including: future State and federal governments actions could reduce the amount of financial assistance to the City; the costs of implementing potential changes recommended in a report to be prepared by the City's actuarial consultant could exceed the $1 billion reserve budgeted for such costs; despite the restoration of funding for teacher positions and fire companies, the fiscal year 2012 budget still includes 1,000 non-teacher layoffs and significant budget cuts; and debt service and other nondiscretionary costs such as employee benefits are projected to rise by more than 40 percent during the Financial Plan period. The report states that while historically the City has relied on budget surpluses to help balance future budgets, the likelihood of a large surplus in fiscal year 2012 is diminished, and that closing the structural budget gap, in the absence of a stronger recovery or relief from federal and State mandates, will be challenging.

The report quantifies certain risks, partially offset by possible additional resources, to the Financial Plan. The report identifies a possible net risk to the Financial Plan of $125 million in fiscal year 2012 and additional revenue of $25 million, $33 million and $41 million in fiscal years 2013 through 2015, respectively. When combined with the results projected in the Financial Plan, the report estimates that such risk and additional revenue could result in budget gaps of $125 million, $4.61 billion, $4.81 billion and $4.88 billion in fiscal years 2012 through 2015, respectively. The report identifies possible additional resources resulting from unanticipated pension investment earnings that could lower the City's planned contributions by $150 million, $289 million and $418 million in fiscal years 2013 through 2015, respectively. The risks to the Financial Plan identified in the report include (i) increased overtime costs of $125 million in each of fiscal years 2012 through 2015 and (ii) decreased savings of $131 million and $252 million in fiscal years 2014 and 2015, respectively, as a result of failing to achieve pension reform.

In addition to the adjustments to the Financial Plan projections set forth above, the OSDC report identifies two additional risks that could have a significant impact on the City. First, the OSDC report identifies risks to the Financial Plan resulting from increased costs as a result of collective bargaining with the teachers' union of $1.70 billion, $898 million, $900 million and $900 million in fiscal years 2012 through 2015, respectively. Second, if wages for all City employees were to increase at the projected rate of inflation without any offsetting savings, costs would increase by $1.51 billion, $1.61 billion, $2.18 billion and $2.70 billion in fiscal years 2012 through 2015, respectively. As a potential offset to the projected gaps, the report identifies increased revenue of $300 million in each of fiscal years 2013 through 2015, respectively, resulting from the sale of 1,500 taxi medallions if the Governor approves legislation expanding taxi service in the City.

On July 21, 2011, the staff of the Control Board issued a report on the Financial Plan. The report observes that at budget adoption the City identified increased revenues from business taxes and tax audits and certain decreased expenditures, which allowed it to increase the fiscal year 2011 surplus to $3.7 billion and apply the entire surplus towards balancing the fiscal year 2012 budget. The Control Board notes that while its risk assessment for fiscal year 2012 is low, the lack of a projected surplus to help balance the out-year budgets could be problematic. Additionally, the report notes that unidentified problems, such as additional reductions in federal and State aid and the potential effects of the federal government's failing to raise the debt ceiling, could provide further pressure on the fiscal year 2012 budget. The report cites Medicaid, pension, healthcare, other fringe benefit and debt service costs as areas of significant expenditure growth that continue to create the out-year budget gaps, and reduced federal and State aid as areas of uncertain revenue risk.

The report quantifies certain risks, partially offset by possible additional resources, to the Financial Plan. The report identifies possible net risks of $107 million, $161 million, $281 million and $377 million in fiscal years 2012 through 2015, respectively. When combined with the results projected in the Financial Plan, these net risks would result in estimated gaps of $107 million, $4.80 billion, $5.13 billion and $5.30 billion in fiscal years 2012 through 2015, respectively. The possible additional resources identified in the report result from increased miscellaneous revenues of $60 million, $60 million, $75 million and $100 million in fiscal years 2012 through 2015, respectively. The risks to the Financial Plan identified in the report include: (i) increased uniformed services overtime expenses of $167 million, $221 million, $225 million and $225 million in fiscal years 2012 through 2015, respectively; and (ii) decreased savings of $131 million and $125 million in fiscal years 2014 and 2015, respectively, as a result of failing to achieve pension reforms.

Long-Term Capital Program

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

The City utilizes a three-tiered capital planning process consisting of the Ten-Year Capital Strategy, the Four-Year Capital Plan and the current-year Capital Budget. The Ten-Year Capital Strategy is a long-term planning tool designed to reflect fundamental allocation choices and basic policy objectives. The Four-Year Capital Plan translates mid-range policy goals into specific projects. The Capital Budget defines specific projects and the timing of their initiation, design, construction and completion. On September 21, 2011, the City released the 2012-2015 Capital Commitment Plan (the "2012-2015 Capital Commitment Plan").

City-funded commitments, which were $344 million in fiscal year 1979, are projected to reach $9.3 billion in fiscal year 2012. City-funded expenditures are forecast at $7.5 billion in fiscal year 2012; total expenditures are forecast at $10.0 billion in fiscal year 2011. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2012 through 2021, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures."

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

2012-2015 CAPITAL COMMITMENT PLAN

	2012		2013		2014		2015		Totals	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
					(In Millions)					
Mass Transit(1)	$ 194	$ 252	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 494	$ 552
Roadway, Bridges	938	1,618	495	694	379	550	295	429	2,107	3,291
Environmental Protection(2)	2,605	2,752	1,937	1,994	1,613	1,615	1,333	1,333	7,488	7,694
Education(3)	1,658	3,006	886	1,707	1,177	2,275	891	1,686	4,611	8,673
Housing	504	748	288	395	255	367	187	295	1,234	1,805
Sanitation	653	658	240	240	79	79	133	133	1,104	1,110
City Operations/Facilities	5,568	6,057	1,811	1,948	1,093	1,323	535	592	9,007	9,920
Economic and Port Development	862	1,006	272	272	24	24	38	38	1,195	1,340
Reserve for Unattained Commitments	(3,631)	(3,631)	928	928	105	105	459	459	(2,139)	(2,139)
Total Commitments(4)	$ 9,349	$12,464	$6,956	$8,280	$4,824	$6,436	$3,971	$5,065	$25,100	$32,244
Total Expenditures(5)	$ 7,529	$ 9,294	$6,860	$8,766	$6,654	$8,497	$6,011	$7,710	$27,054	$34,267

Note: Totals may not add due to rounding.

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

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

(3) All Funds reflects State funding for educational facilities in the form of financing of $4.15 billion from the proceeds of bonds of the TFA that are expected to be paid from State aid to education.

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

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

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

In December 2010, the City issued an Asset Information Management System Report (the "AIMS Report"), which is its annual assessment of the asset condition and a proposed maintenance schedule for its assets and asset systems which have a replacement cost of $10 million or more and a useful life of at least ten years, as required by the City Charter. This report does not reflect any policy considerations which could affect the appropriate amount of investment, such as whether there is a continuing need for a particular facility or whether there have been changes in the use of a facility. The AIMS Report estimated that $6.06 billion in capital investment would be needed for fiscal years 2012 through 2015 to bring the assets to a state of good repair. The report also estimated that $336 million, $191 million, $213 million and $200 million should be spent on maintenance in fiscal years 2012 through 2015, respectively.

The recommended capital investment for each inventoried asset is not readily comparable to the capital spending allocated by the City in the 2012-2015 Capital Commitment Plan and the Ten-Year Capital Strategy. Only a portion of the funding set forth in the 2012-2015 Capital Commitment Plan is allocated to specifically identified assets, and funding in the subsequent years of the Ten-Year Capital Strategy is even less identifiable with individual assets. Therefore, there is a substantial difference between the amount of investment recommended in the report for all inventoried City assets and amounts allocated to the specifically identified inventoried assets in the 2012-2015 Capital Commitment Plan. The City also issues an annual report (the "Reconciliation Report") that compares the recommended capital investment with the capital spending allocated by the City in the Four-Year Capital Plan to the specifically identified inventoried assets.

The most recent Reconciliation Report, issued in June 2011, concluded that the capital investment in the Four-Year Capital Plan, for fiscal years 2012 through 2015, for the specifically identified inventoried assets funded 48% of the total investment recommended in the preceding AIMS Report issued in December 2010. Capital investment allocated in the Ten-Year Capital Strategy published in May 2011 funded an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 71% of the expense maintenance levels recommended were included in the financial plan.

Financing Program

The following table sets forth the par amount of bonds issued and expected to be issued during the 2012 through 2015 fiscal years to implement the 2012-2015 Capital Commitment Plan. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

2012-2015 FINANCING PROGRAM

	2012	2013	2014	2015	Total
			(In Millions)		
City General Obligation Bonds(1)	$2,680	$2,460	$2,460	$2,260	$ 9,860
TFA Future Tax Secured Bonds(1)	2,680	2,460	2,460	2,260	9,860
Water Authority Bonds(1)(2)	2,027	1,598	1,420	1,164	6,209
Total	$7,387	$6,518	$6,340	$5,684	$25,929

Note: Totals may not add due to rounding.

(1) Figures exclude refunding bonds.

(2) Water Authority Bonds includes commercial paper.

The City's financing program includes the issuance of water and sewer revenue bonds by the Water Authority which is authorized to issue bonds to finance capital investment in the City's water and sewer system. Pursuant to State law, debt service on Water Authority indebtedness is secured by water and sewer fees paid by users of the water and sewer system. Such fees are revenues of the Water Board, which holds a lease interest in the City's water and sewer system. After providing for debt service on obligations of the Water Authority and certain incidental costs, the revenues of the Water Board are paid to the City to cover the City's costs of operating the water and sewer system and as rental for the system. The City's Ten-Year Capital Strategy applicable to the City's water and sewer system covering fiscal years 2012 through 2021, projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately $12.3 billion. The City's Capital Commitment Plan for fiscal years 2012 through 2015 reflects total anticipated City-funded water and sewer commitments of $7.7 billion which are expected to be financed with the proceeds of Water Authority debt.

The TFA is authorized to have outstanding $13.5 billion of Future Tax Secured Bonds (excluding Recovery Bonds) and may issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, do not exceed the debt limit of the City. Future Tax Secured Bonds are issued for general City capital purposes and are secured by the City's personal income tax revenues and, to the extent such revenues do not satisfy specified debt ratios, sales tax revenues. In addition, the TFA is authorized to have outstanding $9.4 billion of Building Aid

Revenue Bonds to pay for a portion of the City's five-year educational facilities capital plan. Building Aid Revenue Bonds are secured by State building aid, which the Mayor has assigned to the TFA. The TFA expects to issue $935 million, $1.048 billion, $1.128 billion and $1.039 billion of Building Aid Revenue Bonds in fiscal years 2012 through 2015, respectively.

Implementation of the financing program is dependent upon the ability of the City and other financing entities to market their securities successfully in the public credit markets which will be subject to prevailing market conditions at the times of sale. No assurance can be given that the credit markets will absorb the projected amounts of public bond sales. A significant portion of bond financing is used to reimburse the City's General Fund for capital expenditures already incurred. If the City and such other entities are unable to sell such amounts of bonds, it would have an adverse effect on the City's cash position. In addition, the need of the City to fund future debt service costs from current operations may also limit the City's capital program. The Ten-Year Capital Strategy for fiscal years 2012 through 2021 totals $54.1 billion, of which approximately 74% is to be financed with funds borrowed by the City and such other entities. See "SECTION I: INTRODUCTORY STATEMENT" and "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness*." Congressional developments affecting federal taxation generally could reduce the market value of tax-favored investments and increase the debt-service costs of carrying out the major portion of the City's capital plan which is currently eligible for tax-exempt financing.

Interest Rate Exchange Agreements

In an effort to reduce its borrowing costs over the life of its bonds, the City began entering into interest rate exchange agreements commencing in fiscal year 2003. For a description of such agreements, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A.13." As of September 30, 2011, the aggregate notional amount of the City's interest rate exchange agreements was $2,563,770,000 and the total marked-to-market value of such agreements was ($197,544,294).

In addition, in connection with its Courts Facilities Lease Revenue Bonds (The City of New York Issue) Series 2005A and B, the Dormitory Authority of the State of New York ("DASNY") entered into interest rate exchange agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. and JPMorgan Chase Bank, National Association. The City is obligated, subject to appropriation, to make lease payments to DASNY reflecting DASNY's obligations under these interest rate exchange agreements. Agreements with a notional amount of $125,500,000, an effective date of May 15, 2013 and a termination date of May 15, 2032, which provided for DASNY to make payments based on the Securities Industry and Financial Markets Association Index ("SIFMA") and receive a fixed rate of 4.179% were terminated by DASNY as of September 27, 2011. Under other such agreements with a notional amount of $125,500,000, an effective date of June 15, 2005 and a termination date of May 15, 2039, DASNY pays a fixed rate of 3.017% and receives payments based on a LIBOR-indexed variable rate. As of September 30, 2011, the total marked-to-market value of the DASNY agreements was ($32,378,608).

Seasonal Financing Requirements

The City since 1981 has fully satisfied its seasonal financing needs, when necessary, in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. The City has not issued short-term obligations to finance projected cash flow needs since fiscal year 2004. The City regularly reviews its cash position and the need for short-term borrowing. The Financial Plan does not include the issuance of short-term obligations in fiscal year 2012. The Financial Plan reflects the issuance of short-term obligations in the amount of $2.4 billion in each of fiscal years 2013 through 2015.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City and PBC Indebtedness

The following table sets forth outstanding City and PBC indebtedness as of June 30, 2011. "City indebtedness" refers to general obligation debt of the City, net of reserves. "PBC indebtedness" refers to obligations of the City, net of reserves, to the following PBCs: the Housing Authority, the New York City Educational Construction Fund ("ECF"), DASNY, CUCF, and the New York State Urban Development Corporation ("UDC"). PBC indebtedness is not debt of the City. However, the City has entered into agreements to make payments, subject to appropriation, to PBCs to be used for debt service on certain obligations constituting PBC indebtedness. Neither City indebtedness nor PBC indebtedness includes outstanding debt of the TFA, TSASC, Fiscal Year 2005 Securitization Corp. or STAR Corp., which are not obligations of, and are not paid by, the City; nor does such indebtedness include obligations of HYIC, for which the City has agreed to pay, as needed and subject to appropriation, interest on but not principal of such obligations.

	(In Thousands)	
Gross City Long-Term Indebtedness(1)	$41,739,619	
Less: Assets Held for Debt Service(2)	(2,615)	
Net City Long-Term Indebtedness		$41,737,004
PBC Indebtedness		
Bonds Payable	447,389	
Capital Lease Obligations	1,346,191	
Gross PBC Indebtedness	1,793,580	
Less: Assets Held for Debt Service	(243,509)	
Net PBC Indebtedness		1,550,071
Combined Net City and PBC Indebtedness		$43,287,075

(1) Reflects capital appreciation bonds at accreted values as of June 30, 2010.

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

Trend in Outstanding Net City and PBC Indebtedness

The following table shows the trend in the outstanding net City and PBC indebtedness as of June 30 of each of the fiscal years 2001 through 2011.

	City Indebtedness			
	Long-Term	Short-Term	PBC Indebtedness	Total
	(In Millions)			
2001	$25,609	$—	$1,533	$27,142
2002	27,312	—	1,537	28,849
2003	29,043	—	2,059	31,102
2004	30,498	—	1,766	32,264
2005	33,688	—	1,941	35,629
2006	34,076	—	1,751	35,827
2007	34,396	—	1,637	36,033
2008	33,129	—	1,558	34,687
2009	38,648	—	1,484	40,131
2010	41,490	—	1,395	42,885
2011	41,737	—	1,550	43,287

Rapidity of Principal Retirement

The following table details, as of June 30, 2011, the cumulative percentage of total City indebtedness that is scheduled to be retired in accordance with its terms in each prospective five-year period.

Period	Cumulative Percentage of Debt Scheduled for Retirement
5 years	20.59%
10 years	46.49
15 years	70.20
20 years	87.34
25 years	97.14
30 years	100.00

City and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of June 30, 2011, on City and PBC indebtedness.

	City Long-Term Debt			
Fiscal Years	Principal	Interest	PBC Indebtedness	Total
	(In Thousands)			
2012	$ 1,983,707	$ 1,803,433	$ 71,756	$ 3,858,896
2013	2,184,229	1,732,031	77,025	3,993,285
2014 through 2147	37,571,683	16,266,914	1,644,799	55,483,396
Total	$41,739,619	$19,802,378	$1,793,580	$63,335,577

Certain Debt Ratios

The following table sets forth the approximate ratio of City long-term indebtedness to taxable property value as of June 30 of each of the fiscal years 2001 through 2010.

Fiscal Year	City Long-Term Indebtedness (In Millions)	Percentage of Actual Taxable Value of Property(1)	Per Capita
2001	$27,147	29.97%	$3,367
2002	28,465	29.20	3,517
2003	29,679	28.90	3,652
2004	31,378	29.38	3,841
2005	33,903	30.73	4,128
2006	35,844	29.26	4,344
2007	34,506	27.03	4,152
2008	36,100	24.80	4,325
2009	39,991	26.31	4,765
2010	41,555	26.31	4,952

Source: CAFR for the fiscal year ended June 30, 2010.

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

Indebtedness of the City and Related Issuers

The following table sets forth obligations of the City and other issuers as of June 30 of each of the fiscal years 2001 through 2010. General obligation bonds are debt of the City. Although IDA Stock Exchange bonds and PBC indebtedness are not debt of the City, the City has entered into agreements to make payments, subject to appropriation, to the respective issuers to be used for debt service on the indebtedness included in the following table. ECF bonds are also not debt of the City. ECF bonds are expected to be paid from revenues of ECF, provided, however, that if such revenues are insufficient, the City has agreed to make payments, subject to appropriation, to ECF for debt service on its bonds. Indebtedness of the TFA, TSASC, STAR Corp. and MAC does not constitute debt of, and is not paid by, the City.

Fiscal Year	General Obligation Bonds(1)	ECF	MAC(2)	TFA	TSASC	STAR	SFC(3)	PBC Indebtedness and Other(4)	IDA Stock Exchange
					(In Millions)				
2001	$27,147	$134	$3,217	$ 7,386	$ 704	$ —	$80	$1,805	$ —
2002	28,465	125	2,880	8,289	740	—	40	2,298	—
2003	29,679	117	2,151	12,024	1,258	—	—	2,211	—
2004	31,378	107	1,758	13,364	1,256	—	—	2,346	108
2005	33,903	135	—	12,977	1,283	2,552	—	3,044	106
2006	35,844	84	—	12,233	1,334	2,470	—	2,925	104
2007	34,506	123	—	14,607	1,317	2,368	—	2,832	102
2008	36,100	109	—	14,828	1,297	2,339	—	2,025	101
2009	39,991	102	—	16,913	1,274	2,253	—	1,937	99
2010	41,555	150	—	20,094	1,265	2,178	—	1,859	99

Source: CAFR for the fiscal year ended June 30, 2010.

(1) General Obligation Bonds include general obligation bonds held by MAC, the debt service on which was used by MAC to pay debt service on its bonds. Such general obligation "mirror" bonds totaled $230 million, $168 million, $116 million, $64 million, $52 million and $39 million in fiscal years 2000 through 2005, respectively. All of such general obligation "mirror" bonds have been paid.

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

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

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

As of August 31, 2011, approximately $41 billion of City general obligation bonds were outstanding, of which $5,685,380,000 are variable rate demand bonds. For further information regarding the City's variable rate demand bonds, see Appendix C hereto.

As of June 30, 2011, $2 billion aggregate principal amount of HYIC bonds were outstanding. Such bonds were issued to finance the extension of the Number 7 subway line and other public improvements. They are secured by and payable from payments in lieu of taxes and other revenues generated by development in the Hudson Yards area. To the extent such payments in lieu of taxes and other revenues are insufficient to pay interest on the HYIC bonds, the City has agreed to pay the amount of any shortfall in interest on such bonds, subject to appropriation. The City has no obligation to pay the principal of such bonds. It is contemplated that an additional $1 billion aggregate principal amount of HYIC bonds will be issued in October, 2011, for the same purposes and payable from the same sources as the prior $2 billion aggregate principal amount of HYIC bonds.

Certain Provisions for the Payment of City Indebtedness

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

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

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

Limitations on the City's Authority to Contract Indebtedness

The Financial Emergency Act imposes various limitations on the issuance of City indebtedness. No TANs may be issued by the City which would cause the principal amount of such issue of TANs to exceed 90% of the "available tax levy," as defined in the Act, with respect to such issue; TANs and renewals thereof must mature not later than the last day of the fiscal year in which they were issued. No RANs may be issued by the City which would cause the principal amount of RANs outstanding to exceed 90% of the "available revenues," as defined in the Act, for that fiscal year; RANs must mature not later than the last day of the fiscal year in which they were issued; and in no event may renewals of RANs mature later than one year subsequent to the last day of the fiscal year in which such RANs were originally issued. No bond anticipation notes ("BANs") may be issued by the City in any fiscal year which would cause the principal amount of BANs outstanding, together with interest due or to become due thereon, to exceed 50% of the principal amount of bonds issued by the City in the twelve months immediately preceding the month in which such BANs are to be issued.

The State Constitution provides that, with certain exceptions, the City may not contract indebtedness, including contracts for capital projects to be paid with the proceeds of City bonds ("contracts for capital projects"), in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years (the "general debt limit"). See "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Assessment*." Certain indebtedness ("excluded debt") is excluded in ascertaining the City's authority to contract indebtedness within the constitutional limit. TANs, RANs and BANs, and long-term indebtedness issued for specified purposes are considered excluded debt. The City's authority for variable rate bonds is currently limited, with statutory exceptions, to 25% of the general debt limit. The State Constitution also provides that, subject to legislative implementation, the City may contract indebtedness for low-rent housing, nursing homes for persons of low income and urban renewal purposes in an amount not to exceed 2% of the average assessed valuation of the taxable real estate of the City for the most recent five years (the "2% debt limit"). Excluded from the 2% debt limit, after approval by the State Comptroller, is indebtedness for certain self-supporting programs aided by City guarantees or loans.

Water Authority and TSASC indebtedness and the City's commitments with other PBCs or related issuers are not chargeable against the City's constitutional debt limit. The TFA and TSASC were created to provide financing for the City's capital program. Without the TFA and TSASC, or other legislative relief, new contractual commitments for the City's general obligation financed capital program would have been virtually brought to a halt during the financial plan period beginning early in the 1998 fiscal year. TSASC has issued approximately $1.3 billion of bonds that are payable from TSRs. TSASC does not intend to issue additional bonds. The TFA is permitted to have outstanding $13.5 billion of Future Tax Secured Bonds (excluding Recovery Bonds) and may issue additional Future Tax Secured Bonds, provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, do not exceed the debt limit of the City. Future Tax Secured Bonds are secured by the City's personal income tax revenues and sales tax revenues, if personal income tax revenues do not satisfy specified debt ratios. The TFA, as of August 31, 2011, has outstanding approximately $17.52 billion of Future Tax Secured Bonds (excluding Recovery Bonds). The TFA may also have outstanding $9.4 billion of Building Aid Revenue Bonds, which are secured by State building aid and are not chargeable against the City's constitutional debt limit.

The following table sets forth the calculation of debt-incurring power as of August 31, 2011.

		(In Thousands)
Total City Debt-Incurring Power under General Debt Limit		$76,096,693
Gross Debt-Funded	$41,028,418	
Less: Excluded Debt	(166,661)	
	40,861,757	
Less: Appropriations for Payment of Principal	(798,223)	
	40,063,534	
Contracts and Other Liabilities, Net of Prior Financings Thereof	8,528,605	
Total City Indebtedness		48,592,139
TFA Debt Outstanding above $13.5 billion		4,018,345
Debt-Incurring Power		$23,486,209

Note: Numbers may not add due to rounding.

Federal Bankruptcy Code

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

Public Benefit Corporation Indebtedness

City Financial Commitments to PBCs

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

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

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

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

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

Certain PBCs are further described below.

New York City Educational Construction Fund

As of June 30, 2011, $281.2 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF's leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

Dormitory Authority of the State of New York

As of June 30, 2011, $574.9 million principal amount and $742.6 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities and health facilities, respectively, in the City were outstanding. The court facilities and health facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

City University Construction Fund

As of June 30, 2011, approximately $311.3 million principal amount of DASNY bonds, relating to Community College facilities, subject to capital lease arrangements was outstanding. The City and the State are each responsible for approximately one-half of the CUCF's annual rental payments to DASNY for Community College facilities which are applied to the payment of debt service on the DASNY's bonds issued to finance the leased projects plus related overhead and administrative expenses of DASNY.

New York State Urban Development Corporation

As of June 30, 2011, $28.7 million principal amount of UDC bonds subject to lease arrangements was outstanding. The City leases schools and certain other facilities from UDC.

SECTION IX: OTHER INFORMATION

Pension Systems

The City maintains a number of pension systems providing benefits for its employees and employees of various independent agencies (including certain Covered Organizations). The systems combine features of a defined benefit pension plan with those of a defined contribution pension plan. Membership in the City's five major actuarial systems on June 30, 2010 consisted of approximately 366,000 active employees, of whom approximately 90,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there were approximately 299,000 retirees and beneficiaries currently receiving benefits and other vested members terminated but not receiving benefits. The City also contributes to three other actuarial systems, maintains a non-actuarial retirement system for retired individuals not covered by the five major actuarial systems, provides other supplemental benefits to retirees and makes contributions to certain union annuity funds.

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

For fiscal year 2010, the City's pension contributions for the five major actuarial pension systems, made on a statutory basis based on actuarial valuations performed as of June 30, 2008, plus the other pension expenditures, were approximately $6.756 billion. Expense projections for fiscal years 2011 through 2015 are estimated at $7.002 billion, $8.424 billion, $8.570 billion, $8.448 billion and $8.694 billion, respectively. These projections are based on actuarial valuation estimates and reflect funding assumptions formulated by the Chief Actuary and the assumed rate of return on pension investments of eight percent as governed by State law. The projections incorporate the impact of actual pension fund investment performance after fiscal year 2002 which include losses in fiscal year 2003, gains in fiscal years 2004 through 2007, losses in fiscal years 2008 and 2009 followed by a gain in fiscal year 2010. The incremental costs or benefit of the return on pension investments in any given year is phased in using six-year averaging periods under the Chief Actuary's funding assumptions.

The statutory assumed rate of return of eight percent is effective through the end of fiscal year 2012. A lower assumed rate of return may be enacted retroactive to July 1, 2011 in conjunction with a package of actuarial assumptions and methods expected to be proposed by the Chief Actuary. Required contributions are sensitive to changes in the assumed rate of return. For example, each one percent reduction in the assumed rate could require an additional annual pension contribution of approximately $1.5 billion to $2 billion. Under current actuarial assumptions and methods, adjustments in required contributions caused by changes in the assumed rate of return would not be subject to phase-in or averaging.

An independent actuarial firm issued a report in November 2006 on its statutory audit of the actuarial assumptions and methods governing City pension contributions. Although the report is advisory and not binding, it calls for changing certain actuarial assumptions such as life expectancy which, with other recommendations, could result in net increased annual pension contributions. A subsequent independent audit is currently ongoing and a report is expected to be released in November 2011. Following review of such reports, the Chief Actuary of the City is expected to recommend revised funding assumptions to the trustees of the City pension funds.

The Financial Plan includes an annual reserve of $1 billion in each of fiscal years 2012 through 2015 to address changes in actuarial assumptions including life expectancy and the statutory assumed rate of return. However, actual increases in annual pension contributions as a result of any such changes in assumptions could significantly exceed that amount.

In fiscal years 2008 and 2009, the pension funds realized negative investment returns of 5.4 percent and 18.3 percent, respectively, which are significantly below the assumed positive rate of return of eight percent. As a result of the combined impact of the actual losses in fiscal years 2008 and 2009, the Financial Plan reflects additional pension contributions of $558 million, $972 million, $1.401 billion, $1.848 billion and $2.422 billion in fiscal years 2011 through 2015, respectively.

The Financial Plan reflects savings from various pension reforms that require State legislation and would apply to employees hired after fiscal year 2011. Based on an analysis prepared by the Chief Actuary, the estimated savings to the City from these reforms would be $56 million and $109 million in fiscal years 2014 and 2015, respectively.

In addition, the Financial Plan includes savings from a proposal that requires State legislation relating to the elimination of the guaranteed fixed return on tax deferred annuities for teachers and other DOE employees. The Chief Actuary has estimated that this change would generate savings of $75 million and $143 million in fiscal years 2014 and 2015, respectively.

The City accounts for its pensions consistent with the requirements of GASB, which has resulted in the City's pensions being reported as 99.9% funded, as of June 30, 2008, in the CAFR for the 2010 fiscal year. The funded status of the City's pension systems was also reported in the CAFR for the 2010 fiscal year under an alternative valuation method, the entry-age actuarial cost method, which resulted in assets being reported as less than liabilities by approximately $42 billion, or 70.9% funded, as of June 30, 2008. For further information see Appendix B — Financial Statements — Notes to Financial Statements — Notes E.6. and F." Other measures of funded status would produce, in some cases, lower funded ratios of assets to liabilities and, in other cases, higher funded ratios of assets to liabilities, than the alternative valuation method shown in the CAFR.

In documents dated June 27, 2011, GASB issued an exposure draft indicating that it is considering significant changes to GAAP relating to pensions and indicated a deadline to the comment period of September 30, 2011. Proposed changes include, among many others, that governments would be required to report net pension liabilities on their financial statements when the fair value of pension assets falls short of actuarially calculated liabilities. Currently, GAAP requires that employers report net pension liabilities on their financial statements of net assets only when there is a shortfall in cumulative contributions compared to either actuarially determined annual contributions or contractually required contributions for certain cost-sharing employer plans. The impact on the City of such changes to GAAP, if ultimately implemented, is not certain at this time.

For the 2010 fiscal year, the City's total annual pension costs, including the City's pension costs not associated with the five major actuarial systems, plus Federal Social Security tax payments by the City for the year, were approximately 39% of total payroll costs. In addition, contributions are also made by certain component units of the City and other government units directly to the three cost sharing multiple employer actuarial systems. The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired.

Annual pension costs are computed by the City in accordance with GASB Statement No. 27, as amended by GASB Statement No. 50, and are consistent with generally accepted actuarial principles. Actual pension contributions are less than annual pension costs, primarily because the City is only one of the participating employers in the New York City Employees' Retirement System ("NYCERS"), the Teachers' Retirement System of The City of New York ("TRS") and the New York City Board of Education Retirement System ("BERS"). However, the failure by any one employer to make its required payment could increase the obligations of the other employers. Depending on the system and the defaulting participating employer, such increased obligation could be material.

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

Litigation

The following paragraphs describe certain material legal proceedings and claims involving the City and Covered Organizations other than routine litigation incidental to the performance of their governmental and other functions and certain other litigation arising out of alleged constitutional violations, torts, breaches of contract and other violations of law and condemnation proceedings. While the ultimate outcome and fiscal impact, if any, on the City of the proceedings and claims described below are not currently predictable, adverse determinations in certain of them might have a material adverse effect upon the City's ability to carry out the Financial Plan. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 2010 amounted to approximately $5.6 billion. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Services Costs—*Judgments and Claims*."

Taxes

Numerous real estate tax *certiorari* proceedings alleging overvaluation, inequality and illegality are pending against the City. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential future liability for outstanding *certiorari* proceedings to be $899 million at June 30, 2010. For a discussion of the City's accounting treatment of its inequality and overvaluation exposure, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.5."

Miscellaneous

1. Numerous proceedings alleging respiratory or other injuries from alleged exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City and other entities involved in the post-September 11 rescue and recovery process. Plaintiffs include, among others, Department of Sanitation employees, firefighters, police officers, construction workers and building clean-up workers. Complaints on behalf of approximately 11,900 plaintiffs alleging similar causes of action have been filed naming the City or other defendants. Approximately 5,000 of these plaintiffs have to date named the City as a defendant. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to federal District Court pursuant to the Air Transportation and System Stabilization Act, which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions on immunity grounds was denied on October 17, 2006 by

the District Court. On March 26, 2008, the Second Circuit upheld the District Court's decision, holding that determining whether the City had immunity for its actions requires developing the factual record. A not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the "WTC Insurance Company") has been formed to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of $999,900,000. Most of the claims against the City and its private contractors set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims. On June 10, 2010, the WTC Insurance Company announced that a settlement was reached with attorneys for the plaintiffs. Under the settlement, the WTC Insurance Company would pay up to approximately $712.5 million, leaving residual funds to insure and defend the City and its contractors against claims that are not settled as part of the settlement and any new claims. In order for the settlement to take effect, at least 95 percent of the plaintiffs must accept its terms. On November 19, 2010, District Court Judge Hellerstein announced that more than the required 95% of plaintiffs have agreed to the settlement, thus making it effective, subject to the correction of certain deficiencies in some releases by the WTC Insurance Company. There are still approximately 400 cases against the City in which plaintiffs have not agreed to the terms of the settlement or are not eligible to participate in the settlement. The Court has not indicated how or when those cases will proceed.

2. In 1996, a class action was brought against the City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by the City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The lower court dismissed the case. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the lower court's ruling, dismissed the claims against the State, and remanded the matter for further proceedings. The trial court on remand has received extensive briefing from the parties on the issue of City liability and on the City's motion to decertify the class based on the United States Supreme Court's decision in Wal-Mart Stores, Inc. v. Dukes, 131 S. Ct. 2541 (2011). The State has advised the City that there are approximately 3,500 members of the class and has calculated potential damages, based on the difference in salary between a certified public school teaching position and an uncertified parochial or private school teaching position, of approximately $455,000,000.

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

4. In October 2010, The Building Industry Electrical Contractors Association and the United Electrical Contractors Association commenced an action in the United States District Court for the Southern District of New York against the City and The Building and Construction Trades Council of

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

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

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

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

Environmental Regulation

On March 2, 2010, following an earlier notice of proposed listing, the United States Environmental Protection Agency ("EPA") listed the Gowanus Canal, a waterway located in Brooklyn, New York, as a federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). While it was evaluating listing the Gowanus Canal, on November 5, 2009, EPA notified the City that EPA considers the City a potentially responsible party ("PRP") under CERCLA for hazardous wastes in the Gowanus Canal. In its Gowanus PRP notice letter, EPA identified currently and formerly City-owned and operated properties, including an asphalt plant, an inactive incinerator, and waterfront properties historically leased to private entities, as sources of hazardous substances in the

Gowanus Canal. On February 2, 2011, following an investigation of the location, concentrations, types, sources, and risks of contamination in the Gowanus Canal, EPA issued a Gowanus Canal Remedial Investigation Report. That report identified three former manufactured gas plants as the likely source of much of the contamination in the Gowanus Canal, but also identified combined sewer overflows as the likely source of some contamination. EPA is currently studying feasible alternatives to address the contamination identified in its report.

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

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

Financial Statements

The City's financial statements for the fiscal years ended June 30, 2010 and 2009 are included herein as Appendix B. Deloitte & Touche LLP, the City's independent auditor, has not reviewed, commented on or approved, and is not associated with, this Appendix. The report of Deloitte & Touche LLP relating to the City's financial statements for the fiscal years ended June 30, 2010 and 2009, which is a matter of public record, is included in Appendix B. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the City, including without limitation any of the information contained in this Appendix, since the date of such report and has not been asked to consent to the inclusion of its report in Appendix B. The City expects to issue its financial statements for the fiscal years ending June 30, 2011 and 2010 on or about October 31, 2011.

Further Information

Moody's has rated the City's outstanding general obligation bonds Aa2. Standard & Poor's has rated the City's outstanding general obligation bonds AA. Fitch has rated the City's outstanding general obligation bonds AA. Such ratings reflect only the views of Moody's, Standard & Poor's and Fitch from which an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of such bonds.

Orrick, Herrington & Sutcliffe LLP, New York, New York, Special Disclosure Counsel to the City, will pass upon certain legal matters in connection with the preparation of this Appendix. A description of those matters and the nature of the review conducted by that firm is set forth in its opinion and accompanying memorandum which are on file at the office of the Corporation Counsel.

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

Copies of the most recent financial plan submitted to the Control Board are at www.nyc.gov/omb. Copies of the published Comprehensive Annual Financial Reports of the Comptroller are available at www.comptroller.nyc.gov or upon written request to the Office of the Comptroller, Deputy Comptroller for Public Finance, Seventh Floor, Room 720, Municipal Building, One Centre Street, New York, New York 10007. Financial plans are prepared quarterly, and the Comprehensive Annual Financial Report of the Comptroller is typically prepared at the end of October of each year.

THE CITY OF NEW YORK

APPENDIX A
TO
APPENDIX D

ECONOMIC AND DEMOGRAPHIC INFORMATION

This section presents information regarding certain economic and demographic information about the City. All information is presented on a calendar year basis unless otherwise indicated. The data set forth are the latest available but, in many cases, do not reflect the economic downturn that impacted the City from 2007 through the first half of 2010. Sources of information are indicated in the text or immediately following the tables. Although the City considers the sources to be reliable, the City has made no independent verification of the information provided by non-City sources and does not warrant its accuracy.

New York City Economy

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

The City is a major seaport and focal point for international business. Many of the major corporations headquartered in the City are multinational in scope and have extensive foreign operations. Numerous foreign-owned companies in the United States are also headquartered in the City. These firms, which have increased substantially in number over the past decade, are found in all sectors of the City's economy, but are concentrated in trade, professional and business services, tourism and finance. The City is the location of the headquarters of the United Nations, and several affiliated organizations maintain their principal offices in the City. A large diplomatic community exists in the City to staff the missions to the United Nations and the foreign consulates. No single assessed property in the City accounts for more than .5% of the City's real property tax revenue.

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s which was followed by an expansion that lasted until 2001. The economic slowdown that began in 2001 as a result of the September 11 attack, a national economic recession, and a downturn in the securities industry came to an end in 2003. Subsequently, Wall Street activity, tourism, and the real estate market drove a broad based economic recovery until the second half of 2007. A decrease in economic activity began in the second half of 2007 and continued through the first half of 2010. The Financial Plan assumes that the gradual increase in economic activity that occurred in the second half of 2010 will continue through 2011.

Personal Income

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

Personal Income(1)

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

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

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

Employment

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1992 through 2000, the City experienced significant private sector job growth with the addition of approximately 452,600 new private sector jobs (an average annual growth rate of approximately 2.0%). Between 2000 and 2003 the City lost 174,300 private sector jobs. From 2003 through 2008, the City fully recovered those jobs, adding a total of 255,700 private sector jobs. In 2009, the City lost 103,800 private sector jobs, while in 2010, the City added 23,500 private sector jobs.

As of September 2011, total employment in the City was 3,735,800 compared to 3,704,400 in September 2010, an increase of approximately 0.8%.

The table below shows the distribution of employment from 2000 to 2010.

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Goods Producing Sectors											
Construction	121	122	116	113	112	113	118	127	133	121	112
Manufacturing	177	156	139	127	121	114	106	101	96	82	77
Service Producing Sectors											
Trade, Transportation & Utilities	570	557	536	534	539	547	559	570	574	552	557
Information	187	200	177	164	160	163	165	167	170	165	164
Financial Activities	489	474	445	434	435	445	458	468	465	434	429
Professional & Business Services	587	582	550	537	542	556	571	592	603	570	577
Education & Health Services	615	627	646	658	665	679	695	705	719	735	754
Leisure & Hospitality	257	260	255	260	270	277	285	298	310	309	320
Other Services	147	149	150	149	151	153	154	158	161	160	161
Total Private	3,149	3,127	3,015	2,975	2,995	3,047	3,112	3,186	3,230	3,126	3,150
Total Government	569	562	566	557	554	556	555	559	564	567	558
Total	3,718	3,689	3,581	3,531	3,549	3,603	3,667	3,745	3,794	3,693	3,708

Note: Totals may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics. Data are presented using the North American Industry Classification System ("NAICS").

Sectoral Distribution of Employment and Earnings

In 2009, the City's service producing sectors provided approximately 3.0 million jobs and accounted for approximately 80% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2009, the employment share for the financial activities and professional and business services sectors was approximately 27% while the earnings share for that same sector was approximately 46%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2009. Due to the earnings distribution in the City, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

The City's and the nation's employment and earnings by sector for 2009 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2009(1)

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

Note: Data may not add due to rounding or restrictions on reporting earnings data. Data are presented using NAICS.
Sources: The two primary sources are the U.S. Department of Labor, Bureau of Labor Statistics and the U.S. Department of Commerce, Bureau of Economic Analysis.
(1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
(2) Includes the sum of wage and salary disbursements, other labor income and proprietor's income. The latest information available is 2009 data.
(3) Excludes military establishments.

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

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

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

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

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

(1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
(2) Includes the sum of wage and salary disbursements, other labor income, and proprietors' income. The latest information available for the City is 2000 data.
(3) Excludes military establishments.

Unemployment

As of September 2011, the total unemployment rate in the City was 8.7%, compared to 9.1% in September 2010, based on data provided by the New York State Department of Labor, which is not seasonally adjusted. The annual unemployment rate of the City's resident labor force is shown in the following table.

ANNUAL UNEMPLOYMENT RATE(1)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
New York City	5.8%	6.0%	8.0%	8.3%	7.1%	5.8%	5.0%	4.9%	5.4%	9.3%	9.5%
United States	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%

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

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

Public Assistance

As of August 2011, the number of persons receiving cash assistance in the City was 352,505 compared to 346,716 in August 2010. The following table sets forth the number of persons receiving public assistance in the City.

PUBLIC ASSISTANCE

(Annual Averages in Thousands)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
573.0	492.8	434.0	424.7	434.8	416.9	393.1	360.8	341.8	346.9	350.5

Taxable Sales

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. The sales tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. Between 1999 and 2009, total taxable sales volume grew at a compounded growth rate averaging over 3.0%. The decline in total taxable sales in 2009 reflects a decline in consumption, as a result of local employment losses and the local and national recessions. The following table illustrates the volume of sales and purchases subject to the sales tax from 1999 to 2009.

TAXABLE SALES AND PURCHASES SUBJECT TO SALES TAX

(In Billions)

Year(1)	Retail(2)	Utility & Communication Sales(3)	Services(4)	Manufacturing	Other(5)	All Total
1999	$35.0	$ 9.6	$16.1	$4.2	$ 9.6	$ 74.5
2000(6)	29.9	9.8	19.4	2.1	15.4	76.6
2001(6)	25.1	11.3	21.4	2.2	19.0	79.1
2002(6)	25.6	11.9	20.7	2.0	15.2	75.5
2003(6)	26.1	11.4	21.0	1.9	14.8	75.2
2004(6)	32.3	11.6	21.7	1.9	14.8	82.3
2005(6)	36.5	12.0	24.1	2.1	16.2	90.9
2006(6)	35.9	13.2	26.3	2.2	17.9	95.5
2007(6)	33.4	12.8	28.1	2.4	19.4	96.1
2008(6)	33.3	13.5	31.5	2.8	20.7	101.8
2009(6)	31.4	14.2	31.5	2.6	20.1	99.8

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

(1) For 1999, the yearly data is for the period from September 1, 1998 through August 31, 1999. For 2000 through 2009 the yearly data is for the period from March 1 of the year prior to the listed year through the last day of February of the listed year.

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

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

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

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

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

Population

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

POPULATION

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

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

The following table sets forth the distribution of the City's population by age between 2000 and 2010.

DISTRIBUTION OF POPULATION BY AGE

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

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

Housing

In 2008, the housing stock in the City consisted of approximately 3,328,395 housing units, excluding certain special types of units primarily in institutions such as hospitals and universities ("Housing Units") according to the 2008 Housing and Vacancy Survey released June 30, 2009. The 2008 housing inventory represented an increase of approximately 68,000 units, or 2.1%, since 2005. The 2008 Housing and Vacancy Survey indicates that rental housing units predominate in the City. Of all occupied housing units in 2008, approximately 31.4% were conventional home-ownership units, cooperatives or condominiums and approximately 64.4% were rental units. Due to the difference in the inventory basis for the 2002, 2005 and 2008 Housing and Vacancy Surveys, respectively, and previous Housing and Vacancy Surveys, it is not possible to accurately compare 2002, 2005 and 2008 results to the results of earlier Surveys until such time as the data is reweighted. The following table presents trends in the housing inventory in the City.

HOUSING INVENTORY
(In Thousands)

Ownership/Occupancy Status	1984	1987	1991	1993	1996	1999	2002	2005	2008
Total Housing Units	2,803	2,840	2,981	2,977	2,995	3,039	3,209	3,261	3,328
Owner Units	807	837	858	825	858	932	997	1,032	1,046
Owner-Occupied	795	817	829	805	834	915	982	1,010	1,019
Vacant for Sale	12	19	29	20	24	17	15	21	26
Rental Units	1,940	1,932	2,028	2,040	2,027	2,018	2,085	2,092	2,144
Renter-Occupied	1,901	1,884	1,952	1,970	1,946	1,953	2,024	2,027	2,082
Vacant for Rent	40	47	77	70	81	64	61	65	62
Vacant Not Available for Sale or Rent(1)	56	72	94	111	110	89	127	137	138

Note: Details may not add up to totals due to rounding.
Sources: U.S. Bureau of the Census, 1984, 1987, 1991, 1993, 1996, 1999, 2002, 2005 and 2008 New York City Housing and Vacancy Surveys.
(1) Vacant units that are dilapidated, intended for seasonal use, held for occasional use, held for maintenance purposes or other reasons.

APPENDIX B
TO
APPENDIX D

FINANCIAL STATEMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

Basic Financial Statements of the City of New York
June 30, 2010 and 2009

Index

[THIS PAGE INTENTIONALLY LEFT BLANK]

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

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

Independent Auditors' Report

The People of The City of New York:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City of New York (The "City") as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of The City's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of those entities disclosed in Note E.1 which represent 24 percent and 20 percent and 24 percent and 20 percent, as of and for the years ended June 30, 2010 and 2009 respectively, of the assets and revenues of the government-wide financial statements, 11 percent and 7 percent and 10 percent and 6 percent, as of and for the years ended June 30, 2010 and 2009 respectively, of the assets and revenues of the fund financial statements, 8 percent and 9 percent and 8 percent and 8 percent, as of and for the years ended June 30, 2010 and 2009 respectively, of the assets and net assets held in trust of the fiduciary fund financial statements and 51 percent and 79 percent and 51 percent and 79 percent, as of and for the years ended June 30, 2010 and 2009 respectively, of the assets and revenues of the component unit financial statements of The City. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities disclosed in Note E.1, are based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City, as of June 30, 2010 and 2009, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A.2 to the financial statements, in 2010, The City adopted Governmental Accounting Standards Board Statements (GASB) No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

The Management's Discussion and Analysis on pages B-4 through B-29 and the Required Supplementary Information on pages B-88, B-105, B-106, and B-107 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of The City's management. We, and the other auditors as it relates to Management's Discussion and Analysis only, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2010 and 2009 supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

October 27, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of The City of New York (City) for the fiscal years ended June 30, 2010 and 2009. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Government-wide financial statements

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

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

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

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" (GASB51) in fiscal year 2010. The Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. GASB51 also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. GASB51 requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. Additionally, GASB51 establishes a specified-conditions approach to recognizing intangible assets that are internally generated. GASB51 also establishes guidance specific to intangible assets related to amoritization. The financial reporting impact resulting from the implementation of GASB51 had no effect on net assets in the government-wide financial statements since the recognition of intangible assets was wholly a clarification of the existing equipment fixed assets class description to convey its inclusion of software. None of the intangible assets included in the equipment fixed assets class were considered to have indefinite useful lives and therefore all of the intangible assets are subject to amortization.

The City also implemented GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" (GASB53). This Statement enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements. The financial reporting impact resulting from the implementation of GASB53 is the recognition within the government-wide financial statements of a liability for 'hedging' derivative instruments whose negative fair value at June 30, 2010 totaled $91.6 million with a corresponding amount being reported as deferred outflows of resources in the assets section of the government-wide financial statements. Also, 'investment' derivative instruments whose negative fair value at June 30, 2010 totaled $89.2 million is being included with the City's investment disclosures and recorded within the investments account on the statement of net assets.

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

Fund financial statements

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

Governmental funds

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

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

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

Fiduciary funds

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

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB43) in fiscal year 2006. GASB43 establishes financial reporting standards for other postemployment benefits (OPEB) plans. The New York City Other Postemployment Benefits Plan (the PLAN) is composed of The New York City Retiree Health Benefits Trust (the Trust) and OPEB paid for directly by the City out of its general resources rather than through the Trust. The Trust is used to accumulate assets to pay for some of the OPEB provided by The City to its retired employees. The PLAN is reported in the City's financial statements as an Other Employee Benefit Trust Fund. The PLAN was established for the exclusive benefit of the City's retired employees and their dependents in providing the following current postemployment benefits: a health insurance program, Medicare Part B premium reimbursements and welfare fund contributions. The City is not required to provide funding for the PLAN other than the "pay-as-you-go" amounts necessary to provide current benefits to eligible retirees and their dependents. During fiscal year 2010, the City contributed $1.6 billion to the PLAN.

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

Notes to financial statements

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

Financial Reporting Entity

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

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

Blended Component Units

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

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

Discretely Presented Component Units

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

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

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

New York City Housing Authority (HA)
New York City Housing Development Corporation (HDC)
New York City Health and Hospitals Corporation (HHC)
New York City Economic Development Corporation (EDC)

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

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

Financial Analysis of the Government-wide Financial statements

In the government-wide financial statements, all of the activities of the City, aside from its discretely presented component units, are considered governmental activities. Governmental activities increased the City's net deficit by $11.7 billion during fiscal year 2010, and increased the net deficit by $7.0 billion (not including the restated opening fiscal year 2009 net deficit because of GASB49) during fiscal year 2009, and increased the net deficit by $5.8 billion during fiscal year 2008.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2010 governmental funds statement of revenues, expenditures, and changes in fund balances which reports a decrease of $1.6 billion in fund balances and the increase in the net assets deficit reported in the government-wide statement of activities of $11.7 billion, a difference of $10.1 billion. A similar reconciliation is provided for fiscal year 2009 amounts.

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

Key elements of these changes are as follows:

	Governmental Activities for the fiscal years ended June 30,		
	2010	**2009**	**2008**
		(in thousands)	
Revenues:			
Program revenues:			
Charges for services	$ 4,540,775	$ 4,339,456	$ 4,094,423
Operating grants and contributions	20,403,783	18,858,998	17,867,973
Capital grants and contributions	586,080	854,646	1,363,822
General revenues:			
Taxes	38,058,116	34,904,930	38,055,401
Investment income	65,508	286,868	637,711
Other Federal and State aid	478,811	806,415	632,162
Other	216,516	284,528	257,470
Total revenues	64,349,589	60,335,841	62,908,962
Expenses:			
General government	4,298,065	3,770,291	3,892,968
Public safety and judicial	18,293,989	15,198,415	16,253,188
Education	24,749,134	21,534,177	21,597,632
City University	1,035,471	779,539	733,165
Social services	13,183,110	13,076,719	13,529,238
Environmental protection	4,374,543	2,947,939	3,406,311
Transportation services	2,184,078	2,060,043	1,793,394
Parks, recreation and cultural activities	1,012,404	1,091,041	897,363
Housing	1,425,949	1,362,964	1,403,838
Health (including payments to HHC)	2,554,881	2,567,434	2,309,449
Libraries	249,423	402,299	310,048
Debt service interest	2,690,732	2,565,891	2,615,635
Total expenses	76,051,779	67,356,752	68,742,229
Change in net assets	(11,702,190)	(7,020,911)	(5,833,267)
Net deficit—beginning	(96,726,217)	(89,532,464)	(83,699,197)
Restatement of beginning net deficit	—	(172,842)	—
Net deficit—beginning of year, as restated	(96,726,217)	(89,705,306)	(83,699,197)
Net deficit—ending	$(108,428,407)	$ (96,726,217)	$ (89,532,464)

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

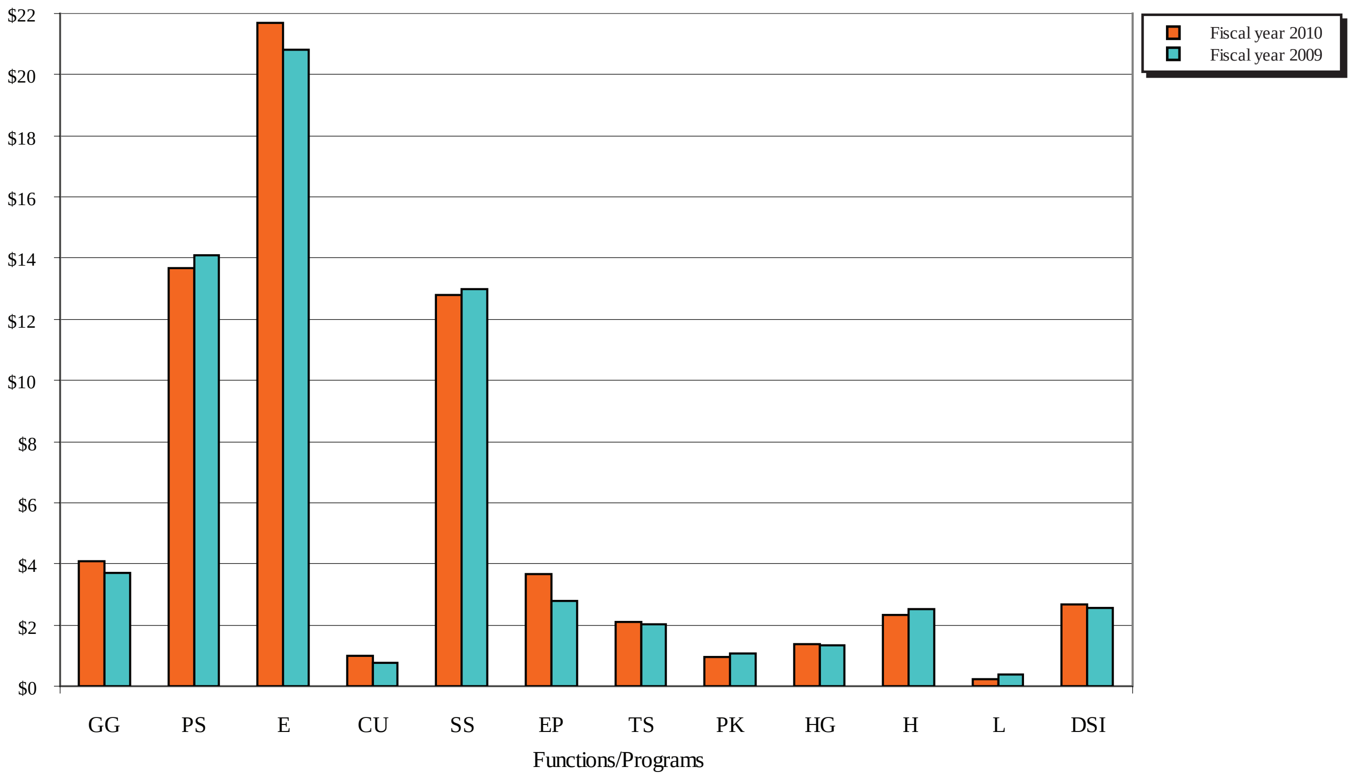
In fiscal year 2009, the increase of OPEB costs associated with GASB45 was approximately $2.3 billion. In fiscal year 2010, the increased costs of OPEB was over $9.4 billion. This increased cost resulted from the assumptions that the OPEB provisions were amended based on the impact of the National Health Care Reform. For example, this reform provides coverage for adult children up until age 26 (currently age 19, age 23 if full-time student). Also, costs increased based on the assumption that the provisions of the plan were amended based on New York State's extension of COBRA eligibility under insured plans from 18 months to 36 months for all COBRA events.

GASB45 requires the financial reports of governments to provide a systematic, accrual-basis measurement of an annual OPEB cost. The following schedule displays the effect of the GASB45 expenses as they appear in the Statement of Activities for fiscal year 2010 and a comparison to fiscal year 2009:

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

	Fiscal Year 2009 (in thousands)		
Functions/Programs	**Expenses per Statement of Activities**	**GASB45 Expenses**	**Expenses excluding GASB45**
General government (GG)	$ 3,770,291	$ 47,115	$ 3,723,176
Public safety and judicial (PS)	15,198,415	1,104,485	14,093,930
Education (E)	21,534,177	730,246	20,803,931
City University (CU)	779,539	9,769	769,770
Social services (SS)	13,076,719	95,011	12,981,708
Environmental protection (EP)	2,947,939	168,298	2,779,641
Transportation services (TS)	2,060,043	18,955	2,041,088
Parks, recreation and cultural activities (PK)	1,091,041	11,518	1,079,523
Housing (HG)	1,362,964	15,117	1,347,847
Health, including payments to HHC (H)	2,567,434	51,483	2,515,951
Libraries (L)	402,299	2,146	400,153
Debt service interest (DSI)	2,565,891	—	2,565,891
Total expenses	$67,356,752	$2,254,143	$65,102,609

Expenses — Governmental Activities[1]
for the fiscal years ended June 30, 2010 and 2009
(in billions)



(1) Expenses exclude GASB45.

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

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

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

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

In fiscal year 2009, the government-wide revenues decreased from fiscal year 2008 by approximately $2.6 billion, while government-wide expenses decreased by approximately $1.4 billion.

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

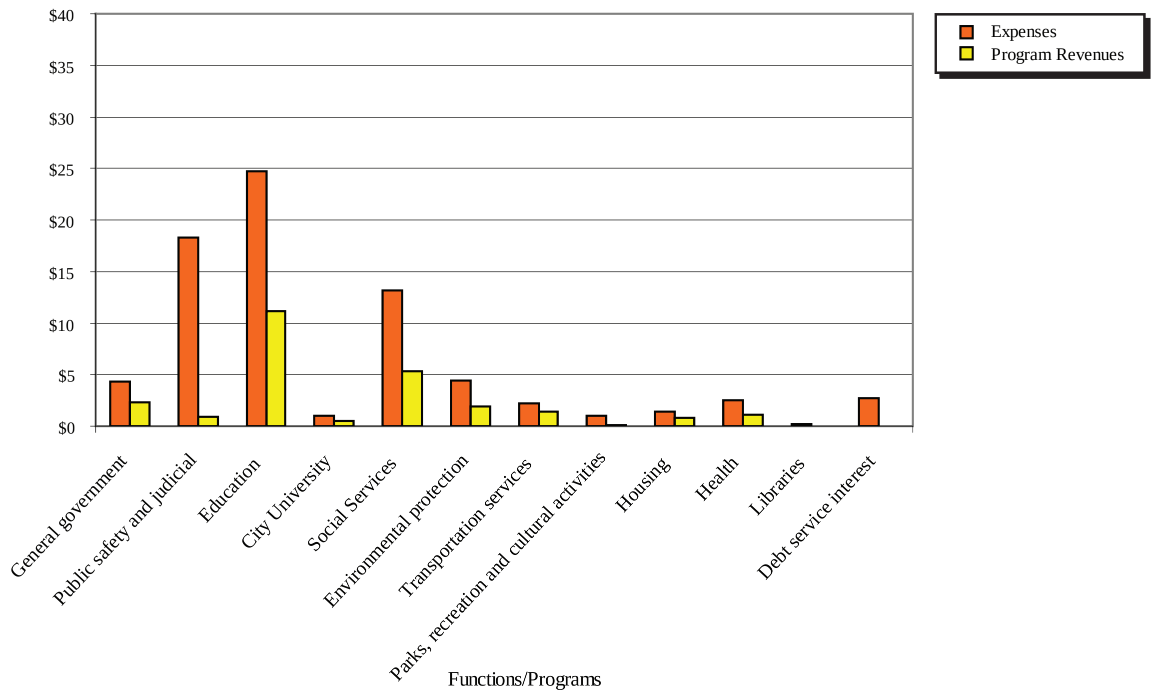
- Operating and capital grants and contributions increased primarily due to large increases in State grants for education.
- Tax revenues, net of refunds, declined overall:
  - The increase in real estate taxes are a result of growth during the fiscal year attributable to billable assessed value growth combined with a mid-year property tax rate increase.
  - The overall decrease in sales and use taxes is driven primarily buy a large drop in mortgage tax collections due to a slowdown in mortgage originations and tighter lending standards that required higher down payments. This decrease also reflects a drop in general sales tax collections.
  - The large decrease in personal income tax revenue was due to employment losses, a steep decline in bonus payouts in the first quarter of the calendar year, and a drop in nonwage income stemming from a decline in capital gains realizations.
  - There were record losses posted by the financial service entities in calendar years 2007 and 2008 affecting the general corporation taxes.
  - There was an increase in financial corporation taxes reflecting contributions by Federal, State and local tax compliance initiatives. Additionally, Federal monetary policy has widened net interest margins which has bolstered interest income for all banking corporations.
  - A decrease in other taxes is primarily due to a large decrease in real property transaction taxes resulting from a steep decline in the volume and average sales price in both the residential and commercial markets.
- Investment income declined due to declining market interest rates.

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

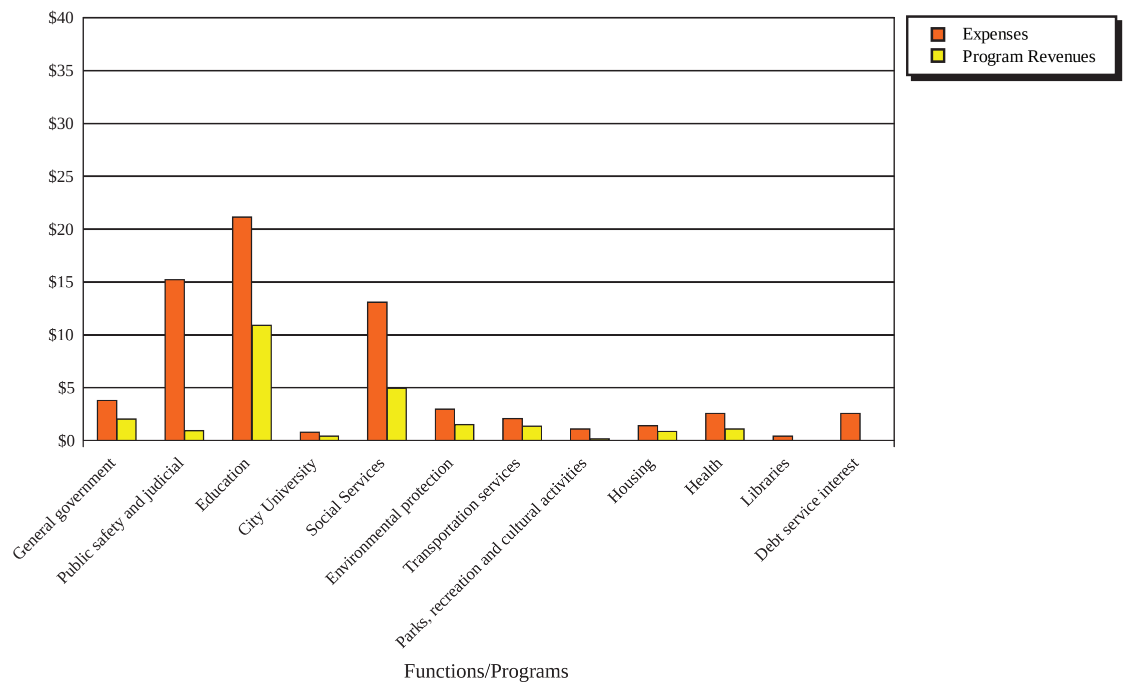
- City-wide:
  - Other post employment benefit (OPEB) expenses decreased as a result of a smaller growth in the actuarially calculated OPEB obligation during fiscal year 2009.
  - Judgment and claims expenses declined as a result of a decline in the estimated cost of pending cases and incurred but not yet reported claims.
  - Expenses increased as a result of the implementation of GASB49 as discussed later on.
  - Increases in personal service costs resulted from collective bargaining increases.
- Expenses for Public Safety and Judicial decreased due to the above-mentioned reductions in OPEB and judgments and claims offset by increased salary and benefit costs resulting from collective bargaining.
- Social service expenses decreased as a result of Medicaid savings from the increased Federal Medical Assistance Percentage in the American Recovery and Reinvestment Act of 2009. These savings were partially offset by increased costs in public assistance to provide rental assistance to homeless individuals and families, and increases in personal service expenditures for collective bargaining agreements.
- Health expenses increased due to collective bargaining. Expenses for HHC increased due to subsidy prepayments.

The following charts compare the amounts of expenses and program revenues for fiscal years 2010 and 2009:

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



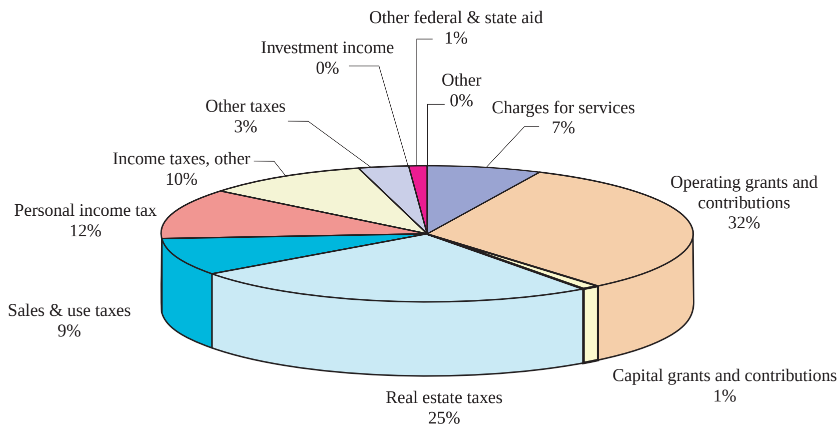
Expenses and Program Revenues — Governmental Activities(1)
for the year ended June 30, 2009
(in billions)



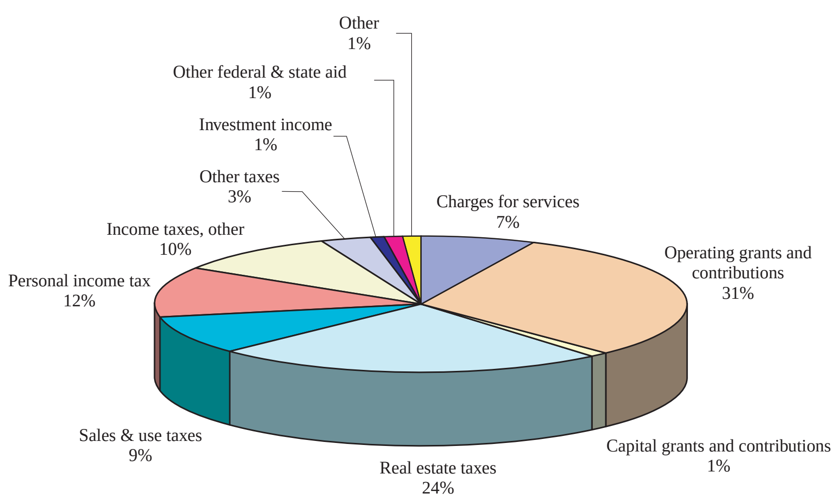
(1) Expenses include GASB45.

The following charts compare the amounts of program and general revenues for fiscal years 2010 and 2009:

Revenues by Source — Governmental Activities
for the Year Ended June 30, 2010



Revenues by Source — Governmental Activities
for the Year Ended June 30, 2009



As noted earlier, increases and decreases of net assets may over time serve as a useful indicator of changes in a government's financial position. In the case of the City, liabilities exceed assets by $108.4 billion at the close of the most recent fiscal year, an increase in the excess of liabilities over assets of $11.7 billion from June 30, 2009, which in turn compares with the net deficit increase of $7.2 billion (includes the restated opening fiscal year 2009 Net Assets because of GASB49) over the prior fiscal year 2008.

	Governmental Activities		
	2010	2009	2008
		(in thousands)	
Current and other assets	$ 31,358,012	$31,320,893	$ 32,135,165
Capital assets (net of depreciation/ amortization)	43,474,065	39,881,603	36,892,858
Total assets	74,832,077	71,202,496	69,028,023
Long-term liabilities	160,298,098	145,934,380	137,697,829
Other liabilities	22,962,386	21,994,333	20,862,658
Total liabilities	183,260,484	167,928,713	158,560,487
Net assets:			
Invested in capital assets, net of related debt	(6,899,623)	(5,502,516)	(3,112,434)
Restricted	6,625,036	7,093,369	8,926,022
Unrestricted deficit	(108,153,820)	(98,317,070)	(95,346,052)
Total net deficit	$(108,428,407)	$(96,726,217)	$(89,532,464)

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest components of the net deficit are the result of the City having long-term debt with no corresponding capital assets and the City's OPEB liability. The following summarizes the main components of the net deficit as of June 30, 2010 and 2009:

Components of Net Deficit	**2010**	**2009**
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable/amortizable life used for financial reporting that is different from the period over which the related debt principal is being repaid. Schools and related education assets depreciate/amortize more quickly than their related debt is paid, and they comprise one of the largest components of this difference	$ (6.9)	$ (5.5)
Net Assets Restricted for:		
Debt Service	4.8	5.4
Capital Projects	1.8	1.7
Total net assets restricted	6.6	7.1
Unrestricted Net Assets		
TFA issued debt to finance costs related to the recovery from the September 11, 2001 World Trade Center disaster, which are operating expenses of the City	(1.5)	(1.5)
STAR issued debt related to the defeasance of the MAC issued debt	(2.2)	(2.3)
The City has issued debt for the acquistion and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority (TA), NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end.	(14.1)	(14.4)
Certain long-term obligations do not require current funding:		
OPEB liability	(75.0)	(65.5)
Judgments and claims	(5.6)	(5.5)
Vacation and sick leave	(3.8)	(3.7)
Pension liability	(0.6)	(0.7)
Landfill closure and postclosure costs	(1.7)	(1.7)
Other:	(3.6)	(3.0)
Total unrestricted (deficit) net assets	(108.1)	(98.3)
Total net deficit	$(108.4)	$(96.7)

Financial Analysis of the Governmental Funds

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

Governmental Funds

	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total
			(in thousands)			
Fund balances (deficit), June 30, 2008	$ 432,307	$(3,505,885)	$ 5,117,268	$ 3,673,302	$ —	$ 5,716,992
Revenues	59,849,094	3,725,364	57,692	3,569,827	(2,880,850)	64,321,127
Expenditures	(57,865,899)	(10,043,522)	(3,215,502)	(4,537,303)	2,880,850	(72,781,376)
Other financing sources (uses)	(1,978,494)	7,717,479	1,416,372	645,079	—	7,800,436
Fund balances (deficit), June 30, 2009	437,008	(2,106,564)	3,375,830	3,350,905	—	5,057,179
Revenues	62,470,577	3,105,447	14,918	3,659,680	(3,207,719)	66,042,903
Expenditures	(58,885,814)	(10,535,856)	(3,424,507)	(4,933,833)	3,017,073	(74,762,937)
Other financing sources (uses)	(3,579,621)	6,392,629	2,959,957	1,174,664	190,646	7,138,275
Fund balances (deficit), June 30, 2010	$ 442,150	$(3,144,344)	$ 2,926,198	$ 3,251,416	$ —	$ 3,475,420

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies and other payments that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of $3.651 billion and $2.919 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2010 and 2009, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of $5 million in both fiscal years 2010 and 2009, which resulted in an increase in fund balance by this amount.

The General Debt Service Fund receives transfers (discretionary and other) from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2010, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling $2.892 billion in fiscal year 2010 for fiscal year 2011 debt service. Similar transfers in fiscal year 2009 of $1.290 billion for fiscal year 2010 debt service also primarily account for the General Debt Service Fund balance at June 30, 2009.

The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resource is obtained from the issuance of City and TFA debt. Capital-related expenditures are first paid from the General Fund, which is reimbursed for these expenditures by the New York City Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, and other revenues and financing sources, the Capital Projects Fund will have a deficit. The deficit fund balances at June 30, 2010 and 2009 represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

General Fund Budgetary Highlights

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB49). In addition to requiring recognition of pollution remediation obligations, GASB49 generally precludes costs incurred for pollution remediation from being reported as capital expenditures. Thus, the City's fiscal year 2010 General Fund expenditures include approximately $455.1 million of pollution remediation expenditures associated with projects which were originally included in the City's capital program. On April 30, 2008, pursuant to existing authority under the New York State Financial Emergency Act, the New York State Financial Control Board for the City of New York approved a phase-in of the budgetary impact of GASB49, enabling the City to continue to finance, with the issuance of bonds, certain pollution remediation costs for projects authorized prior to fiscal year 2011. Thus, $206 million of City bond proceeds and $249.1 million of other revenues (New York City Municipal Water Finance Authority bond proceeds transferred to the City) supporting the $455.1 million of pollution remediation expenditures are also reported in the General Fund for fiscal year 2010. In fiscal year 2009, $176.4 million of City bond proceeds and $59.7 million of other revenues (New York City Municipal Water Finance Authority bond proceeds transferred to the City) supported the $236.1 million of pollution remediation expenditures reported in the General Fund. Although amounts were not established in the Adopted Budget, a modification to the budget was made to accommodate the pollution remediation expenditure charge in the General Fund. These pollution remediation expenditures were incurred by various agencies, as follows:

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

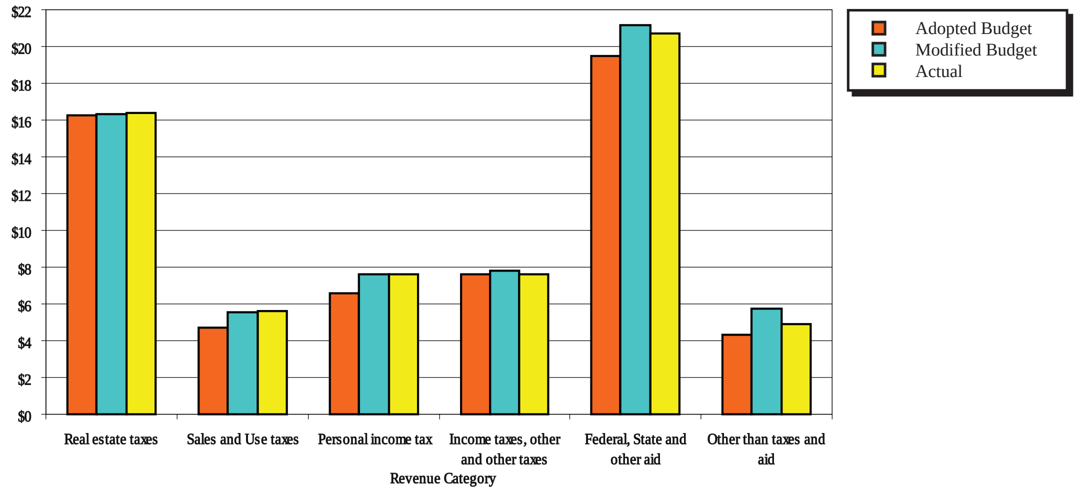
	General Fund Pollution Remediation Expenditures Fiscal Year 2009	
	Modified Budget	Actual
	(in thousands)	
General government	$ 3,495	$ 3,495
Public safety and judicial	394	394
Education	158,543	158,543
Social services	63	63
Environmental protection	61,248	61,248
Transportation services	6,463	6,463
Parks, recreation and cultural activities	676	676
Housing	4,178	4,178
Health, including HHC	864	864
Libraries	168	168
Total expenditures	$236,092	$236,092

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

General Fund Revenues

The following charts and tables summarize actual revenues by category for fiscal years 2010 and 2009 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

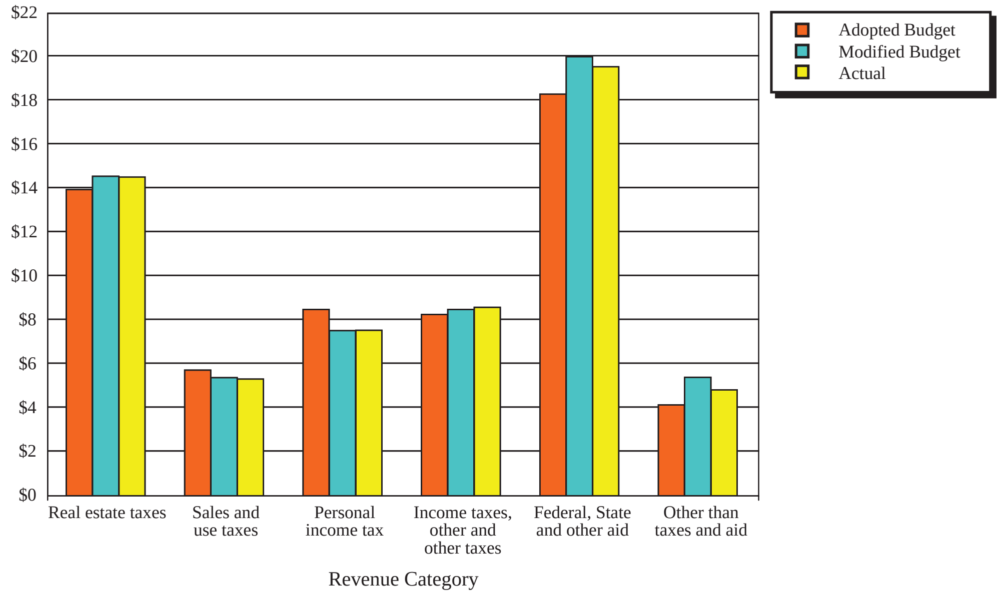
General Fund Revenues
Fiscal Year 2010
(in billions)



General Fund Revenues
Fiscal Year 2010
(in millions)

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

General Fund Revenues
Fiscal Year 2009
(in billions)



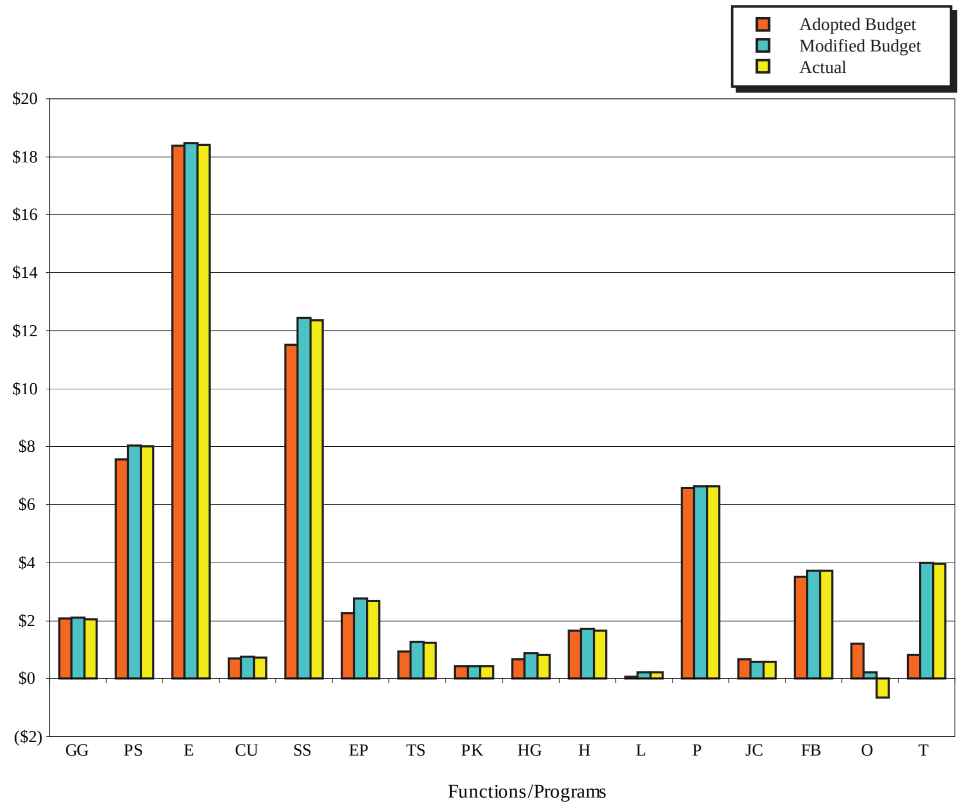
General Fund Revenues
Fiscal Year 2009
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	$13,915	$14,520	$14,487
Sales and use taxes	5,713	5,364	5,302
Personal income tax	8,469	7,498	7,519
Income taxes, other	5,407	5,544	6,589
Other taxes	2,823	2,925	1,976
Taxes (net of refunds)	36,327	35,851	35,873
Federal, State and other aid:			
Categorical	17,906	19,609	19,168
Unrestricted	340	340	327
Federal, State and other aid	18,246	19,949	19,495
Other than taxes and aid:			
Charges for services	2,127	2,209	2,245
Other revenues	1,863	2,853	2,236
Bond proceeds	—	176	176
Transfers from Nonmajor Debt Service Fund	143	146	146
Other than taxes and aid	4,133	5,384	4,803
Total revenues	$58,706	$61,184	$60,171

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2010 and 2009 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

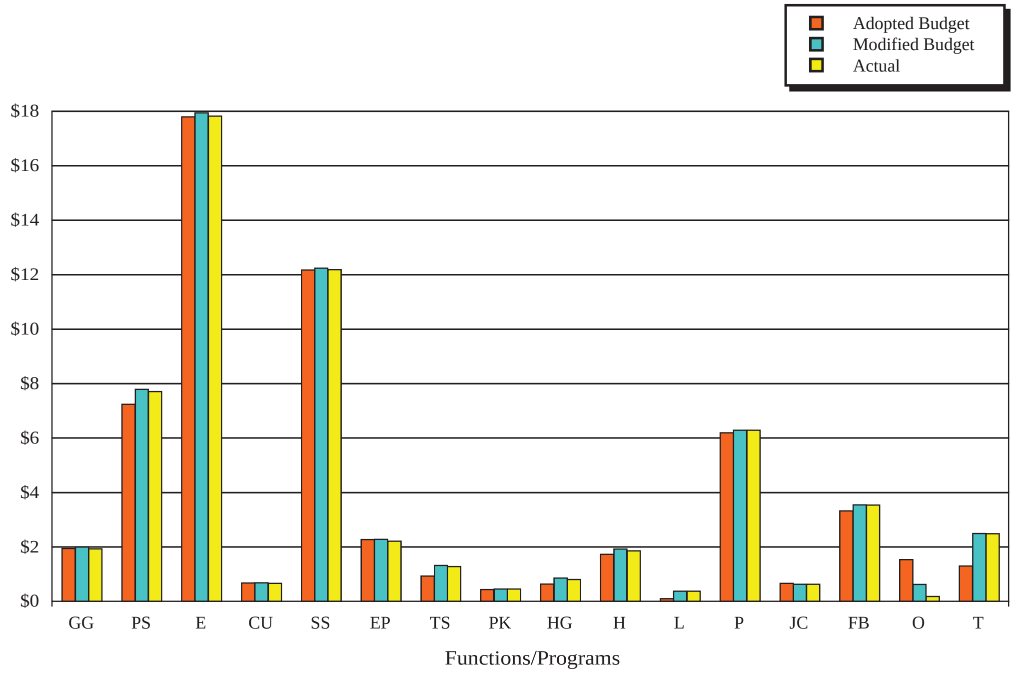
General Fund Expenditures
Fiscal Year 2010
(in billions)



General Fund Expenditures
Fiscal Year 2010
(in millions)

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

General Fund Expenditures
Fiscal Year 2009
(in billions)



General Fund Expenditures
Fiscal Year 2009
(in millions)

	Adopted Budget	Modified Budget	Actual
General government (GG)	$ 1,932	$ 1,986	$ 1,918
Public safety and judicial (PS)	7,213	7,762	7,683
Education (E)	17,744	17,892	17,774
City University (CU)	670	674	658
Social services (SS)	12,139	12,205	12,151
Environmental protection (EP)	2,257	2,266	2,200
Transportation services (TS)	922	1,309	1,270
Parks, recreation and cultural activities (PK)	429	449	445
Housing (HG)	631	847	797
Health, including HHC (H)	1,722	1,911	1,843
Libraries (L)	95	367	366
Pensions (P)	6,171	6,268	6,265
Judgments and claims (JC)	658	623	623
Fringe benefits and other benefit payments (FB)	3,309	3,528	3,525
Other (O)	1,523	613	172
Transfers and other payments for debt service (T)	1,291	2,484	2,476
Total expenditures	$58,706	$61,184	$60,166

General Fund Surplus

The City had General Fund surpluses of $3.651 billion, $2.919 billion and $4.640 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2010, 2009 and 2008, respectively. For the fiscal years 2010, 2009 and 2008, the General Fund surplus was $5 million after expenditures and transfers (discretionary and other).

The expenditures and transfers (discretionary and other) made by the City after the adoption of its fiscal years 2010, 2009 and 2008 budgets follow:

	2010	2009	2008
		(in millions)	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	$ 766	$1,043	$ 672
Discretionary transfers to the General Debt Service Fund	2,122	244	2,401
Net equity contribution in bond refunding that accrued to future years debt service savings	4	3	10
Debt service prepayments for lease purchase debt service due in the fiscal year	—	95	46
Grant to HYIC	—	15	—
Grant to TFA	371	646	546
Advance cash subsidies to the Public Library system	164	264	225
Advance cash subsidies to the TA and Metropolitan Transportation Authority (MTA)	219	294	275
Advance cash subsidies to the HHC	—	85	—
Payment to the RHBT	—	—	460
Payment to the PLAN	—	225	—
Total expenditures and transfers (discretionary and other)	3,646	2,914	4,635
Reported surplus	5	5	5
Total surplus	$3,651	$2,919	$4,640

Fiscal Year 2010

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

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

Fiscal Year 2009

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2009 Adopted Budget:

	2009
Additional resources:	(in millions)
Greater than expected banking corporation tax collections	$ 650
State categorical aid	598
Federal categorical aid	575
Greater than expected real estate tax collections	569
Lower than expected all other personal services expenditures	529
Lower than expected supplies and materials costs	405
Lower than expected Medicaid spending	323
General reserve	300
Lower than expected all other general administrative OTPS spending	260
Lower than expected debt service costs	229
Greater than expected all other miscellaneous revenues	210
Pollution remediation bond proceeds	176
Lower than expected fuel and energy costs	140
Lower than expected judgments and claims expenditures	117
Greater than expected unincorporated business tax collections	109
Greater than expected charges for services	118
Greater than expected non-grant revenues	74
Greater than expected utility tax collections	57
Greater than expected fines and forfeitures	54
Asset sales	40
Greater than expected interest income	39
Greater than expected revenues from licenses, permits, privileges and franchises	33
Lower than expected all other health insurance costs	22
Greater than expected commercial rent tax collections	22
Lower than expected provisions for disallowance reserve	15
All other net underspending and revenues above budget	13
Total	5,677
Enabled the City to provide for:	
Additional prepayments for certain debt service costs and subsidies due in fiscal year 2010	2,098
Lower than expected personal income tax collections	951
Higher than expected contractual services costs	869
Lower than expected mortgage tax collections	356
Lower than expected real property transfer tax collections	323
Higher than expected overtime costs	233
Higher than expected all other fixed and miscellaneous charges	284
Lower than expected general corporation tax collections	163
Higher than expected public assistance spending	127
Higher than expected payments to HHC	19
Higher than expected pensions costs	94
Lower than expected sales tax collections	71
Higher than expected all other social services spending (excluding Medicaid and public assistance)	51
Lower than expected unrestricted Federal and State aid	12
Higher than expected property and equipment costs	8
Higher than expected payments to libraries	7
Higher than expected payments to Housing Authority	6
Total	5,672
Reported Surplus	$ 5

Capital Assets

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

	Governmental Activities		
	2010	**2009**	**2008**
		(in millions)	
Land*	$ 1,240	$ 1,147	$ 1,097
Buildings	25,154	22,435	21,026
Equipment (including software)	1,979	1,898	1,652
Infrastructure**	10,284	9,539	8,737
Construction work-in-progress*	4,817	4,862	4,381
Total	$43,474	$39,881	$36,893

* not depreciable/amortizable

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

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

The net increase in the City's capital assets during fiscal year 2009 was $2.988 billion, a 8.1% increase. Capital assets additions in fiscal year 2009 were $9.121 billion, an increase of $807 million from fiscal year 2008. In fiscal year 2009, 60% of the capital assets additions resulted from the addition of $1.754 billion in the Education program and $3.758 billion in new construction work-in-progress.

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

Debt Administration

The City, through the Comptroller's Office of Public Finance, in conjunction with the Mayor's Office of Management and Budget, is charged with issuing debt to finance the implementation of the City's capital program. The following table summarizes the debt outstanding for New York City and City-related issuing entities at the end of fiscal years 2010, 2009 and 2008.

	New York City and City-Related Debt		
	2010	**2009**	**2008**
		(in millions)	
General Obligation Bonds[(a)]	$41,555	$39,991	$36,100
TFA Bonds	14,407	11,140	11,306
TFA Recovery Bonds	1,466	1,522	1,522
TFA BARBs	4,221	4,251	2,000
TSASC Bonds	1,265	1,274	1,297
IDA Bonds	99	99	101
STAR Bonds	2,178	2,253	2,339
FSC Bonds	294	304	321
HYIC Bonds	2,000	2,000	2,000
HYIC Notes	—	33	67
ECF Bonds	150	102	109
Total bonds and notes payable	$67,635	$62,969	$57,162

(a) Does not include capital contract liabilities.

General Obligation

On July 1, 2010, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled $49.9 billion (compared with $47.2 and $42.6 billion as of July 1, 2009 and 2008, respectively). The State Constitution provides that, with certain exceptions, the City may not contract indebtedness in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years. As of July 1, 2010, the City's 10% general limitation was $76.2 billion (compared with $74.9 and $70.4 billion as of July 1, 2009 and 2008 respectively). The City's remaining GO debt incurring power as of July 1, 2010, after providing for capital contract liabilities, totaled $26.3 billion.

As of June 30, 2010, the City's outstanding GO variable and fixed rate debt totaled $7.52 billion and $34.04 billion, respectively. During fiscal year 2010, the City's GO tax exempt daily and weekly variable rate debt's interest rates averaged 0.20% and 0.25%, respectively. Of the $5.42 billion in GO bonds issued by the City in fiscal year 2010, a total of $2.0 billion was issued to refund certain outstanding bonds at a lower interest rate and a total of $3.42 billion was issued for new money capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. These refundings produce budgetary dissavings of $23.4 million in fiscal year 2010, and budgetary savings of $207.8 million and $0.81 million in 2011 and 2012, respectively. The refundings will generate approximately $182.14 million in net present value savings throughout the life of the bonds.

In fiscal year 2010, the City issued $2.75 billion of taxable Build America bonds and $332.31 million of traditional taxable fixed rate bonds. The traditional taxable bonds were sold on a competitive basis.

During fiscal year 2010, Moody's Investors Service (Moody's) and Fitch Ratings (Fitch) recalibrated the General Obligation ratings at Aa2 and AA, respectively. Standard & Poor's Ratings Services (S&P) maintained the General Obligation rating at AA.

Short-term Financing

In fiscal year 2010, the City had no short-term borrowings.

Transitional Finance Authority

In 1997, in order to continue to fund the City's capital commitments in the face of an approaching General Obligation debt limit, the New York State Legislature created the New York City Transitional Finance Authority (TFA). The TFA, a bankruptcy-remote separate legal entity, was initially authorized to issue debt secured by the City's collections of personal income tax and, if necessary, sales tax. These TFA bonds are identified as Future Tax Secured Bonds. The TFA was initially authorized to issue up to $7.5 billion of Future Tax Secured Bonds. In fiscal year 2000, the debt incurring authorization for these bonds was increased by $4 billion to a total of $11.5 billion, and in fiscal year 2006, by $2 billion to a total of $13.5 billion. As of June 30, 2009 TFA has exhausted its debt incurring authorization for these bonds. In July 2009, however, Chapter 182 of the Laws of New York, authorized the issuance of additional Future Tax Secured Bonds subject to certain limitations. First, the $13.5 billion debt authorization was changed to be based on outstanding debt and not debt issued. Second, the new authorization provides that the further Future Tax Secured Bonds, together with the amount of indebtedness contracted by the City, will not exceed the debt limit of the City. As of July 1, 2010, the debt-incurring margin within the debt limit of the City was $26.3 billion.

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

As of June 30, 2010, the TFA Future Tax Secured Bond total debt outstanding, including Recovery Bonds and Subordinate Lien Bonds, totaled approximately $15.87 billion.

TFA issued $5.35 billion TFA bonds in fiscal year 2010, a total of $3.57 billion was issued for new money capital purposes and $1.7 billion was issued to refund certain outstanding bonds at lower interest rates. In addition, the TFA converted $81 million of bonds from variable to fixed rate.

The proceeds of the refunding issues were placed in irrevocable escrow accounts to pay, when due, principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produce budgetary dissavings of $30.24 million in fiscal year 2010, due to the timing of debt service fund deposits and budgetary savings of $145.95 million and $1.15 million in fiscal years 2011 and 2012, respectively. The refundings will generate approximately $111.31 million in net present value savings throughout the life of the bonds.

Of the $3.57 billion new money issued in FY2010, $1.73 billion were BABs and $250 million were Qualified School Construction Bonds (QSCBs).

As of June 30, 2010, the TFA's outstanding variable rate debt, which included $1.39 billion of TFA Recovery Bonds, totaled $3.16 billion. During fiscal year 2010, TFA's variable rate debt traded at the following average interest rates:

	Tax-Exempt	Taxable
Dailies	0.20%	—
Weeklies	0.26%	0.36%
Auction Rate Securities—7 Day	0.86%	—

In fiscal year 2010, Moody's recalibrated TFA Senior and Subordinate Lien Bonds ratings to AAA and Aa1, respectively, and Fitch recalibrated TFA Senior Lien and Subordinate Lien Bonds ratings to AAA. In fiscal year 2010, S&P maintained its rating on both Senior Lien Bonds and Subordinate Lien Bonds at AAA.

In fiscal year 2006, the New York State Legislature authorized the TFA to issue bonds and notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's educational facilities capital plan. The legislation further authorized the City to assign to the TFA all or any portion of the state aid payable to the City or its school district pursuant to Section 3602.6 of the New York State Education Law (State Building Aid) as security for the obligations. Pursuant to this authority, the TFA Building Aid Revenue Bond (TFA BARB) credit was created. The City assigned all the State Building Aid to the TFA.

The TFA didn't issue TFA BARBs in fiscal year 2010. As of June 30, 2010, TFA BARBs debt outstanding totaled $4.22 billion.

During fiscal year 2010, Moody's and Fitch recalibrated the TFA BARBs ratings to Aa3 and AA-. S&P maintained the TFA BARBs rating at AA-.

TSASC, Inc.

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

TSASC had no financing activity in fiscal year 2010. As of June 30, 2010, TSASC had approximately $1.27 billion of bonds outstanding.

As of June 30, 2010, TSASC's bonds are rated BBB by S&P and by Fitch.

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

Sales Tax Asset Receivable Corporation

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

As of June 30, 2010, STAR has $2.18 billion bonds outstanding. It had no financing activity in fiscal year 2010. The bonds are rated Aa2 by Moody's, AAA by S&P and AA by Fitch.

Fiscal Year 2005 Securitization Corporation

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

As of June 30, 2010, FSC has $294.25 million bonds outstanding. It had no financing activity in fiscal year 2010.

The bonds are rated Aaa by Moody's and AAA by S&P and Fitch.

Hudson Yards Infrastructure Corporation

In December 2006, $2 billion of tax-exempt bonds were issued by the Hudson Yards Infrastructure Corporation (HYIC), a local development corporation established to provide financing for infrastructure improvements to facilitate economic development on Manhattan's far west side. Principal on the bonds is payable from revenues generated by the new development in the Hudson Yards District. To the extent that such revenues are not sufficient to cover interest payments, the City, subject to appropriation, has agreed to make interest support payments to HYIC. The interest support payments do not cover principal repayment of the bonds. As of June 30, 2010, HYIC had $2 billion bonds outstanding. It did not sell bonds in fiscal year 2010. HYIC bonds are rated A2 by Moody's, A by S&P and by Fitch.

New York City Educational Construction Fund

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

In fiscal year 2010, The ECF issued $53.8 million in Revenue Bonds for new money capital purposes.

As of June 30, 2010, ECF has $149.7 million bonds outstanding. The bonds are rated Aa3 by Moody's and AA- by S&P.

Interest Rate Exchange Agreements

In an effort to lower borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has from time to time entered into interest rate exchange agreements (swaps) and sold options to enter into swaps at future dates. The City received specific authorization to enter into such agreements under Section 54.90 of the New York State Local Finance Law. As of June 30, 2010, the outstanding notional amount on the City's various swap agreements was $2.62 billion.

No new swaps were initiated in fiscal year 2010, but an existing swap with Wachovia Bank, N.A. was transferred to Wells Fargo Bank, N.A. on March 20, 2010 as a result of the merger of these two companies.

On August 15, 2009, JPMorgan Chase Bank, N.A. did not exercise its option to enter into a $250 million swap with the City. The option expired and the swap was terminated.

The Water Authority has also from time to time entered into interest rate exchange agreements in order to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio. In fiscal year 2010, it initiated no new swaps. As of June 30, 2010, the outstanding notional amount on Water Authority's various swap agreements was $621 million.

Subsequent Events

Subsequent to June 30, 2010, the City and TFA completed the following long-term financing:

Long-term Financing

City Debt: On August 12, 2010, The City of New York sold its Fiscal 2011 Series A and B General Obligation bonds of $962.535 million for refunding purposes.

On October 20, 2010, The City of New York sold its Fiscal 2011 Series C, D and E General Obligation bonds of $1.225 billion for capital and refunding purposes.

On October 20, 2010, The City of New York converted both its Fiscal 2002 Series A-7 bonds of $60 million from Daily Mode and Fiscal 2002 Series A-8 bonds of $28.545 million from Weekly Mode to Fixed Rate Mode.

TFA Debt: On August 16, 2010, TFA sold its Fiscal 2011 Series A Future Tax Secured Subordinate bonds of $1.0 billion for capital purposes.

Commitments

At June 30, 2010, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $18.4 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates New York City Capital Projects Fund expenditures of $51.2 billion over fiscal years 2011 through 2019. To help meet its capital spending program, the City and TFA borrowed $7.04 billion in the public credit market in fiscal year 2010. The City and TFA plan to borrow $7.05 billion in the public credit market in fiscal year 2011.

Request for Information

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

THE CITY OF NEW YORK

STATEMENT OF NET ASSETS

JUNE 30, 2010
(in thousands)

	Primary Government Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 7,382,486	$ 3,370,787
Investments, including accrued interest	1,130,353	1,550,677
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $269,985)	429,458	—
Federal, State and other aid	8,811,998	—
Taxes other than real estate	4,527,240	—
Lease	—	1,720,396
Other	1,282,900	3,881,989
Mortgage loans and interest receivable, net	46	6,658,243
Inventories	280,136	43,388
Due from Primary Government	—	88,241
Due from Component Units	2,106,115	—
Restricted cash, cash equivalents and investments	4,119,525	2,461,751
Deferred charges	754,078	—
Other	442,071	490,912
Capital assets:		
Land and construction work-in-progress	6,057,500	8,419,847
Other capital assets (net of depreciation/amortization):		
Property, plant and equipment (including software)	27,132,957	23,069,095
Infrastructure	10,283,608	—
Deferred outflows of resources	91,606	91,766
Total assets	74,832,077	51,847,092
LIABILITIES:		
Accounts payable and accrued liabilities	12,950,117	1,868,428
Accrued interest payable	810,916	120,630
Unearned revenues:		
Prepaid real estate taxes	4,568,550	—
Other	3,283,893	356,803
Due to Primary Government	—	2,106,115
Due to Component Units	88,241	—
Estimated disallowance of Federal, State and other aid	1,092,915	—
Other	76,148	357,927
Derivative instruments — interest rate swaps	91,606	74,866
Noncurrent liabilities:		
Due within one year	4,441,357	1,761,756
Due in more than one year	155,856,741	40,928,105
Total liabilities	183,260,484	47,574,630
NET ASSETS:		
Invested in capital assets, net of related debt	(6,899,623)	8,038,813
Restricted for:		
Capital projects	1,846,802	61,301
Debt service	4,778,234	908,789
Loans/security deposits	—	48,615
Donor/statutory restrictions	—	63,528
Operations	—	246,985
Unrestricted (deficit)	(108,153,820)	(5,095,569)
Total net assets (deficit)	$(108,428,407)	$ 4,272,462

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2009
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 10,053,785	$ 2,719,736
Investments, including accrued interest	1,065,336	2,438,441
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $202,698)	322,737	—
Federal, State and other aid	6,821,403	—
Taxes other than real estate	3,489,081	—
Lease	—	1,532,340
Other	1,770,291	3,761,406
Mortgage loans and interest receivable, net	58	6,005,357
Inventories	281,645	47,660
Due from Primary Government	—	13,328
Due from Component Units	2,015,758	—
Restricted cash, cash equivalents and investments	4,307,477	2,656,924
Deferred charges	757,261	—
Other	436,061	506,690
Capital assets:		
Land and construction work-in-progress	6,009,299	6,937,782
Other capital assets (net of depreciation/amortization):		
Property, plant and equipment (including software)	24,332,895	22,297,691
Infrastructure	9,539,409	—
Deferred outflows of resources	—	66,098
Total assets	71,202,496	48,983,453
LIABILITIES:		
Accounts payable and accrued liabilities	13,052,000	1,929,317
Accrued interest payable	766,778	125,229
Unearned revenues:		
Prepaid real estate taxes	4,666,370	—
Other	2,294,096	250,988
Due to Primary Government	—	2,015,758
Due to Component Units	13,328	—
Estimated disallowance of Federal, State and other aid	1,112,915	—
Other	88,846	159,893
Derivative instruments — interest rate swaps	—	55,159
Noncurrent liabilities:		
Due within one year	3,949,610	1,583,964
Due in more than one year	141,984,770	37,549,850
Total liabilities	167,928,713	43,670,158
NET ASSETS:		
Invested in capital assets, net of related debt	(5,502,516)	8,101,792
Restricted for:		
Capital projects	1,667,852	63,427
Debt service	5,425,517	853,161
Loans/security deposits	—	48,761
Donor/statutory restrictions	—	56,169
Operations	—	416,906
Unrestricted (deficit)	(98,317,070)	(4,226,921)
Total net assets (deficit)	$(96,726,217)	$ 5,313,295

See accompanying notes to financial statements.

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary government:						
General government	$ 4,298,065	$1,044,721	$ 1,152,072	$ 90,655	$ (2,010,617)	$ —
Public safety and judicial	18,293,989	264,316	636,638	15,021	(17,378,014)	—
Education	24,749,134	68,117	11,065,829	30,629	(13,584,559)	—
City University	1,035,471	276,792	188,196	—	(570,483)	—
Social services	13,183,110	32,420	5,303,353	6,278	(7,841,059)	—
Environmental protection	4,374,543	1,611,105	259,779	51,159	(2,452,500)	—
Transportation services	2,184,078	894,316	245,747	271,557	(772,458)	—
Parks, recreation and cultural activities	1,012,404	58,972	15,579	30,167	(907,686)	—
Housing	1,425,949	220,757	511,398	88,102	(605,692)	—
Health (including payments to HHC)	2,554,881	69,259	1,025,192	1,520	(1,458,910)	—
Libraries	249,423	—	—	992	(248,431)	—
Debt service interest	2,690,732	—	—	—	(2,690,732)	—
Total primary government	$76,051,779	$4,540,775	$20,403,783	$ 586,080	(50,521,141)	—
Component Units	$15,126,326	$9,920,348	$ 2,083,551	$1,308,567	—	(1,813,860)

	Governmental Activities	Component Units
General revenues:		
Taxes (Net of Refunds):		
Real estate taxes	16,414,810	—
Sales and use taxes	5,628,398	—
Personal income tax	7,893,657	—
Income taxes, other	6,192,532	—
Other taxes:		
Commercial Rent	620,182	—
Conveyance of Real Property	616,157	—
Hotel Room Occupancy	374,902	—
Payment in Lieu of Taxes	262,351	—
Other	55,127	—
Investment income	65,508	171,882
Other Federal and State aid	478,811	7,087
Other	216,516	594,058
Total general revenues	38,818,951	773,027
Change in net assets	(11,702,190)	(1,040,833)
Net assets (deficit) - beginning	(96,726,217)	5,313,295
Net assets (deficit) - ending	$(108,428,407)	$4,272,462

See accompanying notes to financial statements.

THE CITY OF NEW YORK

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009
(in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Component Units**
Primary government:						
General government	$ 3,770,291	$1,072,334	$ 929,527	$ 12,608	$ (1,755,822)	$ —
Public safety and judicial	15,198,415	285,598	594,718	18,217	(14,299,882)	—
Education	21,534,177	59,731	10,427,188	409,907	(10,637,351)	—
City University	779,539	219,043	179,882	—	(380,614)	—
Social services	13,076,719	34,410	4,914,361	4,109	(8,123,839)	—
Environmental protection	2,947,939	1,392,941	76,433	5,668	(1,472,897)	—
Transportation services	2,060,043	859,925	226,147	268,899	(705,072)	—
Parks, recreation and cultural activities	1,091,041	110,232	14,831	23,216	(942,762)	—
Housing	1,362,964	239,892	474,284	111,724	(537,064)	—
Health (including payments to HHC)	2,567,434	65,350	1,021,627	—	(1,480,457)	—
Libraries	402,299	—	—	298	(402,001)	—
Debt service interest	2,565,891	—	—	—	(2,565,891)	—
Total primary government	$67,356,752	$4,339,456	$18,858,998	$ 854,646	(43,303,652)	—
Component Units	$14,447,789	$9,420,106	$ 1,964,512	$1,006,031	—	(2,057,140)

	Governmental Activities	Component Units
General revenues:		
Taxes (Net of Refunds):		
Real estate taxes	14,531,191	—
Sales and use taxes	5,294,107	—
Personal income tax	7,195,177	—
Income taxes, other	5,914,642	—
Other taxes:		
Commercial Rent	602,532	—
Conveyance of Real Property	746,522	—
Hotel Room Occupancy	338,148	—
Payment in Lieu of Taxes	221,011	—
Other	61,600	—
Investment income	286,868	236,950
Other Federal and State aid	806,415	5,944
Other	284,528	279,275
Total general revenues	36,282,741	522,169
Change in net assets	(7,020,911)	(1,534,971)
Net assets (deficit) - beginning	(89,532,464)	6,941,975
Restatement of beginning net deficit	(172,842)	(93,709)
Net assets (deficit) - ending	$(96,726,217)	$ 5,313,295

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2010
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 5,229,058	$ 25,215	$2,081,788	$ 46,425	$ —	$ 7,382,486
Investments, including accrued interest	349,233	—	849,660	20,662	—	1,219,555
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $269,985)	429,458	—	—	—	—	429,458
Federal, State and other aid	8,100,203	711,795	—	—	—	8,811,998
Taxes other than real estate	4,213,493	—	—	313,747	—	4,527,240
Other	1,194,608	—	—	77,000	—	1,271,608
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $318,230)	—	—	—	46	—	46
Due from other funds	2,795,205	3,505	—	595,020	(594,926)	2,798,804
Due from Component Units	1,024,372	967,943	—	—	—	1,992,315
Restricted cash and investments	—	1,070,239	—	3,049,286	—	4,119,525
Other	14,857	92,338	—	306,974	—	414,169
Total assets	$23,350,487	$ 2,871,035	$2,931,448	$4,409,160	$ (594,926)	$32,967,204
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 9,792,485	$ 2,392,234	$ 5,250	$ 760,148	$ —	$12,950,117
Accrued tax refunds:						
Real estate taxes	41,009	—	—	—	—	41,009
Personal income tax	55,610	—	—	52,747	—	108,357
Other	127,280	—	—	—	—	127,280
Accrued judgments and claims	353,270	206,935	—	—	—	560,205
Deferred revenues:						
Prepaid real estate taxes	4,568,550	—	—	—	—	4,568,550
Uncollected real estate taxes	357,699	—	—	—	—	357,699
Taxes other than real estate	3,285,073	—	—	—	—	3,285,073
Other	3,146,205	26,079	—	341,250	—	3,513,534
Due to other funds	—	3,390,131	—	3,599	(594,926)	2,798,804
Due to Component Units	88,241	—	—	—	—	88,241
Estimated disallowance of Federal, State and other aid	1,092,915	—	—	—	—	1,092,915
Total liabilities	22,908,337	6,015,379	5,250	1,157,744	(594,926)	29,491,784
Fund balances:						
Reserved for:						
Capital projects	—	760,897	—	1,085,905	—	1,846,802
Debt service	—	—	2,926,198	1,851,990	—	4,778,188
Noncurrent mortgage loans	—	—	—	46	—	46
Unreserved (deficit), reported in:						
General Fund	442,150	—	—	—	—	442,150
Capital Projects Fund	—	(3,905,241)	—	—	—	(3,905,241)
Nonmajor Capital Projects Funds	—	—	—	43,627	—	43,627
Nonmajor Debt Service Funds	—	—	—	269,848	—	269,848
Total fund balances (deficit)	442,150	(3,144,344)	2,926,198	3,251,416	—	3,475,420
Total liabilities and fund balances	$23,350,487	$ 2,871,035	$2,931,448	$4,409,160	$ (594,926)	$32,967,204

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2009
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 6,847,972	$ 109,122	$3,029,675	$ 67,016	$ —	$10,053,785
Investments, including accrued interest	712,109	—	351,993	1,234	—	1,065,336
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $202,698)	322,737	—	—	—	—	322,737
Federal, State and other aid	6,068,882	752,521	—	—	—	6,821,403
Taxes other than real estate	3,476,842	—	—	12,239	—	3,489,081
Other	1,685,286	—	—	85,005	—	1,770,291
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $316,316)	—	—	—	58	—	58
Due from other funds	2,199,366	182,055	—	612,893	(794,948)	2,199,366
Due from Component Units	1,120,116	880,664	—	—	—	2,000,780
Restricted cash and investments	—	916,529	—	3,390,948	—	4,307,477
Other	8,280	92,943	—	306,606	—	407,829
Total assets	$22,441,590	$ 2,933,834	$3,381,668	$4,475,999	$ (794,948)	$32,438,143
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$10,220,555	$ 1,984,838	$ 5,838	$ 840,769	$ —	$13,052,000
Accrued tax refunds:						
Real estate taxes	44,904	—	—	—	—	44,904
Personal income tax	71,890	—	—	12,239	—	84,129
Other	45,116	—	—	—	—	45,116
Accrued judgments and claims	323,308	217,441	—	—	—	540,749
Deferred revenues:						
Prepaid real estate taxes	4,666,370	—	—	—	—	4,666,370
Uncollected real estate taxes	260,677	—	—	—	—	260,677
Taxes other than real estate	2,731,292	—	—	—	—	2,731,292
Other	2,514,227	25,916	—	89,975	—	2,630,118
Due to other funds	—	2,812,203	—	182,111	(794,948)	2,199,366
Due to Component Units	13,328	—	—	—	—	13,328
Estimated disallowance of Federal, State and other aid	1,112,915	—	—	—	—	1,112,915
Total liabilities	22,004,582	5,040,398	5,838	1,125,094	(794,948)	27,380,964
Fund balances:						
Reserved for:						
Capital projects	—	652,507	—	1,015,345	—	1,667,852
Debt service	—	—	3,375,830	2,049,629	—	5,425,459
Noncurrent mortgage loans	—	—	—	58	—	58
Unreserved (deficit), reported in:						
General Fund	437,008	—	—	—	—	437,008
Capital Projects Fund	—	(2,759,071)	—	—	—	(2,759,071)
Nonmajor Capital Projects Funds	—	—	—	47,928	—	47,928
Nonmajor Debt Service Funds	—	—	—	237,945	—	237,945
Total fund balances (deficit)	437,008	(2,106,564)	3,375,830	3,350,905	—	5,057,179
Total liabilities and fund balances	$22,441,590	$ 2,933,834	$3,381,668	$4,475,999	$ (794,948)	$32,438,143

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

JUNE 30, 2010
(in thousands)

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

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

JUNE 30, 2009
(in thousands)

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

Total fund balances—governmental funds	$ 5,057,179
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds	281,645
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	39,881,603
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	4,128,462
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(63,816,603)
OPEB liability	(65,544,361)
Accrued interest payable	(766,778)
Capital lease obligations	(1,937,173)
Accrued vacation and sick leave	(3,682,537)
Pension liability	(658,600)
Landfill closure and post-closure care costs	(1,719,073)
Pollution Remediation	(175,536)
Other long-term liabilities	(7,774,445)
Net assets (deficit) of governmental activities	$(96,726,217)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

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

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$16,369,447	$ —	$ —	$ —	$ —	$16,369,447
Sales and use taxes	5,611,398	—	—	—	—	5,611,398
Personal income tax	7,592,657	—	—	190,646	(190,646)	7,592,657
Income taxes, other	5,706,532	—	—	—	—	5,706,532
Other taxes	1,920,938	—	—	—	—	1,920,938
Federal, State and other categorical aid	20,718,359	576,702	11,798	170,000	—	21,476,859
Unrestricted Federal and State aid	(17,563)	—	—	—	—	(17,563)
Charges for services	2,538,984	—	—	—	—	2,538,984
Tobacco settlement	—	—	—	193,580	—	193,580
Investment income	22,159	—	2,373	54,059	—	78,591
Interest on mortgages, net	—	—	—	2,319	—	2,319
Other revenues	2,007,666	2,528,745	747	3,049,076	(3,017,073)	4,569,161
Total revenues	62,470,577	3,105,447	14,918	3,659,680	(3,207,719)	66,042,903
EXPENDITURES:						
General government	2,038,518	1,338,855	—	322,359	—	3,699,732
Public safety and judicial	8,000,446	313,862	—	—	—	8,314,308
Education	18,411,207	2,953,167	—	3,066,272	(3,017,073)	21,413,573
City University	718,788	97,359	—	—	—	816,147
Social services	12,370,109	68,007	—	—	—	12,438,116
Environmental protection	2,667,041	2,972,147	—	—	—	5,639,188
Transportation services	1,223,867	1,155,504	—	—	—	2,379,371
Parks, recreation and cultural activities	434,345	833,164	—	—	—	1,267,509
Housing	813,885	428,856	—	—	—	1,242,741
Health (including payments to HHC)	1,661,164	284,737	—	—	—	1,945,901
Libraries	210,535	90,198	—	—	—	300,733
Pensions	6,631,325	—	—	—	—	6,631,325
Judgments and claims	568,246	—	—	—	—	568,246
Fringe benefits and other benefit payments	3,733,084	—	—	—	—	3,733,084
Administrative and other	(650,308)	—	79,615	49,437	—	(521,256)
Debt Service:						
Interest	—	—	1,654,292	994,660	—	2,648,952
Redemptions	—	—	1,690,600	501,105	—	2,191,705
Lease payments	53,562	—	—	—	—	53,562
Total expenditures	58,885,814	10,535,856	3,424,507	4,933,833	(3,017,073)	74,762,937
Excess (deficiency) of revenues over expenditures	3,584,763	(7,430,409)	(3,409,589)	(1,274,153)	(190,646)	(8,720,034)
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	—	2,955,798	639,148	—	3,594,946
Transfers from Nonmajor Capital Projects Funds	—	3,147,139	—	71,638	—	3,218,777
Principal amount of bonds issued	205,971	3,211,849	—	3,618,810	—	7,036,630
Bond premium	—	18,664	182,145	203,606	—	404,415
Capitalized leases	—	14,977	—	—	—	14,977
Issuance of refunding debt	—	—	2,000,335	1,780,995	—	3,781,330
Transfers to Capital Projects Fund	—	—	—	(3,147,139)	—	(3,147,139)
Transfers from (to) General Debt Service Fund, net	(2,955,798)	—	—	6,096	—	(2,949,702)
Transfers from (to) Nonmajor Debt Service Funds, net	(829,794)	—	(6,096)	(71,638)	190,646	(716,882)
Payments to refunded bond escrow holder	—	—	(2,172,225)	(1,926,852)	—	(4,099,077)
Total other financing sources (uses)	(3,579,621)	6,392,629	2,959,957	1,174,664	190,646	7,138,275
Net change in fund balances	5,142	(1,037,780)	(449,632)	(99,489)	—	(1,581,759)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	437,008	(2,106,564)	3,375,830	3,350,905	—	5,057,179
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 442,150	$ (3,144,344)	$ 2,926,198	$ 3,251,416	$ —	$ 3,475,420

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009
(in thousands)

	General	Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
Revenues:						
Real estate taxes	$14,487,231	$ —	$ —	$ —	$ —	$ 14,487,231
Sales and use taxes	5,302,107	—	—	—	—	5,302,107
Personal income tax	7,518,903	—	—	138,274	—	7,657,177
Income taxes, other	6,588,642	—	—	—	—	6,588,642
Other taxes	1,975,691	—	—	—	—	1,975,691
Federal, State and other categorical aid	19,168,023	851,641	—	170,000	—	20,189,664
Unrestricted Federal and State aid	327,390	—	—	—	—	327,390
Charges for services	2,244,924	—	—	—	—	2,244,924
Tobacco settlement	—	—	—	232,612	—	232,612
Investment income	123,903	—	57,593	98,903	—	280,399
Interest on mortgages, net	—	—	—	6,469	—	6,469
Other revenues	2,112,280	2,873,723	99	2,923,569	(2,880,850)	5,028,821
Total revenues	59,849,094	3,725,364	57,692	3,569,827	(2,880,850)	64,321,127
Expenditures:						
General government	1,917,783	1,341,800	—	357,784	—	3,617,367
Public safety and judicial	7,683,112	336,506	—	—	—	8,019,618
Education	17,774,247	2,750,256	—	2,877,279	(2,880,850)	20,520,932
City University	658,484	66,581	—	—	—	725,065
Social services	12,151,263	90,959	—	—	—	12,242,222
Environmental protection	2,199,569	2,930,162	—	—	—	5,129,731
Transportation services	1,269,989	1,002,396	—	—	—	2,272,385
Parks, recreation and cultural activities	445,188	831,811	—	—	—	1,276,999
Housing	796,803	412,990	—	—	—	1,209,793
Health (including payments to HHC)	1,843,326	232,595	—	—	—	2,075,921
Libraries	366,307	47,466	—	—	—	413,773
Pensions	6,264,914	—	—	—	—	6,264,914
Judgments and claims	623,192	—	—	—	—	623,192
Fringe benefits and other benefit payments	3,524,852	—	—	—	—	3,524,852
Administrative and other	172,347	—	92,878	61,173	—	326,398
Debt Service:						
Interest	—	—	1,562,328	921,687	—	2,484,015
Redemptions	—	—	1,560,296	352,713	—	1,913,009
Lease payments	174,523	—	—	—	—	174,523
Total expenditures	57,865,899	10,043,522	3,215,502	4,570,636	(2,880,850)	72,814,709
Excess (deficiency) of revenues over expenditures	1,983,195	(6,318,158)	(3,157,810)	(1,000,809)	—	(8,493,582)
Other Financing Sources (Uses):						
Transfers from General Fund	—	—	1,413,106	741,812	—	2,154,918
Transfers from Nonmajor Capital Projects Funds	—	2,321,950	—	123,163	—	2,445,113
Principal amount of bonds issued	176,424	5,304,576	—	2,270,000	—	7,751,000
Bond premium	—	64,716	30,692	3,090	—	98,498
Capitalized leases	—	26,237	—	—	—	26,237
Issuance of refunding debt	—	—	450,070	219,300	—	669,370
Transfers to Capital Projects Fund	—	—	—	(2,321,950)	—	(2,321,950)
Transfers to General Debt Service Fund	(1,413,106)	—	—	(961)	—	(1,414,067)
Transfers from (to) Nonmajor Debt Service Funds, net	(741,812)	—	961	(123,163)	—	(864,014)
Payments to refunded bond escrow holder	—	—	(478,457)	(232,879)	—	(711,336)
Total other financing sources (uses)	(1,978,494)	7,717,479	1,416,372	678,412	—	7,833,769
Net change in fund balances	4,701	1,399,321	(1,741,438)	(322,397)	—	(659,813)
Fund Balances (Deficit) at Beginning of Year	432,307	(3,505,885)	5,117,268	3,673,302	—	5,716,992
Fund Balances (Deficit) at End of Year	$ 437,008	$ (2,106,564)	$ 3,375,830	$ 3,350,905	$ —	$ 5,057,179

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

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

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

Net change in fund balances—governmental funds		$ (1,581,759)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization in the current period.		
Purchases of capital assets	$ 5,783,049	
Depreciation/amortization expense	(2,138,585)	3,644,464
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.* sales, trade-ins, and donations) is to decrease net assets		24,449
The issuance of long-term debt (*i.e.,* bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(10,817,960)	
Principal payments of bonds	5,886,367	
Other	(78,234)	(5,009,827)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(93,054)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		833,853
OPEB obligation		(9,440,471)
Pollution Remediation		(79,845)
Change in net assets—governmental activities		$ (11,702,190)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2009
(in thousands)

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

Net change in fund balances—governmental funds		$ (659,813)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization in the current period.		
Purchases of capital assets	$ 5,843,732	
Depreciation/amortization expense	(2,289,736)	3,553,996
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.* sales, trade-ins, and donations) is to decrease net assets		(453,331)
The issuance of long-term debt (*i.e.,* bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(8,420,370)	
Principal payments of bonds	2,492,514	
Other	(38,655)	(5,966,511)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(115,049)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		(1,123,366)
OPEB obligation		(2,254,143)
Pollution Remediation		(2,694)
Change in net assets—governmental activities		$ (7,020,911)

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010
(in thousands)

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009
(in thousands)

	Budget			Better (Worse) Than Modified Budget
	Adopted	Modified	Actual	
Revenues:				
Real estate taxes	$13,915,354	$14,519,706	$14,487,231	$ (32,475)
Sales and use taxes	5,713,000	5,364,400	5,302,107	(62,293)
Personal income tax	8,469,206	7,497,730	7,518,903	21,173
Income taxes, other	5,407,000	5,543,500	6,588,642	1,045,142
Other taxes	2,822,720	2,925,367	1,975,691	(949,676)
Federal, State and other categorical aid	17,906,115	19,609,378	19,168,023	(441,355)
Unrestricted Federal and State aid	339,797	339,797	327,390	(12,407)
Charges for services	2,127,087	2,209,011	2,244,924	35,913
Investment income	85,400	124,020	123,903	(117)
Other revenues	1,777,337	2,729,022	2,112,280	(616,742)
Total revenues	58,563,016	60,861,931	59,849,094	(1,012,837)
Expenditures:				
General government	1,932,330	1,985,787	1,917,783	68,004
Public safety and judicial	7,213,015	7,762,019	7,683,112	78,907
Education	17,743,707	17,892,034	17,774,247	117,787
City University	670,098	673,854	658,484	15,370
Social services	12,139,240	12,205,011	12,151,263	53,748
Environmental protection	2,257,434	2,265,492	2,199,569	65,923
Transportation services	922,257	1,309,461	1,269,989	39,472
Parks, recreation and cultural activities	428,623	448,637	445,188	3,449
Housing	631,101	847,239	796,803	50,436
Health (including payments to HHC)	1,721,597	1,910,944	1,843,326	67,618
Libraries	94,732	367,301	366,307	994
Pensions	6,171,362	6,267,894	6,264,914	2,980
Judgments and claims	657,706	623,192	623,192	—
Fringe benefits and other benefit payments	3,309,317	3,528,189	3,524,852	3,337
Lease payments for debt service	110,888	174,523	174,523	—
Other	1,522,726	612,949	172,347	440,602
Total expenditures	57,526,133	58,874,526	57,865,899	1,008,627
Excess of revenues over expenditures	1,036,883	1,987,405	1,983,195	(4,210)
Other Financing Sources (Uses):				
Principal amount of bonds issued	—	176,424	176,424	—
Transfer to Nonmajor Debt Service Fund	(27,357)	(887,456)	(887,456)	—
Transfer from Nonmajor Debt Service Fund	142,973	145,639	145,644	5
Transfers and other payments for debt service	(1,152,499)	(1,422,012)	(1,413,106)	8,906
Total other financing uses	(1,036,883)	(1,987,405)	(1,978,494)	8,911
Excess of Revenues over Expenditures and Other Financing Sources (Uses)	$ —	$ —	4,701	$ 4,701
Fund Balance at Beginning of Year			432,307	
Fund Balance at End of Year			$ 437,008	

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Other Trust Funds	Agency Funds
Assets:			
Cash and cash equivalents	$ 2,128,477	$ 897	$ 934,482
Receivables:			
Member loans	1,589,513	—	—
Investment securities sold	3,523,224	—	—
Accrued interest and dividends	475,917	—	—
Tax liens receivable (less allowance for doubtful accounts of $181,579)	—	222,532	—
Other	256	—	—
Investments:			
Other short-term investments	5,601,160	—	—
Debt securities	24,815,399	—	709,285
Equity securities	49,149,241	—	—
Guaranteed investment contracts	3,439,965	—	—
Management investment contracts	47,658	—	—
Mutual funds	22,671,967	—	—
Collateral from securities lending transactions	9,097,294	—	—
Due from Pension Funds	4,156	—	—
Restricted investments	—	26,610	—
Other	302,398	1,762	—
Total assets	122,846,625	251,801	1,643,767
Liabilities:			
Accounts payable and accrued liabilities	889,813	8,052	671,060
Payable for investment securities purchased	8,715,845	—	—
Bonds payable, net of discounts	—	42,048	—
Accrued benefits payable	475,789	—	—
Payable to New York City Water Board	—	40,733	—
Due to VSFs	4,156	—	—
Securities lending transactions	9,143,927	—	—
Other	380	—	972,707
Total liabilities	19,229,910	90,833	1,643,767
Net Assets:			
Held in Trust for Benefit Payments	$103,616,715	—	$ —
Held in Trust for Fiduciary Net Assets		$160,968	

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Other Trust Funds	Agency Funds
Assets:			
Cash and cash equivalents	$ 1,545,983	$ 1,040	$ 725,026
Receivables:			
Member loans	1,472,834	—	—
Investment securities sold	3,961,734	—	—
Accrued interest and dividends	494,012	—	—
Tax liens receivable (less allowance for doubtful accounts of $136,795)	—	201,532	—
Other	206	—	—
Investments:			
Other short-term investments	2,348,810	—	—
Debt securities	25,433,241	—	1,125,353
Equity securities	41,260,777	—	—
Guaranteed investment contracts	3,125,516	—	—
Management investment contracts	58,906	—	—
Mutual funds	19,414,671	—	—
Collateral from securities lending transactions	9,960,507	—	—
Due from Pension Funds	4,241	—	—
Restricted investments	—	23,350	—
Other	412,859	1,145	—
Total assets	109,494,297	227,067	1,850,379
Liabilities:			
Accounts payable and accrued liabilities	841,457	5,172	652,634
Payable for investment securities purchased	6,595,001	—	—
Bonds payable, net of discounts	—	33,152	—
Accrued benefits payable	500,743	—	—
Payable to New York City Water Board	—	38,577	—
Due to VSFs	4,241	—	—
Securities lending transactions	10,052,991	—	—
Other	403	—	1,197,745
Total liabilities	17,994,836	76,901	1,850,379
Net Assets:			
Held in Trust for Benefit Payments	$ 91,499,461	—	$ —
Held in Trust for Fiduciary Net Assets		$150,166	

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

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

	Pension and Other Employee Benefit Trust Funds	Other Trust Funds
ADDITIONS:		
Contributions:		
Member contributions	$ 1,600,533	$ —
Employer contributions	9,264,129	—
Other employer contributions	82,214	—
Total contributions	10,946,876	—
Investment income:		
Interest income	1,800,325	—
Dividend income	1,387,094	—
Net appreciation in fair value of investments	11,264,137	—
Other	—	4
Less investment expenses	442,959	—
Investment income, net	14,008,597	4
Securities lending transactions:		
Securities lending income	70,488	—
Securities lending fees	(11,972)	—
Unrealized income in fair value of securities lending collateral	45,850	—
Net securities lending income	104,366	—
Tax liens receivables	—	137,235
Payments from Pension Funds	8,436	—
Other	81,080	—
Total additions	25,149,355	137,239
DEDUCTIONS:		
Benefit payments and withdrawals	12,889,122	—
Bond interest expense	—	3,675
Distributions to The City of New York	—	42,662
Additional liability due to New York City Water Board	—	19,643
Payments to VSFs	8,436	—
Increase in allowance for doubtful accounts	—	44,785
Administrative expenses	129,160	5,571
Other	5,383	10,101
Total deductions	13,032,101	126,437
Increase in plan net assets	12,117,254	10,802
NET ASSETS:		
Held in Trust for Benefit Payments:		
Beginning of Year	91,499,461	—
End of Year	$103,616,715	—
Held in Trust for Fiduciary Net Assets:		
Beginning of Year		150,166
End of Year		$160,968

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

(in thousands)

	Pension and Other Employee Benefit Trust Funds	Other Trust Funds
ADDITIONS:		
Contributions:		
Member contributions	$ 1,599,772	$ —
Employer contributions	8,967,394	—
Other employer contributions	74,145	—
Total contributions	10,641,311	—
Investment income:		
Interest income	2,061,955	—
Dividend income	1,453,108	—
Net depreciation in fair value of investments	(26,260,106)	—
Other	—	288
Less investment expenses	355,318	—
Investment income (loss), net	(23,100,361)	288
Securities lending transactions:		
Securities lending income	345,633	—
Securities lending fees	(189,349)	—
Unrealized loss in fair value of securities lending collateral	(65,669)	—
Net securities lending income	90,615	—
Tax liens receivables	—	119,536
Decrease in allowance for doubtful accounts	—	15,104
Payments from Pension Funds	8,489	—
Other	51,506	91
Total additions	(12,308,440)	135,019
DEDUCTIONS:		
Benefit payments and withdrawals	12,557,097	—
Bond interest expense	—	3,219
Distributions to The City of New York	—	8,051
Additional liability due to New York City Water Board	—	23,674
Payments to VSFs	8,489	—
Increase in allowance for doubtful accounts	—	8,575
Administrative expenses	124,451	6,711
Other	145,522	10,034
Total deductions	12,835,559	60,264
Increase (decrease) in plan net assets	(25,143,999)	74,755
NET ASSETS:		
Held in Trust for Benefit Payments:		
Beginning of Year	116,643,460	—
End of Year	$ 91,499,461	—
Held in Trust for Fiduciary Net Assets:		
Beginning of Year		75,411
End of Year		$150,166

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2010
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2009	Housing Development Corporation October 31, 2009	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
ASSETS:							
Cash and cash equivalents	$ 1,123,962	$ 1,114,868	$ 433,420	$ 543,114	$ 89,132	$ 66,291	$ 3,370,787
Investments, including accrued interest	377,646	1,460	105,434	112,922	31,768	921,447	1,550,677
Lease receivables	—	—	—	—	—	1,720,396	1,720,396
Other receivables	542,472	138,398	937,945	1,879,069	167,335	216,770	3,881,989
Mortgage loans and interest receivable, net	—	28	6,615,836	—	42,379	—	6,658,243
Inventories	—	12,965	—	30,423	—	—	43,388
Due from Primary Government	88,241	—	—	—	—	—	88,241
Restricted cash and investments	—	47,764	1,935,653	234,122	109,522	134,690	2,461,751
Other	204,437	86,738	54,795	14,744	46,940	83,258	490,912
Capital assets:							
Land and construction work-in-progress	6,112,362	1,696,732	—	502,310	108,443	—	8,419,847
Property, plant and equipment	25,460,641	10,218,121	4,676	6,072,145	7,423	286,783	42,049,789
Accumulated depreciation	(8,556,534)	(6,577,819)	(2,994)	(3,763,735)	(3,465)	(76,147)	(18,980,694)
Deferred outflows of resources	71,930	—	—	—	—	19,836	91,766
Total assets	25,425,157	6,739,255	10,084,765	5,625,114	599,477	3,373,324	51,847,092
LIABILITIES:							
Accounts payable and accrued liabilities	56,516	303,964	333,115	1,041,741	129,972	3,120	1,868,428
Accrued interest payable	45,081	6,611	54,142	14,796	—	—	120,630
Deferred revenues	57,329	117,538	152,080	—	10,373	19,483	356,803
Due to Primary Government	967,943	—	862,515	161,857	113,800	—	2,106,115
Other	64,710	34,118	—	191,500	6,689	60,910	357,927
Derivative instruments – interest rate swaps	55,030	—	—	—	—	19,836	74,866
Noncurrent Liabilities:							
Due within one year	964,562	141,319	472,275	154,607	—	28,993	1,761,756
Due in more than one year	23,494,503	2,746,489	6,983,210	4,589,987	119,105	2,994,811	40,928,105
Total liabilities	25,705,674	3,350,039	8,857,337	6,154,488	379,939	3,127,153	47,574,630
NET ASSETS:							
Invested in capital assets, net of related debt	920,728	5,060,566	—	1,871,925	3,958	181,636	8,038,813
Restricted for:							
Capital projects	—	—	—	—	61,301	—	61,301
Debt service	239,192	—	523,167	146,430	—	—	908,789
Loans/security deposits	—	—	—	—	45,545	3,070	48,615
Statutory reserve	—	—	—	52,835	—	—	52,835
Donor restrictions	—	—	—	10,693	—	—	10,693
Operations	191,772	14,289	40,924	—	—	—	246,985
Unrestricted (deficit)	(1,632,209)	(1,685,639)	663,337	(2,611,257)	108,734	61,465	(5,095,569)
Total net assets (deficit)	$ (280,517)	$ 3,389,216	$1,227,428	$ (529,374)	$ 219,538	$ 246,171	$ 4,272,462

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2009
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2008	Housing Development Corporation October 31, 2008	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
ASSETS:							
Cash and cash equivalents	$ 1,170,442	$ 795,472	$ 275,582	$ 345,255	$ 55,156	$ 77,829	$ 2,719,736
Investments, including accrued interest	771,277	406,080	202,358	112,126	33,034	913,566	2,438,441
Lease receivables	—	—	—	—	—	1,532,340	1,532,340
Other receivables	491,477	87,387	888,916	2,093,793	177,485	22,348	3,761,406
Mortgage loans and interest receivable, net	—	55	5,957,208	—	48,094	—	6,005,357
Inventories	—	15,792	—	31,868	—	—	47,660
Due from Primary Government	13,328	—	—	—	—	—	13,328
Restricted cash and investments	—	96,271	1,866,467	258,861	107,917	327,408	2,656,924
Other	191,094	81,245	50,268	17,174	80,261	86,648	506,690
Capital assets:							
Land and construction work-in-progress	5,072,496	1,525,717	—	332,930	6,639	—	6,937,782
Property, plant and equipment	24,103,459	10,004,369	4,579	5,886,083	5,686	253,855	40,258,031
Accumulated depreciation	(8,036,717)	(6,301,431)	(2,629)	(3,551,221)	(3,296)	(65,046)	(17,960,340)
Deferred outflows of resources	47,745	—	—	—	—	18,353	66,098
Total assets	23,824,601	6,710,957	9,242,749	5,526,869	510,976	3,167,301	48,983,453
LIABILITIES:							
Accounts payable and accrued liabilities	55,570	316,929	420,008	996,815	133,529	6,466	1,929,317
Accrued interest payable	41,485	7,012	61,065	15,667	—	—	125,229
Deferred revenues	77,672	18,223	136,625	—	10,686	7,782	250,988
Due to Primary Government	880,664	—	838,143	281,973	14,978	—	2,015,758
Other	73,991	33,076	—	—	8,637	44,189	159,893
Derivative instruments – interest rate swaps	36,806	—	—	—	—	18,353	55,159
Noncurrent Liabilities:							
Due within one year	966,026	134,702	310,756	146,690	—	25,790	1,583,964
Due in more than one year	21,421,197	2,693,348	6,314,529	4,135,459	144,796	2,840,521	37,549,850
Total liabilities	23,553,411	3,203,290	8,081,126	5,576,604	312,626	2,943,101	43,670,158
NET ASSETS:							
Invested in capital assets, net of related debt	1,253,882	4,976,964	—	1,704,747	2,390	163,809	8,101,792
Restricted for:							
Capital projects	—	—	—	—	63,427	—	63,427
Debt service	285,348	—	420,651	147,162	—	—	853,161
Loans/security deposits	—	—	—	—	45,182	3,579	48,761
Statutory reserve	—	—	—	44,728	—	—	44,728
Donor restrictions	—	—	—	11,441	—	—	11,441
Operations	195,844	185,418	35,644	—	—	—	416,906
Unrestricted (deficit)	(1,463,884)	(1,654,715)	705,328	(1,957,813)	87,351	56,812	(4,226,921)
Total net assets (deficit)	$ 271,190	$3,507,667	$1,161,623	$ (49,735)	$ 198,350	$ 224,200	$ 5,313,295

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES

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

	Water and Sewer System	Housing Authority December 31, 2009	Housing Development Corporation October 31, 2009	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
Expenses	$ 3,503,650	$ 3,248,956	$ 177,786	$ 7,188,343	$ 808,373	$ 199,218	$15,126,326
Program Revenues:							
Charges for services	2,758,073	830,148	201,529	5,886,042	206,721	37,835	9,920,348
Operating grants and contributions	—	1,825,990	—	219,404	38,157	—	2,083,551
Capital grants, contributions and other	—	443,537	—	262,488	575,126	27,416	1,308,567
Total program revenues	2,758,073	3,099,675	201,529	6,367,934	820,004	65,251	13,312,466
Net (expenses) program revenues	(745,577)	(149,281)	23,743	(820,409)	11,631	(133,967)	(1,813,860)
General Revenues:							
Investment income	65,760	11,666	39,090	5,545	963	48,858	171,882
Unrestricted Federal and State aid	—	—	—	—	7,087	—	7,087
Other	128,110	19,164	2,972	335,225	1,507	107,080	594,058
General revenues, net	193,870	30,830	42,062	340,770	9,557	155,938	773,027
Change in net assets	(551,707)	(118,451)	65,805	(479,639)	21,188	21,971	(1,040,833)
Net assets (deficit)—beginning	271,190	3,507,667	1,161,623	(49,735)	198,350	224,200	5,313,295
Net assets (deficit)—ending	$ (280,517)	$ 3,389,216	$ 1,227,428	$ (529,374)	$ 219,538	$ 246,171	$ 4,272,462

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2008	Housing Development Corporation October 31, 2008	Health and Hospitals Corporation	Economic Development Corporation	Nonmajor Component Units	Total
Expenses	$ 3,500,429	$ 3,172,565	$ 261,778	$ 6,667,936	$ 770,947	$ 74,134	$14,447,789
Program Revenues:							
Charges for services	2,448,567	791,092	241,497	5,677,744	227,432	33,774	9,420,106
Operating grants and contributions	—	1,689,909	—	239,860	34,743	—	1,964,512
Capital grants, contributions and other	—	269,919	—	210,851	503,130	22,131	1,006,031
Total program revenues	2,448,567	2,750,920	241,497	6,128,455	765,305	55,905	12,390,649
Net (expenses) program revenues	(1,051,862)	(421,645)	(20,281)	(539,481)	(5,642)	(18,229)	(2,057,140)
General Revenues:							
Investment income	106,234	36,751	63,714	13,736	3,373	13,142	236,950
Unrestricted Federal and State aid	—	—	—	—	5,944	—	5,944
Other	108,708	26,512	5,030	119,575	1,808	17,642	279,275
General revenues, net	214,942	63,263	68,744	133,311	11,125	30,784	522,169
Change in net assets	(836,920)	(358,382)	48,463	(406,170)	5,483	12,555	(1,534,971)
Net assets—beginning	1,165,891	3,891,762	1,113,160	366,650	192,867	211,645	6,941,975
Restatement of beginning net assets	(57,781)	(25,713)	—	(10,215)	—	—	(93,709)
Net assets (deficit)—ending	$ 271,190	$ 3,507,667	$ 1,161,623	$ (49,735)	$ 198,350	$ 224,200	$ 5,313,295

See accompanying notes to financial statements.

A. Summary of Significant Accounting Policies

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

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

1. Reporting Entity

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

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

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

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

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

Blended Component Units

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

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

The Act provides that MAC shall continue for a term ending the later of July 1, 2008 or one year after all its liabilities have been fully paid and discharged. On July 1, 2008, MAC paid in full all its previously defeased bonds from amounts placed in an irrevocable trust. On July 1, 2008, MAC had other liabilities such as accounts payable outstanding. On September 24, 2008, MAC had all of its liabilities paid and discharged and MAC's Board made the necessary statutory findings for dissolution and termination and set the date of termination at September 30, 2009. Upon the termination of the existence of MAC, all of its rights and property passed to and were vested in the State of New York.

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

In addition to State legislative authorization to issue Future Tax Secured bonds for capital purposes for which TFA had issued its statutory limit of $13.5 billion as of June 30, 2007, in July, 2009, authorizing legislation permits TFA to issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, does not exceed the debt limit of the City. As of July 1, 2010, the City's and TFA's combined debt-incurring capacity was approximately $26.3 billion.TFA is also authorized to have outstanding Recovery bonds of $2.5 billion to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center. Further, legislation enacted in April, 2006 enables TFA to have outstanding up to $9.4 billion of Building Aid Revenue bonds (BARBs), notes, or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system and TFA's administrative expenditures. As of June 30, 2010, $4.22 billion of BARBs have been issued and are outstanding.

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

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

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

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

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

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

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

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

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

SCA's operations are funded by appropriations made by the City which are guided by five-year capital plans, developed by the Department of Education (DOE) of the City. The City's appropriation for the five year capital plan for the fiscal years 2010 through 2014 is $11.3 billion.

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

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

Fiscal Year 2005 Securitization Corporation (FSC). FSC was established in 2004 as a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York. FSC is a financing instrumentality of the City, but is a separate legal entity from the City. FSC was formed for the purpose of issuing bonds, a major portion of the proceeds of $499 million of bonds issued in December, 2004 was used to acquire securities held in an escrow account securing City general obligation bonds. The securities, which are held by the trustee for FSC, as they mature will fully fund the debt service and operational expenditures of FSC for the life of FSC's bonds.

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

Sales Tax Asset Receivable Corporation (STAR). STAR is a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York in 2003. STAR is a financing instrumentality of the City, but is a separate legal entity from the City. STAR was created to issue debt ($2.55 billion of bonds was issued in November, 2004) to finance the payment of principal, interest, and redemption premium (if any), on all outstanding bonds of MAC, on all outstanding bonds of the City held by MAC, and to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service. The payment of the outstanding MAC bonds results in the receipt by the City of tax revenues that would otherwise be paid to MAC for the payment of debt service on MAC's bonds. The foregoing was consideration for an assignment by the City of all of its rights and interest in the $170 million annual payment by the New York State Local Government Assistance Corporation which commenced with fiscal year 2004 and will terminate with fiscal year 2034 and which will be used for debt service on STAR bonds.

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

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

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

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

Discretely Presented Component Units

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In fiscal year 2007, BRAC had received $1.5 million in contributions from EDC to administer the Greenpoint Relocation Program. This program is intended to help defray relocation costs for those manufacturing and industrial firms that may need to relocate due to the rezoning of the Greenpoint-Williamsburg area of Brooklyn by providing for maximum grants of $50,000. As of June 30, 2010, the BRAC fund is valued at $1 million, and grants for both Industrial Relocation Grant and Greenpoint Relocation Program will be available until funds are exhausted.

Brooklyn Navy Yard Development Corporation (BNYDC). BNYDC was organized in 1966 as a not-for-profit corporation according to the not-for-profit corporation law of the State of New York. The primary purpose of BNYDC is to provide economic rehabilitation in Brooklyn, to revitalize the economy, and create job opportunities. In 1971, BNYDC leased the Brooklyn Navy Yard from the City for the purpose of rehabilitating it and attracting new businesses and industry to the area. That lease was amended and restated in 1996. The Mayor appoints the majority of the members of the Board of Directors.

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

WTC Captive Insurance Company, Inc. (WTC Captive). WTC Captive is a not-for-profit corporation incorporated in the State of New York in 2004 in response to the events of September 11, 2001. WTC Captive was funded with $999.9 million in funds by the Federal Emergency Management Agency (FEMA) and used this funding to support issuance of a liability insurance contract that provides specified coverage (general liability, environmental liability, professional liability, and marine liability) against certain third-party claims made against the City and approximately 145 contractors and subcontractors working on the City's FEMA-funded debris removal project at the World Trade Center site or the Fresh Kills landfill during the 'exposure period' from September 11, 2001 to August 30, 2002. Coverage is provided on both an excess of loss and first dollar basis, depending on the line of coverage. WTC Captive has a calendar year-end.

New York City Capital Resource Corporation (CRC). CRC is a local development corporation organized in 2006 under the not-for-profit corporation law of the State of New York to assist qualified not-for-profit institutions, small manufacturing companies, and other entities eligible under the Federal tax laws in obtaining tax-exempt bond financing. CRC is a conduit bond issuer for the Recovery Zone Facility Bonds which were allocated to the City to spur construction projects that have been unable to get traditional financing due to the current capital market and the Loan Enhanced Assistance Program (LEAP). LEAP's goal is to facilitate access to private activity tax-exempt bond financing for qualified borrowers by simplifying the transaction structure, standardizing the required documentation, and achieving greater efficiency in marketing the tax-exempt debt.

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

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

2. Basis of Presentation

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

Additionally, the City reports the following fund types:

Fiduciary Funds

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

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

- New York City Employees' Retirement System (NYCERS)
- Teachers' Retirement System of the City of New York Qualified Pension Plan (TRS)
- New York City Board of Education Retirement System Qualified Pension Plan (BERS)
- New York City Police Pension Fund (POLICE)
- New York City Fire Pension Fund (FIRE)
- New York City Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York City Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York City Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York City Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- New York City Transit Police Officers' Variable Supplements Fund (TPOVSF)
- New York City Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)
- New York City Housing Police Officers' Variable Supplements Fund (HPOVSF)
- New York City Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- New York City Correction Officers' Variable Supplements Fund (COVSF)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/457 Plan)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(k) Plan)
- Deferred Compensation Plan for Certain Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(a) Plan)
- New York City Employee Individual Retirement Account (NYCE IRA/408(q) IRA)
- The New York City Other Postemployment Benefits Plan (PLAN)

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

- New York City Tax Lien Trust (NYCTLT 2010-A)
- New York City Tax Lien Trust (NYCTLT 2009-A)
- New York City Tax Lien Trust (NYCTLT 2008-A)
- New York City Tax Lien Trust (NYCTLT 2006-A)
- New York City Tax Lien Trust (NYCTLT 2005-A)
- New York City Tax Lien Trust (NYCTLT 2004-A)
- New York City Tax Lien Trust (NYCTLT 1999-1)
- New York City Tax Lien Trust (NYCTLT 1998-2)
- New York City Tax Lien Trust (NYCTLT 1998-1)
- New York City Tax Lien Trust (NYCTLT 1996-1)

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

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

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

Discretely Presented Component Units

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

New Accounting Standards Adopted

In fiscal year 2010, the City adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

—Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*

—Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*

—Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

—Statement No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*

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

The financial reporting impact resulting from the implementation of Statement No. 51 had no effect on net assets in the government-wide financial statements since the recognition of intangible assets was wholly a clarification of the existing equipment fixed assets class description to convey its inclusion of software. None of the intangible assets included in the equipment fixed assets class were considered to have indefinite useful lives and therefore all of the intangible assets are subject to amortization.

Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of Statement No. 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements. This provision should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. Alternatively, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. The Statement describes several quantitative methods and a qualitative method for evaluating effectiveness. The disclosures required by Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, have been incorporated into Statement No. 53. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments.

The financial reporting impact resulting from the implementation of Statement No. 53 is the recognition within the government-wide financial statements of a liability for 'hedging' derivative instruments whose negative fair value at June 30, 2010 totaled $91.6 million with a corresponding amount being reported as deferred outflows of resources in the assets section of the government-wide financial statements. Also, 'investment' derivative instruments whose negative fair value at June 30, 2010 totaled $89.2 million is being included with the City's investment disclosures and recorded within the investments account on the statement of net assets. See Note A.13. and Note D.1. for disclosure information relating to hedging and investment derivative instruments.

Statement No. 57 provides guidance on two implementation issues related to Other Postemployment Benefits (OPEB). The Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. Additionally, Statement No. 57 clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

There was no practical impact on the City's financial statements as a result of the implementation of Statement No. 57. The New York City Health Benefits Program (Program) is a single-employer defined benefit healthcare plan whose total plan membership vastly exceeds the allowable cutoff for using the alternative measurement method and the Program does not participate in an agent multiple-employer OPEB plan.

Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. For accounts payable, notes, debentures and bonds, and related interest payable, the Statement requires governments to base remeasurement on the new payment plan. For leases, pollution remediation liabilities, and liabilities for pension and other postemployment benefit plans, the Statement requires remeasurement based on existing authoritative guidance. For governments that are not expected to emerge from bankruptcy as going concerns, Statement No. 58 requires remeasurement of assets to a value that represents the amount expected to be received. The Statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item. The Statement does not apply to troubled debt restructurings that occur outside of bankruptcy. Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services. The objective of Statement No. 58 is to improve financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that have filed for bankruptcy under Chapter 9. The disclosures required by the Statement cease to apply for periods following the fiscal year in which the bankruptcy case is closed or the government has its petition dismissed.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 58 since the City was not in bankruptcy nor has it filed for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

3. Basis of Accounting

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

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

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

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

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

4. Encumbrances

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

5. Cash and Investments

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

Cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during fiscal years 2010 and 2009 were approximately $2,733 million and $1,902 million, respectively.

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

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

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

A description of the City's Fiduciary Funds securities lending activities in fiscal years 2010 and 2009 is included in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2010 and 2009 (estimated at $280 million and $282 million, respectively, based on average cost) have been reported on the government-wide statement of net assets. Inventories are recorded as expenditures in governmental funds at the time of purchase, and accordingly have not been reported on the governmental funds balance sheet.

7. Restricted Cash and Investments

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

8. Capital Assets

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

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

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

9. Allowance for Uncollectible Mortgage Loans

Mortgage loans and interest receivable in the Debt Service Funds are net of an allowance for uncollectible amounts of $318.2 million and $316.3 million for fiscal years 2010 and 2009, respectively. The allowance is composed of the balance of refinanced first lien mortgages one or more years in arrears when payments to the City are expected to be completed between the years 2012 and 2021.

10. Vacation and Sick Leave

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

11. Judgments and Claims

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

12. Long-Term Liabilities

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

13. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2010 financial statements are as follows:

Item		Changes in Fair Value		Fair Value at June 30, 2010		
		Classification	Amount	Classification	Amount	Notional
			(in thousands)			
Governmental activities						
Cash flow hedges:						
A	Pay-fixed interest rate swap	Deferred Outflow	$ (7,568)	Debt	$(26,050)	$200,000
B	Pay-fixed interest rate swap	Deferred Outflow	(2,522)	Debt	(8,683)	66,668
C	Pay-fixed interest rate swap	Deferred Outflow	(2,522)	Debt	(8,683)	66,668
D	Pay-fixed interest rate swap	Deferred Outflow	(2,522)	Debt	(8,683)	66,667
F	Pay-fixed interest rate swap	Deferred Inflow	1,159	Debt	(2,294)	55,945
H	Pay-fixed interest rate swap	Deferred Outflow	(18,207)	Debt	(44,270)	350,000
I	Received-fixed interest rate swap	Deferred Inflow	32,028	Debt	12,625	500,000
J	Pay-fixed interest rate swap	Deferred Outflow	(217)	Debt	(2,875)	50,000
L	Pay-fixed interest rate swap	Deferred Inflow	48	Debt	(2,693)	44,145
Investment derivative instruments:						
E	Pay-fixed interest rate swap	Investment Revenue	(5,131)	Investment	(18,275)	135,050
G	Basis Swap	Investment Revenue	3,844	Investment	(23,281)	581,090
K	Basis Swap	Investment Revenue	2,258	Investment	(47,646)	500,000

As of June 30, 2010, the City determined that the pay-fixed interest rate swap listed as an investment derivative instrument under governmental activities no longer met the criteria for effectiveness. Accordingly, the decrease in fair value of the swap from June 30, 2009 to June 30, 2010 of $5,131.8 million is reported within the investment revenue classification for the year ended June 30, 2010.

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

Hedging Derivative Instruments

The following table displays the objective and terms of the City's hedging derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty. Regarding derivative instruments where the counterparty is unrated, the rating provided is of the counterparty's guarantor.

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
			(in thousands)				
A	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D, and E bonds	$200,000	11/13/2002	8/1/2020	Pay 3.269%; receive 62.8% of USD-LIBOR-BBA	Aa1/AA-
B	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D, and E bonds	66,668	11/13/2002	8/1/2020	Pay 3.269%; receive 62.8% of USD-LIBOR-BBA	A2/A*
C	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D, and E bonds	66,668	11/13/2002	8/1/2020	Pay 3.269%; receive 62.8% of USD-LIBOR-BBA	A2/A*
D	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C, D, and E bonds	66,667	11/13/2002	8/1/2020	Pay 3.269%; receive 62.8% of USD-LIBOR-BBA	Aa3/A+
F	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series G-2, G-3, and H-2 bonds	55,945	1/22/2003	8/1/2014	Pay 3.109%; receive 61.8% of USD-LIBOR-BBA	Aa3/A+
H	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series A and B bonds	350,000	7/14/2003	8/1/2031	Pay 2.964%; receive 61.85% of USD-LIBOR-BBA	Aa2/AA
I	Total Return Swap	Obtain Short-Term Variable Rate Funding in SIFMA Market	500,000	12/18/2003	12/15/2011	Pay SIFMA Index +.0035; receive adjusted fixed rates which are same as payments on corresponding bonds	A3/A*
J	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2005 Series A and B bonds	50,000	7/29/2004	8/1/2014	Pay 4.01%/4.12%; receive CPI +80% for 2013 maturity/CPI +90% for 2014 maturity	A2/A*
L	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2005 Series J, K, and L bonds	44,145	3/3/2005	8/1/2017	Pay 4.55%/4.63%/4.71%; receive CPI+1.50 for 2015 maturity; CPI +1.55 for 2016 maturity; CPI plus 1.60 for 2017 maturity	Aa1/AA-

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

Risks

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

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

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

The aggregate fair value of hedging derivative instruments requiring collateralization at June 30, 2010 was $(91.606) million. Since a negative aggregate fair value means the City would have owed payments to the counterparties, the City had no aggregate counterparty credit exposure as of that date.

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

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

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

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

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

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

Contingencies

All of the City's derivative instruments, except for derivative instrument I (the total return swap), include provisions that require the City to post collateral in the event its credit rating falls below Baa1 (Moody's) or BBB+ (Standard & Poor's) for derivative instruments A, B, C, D, E, F, G, J, K, and L; or below Baa3 (Moody's) or BBB- (Standard & Poor's) for derivative instrument H. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified Agency securities in the amount equal to in the form of cash or greater to in the form of securities of the fair value of derivative instruments in liability positions net of the effect of applicable netting arrangements and applicable thresholds. If the City does not post collateral, the derivative instrument may be terminated by the counterparty. At June 30, 2010, the aggregate fair value of all derivative instruments with these collateral posting provisions is $(180.8) million. If the collateral posting requirements were triggered at June 30, 2010, based on ratings of Baa3 or BBB-, the City would be required to post $157.2 million in collateral to its counterparties based on posting cash. The collateral requirements would be $213.5 million for ratings below Baa3 or BBB- based on posting securities. The City's credit rating as of June 30, 2010 was Aa2 (Moody's) and AA (Standard & Poor's); therefore, no collateral has been posted as of that date.

Swap Collateral Requirements upon a Rating Downgrade of the City[1]

Counterparty/Swap	Fair Value[2] as of June 30, 2010	Collateral Threshold at Baa2/BBB to Baa3/BBB-[3]	Collateral Amount[4]	Collateral Threshold below Baa3/BBB-	Collateral Amount[5]
			(in thousands)		
Citigroup Financial Products Inc	$ 12,625	NA	$ NA	NA	$ NA
J.P. Morgan Chase Bank N.A.	(76,389)	3,000	73,400	—	76,400
Merrill Lynch Capital Services Inc	(8,683)	3,000	5,683	—	8,683
Morgan Stanley Capital Services Inc	(34,839)	3,000	31,800	—	34,800
UBS AG	(29,252)	3,000	46,300	—	49,300
Wells Fargo Bank, National Association	(44,270)	Infinity	—	—	44,300
Total Net Fair Value	$(180,808)		$157,183		$213,483

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

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

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

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

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

NA: Not Applicable.

14. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2010 were due July 1, 2009 and January 1, 2010 except that payments by owners of real property assessed at $250,000 or less and cooperatives whose individual units on average are valued at $250,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2010 taxes was June 19, 2009. The lien date is the date taxes are due.

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

The City offered an actual 1% discount and 1.5% discount for the prepayment of real estate taxes for fiscal years 2011 and 2010, respectively. Payment of real estate taxes before July 15, 2010, on properties with an assessed value of $250,000 or less and before July 1, 2010, on properties with an assessed value over $250,000 received the discount. Collections of these real estate taxes received on or before June 30, 2010 and 2009 were $4.6 billion and $4.7 billion, respectively. These amounts were recorded as deferred revenue.

The City sold approximately $39 million of real property tax liens, fully attributable to fiscal year 2010, at various dates in fiscal year 2010. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $3.7 million worth of liens sold in fiscal year 2010 will require refunding. The estimated refund accrual amount of $4 million, including the surcharge and interest, resulted in fiscal year 2010 net sale proceeds of $35 million.

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

The City sold approximately $37.3 million of real property tax liens, fully attributable to fiscal year 2009, at various dates in fiscal year 2009. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $3.3 million worth of liens sold in fiscal year 2009 will require refunding. The estimated refund accrual amount of $4 million, including the surcharge and interest, resulted in fiscal year 2009 net sale proceeds of $33.3 million.

In fiscal year 2009, $3.3 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2008 sale. This resulted in an increase to fiscal year 2009 revenue of $.7 million for the refund amount was less than the fiscal year 2008 accrual of $4 million and increased the net sale proceeds of the fiscal year 2008 sale to $34.2 million up from the original fiscal year 2008 net sale proceeds reported as $33.5 million.

In fiscal years 2010 and 2009, $270 million and $203 million, respectively, were provided as allowances for uncollectible real estate taxes against the balance of the receivable. Delinquent real estate taxes receivable that are estimated to be collectible but which are not collected in the first two months of the next fiscal year are recorded as deferred revenues in the governmental funds balance sheet but included in general revenues on the government-wide statement of activities.

The City is permitted to levy real estate taxes for general operating purposes in an amount up to 2.5% of the average full value of taxable real estate in the City for the last five years and in unlimited amounts for the payment of principal and interest on long-term City debt. Amounts collected for payment of principal and interest on long-term debt in excess of that required for that purpose in the year of the levy must be applied towards future years' debt service. For the fiscal years ended June 30, 2010 and 2009, excess amounts of $.766 billion and $1.043 billion, respectively, were transferred to the General Debt Service Fund.

15. Other Taxes and Other Revenues

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

16. Federal, State, and Other Aid

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

17. Bond Discounts/Issuance Costs

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

18. Intra-Entity Activity

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

19. Subsidies

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

20. Pensions

Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Notes E.6. and F.), regardless of the amount recognized as pension expense on the modified accrual basis of accounting. Annual pension cost should be equal to the annual required contributions to the pension plan, calculated in accordance with certain parameters.

21. Other Postemployment Benefits

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

22. Estimates and Assumptions

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

23. Pronouncements Issued But Not Yet Effective

In February, 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. Governments are also required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. Statement No. 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The requirements of Statement No. 54 are effective for financial statements for periods beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balances for all prior periods presented. While earlier application of the Statement is encouraged, the City has not completed the process of evaluating the impact of Statement No. 54 on its financial statements.

In June, 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

Statement 59 includes the following guidance:

- Emphasizes the applicability of U.S. Securities and Exchange Commission requirements to certain external investment pools—known as 2a7-like pools—to provide users more consistent information on qualifying pools.
- Addresses the applicability of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting.
- Applies the reporting provisions for interest-earning investment contracts of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and OPEB plans.

The requirements of Statement No. 59 are effective for financial statements for periods beginning after June 15, 2010. While earlier application of the Statement is encouraged, the City has not completed the process of evaluating the impact of Statement No. 59 on its financial statements.

B. Reconciliation of Government-wide and Fund Financial Statements

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

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

C. Stewardship, Compliance, and Accountability

1. Budgets and Financial Plans

Budgets

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

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

Expenditures made against the Expense Budget are controlled through the use of quarterly spending allotments and units of appropriation. A unit of appropriation represents a subdivision of an agency's budget and is the level of control at which expenditures may not legally exceed the appropriation. The number of units of appropriation and the span of operating responsibility which each unit represents, differs from agency to agency depending on the size of the agency and the level of control required. Transfers between units of appropriation and supplementary appropriations may be made by the Mayor subject to the approval provisions set forth in the City Charter. Supplementary appropriations increased the Expense Budget by $5.257 billion and $2.478 billion subsequent to its original adoption in fiscal years 2010 and 2009, respectively.

Financial Plans

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

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

2. Deficit Fund Balance

The New York City Capital Projects Fund has cumulative deficits of $3.1 billion and $2.1 billion at June 30, 2010 and 2009, respectively. These deficits represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

D. Detailed Notes on All Funds

1. Deposits and Investments

Deposits

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

The City Charter limits the amount of deposits at any time in any one bank or trust company to a maximum of one-half of the amount of the capital and net surplus of such bank or trust company. The discretely presented component units included in the City's reporting entity maintain their own banking relationships which generally conform with the City's. Bank balances are currently insured up to $250,000 through December 31, 2013 in the aggregate by the Federal Deposit Insurance Corporation (FDIC) for each bank for all funds and collateralized by irrevocable letters of credit at 100%, by Treasury Notes at 105%, or collateralized by other securities ranging from 110% to 120% depending on the securities pledged by the bank for balances in excess of $250,000. On January 1, 2014, the standard coverage limit will return to $100,000 for all deposit categories except IRAs and certain retirement accounts which will continue to be insured up to $250,000 per owner. Also, the temporary Transaction Account Guarantee Program (TAGP) provides unlimited coverage for noninterest-bearing transaction deposit accounts (covers the City's demand deposit accounts including Central Treasury, Pool, and controlled disbursement accounts) at participating FDIC-insured institutions through December 31, 2010. Consequently, these noninterest-bearing transaction deposit accounts that are fully insured by FDIC's TAGP do not need to be collateralized for calendar year 2010.

At June 30, 2010 and 2009, the carrying amount of the City's unrestricted cash and cash equivalents was $7.382 billion and $10.054 billion, respectively, and the bank balances were $2.683 billion and $5.373 billion, respectively. Of the unrestricted bank balances, none of the June 30, 2010 balances were exposed to custodial credit risk. However, $29.2 million at June 30, 2009 was exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it or the City will not be able to recover collateral securities that are in the possession of an outside party) because the bank balances were uninsured and uncollateralized. The blended component units: SCA and Private Housing Loan Programs as of June 30, 2009 did not have a deposit policy for custodial credit risk. At June 30, 2010 and 2009, the carrying amount of the restricted cash and cash equivalents was $2.098 billion and $1.307 billion, respectively, and the bank balances were $.101 million and $24.4 million, respectively. Of the restricted bank balances, $1 thousand and $24 thousand were exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it or the City will not be able to recover collateral securities that are in the possession of an outside party) because the respective bank balances were uninsured and uncollateralized at June 30, 2010 and 2009, respectively. FSC, a blended component unit did not have a deposit policy for custodial credit risk as of June 30, 2009.

Investments

The City's investment of cash in its governmental fund types is currently limited to U.S. Government guaranteed securities and U.S. Government agency securities purchased directly and through repurchase agreements from primary dealers as well as commercial paper rated A1 and P1 by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively. The repurchase agreements must be collateralized by U.S. Government guaranteed securities, U.S. Government agency securities, or eligible commercial paper in a range of 100% to 102% of the matured value of the repurchase agreements. The following is a summary of the fair value of investments of the City as of June 30, 2010 and 2009:

Governmental activities:

	Investment Maturities (in years)					
		2010			2009	
Investment Type	**Less than 1**	**1 to 5**	**More than 5**	**Less than 1**	**1 to 5**	**More than 5**
			(in thousands)			
Unrestricted						
U.S. Government securities	$1,006,811	$ —	$ —	$ 351,993	$ 59,798	$ —
U.S. Government agency obligations	50,692	62,365	—	653,545	—	—
Commercial paper	99,687	—	—	—	—	—
Investment derivative instruments	—	—	(89,202)[1]	—	—	—
Total unrestricted	$1,157,190	$ 62,365	$ (89,202)	$1,005,538	$ 59,798	$ —
Restricted						
U.S. Government securities	$ 92,720	$ —	$ 7,910	$ 44,368	$ 304,391	$ —
U.S. Government agency obligations	334,916	463,561	—	1,375,639	10,932	—
Commercial paper	439,935	—	—	182,082	—	—
Repurchase agreements	681,516	—	—	9,950	1,073,059	—
Total restricted	$1,549,087	$ 463,561	$ 7,910	$1,612,039	$1,388,382	$ —

Interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the weighted average maturity to a period of less than 2 years. The City's current weighted average maturity is less than 180 days.

Credit risk. Investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. As of June 30, 2010 and 2009, investments in Federal National Mortgage Association (FNMA or Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), and Federal Home Loan Bank (FHLB) were rated in the highest long-term or short-term ratings category (as applicable) by Standard & Poor's and/or Moody's Investor Service. These ratings were AAA and A-1+ by Standard & Poor's and Aaa and P-1 by Moody's for long-term and short-term instruments, respectively. The majority of these investments were not rated by Fitch ratings, but those that were carried its highest long-term or short-term ratings of AAA or F1+, respectively. Investments in commercial paper were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor's, P-1 by Moody's, and/or F1+ by Fitch ratings). Repurchase agreements are not rated. Resolution Funding Strip investments are guaranteed by the U.S. Treasury.

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

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

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

(1) The City has one pay-fixed interest rate swap (E) and two basis swaps (G and K) that are treated as investment derivative instruments (see Note A.13.). At June 30, 2010, the swaps had fair values of $(18,275) thousand, $(23,281) thousand, and $(47,646) thousand, respectively.

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

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

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

The aggregate fair value of investment derivative instruments requiring collateralization at June 30, 2010 was $(89,202) thousand. Since a negative aggregate fair value means the City would have owed payments to the counterparties, the City had no counterparty credit exposure as of that date.

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

Basis risk. The City is exposed to basis risk on derivative instrument E because the variable-rate payment received by the City is based on a rate or index other than the interest rate the City pays on its variable-rate debt, which is remarketed either daily or weekly. Under the terms of its derivative instrument E, the City pays a variable rate on the swap based on SIFMA but receives a variable rate on the swap based on a percentage of LIBOR. In derivative instrument G, the City's variable payer rate is based on SIFMA times 1.36 and the City receives 100% of LIBOR in return. The City's net payments over time will be determined by both the absolute levels of interest rates and the relationship between SIFMA and LIBOR. In derivative instrument K, the City's variable payer rate is based on SIFMA and its variable receiver rate is based on a percentage of LIBOR. However, the stepped percentages of LIBOR received by the City mitigate the risk that the City will be harmed in low interest rate environments by the compression of the SIFMA and LIBOR indices. As the overall level of interest rate decreases, the percentage of LIBOR received by the City increases.

Tax risk. The City is at risk that a change in Federal tax rates will alter the fundamental relationship between the SIFMA and LIBOR indices. A reduction in Federal tax rates, for example, will likely increase the City's payment on its underlying variable rate bonds in derivative instrument E and its variable payer rate in derivative instruments G and K.

Termination risk. The City or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The City is at risk that a counterparty will terminate a swap at a time when the City owes it a termination payment. The City has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the City; other City defaults which remain uncured for 30 days after notice; City bankruptcy; insolvency of the City (or similar events); or a downgrade of the City's credit rating below investment grade (i.e., BBB-/Baa3). If at the time of termination, an investment derivative instrument is in a liability position, the City would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

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

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

1. Fixed income investments may be made in U.S. Government guaranteed securities or securities of U.S. Government agencies, securities of companies rated BBB or better by both Standard and Poor's Corporation and Moody's Investors Service, Inc., and any bond that meets the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.

2. Equity investments may be made only in those stocks that meet the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.

3. Short-term investments may be made in the following:

   a. U.S. Government guaranteed securities or U.S. Government agency securities.

   b. Commercial paper rated A1 or P1 or F1 by Standard & Poor's Corporation or Moody's Investors Service, Inc. or Fitch, respectively.

   c. Repurchase agreements collateralized in a range of 100% to 102% of matured value, purchased from primary dealers of U.S. Government securities.

   d. Investments in bankers' acceptances, certificates of deposit, and time deposits are limited to banks with worldwide assets in excess of $50 billion that are rated within the highest categories of the leading bank rating services and selected regional banks also rated within the highest categories.

4. Investments up to 25% of total pension fund assets in instruments not specifically covered by the New York State Retirement and Social Security Law.

5. No investment in any one corporation can be: (i) more than 2% of the pension plan net assets; or (ii) more than 5% of the total outstanding issues of the corporation.

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

Securities Lending

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

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

All securities loans can be terminated on demand within a period specified in each agreement by either the Systems and Funds or the borrowers. The underlying fixed income securities have an average maturity of 10 years. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. During fiscal year 2003, the value of certain underlying securities became impaired because of the credit failure of the issuer. Accordingly, the carrying amounts of the collateral reported in four of the Systems' statements of fiduciary net assets were reduced by a total of $80 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions. During fiscal years 2004 through 2009, $21.606 million was recovered as a distribution of bankruptcy proceeds and $31.6 million was received as a partial settlement from litigation. In fiscal year 2010, there was no further recoupment as an ongoing distribution of bankruptcy proceeds. During fiscal year 2009, the value of certain underlying securities became impaired because of the bankruptcy proceeding of the issuer. Accordingly, the carrying amount of the collateral reported in one of the Funds' statements of fiduciary net assets was reduced by a total of $24.3 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions. As of June 30, 2010, it is uncertain whether these security losses will be recovered as the bankruptcy proceeding of the securities issuer has not been concluded. As of October 6, 2010, the Funds' Board has decided to terminate its securities lending program as soon as it is feasibly possible, sell the defaulted securities, and assess the participants in its various investment options based on the benefit of the yearly revenues derived from the securities lending program since 2003 in conjunction with the number of years that a participant had been active in its investment programs from 2003 through August, 2008.

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

2. Capital Assets

The following is a summary of capital assets activity for the fiscal years ended June 30, 2009 and 2010:

Primary Government	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
				(in thousands)			
Governmental activities:							
Capital assets, not being depreciated/amortized:							
Land	$ 1,096,841	$ 50,103	$ —	$ 1,146,944	$ 95,681	$ 2,100	$ 1,240,525
Construction work-in-progress	4,381,046	3,758,361	3,277,052	4,862,355	3,751,599	3,796,979	4,816,975
Total capital assets, not being depreciated/amortized	5,477,887	3,808,464	3,277,052	6,009,299	3,847,280	3,799,079	6,057,500
Capital assets, being depreciated/amortized:							
Buildings	35,532,898	3,277,052	1,192,439	37,617,511	3,796,979	195,688	41,218,802
Equipment (including software)	6,086,988	540,973	260,538	6,367,423	461,810	299,849	6,529,384
Infrastructure	13,360,144	1,494,295	266,913	14,587,526	1,473,959	196,161	15,865,324
Total capital assets, being depreciated/amortized	54,980,030	5,312,320	1,719,890	58,572,460	5,732,748	691,698	63,613,510
Less accumulated depreciation/amortization:							
Buildings	14,506,436	1,277,894	601,743	15,182,587	1,032,577	150,780	16,064,384
Equipment (including software)	4,434,981	360,919	326,448	4,469,452	376,249	294,856	4,550,845
Infrastructure	4,623,642	650,923	226,448	5,048,117	729,759	196,160	5,581,716
Total accumulated depreciation/amortization	23,565,059	2,289,736[1]	1,154,639	24,700,156	2,138,585[1]	641,796	26,196,945
Total capital assets, being depreciated/amortized, net	31,414,971	3,022,584	565,251	33,872,304	3,594,163	49,902	37,416,565
Governmental activities capital assets, net	$36,892,858	$6,831,048	$3,842,303	$39,881,603	$7,441,443	$3,848,981	$43,474,065

[1] Depreciation/amortization expense was charged to functions/programs of the City for the fiscal years ended June 30, 2010 and 2009 as follows:

	2010	2009
	(in thousands)	
Governmental activities:		
General government	$333,941	$ 357,162
Public safety and judicial	151,428	248,245
Education	674,218	686,729
City University	7,266	11,172
Social services	71,670	87,808
Environmental protection	97,423	103,041
Transportation services	495,134	464,913
Parks, recreation and cultural activities	264,590	275,988
Housing	1,750	2,192
Health	31,682	40,814
Libraries	9,483	11,672
Total depreciation/amortization expense—governmental activities	$2,138,585	$2,289,736

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2010 and 2009. Sources of funding for capital assets are not available prior to fiscal year 1987.

	2010	2009
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	$ 6,821,547	$ 5,847,522
City bonds	59,165,429	55,022,477
Federal grants	521,829	532,316
State grants	115,443	135,317
Private grants	561,403	562,212
Capitalized leases	2,485,359	2,481,915
Total funding sources	$69,671,010	$64,581,759

At June 30, 2010 and 2009, governmental activities capital assets include approximately $1.2 billion of City-owned assets leased for $1 per year to the New York City Transit Authority which operates and maintains the assets. In addition, assets leased to HHC and to the Water and Sewer System are excluded from the governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in buildings at June 30, 2010 and 2009 are leased properties that have elements of ownership. These assets are recorded as capital assets as follows:

	Capital Leases	
Governmental activities:	**2010**	**2009**
	(in thousands)	
Capital asset:		
Buildings, gross	$2,485,358	$2,481,915
Less accumulated amortization	626,145	544,742
Buildings, net	$1,859,213	$1,937,173

Capital Commitments

At June 30, 2010, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $18.4 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates New York City Capital Projects Fund expenditures of $51.2 billion over the remaining fiscal years 2011 through 2019. To help meet its capital spending program, the City and TFA borrowed $7.04 billion in the public credit market in fiscal year 2010. The City and TFA plan to borrow $7.05 billion in the public credit market in fiscal year 2011.

3. Leases

The City leases a significant amount of property and equipment from others. Leased property having elements of ownership is recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property not having elements of ownership are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when payable. Total expenditures on such leases for the fiscal years ended June 30, 2010 and 2009 were approximately $737.8 million and $715.5 million, respectively.

As of June 30, 2010, the City (excluding discretely presented component units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	Capital Leases	Operating Leases	Total
		(in thousands)	
Governmental activities:			
Fiscal year ending June 30:			
2011	$ 176,005	$ 443,207	$ 619,212
2012	182,823	405,795	588,618
2013	181,265	378,244	559,509
2014	174,180	343,829	518,009
2015	168,337	318,043	486,380
2016-2020	737,039	1,367,642	2,104,681
2021-2025	560,118	723,658	1,283,776
2026-2030	368,284	226,153	594,437
2031-2035	177,058	40,648	217,706
2036-2040	75,941	18,009	93,950
2041-2045	—	11,499	11,499
2046-2050	—	11,499	11,499
Future minimum payments	2,801,050	$4,288,226	$7,089,276
Less interest	941,836		
Present value of future minimum payments	$1,859,214		

The present value of future minimum lease payments includes approximately $1.388 billion for leases with Public Benefit Corporations (PBC) where State law generally provides that in the event the City fails to make any required lease payment, the amount of such payment will be deducted from State aid otherwise payable to the City and paid to PBC.

The City also leases City-owned property to others, primarily for markets, ports, and terminals. Total rental revenue on these capital and operating leases for the fiscal years ended June 30, 2010 and 2009 was approximately $234 million and $255 million, respectively. As of June 30, 2010, the following future minimum rentals are provided for by the leases:

	Capital Leases	Operating Leases	Total
		(in thousands)	
Governmental activities:			
Fiscal year ending June 30:			
2011	$ 1,535	$ 174,852	$ 176,387
2012	1,622	170,684	172,306
2013	1,722	168,241	169,963
2014	1,876	166,379	168,255
2015	2,047	155,540	157,587
2016-2020	11,055	720,582	731,637
2021-2025	11,680	666,812	678,492
2026-2030	12,603	623,851	636,454
2031-2035	13,441	620,290	633,731
2036-2040	2,510	591,910	594,420
2041-2045	2,034	571,042	573,076
2046-2050	1,858	568,093	569,951
2051-2055	1,800	99,643	101,443
2056-2060	1,800	48,239	50,039
2061-2065	1,800	48,239	50,039
2066-2070	1,799	48,026	49,825
2071-2075	1,800	46,114	47,914
2076-2080	1,619	37,418	39,037
2081-2085	—	30,839	30,839
2086-2090	—	9,252	9,252
Thereafter until 2106	—	2	2
Future minimum lease rentals	74,601	$5,566,048	$5,640,649
Less interest	46,699		
Present value of future minimum lease rentals	$27,902		

4. Long-Term Liabilities

Changes in Long-term liabilities

In fiscal years 2009 and 2010, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
				(in thousands)				
Governmental activities:								
Bonds and notes payable:								
General obligation bonds	$ 36,100,231	$ 5,931,070	$2,039,926	$ 39,991,375	$ 5,418,155	$3,853,990	$41,555,540	$1,788,816
TFA bonds	14,827,830	2,489,300	403,770	16,913,360	5,345,995	2,165,705	20,093,650	441,665
TSASC bonds	1,297,545	—	23,855	1,273,690	—	8,385	1,265,305	—
IDA bonds	100,680	68,650[2]	70,680	98,650	—	—	98,650	750
STAR bonds	2,338,600	—	85,780	2,252,820	—	74,920	2,177,900	11,640
FSC bonds	321,010	—	16,850	304,160	—	9,915	294,245	11,860
HYIC bonds	2,000,000	—	—	2,000,000	—	—	2,000,000	—
HYIC notes	66,667	—	33,333	33,334	—	33,334	—	—
ECF bonds	109,525	—	7,465	102,060	53,810	6,135	149,735	6,075
Total before premiums/discounts (net)	57,162,088	8,489,020	2,681,659	62,969,449	10,817,960	6,152,384	67,635,025	2,260,806
Less (premiums)/discounts (net)	(896,037)	137,059	88,176	(847,154)	157,806	404,415	(1,093,763)	—
Total bonds and notes payable	58,058,125	8,351,961	2,593,483	63,816,603	10,660,154	5,747,969	68,728,788	2,260,806
Capital lease obligations	2,024,663	7,302	94,792	1,937,173	14,977	92,936	1,859,214	70,219
Other tax refunds	1,976,320	319,245	252,320	2,043,245	235,637	387,245	1,891,637	235,637
Judgments and claims	5,676,140	1,000,949	1,170,845	5,506,244	1,186,295	1,120,258	5,572,281	1,313,267
Real estate tax certiorari	892,666	163,545	205,203	851,008	182,299	134,535	898,772	145,915
Vacation and sick leave	3,389,007	528,922	235,392	3,682,537	433,499	293,969	3,822,067	139,530
Pension liability	692,200	55,300	88,900	658,600	52,700	85,900	625,400	—
OPEB liability	63,290,218	3,937,583	1,683,440	65,544,361	11,021,425	1,580,954	74,984,832	—
Landfill closure and postclosure care costs	1,698,490	89,590	69,007	1,719,073	1,589	60,935	1,659,727	101,904
Pollution remediation obligations	172,842[1]	156,872	154,178	175,536	273,825	193,980	255,381	174,079
Total changes in governmental activities long-term liabilities	$137,870,671	$14,611,269	$6,547,560	$145,934,380	$24,062,400	$9,698,681	$160,298,099	$4,441,357

Note: City bonds and notes payable are generally liquidated with resources of the General Debt Service Fund. Other long-term liabilities are generally liquidated with resources of the General Fund.

(1) Opening liability determined per requirements of GASB49.

(2) A refunding issue for the Special Revenue 2004 Series A and B bonds sold by IDA, a discretely presented component unit to finance costs incurred relating to the New York Stock Exchange (NYSE) project which was abandoned after 9/11. The City is obligated per the NYSE Facility Financing Agreement to make periodic rental payments to cover debt service costs on the NYSE issue.

The bonds and notes payable at June 30, 2010 and 2009 summarized by type of issue are as follows:

Primary Government	2010 General Obligations*	2010 Revenue*	2010 Total	2009 General Obligations*	2009 Revenue*	2009 Total
	(in thousands)					
Governmental activities:						
Bonds and notes payable:						
General obligation bonds	$41,555,540	$ —	$41,555,540	$39,991,375	$ —	$39,991,375
TFA bonds	15,872,495	4,221,155	20,093,650	12,662,180	4,251,180	16,913,360
TSASC bonds	1,265,305	—	1,265,305	1,273,690	—	1,273,690
IDA bonds	98,650	—	98,650	98,650	—	98,650
STAR bonds	2,177,900	—	2,177,900	2,252,820	—	2,252,820
FSC bonds	294,245	—	294,245	304,160	—	304,160
HYIC bonds	—	2,000,000	2,000,000	—	2,000,000	2,000,000
HYIC notes	—	—	—	—	33,334	33,334
ECF bonds	—	149,735	149,735	—	102,060	102,060
Total bonds and notes payable	$61,264,135	$6,370,890	$67,635,025	$56,582,875	$6,386,574	$62,969,449

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

The following table summarizes future debt service requirements as of June 30, 2010:

Primary Government	Governmental Activities: General Obligation Bonds Principal	General Obligation Bonds Interest[1]	Revenue Bonds and Notes Principal	Revenue Bonds and Notes Interest
	(in thousands)			
Fiscal year ending June 30:				
2011	$ 2,189,276	$ 2,591,486	$ 71,530	$ 314,084
2012	2,784,375	2,568,468	77,940	311,717
2013	2,906,606	2,492,159	82,240	308,773
2014	2,938,180	2,370,180	86,735	305,537
2015	3,028,446	1,940,999	91,555	301,891
2016-2020	15,145,682	9,172,622	530,660	1,441,415
2021-2025	14,097,413	5,839,832	664,700	1,299,457
2026-2030	10,516,188	2,908,086	843,320	1,111,282
2031-2035	5,601,822	1,135,493	1,073,930	872,152
2036-2040	1,497,073	309,481	848,280	584,231
2041-2045	559,028	57,316	—	487,500
2046-2050	4	15	2,000,000	195,000
Thereafter until 2147	42	144	—	—
	61,264,135	31,386,281	6,370,890	7,533,039
Less interest component	—	31,386,281	—	7,533,039
Total future debt service requirements	$ 61,264,135	$ —	$6,370,890	$ —

(1) Includes interest for general obligation bonds estimated at 2% rate on tax-exempt adjustable rate bonds and at 3% rate on taxable adjustable rate bonds which are the rates at the end of the fiscal year.

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 2010 and 2009 were both 4.4% and both ranged from 0% to 10%. The last maturity of the outstanding City debt is in the year 2147.

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

In fiscal years 2010 and 2009, the City issued $2 billion and $450 million, respectively, of general obligation bonds to advance refund general obligation bonds of $2.16 billion and $473 million, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of $61.87 million and $6.96 million, respectively, were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the government-wide financial statements. In fiscal year 2010, the refunding transactions will decrease the City's aggregate debt service payments by $209.36 million and provide an economic gain of $182.14 million. In fiscal year 2009, the refunding transactions decreased the City's aggregate debt service payments by $39.05 million and provided an economic gain of $35.45 million. At June 30, 2010 and 2009, $15.11 billion and $13.77 billion, respectively, of the City's outstanding general obligation bonds were considered defeased.

The State Constitution requires the City to pledge its full faith and credit for the payment of the principal and interest on City term and serial bonds and guaranteed debt. The GO debt-incurring power of the City is limited by the Constitution to 10% of the average of five years' full valuations of taxable real estate. Excluded from this debt limitation is certain indebtedness incurred for water supply, certain obligations for transit, sewage, and other specific obligations which exclusions are based on a relationship of debt service to net revenue.

As of July 1, 2010, the 10% general limitation was approximately $76.224 billion (compared with $74.904 billion as of July 1, 2009). Also, as of July 1, 2010, the City's remaining GO debt-incurring power totaled $26.341 billion, after providing for capital commitments.

Pursuant to State legislation on January 1, 1979, the City established a General Debt Service Fund administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this Fund. In fiscal year 2010, discretionary and other transfers of $2.89 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2011 debt service. In addition, in fiscal year 2010, discretionary transfers of $370.5 million were made for lease purchase debt service and for a transfer to a component unit of the Debt Service Funds. In fiscal year 2009, discretionary and other transfers of $1.290 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2010 debt service. In addition, in fiscal year 2009, discretionary transfers of $755.75 million were made for lease purchase debt service and for a transfer to a component unit of the Debt Service Funds.

Hedging derivative instrument payments and hedged debt

The table that follows represents debt service payments on certain general obligation variable-rate bonds and net receipts/payments on associated hedging derivative instruments (see Note A.13.), as of June 30, 2010. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2010 will remain the same for their term.

	Governmental Activities			
	General Obligation Bonds			
Primary Government	Principal	Interest	Hedging Derivative Instruments, Net	Total
	(in thousands)			
Fiscal year ending June 30:				
2011	$ 23,615	$ 27,868	$ 4,338	$ 55,821
2012	14,560	27,824	3,785	46,169
2013	8,690	27,797	3,448	39,935
2014	50,820	27,084	3,356	81,260
2015	70,210	25,553	3,274	99,037
2016-2020	442,865	105,780	6,309	554,954
2021-2025	273,155	71,927	(9,628)	335,454
2026-2030	373,800	34,188	(220)	407,768
2031-2035	142,375	6,343	(3,509)	145,209
Total	$1,400,090	$354,364	$11,153	$1,765,607

Judgments and Claims

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged constitutional violations; torts; breaches of contract; other violations of law; and condemnation proceedings.

As of June 30, 2010 and 2009, claims in excess of $633 billion and $637 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be $5.6 billion and $5.5 billion, respectively.

As explained in Note A.11., the estimate of the liability for all judgments and claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by using the probable exposure information provided by the New York City Law Department (Law Department), and supplemented by information provided by the Law Department with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information and application of the foregoing procedures.

Numerous proceedings alleging respiratory or other injuries from alleged exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City and other entities involved in the post-September 11 rescue and recovery process. Plaintiffs include, among others, Department of Sanitation employees, firefighters, police officers, construction workers, and building clean-up workers. Complaints on behalf of approximately 11,900 plaintiffs alleging similar causes of action have been filed naming the City or other defendants. Approximately 5,000 of these plaintiffs have to date named the City as a defendant. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to Federal District Court pursuant to the Air Transportation and System Stabilization Act, which grants exclusive Federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions on immunity grounds was denied on October 17, 2006 by the District Court. On March 26, 2008, the Second Circuit upheld the District Court's decision, holding that determining whether the City had immunity for its actions requires developing the factual record. The City has formed a not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the WTC Insurance Company) to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of $999.9 million. Most of the claims against the City and its private contractors set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims. On June 10, 2010, the WTC Insurance Company announced that a settlement was reached with attorneys for the plaintiffs. Under the settlement, the WTC Insurance Company would pay up to approximately $712.5 million, leaving residual funds to insure and defend the City and its contractors against claims that are not settled as part of the settlement and any new claims. In order for the settlement to take effect, at least 95 percent of the plaintiffs must accept its terms. A public hearing was held before the Court on June 23, 2010 to hear from all parties concerning the settlement and the judge found that the settlement was fair and reasonable. Plaintiffs have until November 8, 2010 to decide whether to accept the offer.

One property damage claim relating to the September 11 attack alleges significant damages. The claim, which relates to the original 7 World Trade Center (7 WTC), alleges damages to Con Edison and its insurers of $214 million, subject to clarification, for the loss of the electrical substation over which 7 WTC was built. The claim alleges that a diesel fuel tank, which stored fuel for emergency back-up power to the City's Office of Emergency Management facility on the 23rd floor, contributed to the building's collapse. Con Edison and its insurers filed suit based on the allegations in their claim. Plaintiff has submitted to the Court a claim form required of all property damage plaintiffs in the September 11 litigation in the amount of approximately $750 million for damages suffered at several different locations in the aftermath of the September 11 attacks. Although it is not clear what portion of the increased damages plaintiff alleges to be the responsibility of the City, it appears that no part of the increased claim can be attributed to the City's actions. In January, 2006, the City's motion for summary judgment was granted. The action, however, continued to proceed against other defendants until final judgment was entered on August 14, 2009. Con Edison and its insurers then filed a notice of appeal challenging the dismissal of their claims against the City. The appeal was argued before the Second Circuit on September 14, 2010. A decision has not yet been issued.

In 1996, a class action was brought against the City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by the City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The lower court dismissed the case. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the lower court's ruling and remanded the matter for further proceedings. The State has advised the City that there are approximately 3,500 members of the class and has calculated potential damages, based on the difference in salary between a certified public school teaching position and an uncertified parochial or private school teaching position, of approximately $455.0 million.

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

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality, and illegality of assessment. In response to these actions, in December, 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential liability for outstanding certiorari proceedings to be $898.8 million and $851.0 million at June 30, 2010 and 2009, respectively, as reported in the government-wide financial statements.

Pension Liability

For fiscal years 2001 through 2005 inclusive, the City incurred a pension liability that was the result of Chapter 125 of the Laws of 2000 (Chapter 125/00) which provided for a five-year phase-in schedule for funding the additional actuarial liabilities created by providing eligible retirees and eligible beneficiaries with increased Supplementation as of September, 2000 and with automatic Cost-of-Living Adjustments (COLA) beginning September, 2001. Chapter 278 of the Laws of 2002 (Chapter 278/02) extended the phase-in period for funding the additional liabilities attributable to the benefits provided under Chapter 125/00 to ten years from five years. Chapter 152 of the Laws of 2006 eliminated for fiscal year 2006 and thereafter the ten-year phase-in period arising under Chapter 278/02 and instead, the additional actuarial liabilities created by the benefits provided by Chapter 125/00 are funded as part of the normal contribution (see Notes E.6. and F.).

Landfill Closure and Postclosure Care Costs

Heretofore, the City's only active landfill available for waste disposal was the Fresh Kills landfill which initially ceased landfill operations in March, 2001. The landfill was reopened per the Governor's amended Executive Order No. 113, which authorized the City to continue the acceptance and disposal of waste materials received from the site of the World Trade Center disaster of September 11, 2001. The landfill subsequently closed in August, 2002. For government-wide financial statements, the measurement and recognition of the liability for closure and postclosure care is based on total estimated current cost and landfill usage to date. For fund financial statements, expenditures are recognized using the modified accrual basis of accounting when the related liability is incurred and payment is due.

Upon the landfill becoming inactive, the City is required by Federal and State law to close the landfill, including final cover, stormwater management, landfill gas control, and to provide postclosure care for a period of 30 years following closure. The City is also required under Consent Order with the New York State Department of Environmental Conservation to conduct certain corrective measures associated with the landfill. The corrective measures include construction and operation of a leachate mitigation system for the active portions of the landfill as well as closure, postclosure, and groundwater monitoring activities for the sections no longer accepting solid waste.

The liability for these activities as of June 30, 2010 which equates to the total estimated current cost is $1.316 billion based on the maximum cumulative landfill capacity used to date. There are no costs remaining to be recognized. During fiscal year 1996, New York State legislation was enacted which states that no waste will be accepted at the Fresh Kills landfill on or after January 1, 2002. Accordingly, the liability for closure and postclosure care costs is based upon an effective cumulative landfill capacity used to date of approximately 100%. Cost estimates are based on current data including contracts awarded by the City, contract bids, and engineering studies. These estimates are subject to adjustment for inflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates.

During fiscal year 2010, expenditures for landfill closure and postclosure care costs totaled $65.3 million.

Resource Conservation and Recovery Act Subtitle D Part 258, which became effective April, 1997, requires financial assurance regarding closure and postclosure care. This assurance was most recently provided, on March 19, 2010, by the City's Chief Financial Officer placing in the Fresh Kills landfill operating record representations in satisfaction of the Local Government Financial Test.

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

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

	Amount (in thousands)
Landfill	$1,315,797
Hazardous waste sites	343,930
Total landfill and hazardous waste sites liability	$1,659,727

Pollution Remediation Obligations

The pollution remediation obligations (PROs) at June 30, 2010 and June 30, 2009 summarized by obligating event and pollution type, respectively, are as follows:

Obligating Event	Fiscal Year 2010 Amount (in thousands)	Fiscal Year 2010 Percentage	Fiscal Year 2009 Amount (in thousands)	Fiscal Year 2009 Percentage
Imminent endangerment	$ 51,000	20.0%	$ 45,172	25.5%
Violation of pollution prevention-related permit or license	4,002	1.6	5,018	3.0
Named by regulator as a potentially responsible party	3,148	1.2	1,004	.5
Voluntary commencement	197,231	77.2	124,342	71.0
Total	$255,381(1)	100.0%	$175,536(1)	100.0%

Pollution Type	Fiscal Year 2010 Amount (in thousands)	Fiscal Year 2010 Percentage	Fiscal Year 2009 Amount (in thousands)	Fiscal Year 2009 Percentage
Asbestos removal	$106,144	41.5%	$133,100	75.8%
Lead paint removal	77,253	30.3	13,563	7.7
Soil remediation	68,611	26.9	26,657	15.2
Water remediation	2,137	.8	2,138	1.2
Other	1,236	.5	78	.1
Total	$255,381(1)	100.0%	$175,536(1)	100.0%

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

The PRO liability is derived from registered multi-year contracts which offsets cumulative expenditures (liquidated/unliquidated) against original encumbered contractual amounts. The potential for changes to existing PRO estimates is recognized due to such factors as: additional remediation work arising during the remediation of an existing pollution project; remediation activities may find unanticipated site conditions resulting in necessary modifications to work plans; changes in methodology during the course of a project may cause cost estimates to change, e.g., the new ambient air quality standard for lead considered a drastic change will trigger the adoption of new/revised technologies for compliance purposes; and changes in the quantity which is paid based on actual field measured quantity for unit price items measured in cubic meters, linear meters, etc. Consequently, changes to original estimates are processed as change orders. Further, regarding pollution remediation liabilities that are not yet recognized because they are not reasonably estimable, the City's Law Department relates that we have approximately 27 cases involving hazardous substances, including underground and aboveground storage tanks, spills from underground and aboveground storage tanks, and other contamination on, or caused by facilities on, City-owned property. Due to the uncertainty of legal proceedings, we cannot estimate future liabilities. Also, we have one case involving environmental review and land use relating to the Bronx Committee for Toxic Free Schools, that involved a suit over the remediation of a property by SCA. The remediation has been completed and the lawsuit, which is on appeal, concerns the scope of monitoring the remediation.

On March 2, 2010, following up on an earlier notice of proposed listing, the United States Environmental Protection Agency (EPA) listed the Gowanus Canal, a waterway located in Brooklyn, New York, as a Federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). While it was evaluating listing the Gowanus Canal, on November 5, 2009, EPA notified the City that EPA considers the City a potential responsible party (PRP) under CERCLA for hazardous wastes in the Gowanus Canal. In its PRP notice letter, EPA identified current and formerly City-owned and operated properties, including an asphalt plant, an inactive incinerator, and waterfront properties historically leased to private entities.

In September, 2009, EPA also proposed to list Newtown Creek, the waterway on the border between Brooklyn and Queens, New York, as a Superfund site. EPA has not yet listed the Newtown Creek. On April 6, 2010, EPA notified the City that EPA considers the City a PRP under CERCLA for hazardous wastes in the Newtown Creek. In its Newtown Creek PRP notice letter, EPA identified historical City activities that filled former wetlands and low lying areas in and around the Newtown Creek and releases from formerly City-owned and operated facilities, including municipal incinerators, as well as discharges from sewers and combined sewer overflow outfalls as sources of hazardous substances in the Newtown Creek.

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

5. Interfund Receivables, Payables, and Transfers

At June 30, 2010 and 2009, primary government and discretely presented component unit receivable and payable balances and interfund transfers were as follows:

Governmental activities:

Due from/to other funds:

Receivable Fund	Payable Fund	2010	2009
		(in thousands)	
General Fund	Capital Projects Fund	$2,795,205[1]	$2,199,366[1]
Capital Projects Fund	TFA	3,505	182,055
HYDC—Capital Projects Fund	HYIC—Capital Projects Fund	94	—
HYIC—Debt Service Fund	HYIC—Capital Projects Fund	—	56
Total due from/to other funds		2,798,804	2,381,477

Component Units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity	2010	2009
Primary government—General Fund:	Component units—HDC	862,515	838,143
	HHC	161,857	281,973
	EDC	113,800	14,978
		1,138,172	1,135,094
Primary government—Capital Projects Fund	Component unit—Water Authority	967,943	880,664
Total due from component units		2,106,115	2,015,758
Component unit—Water Board	Primary government—General Fund	88,241	13,328
Total due to component units		88,241	13,328
Total due from/to primary government and component units		2,194,356	2,029,086
Total primary government and component units receivable and payable balances		$4,993,160	$4,410,563

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

Note: During both fiscal years 2010 and 2009, the Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

Governmental activities:
Interfund transfers

	Transfer To:									
	New York City Capital Projects Fund		General Debt Service Fund		Nonmajor Capital Projects Funds		Nonmajor Debt Service Funds		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	(in thousands)									
Transfer From:										
General Fund	$ —	$ —	$2,955,798	$1,413,106	$ —	$ —	$ 639,148	$ 741,812	$3,594,946	$2,154,918
General Debt Service Fund	—	—	—	—	—	—	6,096	—	6,096	—
Nonmajor Debt Service Fund	—	—	—	961	—	—	—	—	—	961
Nonmajor Capital Projects Funds	3,147,139	2,321,950	—	—	—	5,214	71,638	123,163	3,218,777	2,450,327
Total	$3,147,139	$2,321,950	$2,955,798	$1,414,067	$ —	$ 5,214	$ 716,882	$ 864,975	$6,819,819	$4,606,206

Transfers are used to: (i) move unrestricted General Fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as aids or matching funds for grant programs, (ii) move restricted amounts borrowed by authorized fund or component unit to finance Capital Projects Fund expenditures, (iii) move unrestricted surplus revenue from the General Fund to finance Capital Projects Fund expenditures and prepay debt service coming due in the next fiscal year, and (iv) move revenue from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due.

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

In the fiscal year ended June 30, 2009, the City made the following one-time transfer:
A transfer from the General Fund of an unrestricted grant of $646 million on June 26, 2009 to TFA. These funds were used to fund debt service requirements for tax secured debt during the fiscal year ending June 30, 2010.

E. Other Information

1. Audit Responsibility

In fiscal years 2010 and 2009, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than Deloitte & Touche LLP are the New York City Transitional Finance Authority, TSASC, Inc., New York City School Construction Authority, New York City Health and Hospitals Corporation, New York City Housing Development Corporation, New York City Industrial Development Agency, New York City Economic Development Corporation, Business Relocation Assistance Corporation, Brooklyn Navy Yard Development Corporation, Deferred Compensation Plan, WTC Captive Insurance Company, Inc., New York City Capital Resource Corporation, New York City Educational Construction Fund, Sales Tax Asset Receivable Corporation, Fiscal Year 2005 Securitization Corporation, NYCTL Trusts, and the New York City Housing Authority.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2010 and 2009:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Fiduciary Funds	
	2010	2009	2010	2009	2010	2009	2010	2009
					(percent)			
Total assets	5	4	51	51	79	69	8	8
Revenues, other financing sources and net assets held in trust	7	7	79	79	99	98	9	8

2. Subsequent Events

The following events occurred subsequent to June 30, 2010:

Long-term Financing

City Debt: On August 12, 2010, The City of New York sold its Fiscal 2011 Series A and B General Obligation bonds of $962.535 million for refunding purposes.

On October 20, 2010, The City of New York sold its Fiscal 2011 Series C, D, and E General Obligation bonds of $1.225 billion for capital and refunding purposes.

On October 20, 2010, The City of New York converted both its Fiscal 2002 Series A-7 bonds of $60 million from Daily Mode and Fiscal 2002 Series A-8 bonds of $28.545 million from Weekly Mode to Fixed Rate Mode.

TFA Debt: On August 16, 2010, TFA sold its Fiscal 2011 Series A Future Tax Secured Subordinate bonds of $1.0 billion for capital purposes.

Deposits

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, which, in part, permanently raises the current standard maximum deposit insurance amount to $250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. On September 27, 2010, the FDIC approved the issuance of a proposed rule to implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act to provide depositors at all FDIC-insured institutions unlimited deposit insurance coverage on noninterest bearing transaction accounts beginning December 31, 2010 through December 31, 2012. This will cover the City's demand deposit accounts, including Central Treasury, Pool, and controlled disbursement accounts, at participating FDIC-insured institutions through December 31, 2012.

Financial Market Developments

The City has exposure to risks inherent in a large debt issuance program and debt portfolio. These risks include counterparty credit, such as exposure to banks that provide liquidity to variable rate debt obligations and to counterparties in derivative transactions; liquidity risks, including potential contraints on market access; and budget risk, with the potential for higher debt service expense due to rising interest rates, higher costs of credit facilities, and the potential refinancing of variable rate debt with fixed rate debt that amortizes more rapidly. The City actively monitors and manages these risks to the extent possible. Ongoing risk mitigations include careful initial selection of counterparties and structuring of contractual agreements; close monitoring of counterparty credit and remarketing performance; refinancing debt; reassigning remarketing and/or reconfiguring credit support; tailoring of debt offerings to meet investor demand; and prudent use of debt strategies that can reduce costs, as market conditions permit.

3. Other Employee Benefit Trust Funds

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

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

The NYCE IRA is a deemed Individual Retirement Account (IRA) in accordance with Internal Revenue Code Section 408(q) and is available as both a traditional and Roth IRA to those employees eligible to participate in the 457 Plan and 401(k) Plan and their spouses along with former employees and their spouses. Funds may be withdrawn from the NYCE IRA at any time, however, certain conditions must be met for withdrawals to be considered Qualified Distributions (penalty-free).

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

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

The New York City Other Postemployment Benefits Plan (PLAN)

PLAN is a fiduciary component unit of the City and is composed of: (1) the New York City Retiree Health Benefits Trust (RHBT) which is used to receive, hold, and disburse assets accumulated to pay for some of the postemployment benefits other than pensions (OPEB) provided by the City to its retired employees and (2) OPEB paid for directly by the City out of its general resources rather than through RHBT. RHBT was established for the exclusive benefit of the City's retired employees and their eligible spouses and dependents, to fund some of the OPEB provided in accordance with the City's various collective bargaining agreements and the City's Administrative Code. Amounts contributed to RHBT by the City are held in trust and are irrevocable and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants. Consequently, PLAN is presented as an Other Employee Benefit Trust Fund in the City's financial statements. The separate annual financial statements of PLAN are available at: Office of the Comptroller, Bureau of Accountancy — Room 808, 1 Centre Street, New York, New York 10007.

Summary of Significant Accounting Policies:

Basis of Accounting. The measurement focus of PLAN is on the flow of economic resources. This focus emphasizes the determination of changes in the PLAN's net assets. With this measurement focus, all assets and liabilities associated with the operation of this fiduciary fund are included on the statement of fiduciary net assets. This fund uses the accrual basis of accounting whereby contributions from the employer are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments. Investments are reported on the statement of fiduciary net assets at fair value based on quoted market prices.

Required Supplementary Information (Unaudited)

The schedule of funding progress presents GASB45 results of OPEB valuations as of June 30, 2009, 2008, 2007, 2006, and 2005 for the fiscal year ending June 30, 2010. The schedule provides a five year information trend about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)*	(3) Unfunded AAL (UAAL)	(4) Funded Ratio	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll
			(2)-(1)	(1)÷(2)		(3)÷(5)
			(in thousands)			
6/30/09	$3,103,186	$73,674,157	$70,570,971	4.2%	$19,469,182	362.5%
6/30/08	3,186,139	65,164,503	61,978,364	4.9	18,721,681	331.1
6/30/07	2,594,452	62,135,453	59,541,001	4.2	17,355,874	343.1
6/30/06	1,001,332	56,077,151	55,075,819	1.8	16,546,829	332.8
6/30/05	0	50,543,963	50,543,963	0.0	15,737,531	321.2

*Based on the Frozen Entry Age Actuarial Cost Method.

4. Other Trust Funds

New York City Tax Lien Trusts (NYCTLT)

NYCTLT is a series of tax lien trusts (2010-A; 2009-A; 2008-A; 2006-A; 2005-A; 2004-A; 1999-1; 1998-2; 1998-1; and 1996-1) that were created to acquire certain tax liens securing unpaid real property taxes, assessments, sewer rents, sewer surcharges, water rents, and other charges payable to the City and the Water Board from the City in exchange for the proceeds from bonds issued by NYCTLT, net of reserves funded by bond proceeds and bond issuance costs. The City is the sole beneficiary of the trusts and is entitled to receive distributions from the trusts after payments to bondholders and certain reserve requirements have been satisfied. The City is not entitled to cause the trusts to make distributions to it and consequently, NYCTLT is presented as Other Trust Funds in the City's financial statements. NYCTLT (2004-A; 1999-1; 1998-1; and 1996-1) entered into an agreement dated March 31, 2009 to transfer all of their rights and obligations to NYCTLT (1998-2). Although the Trusts continue to legally exist, they have no assets or liabilities at June 30, 2009. In accordance with the agreement, NYCTLT (1998-2) will pay all administrative expenses incurred after March 31, 2009 and any costs associated with the transfers. The separate annual financial statements of NYCTLT are available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

5. Other Postemployment Benefits

Program Description. The New York City Health Benefits Program (Program) is a single-employer defined benefit healthcare plan funded by PLAN, an Other Employee Benefit Trust Fund of the City, which provides Other Postemployment Benefits (OPEB) to eligible retirees and beneficiaries. OPEB includes: health insurance, Medicare Part B reimbursements, and welfare fund contributions. PLAN issues a publicly available financial report that includes financial statements and required supplementary information for funding PLAN's OPEB and the report is available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

Funding Policy. The Administrative Code of The City of New York (ACNY) defines OPEB to include Health Insurance and Medicare Part B Reimbursments; Welfare Fund Benefits stem from the City's various collective bargaining agreements all of which are to be funded by PLAN. The City is not required by law or contractual agreement to provide funding for PLAN other than the pay-as-you-go amounts necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal year ended June 30, 2010, the City paid $1.6 billion on behalf of the Program. Based on current practice (the Substantive Plan which is derived from ACNY), the City pays the full cost of basic coverage for non-Medicare-eligible/Medicare-eligible retiree participants. The costs of these benchmark plans are reflected in the actuarial valuations by using age-adjusted premium amounts. Program retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for the benchmark plans. The City also reimburses covered employees 100% of the Medicare Part B premium rate applicable to a given year and there is no retiree contribution to the Welfare Funds. The City pays per capita contributions to the Welfare Funds the amounts of which are based on negotiated contract provisions.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount that was actuarially determined by using the Frozen Entry Age Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB45). Under this method, in general, the excess of the Actuarial Present Value of Projected Benefits over the sum of: (i) the Actuarial Value of Assets plus (ii) the Unfunded Frozen Actuarial Accrued Liability is allocated on a level basis over the earnings of the covered active employees between the valuation date and assumed exit. This allocation is performed for the group as a whole. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. Under this method, actuarial gains/losses, as they occur, reduce/increase future Normal Costs. The following table shows the elements of the City's annual OPEB cost for the year, the amount actually paid on behalf of the Program, and changes in the City's net OPEB obligation to the Program for the year ended June 30, 2010:

	Amount (in thousands)
Annual required contribution	$76,565,788
Interest on net OPEB obligation	2,621,774
Adjustment to annual required contribution	(68,166,137)
Annual OPEB cost (expense)	11,021,425
Payments made	1,580,954
Increase in net OPEB obligation	9,440,471
Net OPEB obligation—beginning of year	65,544,361
Net OPEB obligation—end of year	$74,984,832

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
	(in thousands)		
6/30/10	$11,021,425	14.3%	$74,984,832
6/30/09	3,937,583	42.8	65,544,361
6/30/08	7,419,205	25.5	63,290,218
6/30/07	7,164,986	40.6	57,761,938
6/30/06	55,690,322	3.9	53,507,451

Funded Status and Funding Progress. As of June 30, 2009, the most recent actuarial valuation date, PLAN was 4.2% funded. The actuarial accrued liability for benefits was $73.7 billion, and the actuarial value of assets was $3.1 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $70.6 billion. The covered payroll (annual payroll of active employees covered by PLAN) was $19.5 billion, and the ratio of the UAAL to the covered payroll was 362.5%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The determined actuarial valuations of OPEB provided under PLAN incorporated the use of demographic and salary increase assumptions among others as reflected below. Amounts determined regarding the funded status of PLAN and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information in Note E.3. disclosures required by GASB43 for OPEB Plan reporting presents GASB45 results of OPEB valuations as of June 30, 2009, 2008, 2007, 2006, and 2005 and the schedule provides a five year information trend about whether the actuarial values of PLAN assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. The actuarial assumptions used in the June 30, 2009 and 2008 OPEB actuarial valuations are classified as those used in the New York City Retirement Systems (NYCRS) valuations and those specific to the OPEB valuations. NYCRS consist of: (i) New York City Employees' Retirement System; (ii) Teachers' Retirement System of the City of New York Qualified Pension Plan; (iii) New York City Board of Education Retirement System Qualified Pension Plan; (iv) New York City Police Pension Fund; and (v) New York City Fire Pension Fund. The OPEB actuarial valuations for NYCRS incorporate only the use of certain demographic and salary increase assumptions. The demographic assumptions requiring NYCRS Board approval were adopted by each respective Board of Trustees during fiscal year 2006. Those actuarial assumptions and methods that required New York State legislation were enacted, effective for fiscal year 2006 and later, as Chapter 152 of the Laws of 2006 (Chapter 152/06). These demographic assumptions are unchanged from the June 30, 2008 OPEB actuarial valuation but have been supplemented by probabilities of retirement adopted by the TRS Retirement Board applicable to active participants in the optional 55/25 Plan established under Chapter 19 of the Laws of 2008. The OPEB-specific actuarial assumptions used in the June 30, 2009 OPEB actuarial valuation of the Plan are as follows:

Valuation Date . . . . June 30, 2009.

Discount Rate . . . . 4.0% per annum.[1]

Per Capita Claims Costs . . . . HIP HMO and GHI/EBCBS benefit costs reflect age adjusted premiums. Age adjustments from assumed average age of covered population for non-Medicare retirees and HIP HMO Medicare retirees. Age adjustment based on actual age distribution of the GHI/EBCBS Medicare covered population. Insured premiums without age adjustment for other coverage. Premiums assumed to include administrative costs.

Employer premium contribution schedules for the month of July, 2009 and January, 2010 were reported by the Mayor's Office of Labor Relations. In most cases, the premium contributions remained the same throughout the year. HIP HMO Medicare rates varied by date and by specific Plan option. These variations are the result of differing Medicare Advantage reimbursements. The various monthly rates were blended by proportion of enrollment. For other rates, where the January, 2010 premium rate was different than the July, 2009 premium rate, the valuation assumed that the January, 2010 rate was more representative of the long-range cost of the arrangement.

(1) 2.5% CPI, 1.5% real rate of return on short-term investments.

Initial monthly premium rates used in valuations are shown in the following tables:

	Monthly Rate	
Plan	**FY '10[1]**	**FY '09[2]**
HIP HMO		
Non-Medicare Single	$ 415.62	$372.99
Non-Medicare Family	1,018.26	913.83
Medicare	88.78	44.98
GHI/EBCBS		
Non-Medicare Single	380.95	347.59
Non-Medicare Family	987.91	902.09
Medicare	153.69	153.28
Others		
Non-Medicare Single	415.32	372.99
Non-Medicare Family	1,017.52	913.83
Medicare	153.69	153.28

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

(2) Used in June 30, 2008 actuarial valuation.

Welfare Funds . . . . Welfare Fund contributions reflect a three year trended average of reported annual contribution amounts for current retirees. A trended average is used instead of a single reported Welfare Fund amount to smooth out negotiated variations. The Welfare Fund rates reported for the previous two valuations were trended to current levels based on a historic increase rate of 3.6% for fiscal year 2009 and 3.8% for fiscal year 2008 and earlier, approximating overall recent growth of Welfare Fund contributions.

For the June 30, 2009 OPEB actuarial valuation, certain lump-sum amounts have been included in calculating the three-year trended average.

Reported annual contribution amounts for the last three years shown in Appendix B, Tables 2a to 2e of the Report on the Fifth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program dated September 23, 2010, for fiscal year 2010 used for current retirees.

Weighted average annual contribution rates used for future retirees:

	Annual Rate	
	FY'10	**FY'09**
NYCERS	$1,790	$1,695
TRS	1,835	1,687
BERS	1,792	1,709
POLICE	1,677	1,583
FIRE	1,744	1,696

Contributions were assumed to increase by Medicare Plans trend rates.

For Welfare Fund contribution amounts reflected in the June 30, 2008 actuarial valuation for current retirees, see Report on the Fourth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program dated September 24, 2009.

Medicare Part B Premiums . . . .

Calendar Year	**Monthly Premium**
2008	$ 96.40
2009	96.40
2010 *(announced)*	110.50*
2010 *(used)*	100.21*

* Reflected only in the June 30, 2009 actuarial valuation.

2010 Medicare Part B premium assumed to increase by Medicare Part B trend rates.

Medicare Part B premium reimbursement amounts have been updated to reflect actual premium rates announced for calendar years through 2010. The actual 2011 Medicare Part B premium was not announced at the time these calculations were prepared and thus, was not reflected in the valuation.

Due to the fact that there was no cost-of-living increase in Social Security benefits for calendar year 2010, most Medicare Part B participants are not acutally being charged the Medicare Part B premium announced for 2010. The announced Medicare Part B premium was artificially increased so that the overall amount collected by the Center for Medicare and Medicaid Services (CMS) would be sufficient for the needs of the Medicare Part B program. Thus, for the June 30, 2009 OPEB actuarial valuation (i.e., fiscal year 2010), the annual premium used (i.e., $1,179.64) equals 6 months of the calendar year 2009 premium plus 6 months of:

- 73% of the calendar year 2009 monthly premium (i.e., $96.40), representing the approximate percentage of the overall U.S. Medicare population that will pay the frozen amount, and

- 27% of the announced calendar year 2010 monthly premium (i.e., $110.50), representing the approximate percentage of the overall U.S. Medicare population that will pay the calendar year 2010 amount.

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

Fiscal Year	Income-related Medicare Part B Increase June 30, 2009 Valuation	Income-related Medicare Part B Increase June 30, 2008 Valuation
2009	NA	2.6%
2010	3.3%	3.3
2011	3.4	3.4
2012	3.5	3.5
2013 and later	Increasing by .1% per year to a maximum of 5.0%	Increasing by .1% per year to a maximum of 5.0%

NA: Not Applicable.

Medicare Part B Reimbursement Assumption . . . . For the June 30, 2009 actuarial valuation, 90% of Medicare participants are assumed to claim reimbursement (unchanged from last year).

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

HCCTR Assumptions

Year Ending[1]	Pre-Medicare Plans[2] Prior Assumption	Pre-Medicare Plans[2] Revised Assumption	Medicare Plans	Medicare Part B Premium
2010[3]	8.5%	NA	5.0%	8.5%
2011	8.0	9.5%	5.0	8.0
2012	7.5	9.5	5.0	7.5
2013	7.0	9.5	5.0	7.0
2014	6.5	9.5	5.0	6.5
2015	6.0	9.0	5.0	6.0
2016	5.5	8.5	5.0	5.5
2017	5.0	8.0	5.0	5.0
2018	5.0	7.5	5.0	5.0
2019	5.0	7.0	5.0	5.0
2020	5.0	6.5	5.0	5.0
2021	5.0	6.0	5.0	5.0
2022	5.0	5.5	5.0	5.0
2023 and later	5.0	5.0	5.0	5.0

(1) Fiscal year for Pre-Medicare Plans and Medicare Plans and calendar year for Medicare Part B Premiums.

(2) Updated to reflect recent past experience and anticipated future experience, including the impact of the enactment of National Health Care Reform, i.e., PPACA and HCERA.

(3) For the June 30, 2009 OPEB actuarial valuation, rates shown for 2010 were not reflected since actual values for the fiscal year 2010 per capita costs, fiscal year 2010 Welfare Fund contributions, and calendar year 2010 Medicare Part B premium amounts were used.

NA: Not Applicable.

Age-Related Morbidity . . . . Assumed increases in premiums per year of age for HIP HMO and GHI/EBCBS consistent with those set forth in a July, 2005 article in the North American Actuarial Journal by Jeffrey R. Petertil.

Age	Annual Increase
Under 40	0.0%
40 – 49	3.0
50 – 54	3.3
55 – 59	3.6
60 – 64	4.2
65 – 69	3.0
70 – 74	2.5
75 – 79	2.0
80 – 84	1.0
85 – 89	0.5
90 and over	0.0

The premiums are age adjusted for HIP HMO and GHI/EBCBS participants. The age adjustments were based on assumed age 40 for non-Medicare-eligible retirees and assumed age 73 for HIP HMO Medicare-eligible retirees. An actual age distribution based on reported census information was used for Medicare-eligible GHI/EBCBS retirees and dependents.

For the June 30, 2009 actuarial valuation, the age adjustment for the non-Medicare GHI/EBCBS premium reflects a 5% (6% last year) reduction in the GHI portion of the premium for the estimated margin anticipated to be returned. GHI represents $183.55 of the $380.95 single non-Medicare GHI/EBCBS monthly rate.

In addition to age adjustment, the premiums for HIP HMO Medicare-eligible retirees were multiplied by the following factors to reflect actual calendar year 2010 premium and future anticipated changes in Medicare Advantage reimbursement rates. As of June 30, 2009, the factors have been updated to reflect that Medicare Advantage reimbursement rates are expected to be significantly reduced over the next several years. The reductions in the reimbursement rates were part of the National Health Care Reform (NHCR) legislation and are likely to be most significant in areas where medical costs are greater, such as New York City. In developing the adjustment factors for the June 30, 2009 valuation, it was assumed that the cost of HIP coverage would not be allowed to exceed the cost of GHI/EBCBS coverage for Medicare retirees. The adjustment factors used as of June 30, 2008 are shown for comparative purposes:

	Factor	
Fiscal Year	6/30/09 Valuation*	6/30/08 Valuation
2009	NA	1.0000
2010	1.0000	1.1800
2011	1.5000	1.3700
2012	1.5800	1.5600
2013	1.6700	1.7500
2014	1.7200	1.9300
2015	1.7200	2.1200
2016	1.7200	2.3000
2017	1.7200	2.4000
2018	1.7200	2.4000
Thereafter	1.7200	2.4000

* Includes anticipated impact of National Health Care Reform.
NA: Not Applicable.

Medicare . . . . Medicare is assumed to be the primary payer over age 65 and for retirees currently on Medicare. For future disability retirements, Medicare is assumed to start 2.5 years after retirement in the June 30 actuarial valuations for the following portion of retirees:

	Valuation as of June 30	
	2009	2008
NYCERS	35%	35%
TRS	45	45
BERS	45	45
POLICE	15	15
FIRE	20	20

Participation . . . . Active participation assumptions based on current retiree elections. Actual elections for current retirees. Portions of current retirees not eligible for Medicare are assumed to change elections upon attaining age 65 based on patterns of elections of Medicare-eligible retirees. Detailed assumptions appear in the following table:

Plan Participation Assumptions

Benefits	June 30, 2009 and June 30, 2008 Valuations				
	NYCERS	TRS	BERS	POLICE	FIRE
Pre-Medicare					
–GHI/EBCBS	65%	83%	73%	76%	71%
–HIP HMO	22	6	16	13	16
–Other HMO	8	4	3	9	12
–Waiver	5	7	8	2	1
Medicare					
–GHI	72	87	78	82	77
–HIP HMO	21	9	16	12	16
–Other HMO	4	2	2	4	6
–Waiver	3	2	4	2	1
Post-Medicare Migration					
–Other HMO to GHI	50	0	33	50	50
–HIP HMO to GHI	0	0	0	0	0
–Pre-Med. Waiver					
• to GHI @ 65	13	35	50	0	0
• to HIP @ 65	13	35	0	0	0

Dependent Coverage . . . . Dependent coverage is assumed to terminate when a retiree dies except in the following situations:

(i) Lifetime coverage is provided to the surviving spouse or domestic partner and to children (coverage to age 26 previously age 19 or 23 if full-time student) of uniformed members of the Police or Fire Departments who die in the Line-of-Duty.

(ii) Effective November 13, 2001, other surviving spouses of retired uniformed members of the Police and Fire Departments may elect to continue coverage for life by paying 102% of stated premium.

For survivors of POLICE and FIRE members who die other than in the Line-of-Duty (assumed to be all who terminate with Accidental Death Benefits), the valuation assumes that 30% of spouses eligible for survivor continuation will elect the benefit, with costs equal to 30% greater than the age-adjusted premiums for surviving spouses for HIP HMO and GHI/EBCBS participants. The valuation includes the entire cost of additional surviving spouse benefits, although the Office of the Actuary understands that some of this amount may be reimbursed through welfare funds. This assumption is unchanged from last year.

Dependents . . . . Dependent assumptions based on distribution of coverage of recent retirees which are shown in the following table. Wives assumed to be three years younger than husbands. Actual spouse data for current retirees. Child dependents of current retirees assumed to receive coverage until age 26 (previously age 23). Child dependents of future retirees assumed to receive coverage for eight years (previously five years) after retirement.

Dependent Coverage Assumptions

Group	June 30, 2009 and June 30, 2008 Valuations				
	NYCERS	**TRS**	**BERS**	**POLICE**	**FIRE**
Male					
–Single Coverage	30%	45%	35%	15%	10%
–Spouse	40	35	55	15	20
–Child/No Spouse	5	5	2	5	5
–Spouse and Child	25	15	8	65	65
Total	100%	100%	100%	100%	100%
Female					
–Single Coverage	70%	60%	60%	45%	10%
–Spouse	20	32	35	10	20
–Child/No Spouse	5	3	2	25	5
–Spouse and Child	5	5	3	20	65
Total	100%	100%	100%	100%	100%

For accidental death, 80% of POLICE and FIRE members are assumed to have family coverage.

Demographic Assumptions . . . . The same assumptions that were used to value the pension benefits of NYCRS for determining employer contributions for fiscal years beginning 2006 adopted by each respective Board of Trustees, with the addition of supplemental assumptions adopted by TRS to value the optional TRS 55/25 plan.

COBRA Benefits . . . . Although COBRA beneficiaries pay 102% of "premiums," typical claim costs for COBRA participants run about 50% greater than other participants.

There is no cost to the City for COBRA beneficiaries in community-rated HMOs, including HIP, since these individuals pay their full community rate. However, the City's costs under the experience-rated GHI/EBCBS coverage are affected by the claims for COBRA-covered individuals.

In order to reflect the cost of COBRA coverage, the cost of excess claims for GHI covered individuals and families is estimated assuming 15% of employees not eligible for other benefits included in the valuation elect COBRA coverage for 15 months. These assumptions are based on experience of other large employers. This percentage is applied to the overall enrollment in the active plan and reflects a load for individuals not yet members of the retirement systems who are still eligible for COBRA benefits. This results in an assumption in the June 30, 2009 OPEB actuarial valuation of a lump sum COBRA cost of $625 for terminations during fiscal year 2010 ($575 lump sum cost during fiscal year 2009 was assumed in the June 30, 2008 actuarial valuation). The $625 ($575) lump sum amount is increased by the Pre-Medicare HCCTR for future years but is not adjusted for age-related morbidity.

Cadillac Tax . . . . Effective with the June 30, 2009 OPEB actuarial valuation, a 1/2% load is applied to all Pre-Medicare, Medicare, and Medicare Part B premium liabilities to estimate the impact of the high cost plan excise tax (Cadillac Tax) that will be imposed beginning in 2018 under NHCR. The additional Cadillac Tax due to the riders is assumed to be reflected in the contribution required for the rider. The additional Cadillac Tax due to

	amounts provided by Welfare Fund benefits is assumed to be absorbed by the Welfare Fund or by lower net Welfare Fund contribution amounts.
Stabilization Fund	A 3/4% load is applied on all City GASB45 obligations (1.6% in last valuation). The same loads apply to the GASB43 obligations in the current and preceding valuation. The load is not applicable to Component Units.
Educational Construction Fund	The actuarial assumptions used for determining obligations for ECF are shown in Appendix E of the Report on the Fifth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated September 23, 2010. The Report was prepared as of June 30, 2009 in accordance with GASB43 and 45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 808, 1 Centre Street, New York, NY 10007.
CUNY TIAA	The actuarial assumptions used for determining obligations for CUNY TIAA are shown in Appendix F of the Report on the Fifth Annual Actuarial Valuation of Other Postemployment Benefits Provided under the New York City Health Benefits Program (Report) dated September 23, 2010. The Report was prepared as of June 30, 2009 in accordance with GASB43 and 45. The Report is available at the Office of the Comptroller, Bureau of Accountancy – Room 808, 1 Centre Street, New York, NY 10007.

6. Pension and Other Employee Benefit Trust Funds

Pension Systems

Plan Descriptions

The City sponsors or participates in pension systems providing benefits to its employees. The pension systems function in accordance with existing State statutes and City laws. Each system combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employers and the members.

The majority of City employees are members of one of the following five major actuarially-funded pension systems collectively known as the New York City Retirement Systems (NYCRS):

1. New York City Employees' Retirement System (NYCERS) is a cost-sharing, multiple-employer public employee retirement system, for employees of the City not covered by one of the other pension systems and employees of certain component units of the City and certain other government units.

2. New York City Teachers' Retirement System-Qualified Pension Plan (TRS) is a cost-sharing, multiple-employer public employee retirement system, for pedagogical employees in the public schools of the City and Charter Schools and certain other specified school and college employees.

3. New York City Board of Education Retirement System-Qualified Pension Plan (BERS) is a cost-sharing, multiple-employer public employee retirement system, for nonpedagogical employees of the Department of Education and Charter Schools and certain employees of the School Construction Authority.

4. New York City Police Pension Fund (POLICE) is a single-employer public employee retirement system, for full-time uniformed employees of the Police Department. Note: In conjunction with the establishment of an administrative staff separate from the New York City Police Department in accordance with Chapter 292 of the Laws of 2001, the New York City Police Department, Subchapter Two Pension Fund is generally referred to herein as the New York City Police Pension Fund as set forth in the Administrative Code of The City of New York (ACNY) Section 13-214.1.

5. New York City Fire Department Pension Fund (FIRE) is a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department. Note: The New York City Fire Department, Subchapter Two Pension Fund is generally referred to herein as the New York City Fire Department Pension Fund as set forth in ACNY Section 13-313.1.

The NYCRS provide pension benefits to retired employees based on salary, length of service, member contributions, Plan and Tier. In addition, the NYCRS provide automatic Cost-of-Living Adjustments (COLA) and other supplemental pension benefits to certain retirees and beneficiaries. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. NYCRS also provide death benefits.

Subject to certain conditions, members become fully vested as to benefits upon the completion of 5 years of service (10 years for certain members who joined TRS and BERS beginning Calendar Year 2010). Except for NYCERS and BERS, permanent, full-time employees are generally required to become members of a NYCRS upon employment. Permanent full-time employees who are eligible to participate in NYCERS and BERS are generally required to become members within six months of their permanent employment status but may elect to become members earlier. Other employees who are eligible to participate in NYCERS and BERS may become members at their option. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances.

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

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

Plan Membership

As of June 30, 2009, June 30, 2008 and June 30, 2007, the membership of NYCRS[1] consisted of:

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Plan Membership at June 30, 2009:						
Retirees and Beneficiaries Receiving Benefits	131,031	70,825	13,641	44,285	17,263	277,045
Terminated Vested Members Not Yet Receiving Benefits	8,867	7,486	229	843	34	17,459
Other Inactives*	21,513	8,689	3,673	1,998	30	35,903
Active Members	186,284	113,133	23,303	35,608	11,460	369,788
Total Plan Membership	347,695	200,133	40,846	82,734	28,787	700,195

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

1 Effective with Fiscal Year 2006, Employer Contributions are determined under One-Year Lag Methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. Therefore, the June 30, 2007 (Lag) valuation date was used for determining the Fiscal Year 2009 Employer Contributions.

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

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

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Plan Membership at June 30, 2007:						
Retirees and Beneficiaries Receiving Benefits	129,281	68,492	12,991	43,731	17,479	271,974
Terminated Vested Members Not Yet Receiving Benefits	7,896	6,004	323	777	35	15,035
Other Inactives*	29,753	10,666	4,019	2,636	28	47,102
Active Members	180,482	109,868	21,947	34,956	11,528	358,781
Total Plan Membership	347,412	195,030	39,280	82,100	29,070	692,892

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

Funding Policy

The City's funding policy is to contribute statutorily-required contributions (Statutory Contributions). Together with member contributions and investment income, these Statutory Contributions would ultimately be sufficient to pay benefits when due.

Statutory Contributions for the NYCRS, determined by the Actuary in accordance with State statutes and City laws, are generally funded by the employers within the appropriate fiscal year.

Member contributions are established by law and vary by Plan. In general, Tier I and Tier II member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees, are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Effective December, 2000, certain Transit Authority Tier III and Tier IV members make basic member contributions of 2.0% of salary in accordance with Chapter 10 of the Laws of 2000. Certain members of NYCERS, TRS and BERS also make additional member contributions.

During the Spring 2000 session, the New York State Legislature approved and the Governor signed laws which provided Supplementation benefits and COLA for retirees (Chapter 125 of the Laws of 2000), additional service credits for certain Tier I and Tier II members, reduced member contributions for certain Tier III and Tier IV members (Chapter 126 of the Laws of 2000), and several other changes in benefits for various groups.

Chapter 152 of the Laws of 2006 (Chapter 152/06) implemented changes in the actuarial procedures for determining Employer Contributions beginning Fiscal Year 2006. In particular Chapter 152/06 provided the One-Year Lag Methodology (OYLM) and Chapter 152/06 also eliminated the use of the ten-year phase-in of Chapter 278 of the Laws of 2002 (Chapter 278/02) for funding the additional actuarial liabilities created by Chapter 125 of the Laws of 2000 (Chapter 125/00).

Annual Pension Costs

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

The annual pension costs for NYCRS, for the Fiscal Years ended June 30, 2010, 2009 and 2008 were as follows:

	2010	2009 (in millions)	2008
NYCERS	$2,197.7	$2,150.4	$1,874.2
TRS	2,484.1	2,223.6	1,916.5
BERS	147.3	134.2	143.1
POLICE	1,954.7	1,905.4	1,770.0
FIRE	867.4	837.0	773.6
Total actual pension contributions	$7,651.2	$7,250.6	$6,477.4

For Fiscal Year 2010, the City's Statutory Contributions for the NYCRS, based on the actuarial valuations performed as of June 30, 2008 (Lag), plus other pension expenditures, were approximately $6,755.6 million.

For Fiscal Years 2010, 2009 and 2008, the annual pension costs for NYCERS, TRS and BERS, computed in accordance with GASB27 and consistent with generally accepted actuarial principles, are greater than the Statutory Contributions paid by the City, primarily because the City is only one of the participating employers in NYCERS, TRS, and BERS.

For Fiscal Years 2010, 2009 and 2008, the annual pension costs for POLICE and FIRE, computed in accordance with GASB27 and consistent with generally accepted actuarial principles, are less than the Statutory Contributions, primarily because of the interest on and amortization of the Net Pension Obligations for POLICE and FIRE.

The City's Statutory Contributions for the Fiscal Years ended June 30, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
		(in millions)	
NYCERS*	$1,205.6	$1,186.4	$1,037.8
TRS*	2,450.7	2,196.2	1,891.9
BERS*	139.5	127.8	136.9
POLICE	1,981.0	1,932.2	1,797.8
FIRE	874.3	843.8	780.2
OTHER**	104.5	102.8	95.9
Total actual pension contributions	$6,755.6	$6,389.2	$5,740.5

* NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems. The City's Statutory Contributions as a percentage of the total Statutory Contributions for all employers participating in NYCERS, TRS, and BERS for Fiscal Years ended June 30, 2010, 2009 and 2008 were:

	2010	2009	2008
NYCERS	54.86%	55.17%	55.37%
TRS	98.66	98.77	98.71
BERS	94.69	95.22	95.69

In accordance with GASB27, the City's obligation for NYCERS, TRS, and BERS is fulfilled by paying its portion of the total Statutory Contributions determined.

** Other pension expenditures represent contributions to other actuarial and pay-as-you-go pension systems for certain employees, retirees, and beneficiaries not covered by any of the NYCRS. The City also contributes per diem amounts into certain union-administered annuity funds.

Net Pension Obligations

NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems and the City has no net pension obligations to these systems. Note: The annual pension costs for these systems are the Statutory Contributions. For Fiscal Year 2010 the actuarially-required contributions equal the Statutory Contributions.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for Fiscal Year 2010 are as follows:

	POLICE	FIRE (in millions)	TOTAL
(1) Annual Required Contribution	$1,981.0	$874.3	$2,855.3
(2) Interest on Net Pension Obligation	36.7	16.0	52.7
(3) Adjustment to Annual Required Contribution	63.0	22.9	85.9
(4) Annual Pension Cost=(1)+(2)-(3)	1,954.7	867.4	2,822.1
(5) Statutory Contribution	1,981.0	874.3	2,855.3
(6) Decrease in Net Pension Obligation=(4)-(5)	(26.3)	(6.9)	(33.2)
(7) Net Pension Obligation Beginning of Year	458.7	199.9	658.6
(8) Net Pension Obligation End of Year=(6)+(7)	$ 432.4	$193.0	$ 625.4

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

	Fiscal Year Ending	Annual Pension Cost (APC) (in millions)	Percentage Of APC Contributed	Net Pension Obligation
POLICE	6/30/10	$1,954.7	101%	$432.4
	6/30/09	1,905.4	101	458.7
	6/30/08	1,770.0	102	485.5
FIRE	6/30/10	867.4	101	193.0
	6/30/09	837.0	101	199.9
	6/30/08	773.6	101	206.7

Additional information as of the latest actuarial valuation follows:

	NYCERS	TRS	BERS	POLICE	FIRE
Valuation Date[1]	June 30, 2008 (Lag)	June 30, 2008 (Lag)	June 30, 2008 (Lag)	June 30, 2008 (Lag)	June 30, 2008 (Lag)
Actuarial Cost Method[2]	Frozen Initial Liability (Aggregate)	Frozen Initial Liability (Aggregate)	Frozen Initial Liability (Aggregate)	Frozen Initial Liability (Aggregate)	Frozen Initial Liability (Frozen Entry Age)
Amortization Method Initial Unfunded	Increasing Dollar	Increasing Dollar	Increasing Dollar	Increasing Dollar	Increasing Dollar
Remaining Amortization Period Initial Unfunded	NA	NA	NA	NA	1-Year
Asset Valuation Method	6-Year Smoothed Market	6-Year Smoothed Market	6-Year Smoothed Market	6-Year Smoothed Market	6-Year Smoothed Market

Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of Employer Contributions to the actuarially-funded pension systems for the Fiscal Years ending June 30, 2010 and 2009 are as follows:

	2010	2009
Valuation Date	*June 30, 2008 (Lag).*[1]	*June 30, 2007 (Lag).*[1]
Actuarial Cost Method	*Frozen Initial Liability.*[2]	*Frozen Initial Liability.*[2]
Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)	*Increasing dollar for FIRE.*[3] *All outstanding components of UAAL are being amortized over closed periods.*	*Increasing dollar for FIRE.*[3] *All outstanding components of UAAL are being amortized over closed periods.*
Remaining Amortization Period	*1 year for FIRE*[3].	*2 years for FIRE*[3].
Actuarial Asset Valuation Method	*Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.*	*Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.*
Investment Rate of Return	*8.0% per annum*[4] *(4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*	*8.0% per annum*[4] *(4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*
Post-Retirement Mortality	*Tables adopted by Boards of Trustees during Fiscal Year 2006.*	*Tables adopted by Boards of Trustees during Fiscal Year 2006.*
Active Service: Withdrawal Death, Disability, Retirement	*Tables adopted by Board of Trustees during Fiscal Year 2006.*	*Tables adopted by Board of Trustees during Fiscal Year 2006.*
Salary Increases	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.*[4]	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.*[4]
Cost-of-Living Adjustments	*1.3% per annum.*[4]	*1.3% per annum.*[4]

(1) *Under One-Year Lag Methodology, the actuarial valuation determines the Employer Contribution for the second following Fiscal Year.*

(2) *Under the Frozen Initial Liability Actuarial Cost Method, the excess of the Actuarial Present Value (APV) of projected benefits of the membership as of the valuation date, over the sum of the Actuarial Value of Assets plus the UAAL, if any, and the APV of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll as of the valuation date. The Initial Liability was reestablished by the Entry Age Actuarial Cost Method as of June 30, 1999 but with the UAAL not less than $0. Actuarial gains and losses are reflected in the employer normal contribution rate. For NYCERS, TRS and BERS, the financial results for Fiscal Years 2009 and 2010 using this Frozen Initial Liability Actuarial Cost Method differ minimally from those that would be produced using the Aggregate Actuarial Cost Method. For POLICE, the financial results for Fiscal Years 2009 and 2010 using this Frozen Initial Liability Actuarial Cost Method are identical to those that would be produced using the Aggregate Cost Method. For FIRE, for Fiscal Years 2009 and 2010 the financial results using this Frozen Initial Liability Actuarial Cost Method are the same as those that would be produced using the Frozen Entry Age Actuarial Cost Method.*

(3) *In conjunction with Chapter 85 of the Laws of 2000 (Chapter 85/00), there is an amortization method. However, the initial UAAL of NYCERS, TRS, BERS and POLICE equal $0 and no amortization periods are required.*

(4) *Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.*

Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially-funded NYCRS are conducted by an independent actuarial firm every two years.

The most recent actuarial study analyzed experience for Fiscal Years 2006 and 2007. A study of Fiscal Years 2008 and 2009 is underway. In a report dated April 2010, the independent actuarial auditor recommended that no changes be made to the actuarial assumptions and methods.

In accordance with the ACNY and with appropriate practice, the Boards of Trustees of the five actuarially-funded NYCRS are to periodically review and adopt actuarial assumptions as proposed by the Actuary for use in the determination of Employer Contributions.

In August 2005, based upon a review of an October 2003 experience study, the Actuary issued reports for the NYCRS proposing changes in actuarial assumptions and methods for determining Employer Contributions for Fiscal Years beginning on and after July 1, 2005 (August 2005 Reports). Where required, the Boards of Trustees of the NYCRS adopted those changes to actuarial assumptions that required Board approval and the State Legislature and the Governor enacted Chapter 152/06 to provide for those changes to the actuarial assumptions and methods that required legislation, including the Actuarial Interest Rate (AIR) assumption of 8.0% per annum.

Chapter 152/06 provides effective for Fiscal Years 2006 and after for the changes in actuarial assumptions and methods that require legislation, including the continuation of the AIR assumption of 8.0% per annum and continuation of the current Frozen Initial Liability (FIL) Actuarial Cost Method and the existing Unfunded Actuarial Accrued Liability (UAAL). In addition, Chapter 152/06 provides for elimination of the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

Chapter 152/06 also established the One-Year Lag Methodology (OYLM). Under this methodology, a Fiscal Year 20XX Employer Contribution is determined using a June 20XX-2 valuation date. This methodology requires technical adjustments to certain components determined as of a valuation date used to compute a Fiscal Year Employer Contribution.

Beginning with the June 30, 2004 (Lag) actuarial valuations, the Actuarial Asset Valuation Method (AAVM) was changed to a method which reset the Actuarial Asset Values (AAV) to Market Values (ie., Market Value Restart) as of June 30, 1999. As of each June 30 thereafter the AAVM recognizes investment returns greater or less than expected over a period of six years.

Under this revised AAVM, any Unexpected Investment Returns (UIR) for Fiscal Years 2000 and later are phased into the AAV beginning the following June 30 at a rate of 15%, 15%, 15%, 15%, 20% and 20% per year (or cumulative rates of 15%, 30%, 45%, 60%, 80% and 100% over a period of six years).

These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for Fiscal Years 2000 to 2004.

For Fiscal Years 2000 through 2005, the AAVM was changed as of June 30, 1999 to reflect a market basis for investments held and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under this prior AAVM, any UIR for Fiscal Years 2000 through 2005 inclusive were phased into AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25% and 30% per year (or at a cumulative rate of 10%, 25%, 45%, 70% and 100% over five years).

Chapter 85/00 reestablished UAAL and eliminated the Balance Sheet Liability (BSL) for actuarial purposes as of June 30, 1999. The schedule of payments toward the reestablished UAAL provides that the UAAL, if any, be amortized over a period of 11 years beginning Fiscal Year 2000, where each annual payment after the first equals 103% of its preceding annual payment.

Chapter 265 of the Laws of 2010 extended the Actuarial Interest Rate (AIR) for one year, through June 30, 2011.

Other Employee Benefit Trust Funds

Fund Descriptions

Per enabling State legislation, certain retirees of POLICE, FIRE, and NYCERS are eligible to receive scheduled supplemental benefits from certain Variable Supplements Funds (VSFs).

Under current state law, VSFs are not to be construed as constituting pension or retirement system funds. Instead, they provide scheduled supplemental payments, in accordance with applicable statutory provisions. While a portion of these payments are guaranteed by the City, the Legislature has reserved to itself and the State of New York, the right and power to amend, modify, or repeal VSFs and the payments they provide.

POLICE administers the Police Officers' Variable Supplements Fund (POVSF) and the Police Superior Officers' Variable Supplements Fund (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of the ACNY.

1. POVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) as police officers and who retired on or after October 1, 1968.

2. PSOVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) holding the rank of sergeant or higher, or detective and who retired on or after October 1, 1968.

FIRE administers the Firefighters' Variable Supplements Fund (FFVSF) and the Fire Officers' Variable Supplements Fund (FOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 3 of the ACNY.

3. FFVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) as firefighters (or wipers) and who retired on or after October 1, 1968.

4. FOVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) and who retired on or after October 1, 1968.

NYCERS administers the Transit Police Officers' Variable Supplements Fund (TPOVSF), the Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF), the Housing Police Officers' Variable Supplements Fund (HPOVSF), the Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF), and the Correction Officers' Variable Supplements Fund (COVSF). These funds operate pursuant to the provisions of Title 13, Chapter 1 of the ACNY.

5. TPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of calculations performed by the Actuary during November 1993. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPOVSF whenever the assets of TPOVSF are not sufficient to pay benefits.

6. TPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000 became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPSOVSF whenever the assets of TPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2004, NYCERS is required to transfer assets so that TPSOVSF can meet its benefit obligations when due.

7. HPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of Chapter 719 of the Laws of 1994. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPOVSF whenever the assets of HPOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2006, NYCERS is required to transfer assets so that HPOVSF can meet its benefit obligations when due.

8. HPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000 became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPSOVSF whenever the assets of HPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2001, NYCERS is required to transfer assets so that HPSOVSF can meet its benefit obligations when due.

9. COVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or 25 years of service, depending upon the plan) as members of the Uniformed Correction Force on or after July 1, 1999. Prior to calendar year

2019, total supplemental benefits paid are limited to the assets of COVSF. For calendar years 2019 and later, the plan provides for a schedule of defined supplemental benefits that are guaranteed by the City. Scheduled benefits to COVSF participants were paid for calendar years 2000 to 2005. Due to insufficient assets, no benefits were paid to COVSF participants after Calendar Year 2005.

Funding Policy and Contributions

ACNY provides that POLICE and FIRE transfer to their respective VSFs amounts equal to certain excess earnings on equity investments, generally limited to the unfunded accumulated benefit obligation for each VSF. The excess earnings are defined as the amount by which earnings on equity investments exceed what the earnings would have been had such funds been invested at a yield comparable to that available from fixed income securities, less any cumulative deficiencies.

ACNY provides that NYCERS transfer to COVSF amounts equal to certain excess earnings on equity investments, less any cumulative deficiencies. ACNY also provides, as a consequence of Chapter 255 of the Laws of 2000, that NYCERS make the required transfers to TPOVSF, TPSOVSF, HPOVSF and HPSOVSF, inclusive of prior year's cumulative deficiencies, sufficient to meet their annual benefit payments.

For Fiscal Years 2010 and 2009, excess earnings on equity investments, inclusive of prior year's cumulative deficiencies, are estimated to be equal to zero and, therefore, no transfers will be due to VSFs as of June 30, 2010 and June 30, 2009, respectively.

For Fiscal Years 2010 and 2009, required transfers from NYCERS of approximately $2.4 million and $2.4 million, respectively, were made to HPOVSF.

For Fiscal Years 2010 and 2009, required transfers from NYCERS of approximately $3.0 million and $2.9 million, respectively, were made to HPSOVSF.

For Fiscal Years 2010 and 2009, required transfers from NYCERS of approximately $3.2 million and $3.2 million, respectively, were made to TPSOVSF.

As of June 30, 2010, NYCERS has accrued approximately $1.2 million, $1.4 million, and $1.6 million toward the amounts expected to be transferred to HPOVSF, HPSOVSF and TPSOVSF, respectively, to meet the December 2010 benefit obligations of those funds.

The funded status of each NYCRS as of June 30, 2008 the date of the most recent actuarial valuation under One-Year Lag Methodology, where the Actuarial Accrued Liability is defined using the Entry Age Actuarial Cost Method, is as follows:

	Funded Status Entry Age Accrued Liability Basis					
	Actuarial Value of Assets	**Actuarial Accrued Liability (AAL) —Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Covered Payroll**	**UAAL as a Percentage of Covered Payroll**
	(a)	**(b)**	**(b-a)**	**(a/b)**	**(c)**	**((b-a)/c)**
			(in millions)			
NYCERS	$40,722.2	$51,114.4	$10,392.2	79.7%	$11,306.0	91.9%
TRS	32,227.4	49,400.8	17,173.4	65.2	7,926.6	216.7
BERS	2,084.1	2,721.6	637.5	76.6	852.1	74.8
POLICE	21,393.2	30,226.6	8,833.4	70.8	3,095.9	285.3
FIRE	6,943.0	12,313.2	5,370.2	56.4	1,051.6	510.7

F. Required Supplementary Information (Unaudited)

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

	Actuarial Valuation Date	(1) Actuarial Asset Value (AAV) (a)	(2) Actuarial Accrued Liability (AAL)* (a) & (b)	(3) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1) (in millions)	(4) Funded Ratio (1) ÷ (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3) ÷ (5)
NYCERS	6/30/08(Lag)	$40,722.2	$40,722.2	$ 0.0	100.0%	$11,306.0	0.0%
	6/30/07(Lag)	38,925.7	38,959.1	33.4	99.9	10,762.0	0.3
	6/30/06(Lag)	38,367.1	38,431.3	64.2	99.8	10,127.8	0.6
	6/30/05(Lag)	39,692.4	39,797.1	104.7	99.7	9,670.8	1.1
	6/30/04(Lag)	40,638.6	40,786.7	148.1	99.6	9,361.2**	1.6
	6/30/04	40,088.2	40,236.3	148.1	99.6	9,157.4	1.6
	6/30/03	42,056.0	42,244.1	188.1	99.6	8,807.6	2.1
	6/30/02	43,561.1	43,619.9	58.8	99.9	8,901.1	0.7
	6/30/01	43,015.4	43,087.6	72.2	99.8	8,515.3	0.8
	6/30/00	42,393.6	42,418.7	25.1	99.9	7,871.0	0.3
	6/30/99	40,936.0	40,936.0	0.0	100.0	7,593.2	0.0
TRS	6/30/08(Lag)	32,227.4	32,227.4	0.0	100.0	7,926.6	0.0
	6/30/07(Lag)	33,854.2	33,856.7	2.5	100.0	7,222.5	0.0
	6/30/06(Lag)	32,405.5	32,410.5	5.0	100.0	6,978.7	0.1
	6/30/05(Lag)	32,865.1	32,872.3	7.2	100.0	6,273.9	0.1
	6/30/04(Lag)	33,149.3	33,159.7	10.4	100.0	6,175.9**	0.2
	6/30/04	32,817.1	32,827.5	10.4	100.0	6,219.8	0.2
	6/30/03	33,169.2	33,182.7	13.5	100.0	5,828.8	0.2
	6/30/02	34,177.8	34,181.1	3.3	100.0	5,469.2	0.1
	6/30/01	35,410.2	35,414.5	4.3	100.0	5,015.4	0.1
	6/30/00	36,142.4	36,147.6	5.2	100.0	4,721.5	0.1
	6/30/99	34,626.1	34,626.1	0.0	100.0	4,217.7	0.0
BERS	6/30/08(Lag)	2,084.1	2,084.1	0.0	100.0	852.1	0.0
	6/30/07(Lag)	1,983.7	1,985.6	1.9	99.9	777.6	0.2
	6/30/06(Lag)	1,830.3	1,834.0	3.7	99.8	750.0	0.5
	6/30/05(Lag)	1,841.0	1.846.3	5.3	99.7	715.1	0.7
	6/30/04(Lag)	1,843.8	1,850.6	6.8	99.6	624.9**	1.1
	6/30/04	1,822.7	1,829.5	6.8	99.6	624.9	1.1
	6/30/03	1,833.8	1,842.0	8.2	99.6	651.0	1.3
	6/30/02	1,835.8	1,835.8	0.0	100.0	736.7	0.0
	6/30/01	1,781.7	1,781.7	0.0	100.0	694.2	0.0
	6/30/00	1,749.4	1,749.4	0.0	100.0	666.0	0.0
	6/30/99	1,705.4	1,705.4	0.0	100.0	592.2	0.0
POLICE	6/30/08(Lag)	21,393.2	21,393.2	0.0	100.0	3,095.9	0.0
	6/30/07(Lag)	19,800.6	19,800.6	0.0	100.0	2,961.6	0.0
	6/30/06(Lag)	18,689.5	18,689.5	0.0	100.0	2,816.9	0.0
	6/30/05(Lag)	18,767.3	18,767.3	0.0	100.0	2,812.9	0.0
	6/30/04(Lag)	18,735.1	18,735.1	0.0	100.0	2,757.7**	0.0
	6/30/04	18,510.6	18,510.6	0.0	100.0	2,460.8	0.0
	6/30/03	18,781.4	18,781.4	0.0	100.0	2,433.9	0.0
	6/30/02	18,913.6	18,913.6	0.0	100.0	2,496.2	0.0
	6/30/01	18,141.7	18,141.7	0.0	100.0	2,500.1	0.0
	6/30/00	17,601.9	17,601.9	0.0	100.0	2,465.7	0.0
	6/30/99	16,877.8	16,877.8	0.0	100.0	2,332.0	0.0

	Actuarial Valuation Date	(1) Actuarial Asset Value (AAV) (a)	(2) Actuarial Accrued Liability (AAL)* (a) & (b)	(3) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1) (in millions)	(4) Funded Ratio (1) ÷ (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3) ÷ (5)
FIRE	6/30/08(Lag)	$ 6,943.0	$ 6,986.2	$ 43.2	99.4%	$ 1,051.6	4.1%
	6/30/07(Lag)	6,459.1	6,520.7	61.6	99.1	1,000.4	6.2
	6/30/06(Lag)	6,174.1	6,252.0	77.9	99.8	932.7	8.4
	6/30/05(Lag)	6,169.2	6,261.6	92.4	98.5	908.3	10.2
	6/30/04(Lag)	6,277.3	6,382.5	105.2	98.4	864.8**	12.2
	6/30/04	6,185.8	6,290.9	105.1	98.3	805.0	13.1
	6/30/03	6,441.5	6,558.0	116.5	98.2	748.8	15.6
	6/30/02	6,612.3	6,738.7	126.4	98.1	789.7	16.0
	6/30/01	6,525.7	6,660.8	135.1	98.0	799.2	16.9
	6/30/00	6,388.1	6,530.6	142.5	97.8	741.5	19.2
	6/30/99	6,179.8	6,328.7	148.9	97.6	729.7	20.4

* Based on the Frozen Initial Liability Actuarial Cost Method.

** The annualized covered payrolls as of June 30, 2004 under the One-Year Lag Methodology used to compute Fiscal Year 2006 Employer Contributions differ from that as of June 30, 2004 to compute Fiscal Year 2005 Employer Contributions due to changes in actuarial assumptions and more recent information on labor contract settlements.

(a) Beginning with the June 30, 2004 (Lag) actuarial valuation the Actuarial Asset Valuation Method ("AAVM") was changed to a method that reset the AAV to Market Value (i.e., "Market Value Restart") as of June 30, 1999. As of each June 30 thereafter the AAVM recognizes investment returns greater or less than expected over a period of six years.

Under this revised AAVM, any Unexpected Investment Returns ("UIR") for Fiscal Years 2000 and later are phased into the AAV beginning the following June 30 at rates of 15%, 15%, 15%, 15%, 20% and 20% per year (or cumulative rates of 15%, 30%, 45%, 60%, 80% and 100% over a period of six years).

These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for Fiscal Years 2000 to 2004.

This revised AAVM was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the Fiscal Year 2006 Employer Contribution in conjunction with the One-Year Lag Methodology and the revised economic and noneconomic assumptions. As of June 30, 1999 the economic and noneconomic assumptions were revised due to experience review. The AAVM was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under the AAVM used for the June 30, 1999 to June 30, 2004 actuarial valuations, any UIR for Fiscal Years 2000 and later were phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25% and 30% per year (or cumulative rates of 10%, 25%, 45%, 70% and 100% over a period of five years).

(b) To effectively assess the funding progress of a Plan, it is usually appropriate to compare AAV and AAL calculated in a manner consistent with the Plan's funding method over a period of time. AAL is the portion of the actuarial present value of pension plan benefits and expenses which is not provided for by future employer normal costs and future member contributions.

Note, however, that UAAL is the excess of AAL over AAV. Under the FIL Actuarial Cost Method, the initial UAAL is frozen at date of establishment and amortized over time. That UAAL is not adjusted from one actuarial valuation to the next to reflect actuarial gains and losses.

Schedule of Employer Contributions

Total Employer Contributions to the NYCRS

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C
TO
APPENDIX D

VARIABLE RATE DEMAND BONDS

Series	Outstanding Principal Amount	Provider	Facility Type	Expiration or Optional Termination by Provider
1994A-4	$ 36,750,000	BayernLB	LOC(1)	November 30, 2015
1994A-5	25,000,000	KBC Bank, N.V.	LOC	August 6, 2012
1994A-6	30,000,000	Landesbank Hessen-Thüringen Girozentrale	LOC	December 15, 2015
1994A-7	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
1994A-8	25,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994A-9	24,600,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994A-10	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994B-2	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994B-3	10,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994C	25,300,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994E-2	40,700,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994E-3	30,000,000	WestLB AG	LOC	November 1, 2011(3)
1994E-4	50,000,000	BNP Paribas	LOC	November 1, 2014
1994E-5	67,100,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1994H-2	50,000,000	Wells Fargo Bank, N.A.	SBPA(2)	March 12, 2012
1994H-3	90,000,000	State Street Bank and Trust Company	SBPA	October 14, 2013
1994H-6	32,800,000	Dexia Crédit Local	SBPA	March 12, 2013
1995B-4	50,000,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	July 15, 2012
1995B-5	12,500,000	JPMorgan Chase Bank, N.A.	SBPA	March 12, 2013
1995B-7	21,000,000	JPMorgan Chase Bank, N.A.	SBPA	March 12, 2013
1995B-8	50,000,000	BayernLB	LOC	November 30, 2015
1995B-9	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
1995F-3	40,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1995F-4	50,000,000	Landesbank Hessen-Thüringen Girozentrale	LOC	December 15, 2015
1995F-5	50,000,000	BayernLB	LOC	November 30, 2015
1995F-6	50,000,000	JPMorgan Chase Bank, N.A.	LOC	September 16, 2013
1996J-2	46,800,000	WestLB AG	LOC	January 8, 2013
1996J-3	46,700,000	JPMorgan Chase Bank, N.A.	LOC	September 15, 2015
2002A-6	70,000,000	Dexia Crédit Local	SBPA	November 1, 2017
2002A-10	60,000,000	Dexia Crédit Local	SBPA	November 1, 2017
2003C-2	100,000,000	BayernLB	LOC	November 30, 2015
2003C-3A	60,000,000	Bank of Nova Scotia	SBPA	November 1, 2013
2003C-3B	30,000,000	Lloyds TSB Bank PLC	SBPA	November 1, 2013
2003C-4	110,000,000	Bank of Tokyo-Mitsubishi UFJ, LTD.	LOC	November 1, 2013
2003C-5	100,000,000	The Bank of New York Mellon	LOC	November 1, 2013
2003G-3	8,865,000	WestLB AG	LOC	January 1, 2013
2004A-2	75,000,000	Bank of America, N.A.	LOC	June 30, 2012
2004A-3	100,000,000	Morgan Stanley Bank, N.A.	LOC	June 27, 2014
2004A-4	25,000,000	Bank of Nova Scotia	LOC	August 30, 2013

(1) Letter of Credit
(2) Standby Bond Purchase Agreement
(3) On October 13, 2011, the City expects to retire or convert the Fiscal 1994, Subseries E-3 Bonds to the fixed rate mode.

Series	Outstanding Principal Amount	Provider	Facility Type	Expiration or Optional Termination by Provider
2004A-5	$ 50,000,000	Bank of Nova Scotia	LOC	August 30, 2013
2004A-6	100,000,000	Mizuho Corporate Bank, Ltd.	LOC	June 20, 2014
2004H-1	70,780,000	The Bank of New York Mellon	LOC	November 1, 2011(4)
2004H-2	107,855,000	The Bank of New York Mellon	LOC	November 1, 2011(4)
2004H-3	107,890,000	The Bank of New York Mellon	LOC	November 1, 2011(4)
2004H-4	72,180,000	The Bank of New York Mellon	LOC	November 1, 2011(4)
2004H-5	39,315,000	Dexia Crédit Local	LOC	February 2, 2022
2004H-6	78,610,000	Bank of America, N.A.	LOC	March 1, 2013
2004H-7	39,315,000	KBC Bank, N.V.	LOC	February 2, 2012
2004H-8	78,610,000	Bank of America, N.A.	LOC	March 1, 2013
2006E-2	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006E-3	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006E-4	100,000,000	Bank of America, N.A.	LOC	August 17, 2013
2006F-3	75,000,000	Sumitomo Mitsui Banking Corporation	LOC	September 20, 2013
2006F-4A	40,000,000	Sumitomo Mitsui Banking Corporation	LOC	September 20, 2013
2006F-4B	35,000,000	Union Bank, N.A.	LOC	September 20, 2013
2006H-1	68,870,000	Dexia Crédit Local	LOC	January 1, 2014
2006H-2	68,865,000	Dexia Crédit Local	LOC	January 1, 2014
2006I-3	50,000,000	Bank of America, N.A.	LOC	May 12, 2014
2006I-4	125,000,000	The Bank of New York Mellon	LOC	April 1, 2013
2006I-5	75,000,000	California Public Employees' Retirement System	LOC	April 1, 2013
2006I-6	75,000,000	California State Teachers' Retirement System	LOC	April 1, 2013
2006I-7	50,000,000	Bank of America, N.A.	LOC	May 12, 2014
2006I-8	50,000,000	State Street Bank and Trust Company	LOC	May 12, 2014
2008D-3	50,000,000	Crédit Agricole CIB	SBPA	December 4, 2014
2008D-4	50,000,000	Crédit Agricole CIB	SBPA	December 4, 2014
2008J-3	150,000,000	Barclays Bank, PLC	SBPA	January 31, 2014
2008J-4	100,000,000	Bank of America, N.A.	SBPA	April 1, 2013
2008J-5	101,405,000	Dexia Crédit Local	SBPA	April 1, 2015
2008J-6	111,225,000	Landesbank Hessen-Thüringen Girozentrale	LOC	April 1, 2013
2008J-7	84,400,000	Landesbank Baden-Württemburg	LOC	April 1, 2013
2008J-8	84,385,000	Landesbank Baden-Württemburg	LOC	April 1, 2013
2008J-9	100,000,000	Bank of Nova Scotia	SBPA	April 1, 2014
2008J-10	100,000,000	Bank of Tokyo-Mitsubishi UFJ, LTD.	LOC	March 31, 2014
2008J-11	100,000,000	KBC Bank, N.V.	SBPA	April 1, 2014
2008J-12	103,160,000	Dexia Crédit Local	SBPA	April 1, 2015
2008L-3	80,000,000	Bank of America, N.A.	SBPA	April 23, 2014
2008L-4	100,000,000	US Bank, N.A.	LOC	December 20, 2011
2008L-5	145,400,000	Dexia Crédit Local	SBPA	April 23, 2015

(4) On October 13, 2011, the City expects to retire or convert $157,195,000 of the Fiscal 2004, Subseries H-1 through H-4 Bonds, to the fixed rate mode. Simultaneously with the conversion of such Fiscal 2004, Subseries H-1 through H-4 Bonds, the City expects to issue $126,665,000 Multi-Modal Bonds secured by a letter of credit issued by The Bank of New York Mellon.

Series	Outstanding Principal Amount	Provider	Facility Type	Expiration or Optional Termination by Provider
2008L-6	$ 150,000,000	Wells Fargo Bank, N.A.	SBPA	April 23, 2014
2009B-3	100,000,000	TD Bank, N.A.	LOC	September 30, 2011
2010G-4	150,000,000	Barclays Bank, PLC	SBPA	March 29, 2013
2012A-3	25,000,000	Landesbank Hessen-Thüringen Girozentrale	SBPA	July 15, 2012
2012A-4	100,000,000	KBC Bank, N.V.	LOC	August 8, 2014
2012A-5	50,000,000	Bank of Nova Scotia	SBPA	August 8, 2014
	$5,685,380,000			

APPENDIX E-1

Cushman & Wakefield, Inc. 2011 Report

See CD-ROM attached to back cover of this Official Statement for the Hudson Yards Demand and Development Report, dated August 2011, prepared by Cushman & Wakefield, Inc.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E-2

Cushman & Wakefield, Inc. 2006 Report

See CD-ROM attached to back cover of this Official Statement for the Hudson Yards Demand and Development Study, dated November 2006, prepared by Cushman & Wakefield, Inc.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

Financial Statements of the Corporation

[THIS PAGE INTENTIONALLY LEFT BLANK]

Hudson Yards Infrastructure Corporation

Hudson Yards Infrastructure Corporation

A Component Unit of The City of New York

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2011 and 2010

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants
IT ALL ADDS UP.

HUDSON YARDS INFRASTRUCTURE CORPORATION

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2011 AND 2010

CONTENTS

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors
and the Audit Committee of the
Hudson Yards Infrastructure Corporation

We have audited the accompanying financial statements of the governmental activities of Hudson Yards Infrastructure Corporation ("HYIC"), a component unit of The City of New York, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of HYIC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of HYIC as of and for the year ended June 30, 2010 were audited by other auditors whose report dated September 17, 2010 expressed an unqualified opinion on those statements. As discussed in Note 2, HYIC has restated its governmental funds financial statements as of and for the year ended June 30, 2010 during the current year to implement Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The other auditors reported on the financial statements as of and for the year ended June 30, 2010 before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Hudson Yards Infrastructure Corporation as of June 30, 2011 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 2 that were applied to restate the June 30, 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The accompanying management's discussion and analysis on pages 2 through 13 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.

Marks Paneth & Shron LLP

New York, NY
September 28, 2011

622 THIRD AVENUE
NEW YORK, NY 10017-6701
P. 212.503.8800 F. 212.370.3759
WWW.MARKSPANETH.COM

MANHATTAN
LONG ISLAND
WESTCHESTER
CAYMAN ISLANDS

ASSOCIATED WORLD WIDE
WITH JHI

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of the Hudson Yards Infrastructure Corporation ("HYIC") as of June 30, 2011 and 2010 and for the years then ended. It should be read in conjunction with HYIC's government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; and (3) the governmental funds financial statements.

The government-wide financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about HYIC as a whole, in accordance with Governmental Accounting Standards Board ("GASB") standards. This is to provide the reader with a broad overview of HYIC's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

HYIC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that 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 principal and interest on bonds payable and liabilities on arbitrage rebate payable, which are recognized when due.

The reconciliations of the governmental funds balance sheets to the statements of net assets (deficit) and reconciliation of the governmental funds statements of revenues, expenditures and changes in fund balances to the statements of activities are presented to assist the reader in understanding the differences between government-wide and governmental funds financial statements.

ORGANIZATIONAL OVERVIEW

HYIC's purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the "Project"). HYIC does not engage in the development directly, but finances the development which is spearheaded by the Hudson Yards Development Corporation ("HYDC") and carried out by existing public entities. The Project is in an area generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Twelfth Avenue on the west and West 29th and 30th Streets on the south (the "Project Area"). The Project consists of: (1) design and construction of an extension of the No. 7 Subway from its current terminus at 7th Avenue and 41st Street to a new station at 11th Avenue and West 34th Street (the "Subway Extension"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights ("TDRs") over its rail yards between Tenth and Eleventh Avenues and between West 30th and West 33rd Streets ("Eastern Rail Yards" or "ERY"), (3) construction of the first phase of a system of parks, public open spaces, and streets in the Project Area ("Public Amenities") and (4) property acquisition for the Project.

ORGANIZATIONAL OVERVIEW (continued)

HYIC fulfills its purpose through the issuances of bonds to finance the Project, including the operations of HYDC, and the collection of revenues to support its operations and service its debt. HYIC revenues include and/or will include: (1) Interest Support Payments ("ISP") to be made by The City of New York ("The City") under the terms of the Support and Development Agreement ("Agreement") that obligates The City to pay to HYIC, subject to annual appropriation, ISPs on up to $3 billion of HYIC bonds in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds; (2) payments in lieu of real estate taxes ("PILOT") that have been assigned to HYIC under agreements with the New York City Industrial Development Agency ("IDA"), The City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others ("PILOT Agreements"); (3) Tax Equivalency Payments ("TEP") to be made by The City under the terms of the Agreement, which obligates The City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by The City on new development (including substantial rehabilitation of existing buildings) in the Project Area; (4) District Improvement Bonuses ("DIB") paid by private developers in exchange for the right to create additional density in the Project Area; and (5) payments in lieu of the mortgage recording tax ("PILOMRT") required to be made by private developers entering into PILOT Agreements. PILOT Agreements are expected to be entered into by developers because the PILOT payments during the first 19 years will be substantially lower than the real estate taxes that would otherwise be due. Interest earned on unspent bond proceeds is generally used for debt service, in accordance with the terms of the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "Indenture").

Proceeds received by HYIC for sales of the TDRs (as discussed below), up to the amount of HYIC's investment (including the $200 million purchase price and interest costs thereon), will also be used by HYIC to support its operations and service its debt.

The Conversion Date is the date on which HYIC certifies that, for each of the two preceding fiscal years, HYIC's PILOT payments plus TEP revenues less HYIC's operating expenses ("Net Recurring Revenues") were not less than 125% of the maximum annual debt service on all then outstanding senior bonds and not less than 105% of maximum annual debt service on all outstanding bonds. After the date on which bonds are first callable (February 15, 2017) and prior to the Conversion Date, all revenues received by HYIC in a fiscal year remaining after funding operating expenses and interest must be used to purchase or redeem senior bonds in advance of their maturity, except that, if, during such fiscal year, The City has made ISPs, then HYIC must first reimburse The City for such ISPs. Prior to the Conversion Date, HYIC is not obligated to make any payments of principal of its bonds prior to maturity unless and until HYIC receives revenues in amounts sufficient to make such payments. After the Conversion Date, HYIC must establish a schedule of sinking fund installments for all outstanding debt no later than June 30th of that year. Bonds issued by HYIC after the Conversion Date are not entitled to ISPs under the Agreement.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS (amounts in thousands, except as noted)

On December 21, 2006, HYIC issued its Fiscal 2007 Series A Senior Revenue Bonds ("Bonds") in the amount of $2 billion, to partially finance the Project. The Bonds are term bonds with semiannual interest payment dates beginning in August 15, 2007 and maturing on February 15, 2047. As discussed above, prior to the Conversion Date, HYIC is not obligated to make any payments of principal on the Bonds prior to maturity, unless and until – and to the extent that – HYIC receives revenues in amounts sufficient to make such payments.

On December 28, 2006, HYIC acquired a 50% interest in TDRs upon making the first $100 million payment required under the terms of the purchase agreement among The City, the MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company ("TDR Agreement"). The TDR Agreement required HYIC to make three additional annual payments in the amount of $33.3 million in September of 2007, 2008 and 2009 for this interest; all of which were made in accordance with the agreement. The full value of the TDR, including the purchase price and interest costs thereon, is reflected as an asset in HYIC's financial statements (on the governmental funds balance sheets and the statements of net assets (deficit)).

The following summarizes the activities of HYIC for the years ended June 30, 2011, 2010 and 2009:

	2011	2010	2009	Change 2011 vs 2010	Change 2010 vs 2009
Revenues:					
Program revenue	$ 30,572	$ 13,318	$ 12,328	$ 17,254	$ 990
Other revenue	45,296	19,960	72,630	25,336	(52,670)
Total revenues	75,868	33,278	84,958	42,590	(51,680)
Expenses:					
Project	348,076	384,589	353,259	(36,513)	31,330
Bond Interest	85,652	86,030	87,576	(378)	(1,546)
Arbitrage rebate	(1,419)	1,430	3,389	(2,849)	(1,959)
Other	1,585	1,476	1,381	109	95
Total expenses	433,894	473,525	445,605	(39,631)	27,920
Change in net assets	(358,026)	(440,247)	(360,647)	82,221	(79,600)
Net (deficit) - beginning of year	(1,329,113)	(888,866)	(528,219)	(440,247)	(360,647)
Net (deficit) - end of year	$ (1,687,139)	$ (1,329,113)	$ (888,866)	$ (358,026)	$ (440,247)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

For the fiscal year ended June 30, 2011 and 2009, program revenue was comprised of DIB and TEP, compared to fiscal years 2010 where program revenue was only comprised of TEP. HYIC recognized approximately $31 million of program revenue in fiscal year 2011 compared to approximately $13 million in fiscal year 2010. The increase in fiscal year 2011 was due to the collection of $12.6 million more of TEP, as new development progressed in the Project Area. In addition, HYIC collected $4.6 million of DIB in fiscal year 2011, it did not collect DIB in fiscal year 2010.

HYIC recognized approximately $13 million of program revenue in fiscal year 2010 compared to approximately $12 million in fiscal year 2009. Although, there was an increase of only approximately $1 million, the increase was due to the collection of approximately $5 million more of TEP, as new development progressed in the Project Area. The increase in TEP was substantially offset by the absence of DIB, as there were no applications submitted by developers for additional density development in fiscal year 2010.

Other revenue in fiscal year 2011 was comprised of $42.7 million of ISPs and $2.6 million of investment earnings, compared to fiscal year 2010 when other revenue was only comprised of $19.9 million of investment earnings. There was a significant decrease of investment earnings in fiscal year 2011, because as bond proceeds are drawn down to pay project costs, the reduced holdings resulted in lower investment earnings. The decrease in investment earnings was offset by the collection of ISPs in fiscal year 2011.

Other revenue, comprised of investment earnings, decreased significantly in fiscal year 2010 compared to fiscal year 2009 because, as bond proceeds are drawn down to pay project costs, the reduced holdings resulted in lower investment earnings.

Project expenses incurred during fiscal year 2011 were approximately $348 million compared to fiscal year 2010 when HYIC incurred approximately $385 million in project expenses. Subway extension expenses decreased by approximately $35 million as major tunneling work was completed in fiscal year 2011 and land acquisition and public amenities costs decreased by approximately $2 million as a large obligation for future condemnation claims was incurred in fiscal year 2010.

Project expenses incurred during fiscal year 2010 were approximately $385 million compared to $353 million in fiscal year 2009. Subway extension expenses decreased by approximately $81 million, which were more than offset by an increase of approximately $113 million in land acquisition costs. The increase in land acquisition expenses in fiscal year 2010 compared to fiscal year 2009 was primarily the result of an accrual of $60 million representing an estimate of the potential future liability attributable to claims asserted in condemnation proceedings (see note 6).

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

Bond interest decreased slightly in fiscal year 2011 and 2010. Bond interest expense is offset by the portion attributable to bond proceeds invested in TDRs, which becomes part of the TDRs asset value (see note 5).

The decrease in investment earnings caused a decrease in arbitrage rebate expense in fiscal year 2011 and fiscal year 2010. Arbitrage is the estimated amount of interest earnings on bond proceeds above the yield of HYIC tax exempt bonds, which HYIC expects to rebate to the United States Internal Revenue Service in the future.

The following summarizes HYIC's assets, liabilities and net assets (deficit) as of June 30, 2011, 2010 and 2009:

	2011	2010	2009	Change 2011 vs 2010	Change 2010 vs 2009
Assets:					
Non-capital	$ 581,638	$ 941,785	$ 1,410,209	$ (360,147)	$ (468,424)
Total assets	581,638	941,785	1,410,209	(360,147)	(468,424)
Liabilities:					
Current liabilities	118,385	102,660	190,024	15,725	(87,364)
Long-term liabilities	2,150,392	2,168,238	2,109,051	(17,846)	59,187
Total liabilities	2,268,777	2,270,898	2,299,075	(2,121)	(28,177)
Net assets (deficit):					
Restricted	161,963	538,026	1,046,889	(376,063)	(508,863)
Unrestricted	(1,849,102)	(1,867,139)	(1,935,755)	18,037	68,616
Total net (deficit)	$ (1,687,139)	$ (1,329,113)	$ (888,866)	$ (358,026)	$ (440,247)

Total assets at June 30, 2011 are lower than 2010, and June 30, 2010 assets were lower than 2009, as a result of bond proceeds being drawn-down to pay the Project costs, as discussed previously.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

Current liabilities increased by $15.7 million at the end of fiscal year 2011 primarily because the arbitrage rebate payable became a current liability in fiscal year 2011, as payment is due December 2011. This increase was slightly offset by a decline in accrued Project costs, as subway extension and acquisition costs declined, as previously discussed.

Current liabilities were lower by approximately $87 million at the end of fiscal year 2010 than fiscal year 2009 primarily because Project costs payable at year end declined by approximately $54 million, as substantially all the Project property acquisitions and easements which were accrued in fiscal year 2009 were settled and paid for during fiscal year 2010. In addition, the final annual installment payment of $33 million for the TDRs was made in fiscal year 2010.

Long-term liabilities decreased in fiscal year 2011 by $17.8 million because the arbitrage rebate liability became a current liability, as previously discussed. Also, the annual amortization of bond premium reduced long-term liabilities.

Long-term liabilities increased by approximately $59 million from fiscal year 2010 compared to fiscal year 2009. The increase was due to the recording of a $60 million obligation related to condemnation claims, as previously discussed.

The large negative unrestricted and total net assets (deficit) balances at June 30, 2011 and 2010 are primarily due to the issuance of bonds that will be repaid from future revenues.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (amounts in thousands, except as noted)

HYIC reports governmental activity using three funds: (1) a general fund ("GF"), (2) a debt service fund ("DSF"), and (3) a capital projects fund ("CPF"). In fiscal year 2011, HYIC implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"). GASB 54 resulted in the creation of a general fund and the restatement of those activities that were formerly presented in the debt service fund and now reported under a general fund. HYIC now accounts for and reports in the GF its administrative and operating expenditures along with the portion of revenues and accumulated resources used or held for use to pay for those operating activities, pursuant to the Indenture.

The following summarizes the changes in the GF balances for the years ended June 30, 2011, 2010, and 2009:

	2011	(restated) 2010	(restated) 2009	Change 2011 vs 2010	Change 2010 vs 2009
Revenues:					
Program revenue	$ 13,091	$ 13,318	$ 660	$ (227)	$ 12,658
Other revenue	118	99	7	19	92
Total Revenues	13,209	13,417	667	(208)	12,750
Expenditures	837	728	633	109	95
Net change in fund balance	12,372	12,689	34	(317)	12,655
Fund balance - beginning of year	12,985	296	262	12,689	34
Fund balance - end of year	$ 25,357	$ 12,985	$ 296	$ 12,372	$ 12,689

Program revenue recorded in the GF in fiscal year 2011 and 2010 was $13.1 million and $13.3 million, respectively. The amount of program revenue deposited in the GF was based on the projected administrative and arbitrage rebate expenditures. The amount deposited in the GF in 2009 was based only on administrative expenditures. Other revenue was comprised of interest income.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

The following summarizes the changes in DSF balances for the years ended June 30, 2011, 2010 and 2009:

	2011	(restated) 2010	(restated) 2009	Change 2011 vs 2010	Change 2010 vs 2009
Revenues:					
Program revenue	$ 17,481	$ -	$ 11,668	$ 17,481	$ (11,668)
Other revenue	42,670	113	16,214	42,557	(16,101)
Total Revenues	60,151	113	27,882	60,038	(27,769)
Expenditures	88,223	88,601	90,147	(378)	(1,546)
Other financing sources (uses), net	30,495	46,141	69,597	(15,646)	(23,456)
Net change in fund balance	2,423	(42,347)	7,332	44,770	(49,679)
Fund balance - beginning of year	237,706	280,053	272,721	(42,347)	7,332
Fund balance - end of year	$ 240,129	$ 237,706	$ 280,053	$ 2,423	$ (42,347)

All program revenue, except that required to fund administrative and operating expenditures as previously discussed, was deposited into the DSF. In fiscal year 2011, $17.5 million was deposited for debt service payments. In fiscal year 2010, there was no program revenue deposited in the DSF as all program revenue collected that year was deposited in the GF to fund HYIC's arbitrage liability. In fiscal year 2009, program revenue deposited in the GF for debt service was $11.6 million.

Other revenue for fiscal year 2011 was mainly comprised of ISPs. Other revenue for fiscal year 2010 was comprised only of interest income as HYIC's resources were sufficient to cover debt service and therefore no ISPs were required to be contributed by The City in fiscal year 2010. Other revenue in fiscal year 2009 included a $15 million grant from The City, which was used to meet subsequent debt service payments.

DSF expenditures decreased slightly in fiscal year 2011 and 2010 as bond interest expenditures were lower, as discussed previously.

The decrease in other financing sources (uses) net, in fiscal year 2011 compared to fiscal year 2010, and in fiscal year 2010 compared to fiscal year 2009, resulted from declines in interest collected on unspent bond proceeds which were transferred to the DSF from the CPF, to be used to pay debt service, in accordance with the terms of the Indenture.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

The following summarizes the changes in CPF balances for the years ended June 30, 2011, 2010 and 2009:

	2011	2010	2009	Change 2011 vs 2010	Change 2010 vs 2009
Revenues	$ 2,508	$ 19,748	$ 56,409	$ (17,240)	$ (36,661)
Expenditures:					
Project	347,996	324,262	353,259	23,734	(28,997)
Total expenditures	347,996	324,262	353,259	23,734	(28,997)
Other financing uses	(30,495)	(79,474)	(102,930)	48,979	23,456
Net change in fund balance	(375,983)	(383,988)	(399,780)	8,005	15,792
Fund balance - beginning of year	598,353	982,341	1,382,121	(383,988)	(399,780)
Fund balance - end of year	$ 222,370	$ 598,353	$ 982,341	$ (375,983)	$ (383,988)

CPF revenues, comprised of investment earnings, decreased in fiscal year 2011 compared to fiscal year 2010, and in fiscal year 2010 compared to fiscal year 2009, because as bond proceeds were drawn down to pay project costs, the reduced holdings resulted in lower investment earnings.

Total project expenditures have increased by approximately $24 million from 2010 to 2011. Although actual subway extension costs have decreased by approximately $35 million as the tunneling work was completed in fiscal year 2011, all other project costs including acquisitions, condemnation counsel, leases, and public amenities increased by $58 million as the project prepares for it next phase of outfitting the subway system and constructing the park and boulevard sites.

Project expenditures in the CPF decreased in fiscal year 2010 compared to fiscal year 2009 as subway extension costs declined due to the major tunneling work having been completed.

Other financing uses during fiscal years 2011, 2010, and 2009 reflected the transfer of interest collected on unspent bond proceeds from the CPF to the DSF, to be used to pay debt service, in accordance with the terms of the Indenture.

HUDSON YARDS INFRASTRUCTURE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

The following summarizes the GF assets, liabilities, and fund balances as of June 30, 2011, 2010 and 2009:

	2011	(restated) 2010	(restated) 2009	Change 2011 vs 2010	Change 2010 vs 2009
Assets:					
Cash equivalents and investments	$ 25,236	$ 12,869	$ 166	$ 12,367	$ 12,703
Other	151	151	170	-	(19)
Total assets	$ 25,387	$ 13,020	$ 336	$ 12,367	$ 12,684
Liabilities:					
Accounts Payable	$ 30	$ 35	$ 40	$ (5)	$ (5)
Total liabilities	30	35	40	(5)	(5)
Fund Balances:					
Nonspendable prepaid expense	151	151	170	-	(19)
Assigned to arbitrage payment	24,964	12,365	-	12,599	12,365
Unassigned	242	469	126	(227)	343
Total fund balances	25,357	12,985	296	12,372	12,689
Total liabilities and fund balances	$ 25,387	$ 13,020	$ 336	$ 12,367	$ 12,684

GF total assets increased in fiscal year 2011 from 2010, and increased in fiscal year 2010 from 2009 as the majority of program revenue deposited in the GF was constrained to pay HYIC's arbitrage obligation, as previously discussed.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (amounts in thousands, except as noted) - (continued)

The following summarizes the DSF assets, liabilities, and fund balances as of June 30, 2011, 2010 and 2009:

	2011	(restated) 2010	(restated) 2009	Change 2011 vs 2010	Change 2010 vs 2009
Assets:					
Restricted cash equivalents and investments	$ 6,448	$ 13,302	$ 64,492	$ (6,854)	$ (51,190)
Transferable development rights	233,681	224,404	215,505	9,277	8,899
Other	-	-	56	-	(56)
Total assets	$ 240,129	$ 237,706	$ 280,053	$ 2,423	$ (42,347)
Liabilities	$ -	$ -	$ -	$ -	$ -
Fund Balances:					
Restricted	240,129	237,706	280,053	2,423	(42,347)
Total fund balances	240,129	237,706	280,053	2,423	(42,347)
Total liabilities and fund balances	$ 240,129	$ 237,706	$ 280,053	$ 2,423	$ (42,347)

DSF total assets were slightly higher at June 30, 2011 compared to 2010, primarily because of the increase in the value of the TDRs. The increase in the value of the TDRs reflects the 2011 cost of borrowed funds used to purchase the TDRS, which HYIC is entitled to recover when the TDRs are sold.

DSF total assets were lower at June 30, 2010 compared to 2009 reflecting the declines in cash and investments. The decrease in investment income on CPF cash and investments, which was transferred to the DSF to pay debt service, caused the DSF cash and investment holdings at year end to decline. This decline was partially offset by the appreciation of the TDRs, reflecting the cost of borrowed funds used to purchase the TDRs, which HYIC is entitled to recover when the TDRs are sold.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (amounts in thousands, except as noted) - (continued)

The following summarizes the CPF assets, liabilities, and fund balances as of June 30, 2011, 2010 and 2009:

	2011	2010	2009	Change 2011 vs 2010	Change 2010 vs 2009
Assets:					
Restricted cash equivalents and investments	$ 289,956	$ 664,145	$ 1,102,159	$ (374,189)	$ (438,014)
Total assets	$ 289,956	$ 664,145	$ 1,102,159	$ (374,189)	$ (438,014)
Liabilities	$ 67,586	$ 65,792	$ 119,818	$ 1,794	$ (54,026)
Fund balances:					
Restricted	222,370	598,353	982,341	(375,983)	(383,988)
Total fund balances	222,370	598,353	982,341	(375,983)	(383,988)
Total liabilities and fund balances	$ 289,956	$ 664,145	$ 1,102,159	$ (374,189)	$ (438,014)

CPF cash equivalents and investments on hand at June 30, 2011, 2010, and 2009 represent unspent bond proceeds, and the decrease in fund balances between the year-ends reflects project expenditures made during the respective fiscal years, as discussed previously.

This financial report is designed to provide a general overview of HYIC's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Raymond Orlando, Manager of Investor Relations, Hudson Yards Infrastructure Corporation, 75 Park Place, New York, NY 10007

******

HUDSON YARDS INFRASTRUCTURE CORPORATION

STATEMENTS OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2011 AND 2010 (amounts in thousands)

	2011	2010
ASSETS:		
Unrestricted cash equivalents	$ 272	$ 504
Restricted cash equivalents	227,419	91
Unrestricted investments	24,964	12,365
Restricted investments	68,985	677,356
Prepaid insurance	151	151
Transferable development rights	233,681	224,404
Unamortized bond issue costs	26,166	26,914
Total assets	581,638	941,785
LIABILITIES:		
Project costs payable	53,310	65,698
Accrued expenses	30	35
Payable to The City of New York	13,991	-
Payable to Hudson Yards Development Corporation	103	94
Payable to New York City Economic Development Corporation	182	-
Arbitrage rebate liability	13,936	15,355
Accrued bond interest payable	36,833	36,833
Contingent liabilities	60,407	60,327
Long-term debt:		
Portion due within one year	-	-
Portion due after one year	2,000,000	2,000,000
Unamortized bond premium	89,985	92,556
Total liabilities	2,268,777	2,270,898
NET ASSETS (DEFICIT):		
Restricted for capital projects	161,963	538,026
Unrestricted	(1,849,102)	(1,867,139)
Total net assets (deficit)	$ (1,687,139)	$ (1,329,113)

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (amounts in thousands)

	2011	2010
REVENUES:		
District improvement bonus revenue	$ 4,635	$ -
Tax equivalency payment revenue	25,937	13,318
Interest support payment revenue	42,667	-
Investment income	2,629	19,960
Total revenues	75,868	33,278
EXPENSES:		
Project - subway extension	275,609	310,280
Project - land acquisition and public amenities	69,269	70,055
Project - transfer to Hudson Yards Development Corporation	3,198	4,254
Bond interest	85,652	86,030
Arbitrage rebate	(1,419)	1,430
Amortization of bond issuance costs	748	748
General and administrative	837	728
Total expenses	433,894	473,525
CHANGE IN NET ASSETS	(358,026)	(440,247)
NET (DEFICIT) - Beginning of year	(1,329,113)	(888,866)
NET (DEFICIT) - End of year	$ (1,687,139)	$ (1,329,113)

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION

GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2011 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:				
Unrestricted cash equivalents	$ 272	$ -	$ -	$ 272
Restricted cash equivalents	-	6,448	220,971	227,419
Unrestricted investments	24,964	-	-	24,964
Restricted investments	-	-	68,985	68,985
Prepaid insurance	151	-	-	151
Transferable development rights	-	233,681	-	233,681
Total assets	$ 25,387	$ 240,129	$ 289,956	$ 555,472
LIABILITIES:				
Project costs payable	$ -	$ -	$ 53,310	$ 53,310
Accounts payable	30	-	-	30
Payable to The City of New York	-	-	13,991	13,991
Payable to Hudson Yards Development Corporation	-	-	103	103
Payable to New York City Economic Development Corporation	-	-	182	182
Total liabilities	30	-	67,586	67,616
FUND BALANCES:				
Nonspendable prepaid expense	151	-	-	151
Restricted for:				
Debt Service	-	240,129	-	240,129
Capital Projects	-	-	222,370	222,370
Assigned to arbitrage rebate payment	24,964	-	-	24,964
Unassigned	242	-	-	242
Total fund balances	25,357	240,129	222,370	487,856
Total liabilities and fund balances	$ 25,387	$ 240,129	$ 289,956	$ 555,472

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION

GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2010 (amounts in thousands)

	(restated) General Fund	(restated) Debt Service Fund	(restated) Capital Projects Fund	Total Governmental Funds
ASSETS:				
Unrestricted cash equivalents	$ 504	$ -	$ -	$ 504
Restricted cash equivalents	-	1	90	91
Unrestricted investments	12,365	-	-	12,365
Restricted investments	-	13,301	664,055	677,356
Prepaid insurance	151	-	-	151
Transferable development rights	-	224,404	-	224,404
Total assets	$ 13,020	$ 237,706	$ 664,145	$ 914,871
LIABILITIES:				
Project costs payable	$ -	$ -	$ 65,698	$ 65,698
Accounts payable	35	-	-	35
Payable to Hudson Yards Development Corporation	-	-	94	94
Total liabilities	35	-	65,792	65,827
FUND BALANCES:				
Nonspendable prepaid expense	151	-	-	151
Restricted for:				
Debt Service	-	237,706	-	237,706
Capital Projects	-	-	598,353	598,353
Assigned to arbitrage rebate payment	12,365	-	-	12,365
Unassigned	469	-	-	469
Total fund balances	12,985	237,706	598,353	849,044
Total liabilities and fund balances	$ 13,020	$ 237,706	$ 664,145	$ 914,871

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2011 AND 2010 (amounts in thousands)

	2011	2010
Total fund balance - governmental funds	$ 487,856	$ 849,044
Amounts reported for governmental activities in the statements of net assets are different because:		
Costs of bond issuance are reported as expenditures in the governmental funds financial statements. However, in the statements of net assets (deficit) , the costs of bond issuance are reported as capitalized assets and amortized over the life of the bonds.	26,166	26,914
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 life of the bonds.	(89,985)	(92,556)
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 are:		
Bonds payable	(2,000,000)	(2,000,000)
Accrued bond interest payable	(36,833)	(36,833)
Arbitrage rebate	(13,936)	(15,355)
Contingent liabilities	(60,407)	(60,327)
Net (deficit) - governmental activities	$ (1,687,139)	$ (1,329,113)

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION

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

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

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	$ -	$ 4,635	$ -	$ 4,635
Tax equivalency payment revenue	13,091	12,846	-	25,937
Interest support payment revenue	-	42,667	-	42,667
Investment income	118	3	2,508	2,629
Total revenues	13,209	60,151	2,508	75,868
EXPENDITURES:				
Project - subway extension	-	-	275,609	275,609
Project - land acquisition and public amenities	-	-	69,189	69,189
Project - transfers to Hudson Yards Development Corporation	-	-	3,198	3,198
Bond interest	-	88,223	-	88,223
General and administrative	837	-	-	837
Total expenditures	837	88,223	347,996	437,056
OTHER FINANCING SOURCES (USES):				
Transfers (from capital projects fund) to debt service fund	-	30,495	(30,495)	-
Total other financing sources (uses)	-	30,495	(30,495)	-
NET CHANGE IN FUND BALANCE	12,372	2,423	(375,983)	(361,188)
FUND BALANCES - Beginning of year	12,985	237,706	598,353	849,044
FUND BALANCES - End of year	$ 25,357	$ 240,129	$ 222,370	$ 487,856

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010 (amounts in thousands)

	(restated) General Fund	(restated) Debt Service Fund	(restated) Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	$ -	$ -	$ -	$ -
Tax equivalency payment revenue	13,318	-	-	13,318
Investment income	99	113	19,748	19,960
Total revenues	13,417	113	19,748	33,278
EXPENDITURES:				
Project - subway extension	-	-	310,280	310,280
Project - land acquisition and public amenities	-	-	9,728	9,728
Project - transfers to Hudson Yards Development Corporation	-	-	4,254	4,254
Bond interest	-	88,601	-	88,601
General and administrative	728	-	-	728
Total expenditures	728	88,601	324,262	413,591
OTHER FINANCING SOURCES (USES):				
Transfers (from capital projects fund) to debt service fund	-	79,474	(79,474)	-
Other - transferable development rights installment purchase agreement	-	(33,333)	-	(33,333)
Total other financing sources (uses)	-	46,141	(79,474)	(33,333)
NET CHANGE IN FUND BALANCE	12,689	(42,347)	(383,988)	(413,646)
FUND BALANCES - Beginning of year	296	280,053	982,341	1,262,690
FUND BALANCES - End of year	$ 12,985	$ 237,706	$ 598,353	$ 849,044

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (amounts in thousands)

	2011	2010
Net change fund balances - total governmental funds	$ (361,188)	$ (413,646)
Amount reported in the statements of activities are different because:		
The unpaid portion of installment purchases of assets held for re-sale provide current financial resources to governmental funds, but the unpaid purchase price increases liabilities on the statements of net assets (deficit).	-	33,333
Governmental funds report costs of debt issuance as expenditures. However, on the statements of activities, the cost of debt issuance is amortized over the life of the bonds.	(748)	(748)
Governmental funds report bond premiums as other financing sources upon issuance. However, on the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.	2,571	2,571
Arbitrage earnings rebatable to the Federal government are reported on the statements of activities on an accrual basis, however arbitrage expenditures are reported in governmental funds when the outlay of financial resources is due.	1,419	(1,430)
Contingent liabilities are reported on the statement of activities on the accrual basis, however contingent expenditures are reported in the governmental funds when the outlay of current financial resources is due.	(80)	(60,327)
Change in net (deficit) - governmental activities	$ (358,026)	$ (440,247)

See notes to financial statements.

1. ORGANIZATION

Hudson Yards Infrastructure Corporation ("HYIC") is a local development corporation established by The City of New York ("The City") under Article 14 of the Not-for-Profit Corporation Law of the State of New York. HYIC's purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the "Project"). The HYIC does not engage in development directly, but finances development spearheaded by Hudson Yards Development Corporation ("HYDC") and carried out by existing public entities. The Project is in an area generally bounded by Seventh and Eighth Avenues on the east, West 43^{rd} Street on the north, Twelfth Avenue on the west and West 29^{th} and 30^{th} Streets on the south (the "Project Area"). The Project consists of: (1) design and construction of an extension of the No. 7 Subway from its current terminus at 7^{th} Avenue and 41^{st} Street to a new station at 11^{th} Avenue and West 34^{th} Street (the "Subway Extension"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights over its rail yards between Tenth and Eleventh Avenues and between West 30^{th} and West 33^{rd} Streets ("Eastern Rail Yards" or "ERY"), (3) construction of the first phase of a system of parks, public open spaces, and streets in the Project Area ("Public Amenities") and (4) property acquisition for the Project.

HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and the collection of revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from The City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by a Board of Directors elected by its five members, all of whom are officials of The City. HYIC's Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions. HYIC does not have any employees; its affairs are administered by employees of The City and of another component unit of The City, for which HYIC pays a management fee and overhead based on its allocated share of personnel and overhead costs.

Although legally separate from The City, HYIC is an instrumentality of The City and, accordingly, is included in The City's financial statements as a blended component unit, in accordance with the Governmental Accounting Standards Board ("GASB") standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The government-wide financial statements of HYIC, 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 GASB standards. 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. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

HYIC'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. Revenue is generally considered available if expected to be received within one year after period end. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable and estimated arbitrage rebate liability which are recognized when due.

HYIC uses three governmental funds for reporting its activities: a General Fund ("GF"), a Debt Service Fund ("DSF") and a Capital Projects Fund ("CPF"). The DSF is used to account for the receipt and disbursement of resources – including Transferable Development Rights (see Note 5) - used to pay interest on and principal of long term debt. The CPF is used to account for the bond issuances and proceeds and for project expenditures. The GF is used to account for all financial resources not accounted for in the DSF or the CPF, generally those used or held for use for administrative expenditures and arbitrage rebate expenditures. HYIC accounts for the activities in the GF in accordance with the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "Indenture").

Fund Balance

Fund balances are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned in accordance with GASB Statement 54 (see following discussion on the implementation of the new standard).

The Board of Directors of HYIC ("Board") constitutes HYIC's highest level of decision-making authority. Resolutions adopted by the Board that constrain fund balances for a specific purpose are accounted for and reported as committed for such purpose unless, and until, a subsequent resolution altering the commitment is adopted by the Board.

Fund balances which are constrained for use for a specific purpose based on the direction of any officer of HYIC duly authorized under its bond indenture to direct the movement of such funds are accounted for and reported as assigned for such purpose, unless or until a subsequent authorized action by the same or another duly authorized officer, or by the Board, is taken which removes or changes the assignment.

When both restricted and unrestricted resources are available for use for a specific purpose, it is HYIC's policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, it is HYIC's policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

Resources constrained for debt service or redemption in accordance with HYIC's Indenture are classified as restricted on the statements of net assets (deficit) and the governmental funds balance sheets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

HYIC will not be the owner of the Project assets that are constructed or acquired, as those assets become the property of The City. Therefore, HYIC reports no infrastructure assets or construction work in progress.

For fixed assets used in the operations of HYIC, HYIC's policy is to capitalize the purchase or construction costs of assets having a minimum useful life of five years and having a cost of more than $35 thousand. No such assets have been acquired or constructed.

Revenues

HYIC revenues include:

(1) Interest Support Payments ("ISP") to be made by The City under the terms of the Support and Development Agreement ("Agreement") that obligates The City to pay to HYIC, subject to annual appropriation, ISP on up to $3 billion of HYIC bonds issued prior to the Conversion Date (described below), for so long as such bonds are outstanding, in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds;

(2) Payments in lieu of real estate taxes ("PILOT") which have been assigned to HYIC under agreements with the New York City Industrial Development Agency ("IDA"), The City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others ("PILOT Agreements");

(3) Tax Equivalency Payments ("TEP") to be made by The City under the terms of the Agreement that obligates The City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by The City on new development (including substantial rehabilitation of existing buildings) in the Project Area;

(4) District Improvement Bonuses ("DIB") paid by private developers in exchange for the right to create additional density in the Project Area;

(5) Payments in lieu of the mortgage recording tax ("PILOMRT") required to be made by private developers entering into PILOT Agreements; and

(6) Interest earned on unspent bond proceeds, which is generally used for debt service.

The Conversion Date is the date on which HYIC certifies that, for each of the two preceding fiscal years, HYIC's PILOT payments plus TEP revenues, less HYIC's operating expenses, ("Net Recurring Revenues") were not less than 125% of the maximum annual debt service on all then-outstanding senior

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

bonds and not less than 105% of maximum annual debt service on all outstanding bonds. After the date on which bonds are first callable (February 15, 2017) and prior to the Conversion Date, all revenues received by HYIC in a fiscal year remaining after funding expenses and interest must be used to purchase or redeem senior bonds in advance of their maturity, except that, if, during such fiscal year, The City has made ISPs, then HYIC must first reimburse The City for such ISPs. Prior to the Conversion Date, HYIC is not obligated to make any payments of principal on its bonds prior to maturity unless and until HYIC receives revenues in amounts sufficient to make such payments. After the Conversion Date, HYIC must establish a schedule of sinking fund installments for all outstanding debt no later than June 30th of that year. Bonds issued by HYIC after the Conversion Date are not entitled to ISPs under the Agreement.

Arbitrage Rebate

To maintain the exemption from Federal income tax of interest on bonds issued on December 21, 2006, HYIC will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”). The Code requires the payment to the United States Treasury of the excess of the amount earned on all obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, or within 60 days after retirement of the bonds.

During fiscal years 2011 and 2010, HYIC made no rebate payments, but has estimated its accrued liability to rebate excess earnings to be approximately $13,936 and $15,355 at year end, respectively. The annual arbitrage rebate expense and the liability at year end are reported in the government-wide financial statements, but are not reported in the governmental fund financial statements as the liability is not expected to be paid out of current resources. It will be reported as an expenditure of the governmental funds financial statements in the year it becomes payable to the Federal government.

Bond Premium and Issuance Costs

Bond premium and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the government-wide financial statements. The amounts of unamortized bond premium at June 30, 2011 and 2010 were $89,985 and $92,556, respectively, which were net of accumulated amortization of $12,855 and $10,284, respectively. The amounts of unamortized issuance costs at June 30, 2011 and 2010 were $26,166 and $26,914, respectively, which were net of accumulated amortization of $3,738 and $2,990, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires HYIC's management to make estimates and assumptions in determining the reported amounts of 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.

Recent Accounting Pronouncements

As a Component Unit of The City, HYIC implements new GASB standards in the same fiscal year as they are implemented by The City. The following are discussions of the standards requiring implementation in the current year and standards which will or may impact HYIC in future years.

- In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"), effective for periods beginning after June 15, 2010. In fiscal year 2011, HYIC implemented GASB 54. GASB 54 changed the terminology and classification of fund balances to reflect spending constraints on the reported resources. It also changed the definitions of governmental fund types. The Statement changes the display of fund balances in the governmental fund financial statements and requires that governments disclose certain fund balance classifications and policies in the notes to the financial statements. As a result of HYIC implementing GASB 54, it established a general fund to report its administrative expenses and restated prior period financial statements in accordance with the Statement. The impact of the implementation of GASB 54 reduced the beginning fiscal year 2010 DSF fund balance by $296 thousand and increased the GF fund balance by the same amount. GASB 54 did not have any impact on HYIC's reported levels of total governmental fund balances or net assets (deficit).
- In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus* ("GASB 59"). The Statement clarifies the accounting for a number of financial instruments including allocated and unallocated insurance contracts. The Statement is effective for the financial statements beginning after June 15, 2010. GASB 59 does not have an impact on HYIC's financial statements.
- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* ("GASB 60"). The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011, but is not expected to have an impact on HYIC financial statements.
- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statement No. 14 and No. 34* ("GASB 61"). The Statement amends existing standards relating to the composition and reporting of the governmental financial reporting entity. The Statement is effective for financial statement periods beginning after June 15, 2012, but is not expected to have an impact on HYIC or its status as a blended component unit of The City.

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements* ("GASB 62"). The Statement incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. The Statement is effective for financial statement periods beginning after December 15, 2011. HYIC has not completed the process of evaluation GASB 62, but does not expect it to have an impact on its financial statements.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"). The Statement establishes two new reporting elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. The Statement is effective for financial statements for periods beginning after December 15, 2011. HYIC has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and naming of HYIC's statement of position and components thereof, with no overall financial impact.
- In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* ("GASB 64"). The Statement clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty's credit support provider. The Statement is effective for financial statements for periods beginning after June 15, 2011. HYIC has not completed the process of evaluating GASB 64, but does not expect it to have an impact on its financial statements.

Prior year amounts have been reclassified to conform to current year presentation.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2011 and 2010, HYIC did not have any cash deposits on hand. Cash equivalents were comprised of U.S. Treasury Money Market Funds and commercial paper maturing within 90 days, primarily restricted for capital projects. HYIC's cash and cash equivalents consisted of the following deposits at June 30, 2011 and 2010:

	2011	2010
Cash	$ -	$ -
Cash Equivalents (see Note 4)	227,691	595
Total Cash and Cash Equivalents	$ 227,691	$ 595

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (amounts in thousands, except as noted)

4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2011 and 2010:

	2011	2010
Unrestricted:		
U.S. Treasury Money Market Funds	$ 272	$ 504
Federal Home Loan Mortgage Corporation discount notes (maturing within one year)	7,617	-
Federal Home Loan Mortgage Corporation medium term notes (maturing after one year)	17,347	12,365
Total Unrestricted	25,236	12,869
Restricted for Debt Service:		
U.S. Treasury Money Market Funds	6,448	1
Federal National Mortgage Association discount notes (maturing within one year)	-	13,301
Total Restricted for Debt Service	6,448	13,302
Restricted for Capital Projects:		
U.S. Treasury Money Market Funds	42,435	90
Commercial Paper (maturing within 90 days)	178,536	-
Repurchase agreements	-	664,055
Commercial Paper (maturing after 90 days)	68,985	-
Total Restricted for Capital Project	289,956	664,145
Total Investments including cash equivalents	321,640	690,316
Less amounts reported as cash equivalents (see Note 3)	(227,691)	(595)
Total Investments	$ 93,949	$ 689,721

HYIC's management invests funds which are not immediately required for operations, debt service or capital project expenses. Each account of the HYIC is held pursuant to the Indenture and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture.

4. INVESTMENTS (continued)

Unspent proceeds of HYIC's Senior Revenue Bonds Fiscal 2007 Series A (the "Series 2007A Bonds") were primarily invested in flexible repurchase agreements ("Repurchase Agreements") which guarantee fixed rates of return (ranging from 4.635% to 4.835%) on the daily balances and permitted HYIC to withdraw funds for project expenditures as needed, until the Repurchase Agreements expired on March 31, 2011. Securities underlying the Repurchase Agreements were limited to obligations of the United States of America with a maturity of ten years or less or to certain senior debt obligations of Government National Mortgage Association, Federal National Mortgage Association or Federal Home Loan Mortgage Corporation rated "AAA" by S&P and "Aaa" by Moody's, with a maturity of ten years or less. Underlying securities are held and monitored by a third-party custodian as HYIC's agent and must have a market value of at least 104% of their cost.

Investments are reported at fair value as of the financial statement date. All investments are registered and are held by HYIC's agent in HYIC's name.

Credit Risk

All investments held by HYIC at June 30, 2011 and 2010 are obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, shares of money market funds, and are rated "AAA" or "A-1+" by S&P and "Aaa" or "P-1" by Moody's, or commercial paper and are rated in the highest category by at least two rating agencies.

Interest Rate Risk

HYIC's short term maturities are subject to minimal risk of fair value declines due to changes in market interest rates. Investments with longer terms are expected to be held until maturity thereby limiting the exposure from rising interest rates.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of HYIC's investments in a single issuer (5% or more). HYIC's investment policy places no limits, except for securities, on the amount HYIC may invest in any one issuer of eligible investments as defined in the Indenture. As of June 30, 2011, HYIC's investments are in eligible government obligations and commercial paper. These are 23% and 77% of HYIC total investments, respectively.

5. TRANSFERABLE DEVELOPMENT RIGHTS

HYIC acquired a 50% interest in Eastern Rail Yards Transferable Development Rights ("TDRs") for the purpose of resale, under an agreement among The City, the MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company ("TDR Agreement"). The purchase by developers of TDRs will permit the construction of buildings of larger size than would otherwise be permissible as-of-right under applicable zoning law. Proceeds received by HYIC for sales of the TDRs, up to the amount of HYIC's investment (including the $200 million total purchase price and interest costs thereon) will be used by HYIC to support its operations and service its debt.

Under the terms of the TDR Agreement, HYIC made the initial installment payment of $100,000 in fiscal year 2007, and was required to make three more annual payments of $33,333 in September of 2007, 2008 and 2009 for this interest of which all the payments were made. The full value of the TDRs, including the full purchase price and HYIC's cost of funds is reflected as an asset in the governmental funds balance sheets and in the statements of net assets (deficits).

6. LONG-TERM LIABILITIES

Changes in Long-term Liabilities

On December 21, 2006, HYIC issued the Series 2007A Bonds in the amount of $2,000,000. They are the first bonds issued by HYIC and the only bonds issued and outstanding as of June 30, 2011 and 2010. HYIC has pledged all revenues and its proceeds from sales of TDRs to secure the bonds.

Interest on the Series 2007A Bonds is payable semiannually on February 15 and August 15. Payments of principal on the Series 2007A Bonds will be made by HYIC from revenues and TDRs sale proceeds received as a result of development in the Hudson Yards Financing District. Prior to the Conversion Date (discussed in Note 2), HYIC is not obligated to make any payments of principal on the Series 2007A Bonds prior to maturity unless and until – and to the extent that – HYIC receives revenues and TDRs sale proceeds in amounts sufficient to make such payments. After the first call date (February 15, 2017) for the Series 2007A Bonds and prior to the Conversion Date, all revenues remaining after funding expenses and interest must be used to purchase or redeem Series 2007A Bonds (except that, if The City has made ISPs during such fiscal year, then HYIC must first reimburse The City for such ISPs). The Indenture specifies that a schedule of sinking fund installments must be established for the Series 2007A Bonds no later than the June 30th following the Conversion Date. The bonds bear interest at fixed rates ranging from 4.5% to 5.0%.

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

A summary of changes in outstanding bonds and other long term debt during the year ended June 30, 2011 follows:

Series	Balance June 30, 2010	Period Ended June 30, 2011 Additions	Period Ended June 30, 2011 Deletions	Balance June 30, 2011	Due Within One Year
Fiscal 2007 Series A	$ 2,000,000	$ -	$ -	$ 2,000,000	$ -
Total Long Term Debt	$ 2,000,000	$ -	$ -	$ 2,000,000	$ -

A summary of changes in outstanding bonds and other long term debt during the year ended June 30, 2010 follows:

Series	Balance June 30, 2009	Period Ended June 30, 2010 Additions	Period Ended June 30, 2010 Deletions	Balance June 30, 2010	Due Within One Year
Fiscal 2007 Series A	$ 2,000,000	$ -	$ -	$ 2,000,000	$ -
Total bonds payable	$ 2,000,000	$ -	$ -	$ 2,000,000	$ -
Due to MTA for TDR	33,333	-	33,333	-	-
Total changes in Long-term Debt	$ 2,033,333	$ -	$ 33,333	$ 2,000,000	$ -

AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

Debt service requirements on bonds, including principal and interest, at June 30, 2011, are as follows:

Years Ended June 30,	Principal	Interest	Total
2012	$ -	$ 97,500	$ 97,500
2013	-	97,500	97,500
2014	-	97,500	97,500
2015	-	97,500	97,500
2016	-	97,500	97,500
2017 to 2021	-	487,500	487,500
2022 to 2026	-	487,500	487,500
2027 to 2031	-	487,500	487,500
2032 to 2036	-	487,500	487,500
2037 to 2041	-	487,500	487,500
2042 to 2047	2,000,000	585,000	2,585,000
Totals	$ 2,000,000	$ 3,510,000	$ 5,510,000

Claims and Litigation

As of June 30, 2011 and 2010, The City was a defendant in several condemnation proceedings pertaining to the Hudson Yards Project. The potential future liability attributable to claims asserted in such condemnation proceedings, is estimated to be $60 million, which is HYIC's best estimate as of the end of fiscal year 2011, based upon available information. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.

* * * * *

APPENDIX G

Form of Bond Counsel Opinion

[THIS PAGE INTENTIONALLY LEFT BLANK]

437 Madison Avenue
New York, New York 10022-7001
(212) 940-3000
Fax: (212) 940-3111

[Dated the Date of Issuance]

Hudson Yards Infrastructure Corporation
75 Park Place, 6th Floor
New York, New York 10007

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $1,000,000,000 aggregate principal amount of Hudson Yards Senior Revenue Bonds Fiscal 2012 Series A (the "Fiscal 2012 Series A Bonds"), by the Hudson Yards Infrastructure Corporation (the "Corporation"), a local development corporation organized by The City of New York (the "City") under the Not-for-Profit Corporation Law of the State of New York.

The Fiscal 2012 Series A Bonds are issued under and pursuant to a Trust Indenture, by and between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), dated as of December 1, 2006, as amended by a First Supplemental Trust Indenture, dated as of December 1, 2006 and a Second Supplemental Trust Indenture, dated as of February 1, 2008, and as further amended and restated as of October 1, 2011 (collectively, the "Master Indenture"), and a Third Supplemental Trust Indenture, dated as of October 1, 2011, by and between the Corporation and the Trustee, authorizing the issuance of the Fiscal 2012 Series A Bonds (the "Third Supplemental Trust Indenture", which, together with the Master Indenture are collectively referred to herein as the "Indentures"). Unless otherwise defined herein, capitalized terms used herein have the respective meanings given to them in the Indentures.

The Fiscal 2012 Series A Bonds are part of an issue of bonds of the Corporation (the "Bonds"), which the Corporation has established and created under the terms of the Master Indenture and is authorized to issue from time to time for the purposes authorized by the Master Indenture, as then in effect, and without limitation as to amount, except as provided in the Indentures or as may be limited by law. The Fiscal 2012 Series A Bonds are being issued for the purposes set forth in the Indentures.

The Corporation is authorized to issue Bonds, in addition to the Fiscal 2012 Series A Bonds and the Bonds heretofore issued, only upon the terms and conditions set forth in the Master Indenture and such Bonds, when issued, will, with the Fiscal 2012 Series A Bonds and the Bonds heretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Master Indenture.

The Fiscal 2012 Series A Bonds are dated the date hereof and mature on February 15, 2047. Interest on the Fiscal 2012 Series A Bonds is payable semiannually on February 15 and August 15 of each year beginning on February 15, 2012. The Fiscal 2012 Series A Bonds will bear interest at the respective rates per annum and in the respective principal amounts set forth below:

Principal Amount	Interest Rate
$650,000,000	5¾%
300,000,000	5¼
50,000,000	5

The Fiscal 2012 Series A Bonds are to be issued in the form of fully registered Bonds in the denomination of $5,000 or integral multiples thereof. The Fiscal 2012 Series A Bonds are numbered from one upward in order of issuance.

The Fiscal 2012 Series A Bonds are subject to redemption prior to maturity as provided in the Third Supplemental Trust Indenture.

The Fiscal 2012 Series A Bonds are being issued for the purposes authorized and permitted by the Indentures, including to fund the Construction Fund and to pay certain of the expenses of the Corporation, including operating expenses of the Hudson Yards Development Corporation (the "HYDC"). The Corporation has entered into the DIB Assignment and Agreement, dated as of December 1, 2006, by and between the City and the Corporation (the "DIB Assignment Agreement"), pursuant to which the City has assigned to the Corporation its rights in and to the payments of contributions to the Hudson Yards District Improvement Fund established pursuant to Section 93-31 of the City's zoning resolution (the "DIB Payments"); the PILOT Assignment and Agreement, dated as of December 1, 2006, by and among the City, the New York City Industrial Development Agency (the "IDA") and the Corporation (the "PILOT Assignment Agreement"), pursuant to which the City and the IDA have assigned to the Corporation their rights in and to certain payments in lieu of *ad valorem* real property taxes (the "PILOT Payments") and payments made in lieu of any mortgage recording taxes; and the Hudson Yards Support and Development Agreement, dated as of December 1, 2006, by and among the City, the HYDC and the Corporation (the "Support and Development Agreement"), pursuant to which the City has agreed to make certain Tax Equivalency Payments and Interest Support Payments (each as defined in the Support and Development Agreement) to the Corporation. The DIB Assignment Agreement, the PILOT Assignment Agreement and the Support and Development Agreement are each, individually, hereinafter referred to as an "Agreement" and are, collectively, referred to as the "Agreements." The Corporation, in consideration for such assignments and agreements, has agreed to issue its Bonds and apply the net proceeds for the purposes permitted by the Master Indenture. We assume the parties will perform their respective covenants, agreements and obligation in and under the Indenture and the Agreements in all material respects.

We are of the opinion that:

1. The Corporation has been duly formed and is validly existing as a local development corporation under the Not-For-Profit Corporation Law of the State of New York, with the right and lawful authority and power to enter into the Indentures and to issue its Bonds thereunder, including the Fiscal 2012 Series A Bonds.

2. The Indentures have been duly authorized, executed and delivered by the Corporation and are legal, valid and binding obligations of the Corporation enforceable against the Corporation in accordance with their terms.

3. The Fiscal 2012 Series A Bonds have been duly and validly authorized and issued in accordance with the laws of the State, and in accordance with the Indentures. The Fiscal 2012 Series A Bonds are legal, valid and binding special obligations of the Corporation payable as provided in the Indentures, are enforceable in accordance with their terms and the terms of the Indentures and are entitled to the equal benefits of the Master Indenture.

4. The Corporation has the right and lawful authority and power to enter into the Agreements and each Agreement has been duly authorized, executed and delivered by the Corporation and constitutes a legal, valid and binding obligation of the Corporation enforceable against the Corporation in accordance with its terms.

5. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the Fiscal 2012 Series A Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Fiscal 2012 Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Fiscal 2012 Series A Bonds. Pursuant to the Indentures and the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate"), the Corporation has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Fiscal 2012 Series A Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Corporation has made certain representations and certifications in the Indentures and the Tax Certificate. We have not independently verified the accuracy of those certifications and representations.

Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the Fiscal 2012 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Fiscal 2012 Series A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

6. Interest on the Fiscal 2012 Series A Bonds is exempt from personal income taxes of the State and its political subdivisions.

The opinions contained in paragraphs 2, 3 and 4 above are qualified to the extent that the enforceability of the Indentures, the Fiscal 2012 Series A Bonds, and the Agreements may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy.

Except as stated in paragraphs 5 and 6 above, we express no opinion as to any other federal or state tax consequences of the ownership or disposition of the Fiscal 2012 Series A Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Fiscal 2012 Series A Bonds, or the interest thereon, if any action is taken with respect to Fiscal 2012 Series A Bonds or the proceeds thereof upon the advice or approval of other counsel.

In connection with the delivery of this opinion, we are not passing upon the authorization, execution and delivery of any document or agreement by any party other than the Corporation. We have assumed the due authorization, execution and delivery of the Indentures and the Agreements by each of the other parties thereto.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX H

Assured Guaranty Municipal Corp.

Assured Guaranty Municipal Corp. ("AGM") is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA+" (CreditWatch negative) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On September 27, 2011, S&P published a Research Update in which it placed AGM's "AA+" (negative outlook) financial strength rating on CreditWatch negative, meaning that S&P may downgrade AGM's financial strength rating in the near future. According to S&P, the CreditWatch placement is due to significant concentration risk in AGM's insured portfolio that is not consistent with S&P's new bond insurance rating criteria. However, based on discussions with AGM management, S&P further reported that AGM intends to take action to mitigate these concentration risks, and that it is likely such actions, if taken, would support financial strength ratings in the "AA" category. S&P noted that it expects to resolve this CreditWatch placement no later than November 30, 2011. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

On August 25, 2011, S&P published Bond Insurance Rating Methodology and Assumptions, a criteria article that follows S&P's Request for Comment: Bond Insurance Criteria, published January 24, 2011. The criteria described in the article update and supersede S&P's previous criteria for rating bond insurers. S&P noted that the impact of new bond insurance rating criteria could result in financial strength ratings on investment-grade bond insurers (such as AGM) being lowered by one or more rating categories. The article states that the criteria are effective immediately and that S&P expects any rating changes as a result of the new methodology and assumptions would occur after its review of third quarter 2011 financial statements, but no later than November 30, 2011. However, as noted above, a rating agency may place a company's financial strength rating on credit watch for a downgrade at any time. For the complete text of S&P's comments, both publications are available at www.standardandpoors.com.

AGM and its affiliates are currently reviewing S&P's revised bond insurance rating criteria. The final criteria contain a number of changes from the proposals submitted in January 2011 for comment from market participants, including a new Largest Obligors Test that was not included in the January 2011 Request for Comment. This test appears to have the effect of significantly reducing AGM and its affiliates' allowed single risk limits and limiting their financial strength rating level.

On August 8, 2011, S&P published a Research Update in which it affirmed the "AA+" financial strength rating of AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that S&P or Moody's may take with respect to AGM.

Capitalization of AGM

At June 30, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately $3,050,613,849 and its total net unearned premium reserve was approximately $2,254,726,646, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2010 and for the quarterly periods ended March 31, 2011 and June 30, 2011, which have been filed with the New York State Department of Financial Services and posted on AGL's website at http://www.assuredguaranty.com, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

On October 18, 2011, AGL filed a Current Report on Form 8-K with the Securities and Exchange Commission (the "SEC") stating that it is restating its financial results for the years ended December 31, 2009 and 2010, and each of the previously issued quarters of 2010 and 2011. The estimated cumulative impact of the restatement on the shareholders' equity of AGL and its subsidiaries, including AGM, through the second quarter of 2011 is a reduction of less than 1%, from $3.95 billion to $3.91 billion, and on the net income of AGL and its subsidiaries, including AGM, over the entire affected period is a reduction of approximately $36.1 million. The restatement has no effect on AGM's claims-paying resources or on its regulatory or rating agency capital. The restated financial results referred to above are reported in accordance with accounting principles generally accepted in the United States of America.

Portions of the Current Report on Form 8-K dated October 18, 2011 filed by AGL with the SEC on October 18, 2011 that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the document referred to above and before the termination of the offering of the Series 2012A Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included in the Official Statement in the paragraph of the Summary Statement entitled "Bond Insurance," the first paragraph of the subheading entitled "Bond Insurance" within "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS," or Appendices H or I or included in a document incorporated by reference in the Official Statement (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Series 2012A Bonds or the advisability of investing in the Series 2012A Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented in the paragraph of the Summary Statement entitled "Bond Insurance," the first paragraph of the subheading entitled "Bond Insurance" within "SECTION VI: SECURITY AND SOURCES OF PAYMENT OF BONDS," and Appendices H and I.

APPENDIX I

Specimen Municipal Bond Insurance Policy

[THIS PAGE INTENTIONALLY LEFT BLANK]

ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Hudson Yards Infrastructure Corporation, New York

Policy No.: 213999-N

Effective Date: October 26, 2011

BONDS: $50,000,000 in aggregate principal amount of Hudson Yards Senior Revenue Bonds, Fiscal 2012 Series A maturing on February 15 in the year 2047 (5.00% coupon; CUSIP 44420PDJ0)

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), 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 AGM, 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 AGM shall have received Notice of Nonpayment, AGM 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 AGM, 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM 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, AGM 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 AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM 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 AGM 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 AGM 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.

AGM 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 AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM 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 AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM 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 AGM 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 AGM, 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, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ________________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 500NY (5/90)

ASSURED GUARANTY
MUNICIPAL

ENDORSEMENT NO. 1 TO MUNICIPAL BOND INSURANCE POLICY

ISSUER: Hudson Yards Infrastructure Corporation, New York

Policy No.: 213999-N

Effective Date: October 26, 2011

BONDS: $50,000,000 in aggregate principal amount of Hudson Yards Senior Revenue Bonds, Fiscal 2012 Series A maturing on February 15 in the year 2047 (5.00% coupon; CUSIP 44420PDJ0)

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Due for Payment", when referring to the principal of the Bonds, shall apply only to the amount due on the final maturity date of the Bonds and amounts due on scheduled Sinking Fund Installments for the Bonds established pursuant to Section 7.18 of the Indenture that are required to be paid by the Issuer because monies are available under the Indenture to make such payment. For avoidance of doubt, this Policy does not guarantee payments of Sinking Fund Installments on the Bonds if such amounts are deferred in accordance with the Indenture. The capitalized terms used in this Endorsement and not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

ASSURED GUARANTY MUNICIPAL CORP. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 826-0100

Form 627NY

[THIS PAGE INTENTIONALLY LEFT BLANK]