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 2007A 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. Interest on the Series 2007A 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 2007A Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. See "SECTION XI: TAX MATTERS" herein regarding certain other tax considerations.

$2,000,000,000

Hudson Yards Infrastructure Corporation

Hudson Yards Senior Revenue Bonds
Fiscal 2007 Series A

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

The Hudson Yards Senior Revenue Bonds Fiscal 2007 Series A (the "Series 2007A 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 (the "Indenture") and the First Supplemental Trust Indenture dated as of December 1, 2006 (the "First Supplemental Indenture"). The Indenture and the First Supplemental Indenture are referred to together as the "Indenture." The Corporation is an instrumentality of, but separate and apart from, the City.

The Series 2007A 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, the acquisition of certain property for such purposes and of an interest in certain transferable development rights. 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 2007A Bonds are the first Bonds issued by the Corporation. Completion of the Project is expected to require an additional $1.0 billion. Such amount is expected to be provided through the issuance of additional Senior Bonds by the Corporation which may be issued by the Corporation without meeting any of the debt service coverage tests contained in the Indenture for the issuance of additional Bonds. Such additional Senior Bonds would, however, be subject to the provisions of the Indenture which limit the principal amount of Senior Bonds issued, other than for refunding purposes, prior to the Conversion Date (defined below), to an aggregate of $3.5 billion.

Interest on the Series 2007A Bonds will be payable on February 15 and August 15 beginning on August 15, 2007. The Series 2007A Bonds can be purchased in principal amounts of $5,000 or any integral multiple thereof. Other terms of the Series 2007A Bonds, including redemption provisions, are described herein. The Series 2007A 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 2007A Bonds.

The Corporation expects to receive revenues from development in the Hudson Yards Financing District which will be applied to pay debt service on its Bonds. Initially, however, the Corporation does not expect to receive sufficient Revenues from such development to pay all interest due on the Series 2007A Bonds and other Bonds expected to be issued by the Corporation. In the absence of sufficient revenues from 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 V: SECURITY AND SOURCES OF PAYMENT OF BONDS."

Payment of principal on the Series 2007A 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 on the Series 2007A Bonds prior to maturity unless and until the Corporation receives Revenues in amounts sufficient to make such payments. After the date on which the Series 2007A Bonds are first callable and prior to the Conversion Date, all Revenues received by the Corporation in a Fiscal Year remaining after funding of 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 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 the Series 2007A Bonds not later than the June 30 following the Conversion Date which is the date on which the Corporation has certified that it has received Net Recurring Revenues (as defined herein) for two consecutive Fiscal Years in amounts in excess of the Maximum Annual Debt Service on the Bonds as specified in the Indenture. The City has no obligation to pay the principal due on the Series 2007A Bonds. See "SECTION V: SECURITY AND SOURCES OF PAYMENT OF BONDS—Conversion Date" and "SECTION IX: THE BONDS—Redemption of Bonds" for a description of the procedures established in the Indenture for determining the Conversion Date and the calculation of Sinking Fund Installments.

The payment of the principal of and interest on a portion of the Series 2007A Bonds will be insured as shown on the inside cover page.

INVESTMENT IN THE SERIES 2007A 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 2007A BONDS. THE SERIES 2007A BONDS ARE NOT A DEBT OF THE CITY, AND, THE CITY HAS NO OBLIGATION TO PAY PRINCIPAL OR, EXCEPT AS EXPRESSLY STATED HEREIN, INTEREST ON THE SERIES 2007A BONDS. THE CORPORATION HAS NO TAXING POWER.

The Series 2007A 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 will be passed upon by Fulbright & Jaworski L.L.P., Co-Special Disclosure Counsel to the City. Certain legal matters will be passed upon for the Underwriters by Clifford Chance US LLP, New York, New York. It is expected that the Series 2007A Bonds will be available for delivery to DTC on or about December 21, 2006.

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

December 7, 2006

$2,000,000,000

Hudson Yards Infrastructure Corporation

Hudson Yards Senior Revenue Bonds
Fiscal 2007 Series A

$500,000,000 4.5% Term Bonds Due February 15, 2047 Yield 4.40%(1)*

$700,000,000 5.0% Term Bonds Due February 15, 2047 Yield 4.10%(2)*

$800,000,000 5.0% Term Bonds Due February 15, 2047 Yield 4.28%*

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*Priced to first call on February 15, 2017.
(1) Insured by MBIA Insurance Corporation.
(2) Insured by Financial Guaranty Insurance Company.

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 2007A 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 2007A 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 2007A 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 2007A 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. 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. 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. 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 2007A Bonds described herein on the assumption that such facts or circumstances are unchanged.

Deloitte & Touche LLP, the Corporation's independent auditor, has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Deloitte & Touche LLP relating to the Corporation's financial statements for the fiscal year ended June 30, 2006, which is a matter of public record, is included in this Official Statement. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the 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 2007A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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Project Area Map

Set forth below is a map showing the Hudson Yards Financing District outlined in red.

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 2007A 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 – SUMMARY OF INDENTURE – Definitions."

Overview The Hudson Yards Infrastructure Corporation (the "Corporation") is issuing $2,000,000,000 of its Hudson Yards Senior Revenue Bonds, Fiscal 2007 Series A (the "Series 2007A Bonds") pursuant to a Trust Indenture dated as of December 1, 2006, supplemented by a First Supplemental Indenture dated as of December 1, 2006 (collectively, the "Indenture") by and between the Corporation and U.S. Bank, National Association (the "Trustee") to provide initial financing for the Project (defined herein). 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 red on the map on the opposite page 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 in January 2005. The Corporation expects to receive substantial revenues from such development as described in this Official Statement.

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.

Securities Offered The Corporation expects to issue the Series 2007A Bonds as Term Bonds due February 15, 2047. Interest on the Series 2007A Bonds is payable on February 15 and August 15 beginning on August 15, 2007. Sinking Fund Installments for the Series 2007A Bonds 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.

Not Debt of the City **THE SERIES 2007A BONDS ARE NOT A DEBT OF THE CITY, AND THE CITY HAS NO OBLIGATION TO PAY PRINCIPAL OR, EXCEPT AS EXPRESSLY STATED HEREIN, INTEREST ON THE SERIES 2007A BONDS. THE CORPORATION HAS NO TAXING POWER.**

Payment of Interest on Series 2007A Bonds ....

Initially, the Corporation does not expect to receive sufficient Revenues from development in the Project Area to pay all interest due on the Series 2007A Bonds and other Bonds expected to be issued by the Corporation. 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 Hudson Yards Development Corporation, 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 of its Bonds to which the Support and Development Agreement applies, which includes the Series 2007A Bonds and all other Senior Bonds issued prior to the Conversion Date. The Support and Development Agreement obligates the City, subject to annual appropriation, to make such payments to the Corporation as long as such Bonds are outstanding. Interest Support Payments for the Bonds are only required when the Corporation receives insufficient Revenues from development to pay interest on such Bonds. See "Interest Support Payments" below.

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 prohibits the issuance of more than $3 billion of Bonds supported by Interest Support Payments, other than for refunding purposes, unless the City is authorized by appropriate City Council resolution to make Interest Support Payments on such Bonds and the Support and Development Agreement provides for the payment of interest on such additional amount of Bonds. All Senior Bonds issued prior to the Conversion Date must be supported by Interest Support Payments. See "Limitations on Additional Bonds" below.

Payment of Principal on Series 2007A Bonds ....

The Corporation is not obligated to make any payments of principal on its Bonds, including the Series 2007A Bonds, prior to maturity, unless and until the Corporation receives Net Recurring Revenues in amounts sufficient to make such payments. Not later than the June 30 following the Conversion Date, the Corporation must establish a schedule of Sinking Fund Installments for all its Outstanding Bonds. The City has no obligation to make any payments to the Corporation to pay the principal of the Bonds. See "Conversion Date" below.

After the date on which the Series 2007A 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 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.

Bond Insurance .... The principal of and interest on the Series 2007A Bonds (4.5% coupon) (the "MBIA Insured Bonds") are expected to be insured by MBIA Insurance Corporation ("MBIA"). The principal of and interest on the Series 2007A Bonds (5% coupon, 4.10% yield) are expected to be insured by Financial Guaranty Insurance Company ("FGIC") (the "FGIC Insured Bonds" together with the MBIA Insured Bonds, the "Insured Bonds"). Information about MBIA and FGIC is set forth in Appendix H. A specimen MBIA insurance policy and a specimen FGIC insurance policy are set forth in Appendix I.

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 State Not-For-Profit Corporation Law. 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, and has a staff of 11. 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 for construction of the Public Amenities (defined below), private developers active in the Project Area and the Corporation and the City's Office of Management and Budget ("OMB") for project financing and cost containment.

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 first portion of a mid-block boulevard and park between Tenth and Eleventh Avenues, which will eventually extend from West 33rd 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 over the Eastern Railyard (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 rezoning of a significant portion of the Hudson Yards Financing District.

Cushman & Wakefield, Inc. ("C&W"), a real estate consultant to the Corporation, has prepared a study (the "C&W Study") projecting that future demand would support between 24 and 25.7 million square feet ("msf") of commercial office space, between 13.4 and 15.6 msf of residential space, between 2.1 and 2.3 msf of hotel space and between 1.3 and 1.4 msf of retail space, for a total of between 40.9 and 45 msf of mixed-use space in the Project Area from 2006 to 2035. Such projections are based on a number of assumptions and limitations described in the C&W Study, including timely completion of the Project. See "Cushman & Wakefield, Inc. Study" below.

Revenues of the Corporation .... The revenues of the Corporation (the "Revenues") are described below. The projected amounts of such Revenues (other than Interest Support Payments) are analyzed by the C&W Study and have been projected based on certain assumptions and limitations stated therein, including the completion of the Project during 2013, a forecast of economic growth and demographic changes from 2006 to 2035 and the continuation of the current incentives for development in the Project Area. See "SECTION VI: CUSHMAN & WAKEFIELD, INC. STUDY."

Interest Support Payments .... The Support and Development Agreement obligates the City to pay to the Corporation, subject to annual appropriation, Interest Support Payments on up to $3 billion of Bonds of the Corporation, including the Series 2007A Bonds and all other Senior Bonds issued prior to the Conversion Date, in an amount equal to the difference between the amount of funds available to the Corporation to pay interest on Bonds supported by Interest Support Payments ("Supported Bonds") and the amount of interest due on such Bonds. The City is obligated to pay Interest Support Payments, subject to annual appropriation, so long as any Supported Bonds are outstanding. 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.

Interest Support Payments are subject to annual appropriation by the City and to the availability of moneys 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.

PILOT Payments .... The Corporation expects to receive payments in lieu of real estate taxes ("PILOT Payments") under agreements between developers and the New York City Industrial Development Agency ("IDA"), the MTA or the Convention Center Development Corporation ("CCDC"). In August 2006, the IDA adopted a Uniform Tax Exemption Policy for the Project Area (the "Project Area UTEP") under its economic development authority. The Project Area UTEP provides for substantial discounts for up to 19 years to owners of new commercial developments on privately-owned sites in a significant portion of the Project Area from otherwise applicable real property taxes in exchange for PILOT Payments. Beginning in the twentieth year, 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 PILOT Payments to be made ("PILOT Agreement"), which is expected to be 35 years with the right of the IDA to extend such agreement up to another 64 years. Developers are expected to enter into PILOT Agreements because PILOT Payments during the first 19 years will be lower than the real estate taxes on their projects would have been.

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 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 without the prior consent of the Corporation except to conform to a future change in State law.

The MTA has agreed in the Railyards Agreement (defined herein) that, if it leases the Eastern Railyard or the Western Railyard (defined herein) for development, such leases shall require the developer to make PILOT Payments on commercial development according to the Project Area UTEP and PILOT Payments equal to the real property taxes for other development. The MTA has further agreed that it shall pay all such PILOT Payments to the Corporation (or to the City upon the Corporation's direction).

Tax Equivalency Payments......... The Support and Development Agreement also obligates the City to pay to the Corporation, subject to annual appropriation, the amount 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 development, such payments will also be generated from commercial development where PILOT Agreements are not entered into with the IDA, the MTA or CCDC 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.

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 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. 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 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 moneys 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.

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 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 in the assessed value of the property.

Tax Receipts means all *ad valorem* real property taxes and payments in lieu of real property taxes 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 it.

DIB Payments............................ As authorized in the revised zoning regulations adopted by the City Council in January 2005, commercial and residential developments in certain portions of the Project Area are eligible to receive additional density in exchange for payments ("DIB Payments") contributing to density-ameliorating infrastructure improvements. An as-of-right base floor area ratio ("FAR") has been established in certain sections of the Project Area for development, generally 6.5 for residential development and 10 for commercial development. Above this FAR, developments may increase their floor area, up to a specified amount, in exchange for DIB Payments which would be used to finance the infrastructure that is necessary to support high-density residential and commercial development.

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 Zoning Resolution adopted by the City Council, the City has assigned to the Corporation the DIB Payments. The Zoning Resolution directs 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 Zoning Resolution 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.................. The Project Area UTEP enacted by the IDA provides for a 100% exemption from the mortgage recording tax for mortgages securing construction and permanent financing for commercial development projects in a significant portion of the Project Area. However, the recipient of such exemption is required to make payments in lieu of the mortgage recording tax ("PILOMRT Payments") of 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 PILOT Payment Agreement entered into by the IDA.

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 PILOT Assignment Agreement not to take any action that would limit or alter the rights vested in the Corporation under the IDA PILOT Assignment Agreement or any PILOMRT 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 PILOT Assignment Agreement terminates when all principal and interest has been paid on the Corporation's Bonds.

The MTA has agreed in the Railyards Agreement that, if it leases the Eastern Railyard or the Western Railyard for development, such leases will 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 will 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 New York State law, currently 9% of the total tax.

Payments for Eastern Railyard Development Rights .... The Corporation expects to receive Revenues from the sale of the transferable development rights over the Eastern Railyard which the Corporation will purchase from the TBTA. Once the Corporation has received payments for the transferable development rights equal to $200 million (plus interest on such amount at the rate of interest on the Bonds issued to finance the purchase of the transferable development rights), the Corporation must pay any additional amounts received for the sale of such transferable development rights to the MTA.

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 that for each of the two 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 2007A Bonds. See "SECTION VIII: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION."

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, 2007, $1,000,000 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.

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 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 on the principal amount of Bonds that would be supported by the Interest Support Payments after issuance of such Bonds. All Senior Bonds issued prior to the Conversion Date must 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 Tender 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 a 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 (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.

Subordinate Bonds may be issued, without limitation on the principal amount and without the benefit of Interest Support Payments but subject to the other limitations described above. Prior to the Conversion Date, Subordinate Bonds may not be issued if the interest payable in any Fiscal Year on the outstanding Subordinate Bonds would exceed $30 million.

Cushman & Wakefield, Inc. Study. The Corporation retained C&W to analyze potential Revenues resulting from real estate development in the Project Area assuming, among other things, timely completion of the Project in 2013. A copy of C&W's report (the "C&W Study") is attached hereto as Appendix F. Based on the assumptions and limitations stated therein, the C&W Study concluded that estimates of revenues expected to be received by the Corporation from projected new office, residential, hotel and retail development aggregating between $38.9 billion and $34.4 billion during the period from 2006 to 2050 are reasonable.

Optional Redemption .... The Series 2007A 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 par beginning on February 15, 2017, plus accrued interest, if any, to the redemption date. Any Bonds that are defeased will remain subject to optional redemption by the Corporation.

Mandatory Redemption .... After the date on which any Senior 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 for such Fiscal Year and for the subsequent Fiscal Year must be used to purchase or redeem Senior Bonds callable during the current Fiscal Year 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.

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 and all other then Outstanding Bonds. The Sinking Fund Installments so established for the Bonds must conform to the following:

(a) be payable during the Fiscal Year next succeeding the Conversion Date and each Fiscal Year thereafter to and including the Fiscal Year next preceding the date such 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 15;

(c) be established so that each Sinking Fund Installment 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 is in an amount that produces 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) no Sinking Fund Installment on a Subordinate Bond may 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.

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 2007A 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 2007A 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 2007A Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. See "SECTION XI: TAX MATTERS" herein regarding certain other tax considerations.

Trustee... U.S. Bank, National Association, New York, New York.

Ratings... The Series 2007A Bonds, other than the Insured Bonds, are rated "A3" 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 "Aaa," "AAA" and "AAA" by Moody's, Standard & Poor's and Fitch, respectively, based on the ratings of MBIA and FGIC.

Risk Factors .... Reference is made to "SECTION II: RISK FACTORS" herein for a description of certain considerations relevant to an investment in the Series 2007A Bonds.

Financial Advisor............................ Public Resources Advisory Group, New York, New York, is acting as financial advisor to the Corporation in connection with the issuance of the Series 2007A Bonds.

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OFFICIAL STATEMENT
of
HUDSON YARDS INFRASTRUCTURE CORPORATION
Relating To
$2,000,000,000
Hudson Yards Senior Revenue Bonds
Fiscal 2007 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 2007 Series A in the aggregate amount of $2,000,000,000 (the "Series 2007A Bonds"). For purposes of this Official Statement, the term "Bonds" refers to the Series 2007A Bonds and all other bonds that may be issued under the Indenture by the Corporation and the term "Senior Bonds" refers to the Series 2007A Bonds and all other Bonds that may be issued under the Indenture on a parity with the Series 2007A Bonds. The Corporation also has the authority to issue Bonds subordinate to the Senior Bonds referred to herein as "Subordinate Bonds."

The Series 2007A Bonds are being issued pursuant to a Trust Indenture dated as of December 1, 2006 and supplemented from time to time by supplemental indentures, including the First Supplemental Indenture dated as of December 1, 2006 (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 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. 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. The Project Area currently consists 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 Council revised the zoning regulations for the Hudson Yards Financing District (as so revised, the "Zoning Resolution") except for a small portion of the Project Area (principally the Western Railyard (defined herein) and the Javits Marshalling Yard (defined herein)), to promote commercial and residential development, and the City created the Hudson Yards Development Corporation to manage the redevelopment plan. 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 2007A Bonds are being issued by the Corporation to provide a portion of the costs of the Project and to pay the costs of issuance of the Series 2007A Bonds. 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 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 portion of a mid-block boulevard and park between Tenth and Eleventh Avenues which will eventually extend from West 33rd Street to West 42nd Street (the "Public Amenities"), (iii) the acquisition from the Triborough Bridge and Tunnel Authority ("TBTA") of certain transferable development rights over the Eastern Railyard (defined herein) to facilitate development elsewhere in the Project Area and (iv) the acquisition of property for the Project ("Property Acquisition"). See "SECTION IV: THE PROJECT."

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") relating to the Javits Marshalling Yard, 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 transferable development rights over the Eastern Railyard purchased by the Corporation from TBTA and payments by property owners pursuant to the Zoning Resolution to obtain additional density for developments in the Project Area. See "SECTION V: SECURITY AND SOURCES OF PAYMENT OF BONDS" for a description of the Revenues. The projected amounts of such Revenues through 2050 are analyzed in the study prepared by Cushman & Wakefield, Inc. (the "C&W Study"), based on certain assumptions and limitations stated therein including, among other things, the timely completion of the Project during 2013, a forecast of economic growth and demographic changes from 2006 to 2035 and the continuation of certain incentives for development in the Project Area. See "SECTION VI: CUSHMAN & WAKEFIELD, INC. STUDY."

The demand forecasts and revenue projections analyzed in the C&W Study are based on various assumptions and limitations which are detailed in the C&W Study. The C&W study should be read in its 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 proceeds of the Series 2007A Bonds and the right to receive the Revenues as described herein. All the 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 is dependent on, among other things, the occurrence of development in the Project Area as projected and receipt of the expected Revenues from such development which depend 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 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 2007A 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 are described below.

Project Revenues

The amount of projected Revenues from privately owned commercial and residential development in the Project Area expected to be available to the Corporation (See "SECTION V: SECURITY AND SOURCES OF PAYMENT OF BONDS") is analyzed in the C&W Study, a copy of which is attached to this Official Statement as Appendix F. The C&W Study is based on numerous assumptions and limitations, including assumptions of economic growth and demographic changes by Moody's Economy.com ("Economy.com"), 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) analyzed in the C&W Study 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 Study in its entirety and reach his or her own conclusion regarding the reasonableness of the assumptions on which it is 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 Eastern and Western Railyards which are controlled by the MTA, 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 Study, C&W has analyzed the development potential, including limitations to development, of a number of sites in the Project Area. See the C&W Study, attached hereto as Appendix F, for an analysis of such sites. In the event development in the Project Area does not proceed as described in the C&W Study, 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 analyzed in the C&W Study. 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 or pay the amounts for transferable development rights and other development bonus rights in connection with the development of parcels in the Project Area that form the basis of the data analyzed in the C&W Study. 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.

Need for Additional Funds

Proceeds from the Series 2007A Bonds will provide only a portion of the currently estimated funds needed for the Subway Extension, the Public Amenities and for property acquisition for the Subway Extension and Public Amenities. The budget for the Subway Extension is $2 billion plus a $100 million contingency of which approximately $1.425 billion is being funded from the proceeds of the Series 2007A Bonds. Current projections are that approximately $575 million in additional funds will be necessary in 2011 for completion of the Subway Extension. The Corporation expects to issue additional Senior Bonds to raise such funds but there can be no assurance that the additional amount necessary for such purposes will not increase beyond the amount of Senior Bonds the Corporation is permitted by the Indenture to issue prior to the Conversion Date (defined herein) or that the Corporation will have access to the market to sell additional Senior Bonds. Lack of funding would prevent completion of the Subway Extension and the Public Amenities, which would likely result in substantially less development in the Project Area and decrease the amount of Revenues available to the Corporation.

Cost estimates for the Subway Extension are based on engineering designs that are substantially complete but subject to change. In the event that additional funds are required to complete the Subway Extension in excess of the $2 billion budget plus a $100 million contingency and the unwillingness of any party to provide such additional funds, then the completion of the Subway Extension could be delayed or prevented. In such case, the receipt of Revenues by the Corporation in the amounts projected and the ability of the Corporation to pay debt service on its Bonds would be adversely affected. See "SECTION IV: THE PROJECT—No. 7 Subway Construction" for a discussion of the arrangements with the MTA Capital Construction Company to design and construct the Subway Extension.

Construction Risks

Construction of the Project is subject to various risks, which could result in delays in completion of the Project and cost overruns. No guaranteed maximum price or other construction contracts have been entered into for any portion of the Project. Preliminary engineering and design work has recently begun for certain of the Public Amenities but has not been completed and final engineering and design work has not been completed for the Subway Extension. Estimates of completion dates for portions of the Project are preliminary and subject to change. Delays in the completion of portions of the Project could have a negative impact on development in the Project Area and on the Corporation's receipt of the Revenues in the projected amounts and at the projected times analyzed in the C&W Study.

Property Acquisition

A portion of the property necessary for the Subway Extension has been acquired, and condemnation proceedings necessary for additional property acquisition for the Subway Extension have been commenced. The process of condemning land for any public improvement is subject to inherent risks, including the risk that the actual costs of acquiring such land will exceed the budgeted costs and the risk of substantial delays in obtaining access to the right of way so as to permit construction to commence and continue on schedule. If existing users of the property condemned do not move voluntarily, eviction proceedings may cause delays. There can be no assurance that the remaining parcels for the Subway Extension can be acquired in a timely manner to permit the completion of the Subway Extension as projected.

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 CCDC (relating to the Javits Marshalling Yard) or the MTA (relating to the Eastern Railyard and Western Railyard), or pay real property taxes to the City and will make certain amounts of DIB Payments (defined herein) in exchange for the right to increase the size of their buildings. 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 gives UDC the power 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 without a PILOT Agreement with the IDA and to build larger buildings without making DIB Payments. In addition, development on property owned by the State, MTA or the Port Authority of New York and New Jersey (the "Port Authority") in the Project Area will not, by operation of law, result in real property tax revenues to the City or PILOT revenues to the Corporation but could fill some of the demand projected by C&W for commercial and residential developments within the Project Area and therefore could reduce the 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 lost 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 will not be adversely affected. The Corporation and the MTA have, however, agreed that the Corporation will receive PILOT Payments from development on both the Eastern Railyard and Western Railyard and the Corporation has received assurances that it will receive PILOT Payments from the CCDC on the Javits Marshalling Yard site. 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 2007A Bonds will occur. Two scenarios of projected Revenues (other than Interest Support Payments) have been analyzed based on various assumptions and limitations as described in this Official Statement and the C&W Study. 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 expected to be issued by the Corporation 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 VIII: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION."

Legal Proceedings

With the exception of the litigation described in "SECTION XIV: 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 2007A 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 2007A Bonds. See "SECTION XIV: LITIGATION."

Bankruptcy

The enforceability of the rights and remedies of the owners of the Series 2007A 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 2007A Bonds

The Indenture permits the Corporation to issue additional Senior Bonds payable from the Revenues on a parity with the Series 2007A Bonds as described herein. The issuance by the Corporation of additional Senior Bonds payable from the Revenues on a parity with the Series 2007A Bonds will dilute the security for the Series 2007A Bonds by increasing the aggregate debt service payable by the Corporation and decreasing the projected debt service coverage for the Series 2007A Bonds.

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 zoning regulations affecting the Project Area were revised by the New York City Planning Commission and the City Council in January 2005. The New York City Planning Commission, the majority of the commissioners of which are Mayoral appointees, and the City Council could enact changes in such regulations in the future that reduce the amount of DIB Payments available 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) 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), a program which provides certain incentives to develop residential housing, is scheduled to expire in December 2007. There can be no assurance that such program will be extended or what incentives might be included in the program if it is extended. In addition, the extension of the 421-a

Program requires State legislation. 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 Study attached hereto as Appendix F for a description provided by the City of possible changes in the 421-a Program.

Competing Development Activities

Projected development in the Project Area has been analyzed in the C&W Study 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. 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.

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 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 E 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 Study in its analysis of projected Revenues.

Limited Liquidity of the Bonds

There is currently no secondary market for the Series 2007A Bonds. There can be no assurance that a secondary market for the Series 2007A 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 2007A Bonds. Consequently, any purchaser of the Series 2007A 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 2007A Bonds

The proceeds of the Series 2007A Bonds, less certain financing, legal and miscellaneous expenses, are expected to be approximately $2,072,519,447 and will be used to pay a portion of the expected cost of the Subway Extension and the Public Amenities, the cost of the purchase of certain transferable development rights from the TBTA relating to the Eastern Railyard, a portion of the cost of Property Acquisition for the Subway Extension and for the Public Amenities, including reimbursement to the City for amounts previously advanced for such costs, and certain expenses of HYDC. See "SECTION VII: ESTIMATED SOURCES AND USES OF FUNDS."

Issuance of Additional Bonds

The Corporation may issue up to $1.5 billion of additional Senior Bonds 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. In addition, the Corporation may not issue more than $3 billion of 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. The Corporation expects to issue additional Senior Bonds in 2011 in the amount of approximately $1.0 billion to provide funds for the Project. 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 maturity date of any Outstanding Senior Bond. 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 V: SECURITY AND SOURCES OF PAYMENT OF BONDS—Additional Bonds."

SECTION IV: THE PROJECT

The Project consists of (i) the Subway Extension, (ii) the construction of the Public Amenities, (iii) the acquisition from TBTA of certain transferable development rights over the Eastern Railyard and (iv) Property Acquisition. Total costs for the Project are estimated by the Corporation to be $3.0 billion, including $100 million for contingencies. Plans for the Project Area also include a below-ground parking garage (the "Parking Garage") to be located beneath the first section of the mid-block boulevard to be built at the cost of, and operated by, a private developer. The Subway Extension, Property Acquisition, Public Amenities and Parking Garage are expected to be completed during 2013. The Corporation expects that additional parks and open spaces will 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 completion of the mid-block boulevard, are expected to be built by developers in exchange for the right to construct buildings of greater density than otherwise would be available and are expected to be completed after 2013.

To encourage and facilitate privately owned commercial and residential development in the Project Area, changes have been made to City zoning and land use laws and regulations. In January 2005, the City Council revised the zoning rules for the Project Area with the exception of the Western Railyard and the current 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 revised zoning regulations 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 described in the C&W Study, that the Project Area can accommodate the development projected in the C&W Study.

C&W has projected in the C&W Study that future demand would support between 24 and 25.7 msf of commercial office space, between 13.4 and 15.6 msf of residential space, between 2.1 and 2.3 msf of hotel space and between 1.3 and 1.4 msf of retail space for a total of between 40.9 and 45 msf of mixed-use space expected to be built in the Project Area from 2006 to 2035. Such projections are based on a number of assumptions and limitations described in the C&W Study, including, among other things, timely completion of the Project and the accuracy of economic projections. See "SECTION VI: CUSHMAN & WAKEFIELD, INC. STUDY."

Additional improvements are expected to occur in close proximity to the Project Area at approximately the same time as the Subway Extension. The State and the City are planning an expansion and modernization of the Jacob K. Javits Convention Center (the "Javits Convention Center"), which they have begun to implement through the adoption of a general project plan and the issuance of approximately $700 million of bonds by the ESDC to finance construction. The expansion and modernization of the Javits Convention Center (the "Javits Center Project") includes construction of approximately 340,000 square feet of new exhibition space and 180,000 square feet of meeting space which will double the size of the Javits Convention Center. A new marshalling and security facility will be constructed at the northern end of the Javits site. An approximately 40,000 square foot public plaza will be constructed on Eleventh Avenue at 34th Street, and other public open spaces will be created. A new headquarters hotel on Eleventh Avenue between West 35th and 36th Streets across from the Javits Convention Center with 1,000 rooms is also planned to be developed in conjunction with the expansion. The construction of the Javits headquarters hotel, which is within the Project Area, was considered by C&W in its analysis of the potential demand for hotel development in the Project Area, but revenues from the Javits headquarters hotel are not included in the estimated Revenues flowing to the Corporation. Additionally, the full block between West 33rd Street and West 34th Street at Eleventh Avenue (the "Javits Marshalling Yard"), which is currently used for truck marshalling and storage for the Javits Convention Center, is within the Project Area, will be available for development and is projected in the C&W Study to be developed for approximately 2.2 msf of commercial and residential development, as well as public open space.

In addition, the proposed reconstruction of the Farley Post Office, recently renamed the Moynihan Station ("Moynihan Station"), located between West 31st and 33rd Streets from Eighth to Ninth Avenues would create expanded and modernized facilities for New Jersey Transit. This project is currently on hold as it was not approved by the State Public Authorities Control Board. A proposal for the reconstruction of Madison Square Garden within the western portion of Moynihan Station and the subsequent possible redevelopment of the current Madison Square Garden site has been announced by the team of developers that was awarded the contract for proposed reconstruction of Moynihan Station. This potential project is in the very early stages of planning and would require extensive environmental review and public approvals. Therefore revenues from this project were not included as Revenues of the Corporation for purposes of the analysis in the C&W Study, but, since it is within the Project Area, it provides the potential for additional commercial and residential development that could produce Revenues to the Corporation.

If the proposed Moynihan Station reconstruction proceeds, it is expected to complement and support the redevelopment of the Project Area by anchoring the southeastern edge of the Project Area, strengthening the Pennsylvania Station-area office sub-market, and improving the capacity and quality of the commuter rail facilities at Pennsylvania Station.

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 and Rebuilding for the City of New York; Commissioner, New York City Department of Housing Preservation and Development; Director, OMB; Speaker of the Council and Council member representing Council District No. 3; Deputy Mayor for Administration 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 11 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, the CCDC for expansion of the Javits Convention Center, the City 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. A portion of the proceeds of the Series 2007A Bonds will be used to pay HYDC expenses.

Set forth below is a more detailed description of each of the major elements of the Project:

No. 7 Subway Construction

The No. 7 subway line will be 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 on Appendix D attached hereto. The Project includes the construction of a terminal station at West 34th Street and Eleventh Avenue and the shell of an intermediate station at Tenth Avenue and West 41st

Street. 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. The completion of the intermediate station at Tenth Avenue and West 41st Street, including the platform, systems, entrances/exits and finishing (tiles, lights, etc.), is not included within the Project.

The City, the Corporation, HYDC and the MTA have 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 provides for the establishment of a Project Committee (the "Project Committee") 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 the recommendation of MTACC to award a contract to a consultant construction management firm to assist MTACC with design completion as well as subsequent 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 $2.1 billion described below (the "Agreed Capital Investment") to be provided by the Corporation, HYDC or the City. 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. The Itemized Budget may be modified from time to time but the Agreed Capital Investment 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 the consultant construction management firm to be selected, is responsible for construction of the Subway Extension, including developing, advertising and awarding contracts, subject to the approval of the Project Committee. The Project Committee met on November 21, 2006 and approved the 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 Subway Extension MOU provides that the City, the Corporation or HYDC will furnish funds in the amount of $2 billion for design and construction of the Subway Extension. An additional $100 million for possible cost overruns is to be provided by the City, the Corporation or HYDC under terms to be negotiated by and among the MTA, the City, the Corporation and HYDC. The Subway Extension MOU provides that the City or HYIC must certify in writing that funds are or will be available for contracts for the design and construction of the Subway Extension prior to the time such contracts are advertised for bids. The Subway Extension MOU provides that the Agreed Capital Investment could increase as a result of actions or delays by the Corporation, HYDC or the City that result in increases in the Itemized Budget, change orders requested by the Corporation, HYDC or the City, changes in applicable law or changes in the schedule due to real estate development issues. In the event of cost overruns for the construction of the Subway Extension in excess of the $100 million referred to above which require additional funds to complete the Subway Extension, and the unwillingness of any party to provide such additional funds, then the completion of the Subway Extension could be delayed or prevented.

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.

Although the Subway Extension MOU sets forth the understanding of the Corporation, the City, HYDC and the Authority (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 2007A Bonds. While no assurance can be given that that Subway Extension MOU will be legally enforceable, the Corporation expects the commitments made in the Subway Extension MOU to be carried out by the parties thereto.

Design work for the Subway Extension is substantially complete. Initial construction of the subway tunnel is expected to begin in Summer 2007. While the estimate of the completion date for the Subway Extension is preliminary and subject to change, completion is currently scheduled to occur during 2013.

Property Acquisition and Public Amenities

Construction of the Public Amenities and Property Acquisition for the Project are expected to be undertaken in stages. Property Acquisition for the Subway Extension and for a portion of the Public Amenities began in June 2006. Property acquisition for the later sections of the Public Amenities will occur during the next several years as required to meet construction schedules. In the mid-block between Ninth and Tenth Avenues, between West 34th Street and West 40th Street, small parks serving the immediate neighborhood are expected to be constructed by private developers, primarily at the expense of the developers in exchange for a building height bonus that was enacted in the Zoning Amendment.

In addition, the Parking Garage, a 950-space below-grade public garage to be located beneath the first section of the mid-block boulevard and park between West 34th and West 36th Streets from Tenth to Eleventh Avenues, is expected to be constructed at the cost of, and operated by, a private developer. A request for proposals for the design, construction and operation of the Parking Garage is expected to be issued by HYDC in March 2007 to select the garage developer. Construction is anticipated to begin in January 2008 and be completed by January 2010.

Plans for the Project Area include the construction of a mid-block boulevard and park between Tenth and Eleventh Avenues which will eventually extend from West 33rd Street to West 42nd Street. Design of the mid-block park and boulevard is expected to commence in June 2007 and be completed by December 2008. Construction of the first portion of the mid-block park and boulevard from West 33rd Street to West 36th Street will be financed by the Corporation as part of the Project and is expected to begin in January 2010 and be completed by the end of 2012.

The second stage of the mid-block boulevard and park north of West 36th Street is not expected to be financed by the Corporation although the Corporation may provide funds for a portion of the cost of these improvements if it has available money, including from the proceeds of its Bonds. It is expected to be constructed after the West 34th Street subway entrance for the Subway Extension and the Parking Garage are completed. The Zoning Resolution provides an incentive mechanism that will encourage, though not require, the private sector to complete portions of the second phase of the mid-block boulevard and park by allowing transfer of development rights from parcels within the planned park to development sites outside the planned park to permit additional building density on such sites in exchange for transfer of the planned park parcel to the City.

A drawing of the current plan for the mid-block boulevard is shown at the front of this Official Statement just prior to the Summary Statement. The budget for the Property Acquisition and Public

Amenities is $700 million, inclusive of Property Acquisition costs for the Subway Extension. These funds are expected to be provided from the proceeds of additional Bonds issued by the Corporation, except for a portion of the Property Acquisition costs for the Subway Extension and certain of the Public Amenities which are being financed with the proceeds of the Series 2007A Bonds.

Eastern and Western Railyards

The Project Area includes approximately 26 acres of open railyards serving the operational needs of both the Long Island Railroad and Pennsylvania Station, which are bounded by Tenth and Twelfth Avenues and by West 30th and West 33rd Streets. The portion of the railyards to the east of Eleventh Avenue consists of approximately 13 acres and is referred to as the "Eastern Railyard." The portion of the railyards to the west of Eleventh Avenue also consists of approximately 13 acres and is referred to as the "Western Railyard." The Eastern Railyard and the Western Railyard are identified on the map of the Project Area shown at the front of this Official Statement just prior to the Summary Statement.

The Eastern Railyard was rezoned by the City Council in January 2005 but the Western Railyard was not. The Western Railyard is currently zoned for low and medium density manufacturing uses. By agreement dated September 28, 2006 by and among the MTA, certain of its affiliates and the City (the "Railyards Agreement"), the City agreed to work with the MTA and certain of its affiliates and HYDC to prepare a statement of planning and design guidelines for the Western Railyard (the "Guidelines") by April 1, 2007. Following completion of the Guidelines, the Railyards Agreement provides that the MTA, in consultation with HYDC and others, will prepare a request for proposals for the Eastern Railyard and Western Railyard intended to lead to a sale of development rights for the space above the Eastern Railyard and Western Railyard. The Eastern Railyard and Western Railyard will continue to be used for the operational needs of the Long Island Railroad and Pennsylvania Station. Development of the Eastern Railyard and Western Railyard will require the developer to construct a platform over the area sought to be developed. The MTA is not obligated to sell any development rights for the space above the Eastern Railyard or Western Railyard if the request for proposals does not result in a transaction or transactions acceptable to the MTA.

In April 2006, an engineering and architectural consultant team was engaged by HYDC to conduct a study of platform construction issues at the Eastern Railyard. Pursuant to the Railyards Agreement, HYDC has expanded the study to include the Western Railyard.

The Railyards Agreement also provides for the purchase by the Corporation of certain transferable development rights over the Eastern Railyard for a price of $200 million, which can then be sold by the Corporation to developers for use in other portions of the Project Area. Once the Corporation has received payments for the transferable development rights equal to $200 million (plus interest on such amount at the rate of interest on the Bonds issued to finance the purchase of the transferable development rights), the Corporation must pay any additional amounts received for the sale of such transferable development rights to the MTA.

SECTION V: SECURITY AND SOURCES OF PAYMENT OF BONDS

General

The Series 2007A 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 Series 2007A 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 Series 2007A 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, the MTA or the CCDC; 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 (as defined below) in the Project Area that do not otherwise enter into PILOT Agreements with the IDA, MTA or the CCDC; payments by the City to enable the Corporation to pay interest on its Bonds; certain payments from the sale by the Corporation of transferable development rights purchased by the Corporation from TBTA; and payments by property owners pursuant to certain development incentive programs offered by the City for development in the Project Area. The amounts of such Revenues (other than Interest Support Payments) are analyzed in the C&W Study, based on certain assumptions and limitations stated therein including the completion of the Project during 2013, a forecast of economic growth and demographic changes from 2006 to 2035 and the continuation of the current incentives for development in the Project Area. See "SECTION VI: CUSHMAN & WAKEFIELD, INC. STUDY."

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 earlier than its Fiscal Year ending June 30, 2014. See "SECTION VIII: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION." 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 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 the Series 2007A 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 redeem Senior Bonds in advance of their maturity except that, if, during a Fiscal Year, the City has made Interest Support Payments for the Corporation's Bonds, then the Corporation must first reimburse the City for such Interest Support Payments prior to purchasing or redeeming any Senior Bonds.

Revenues of the Corporation

The Revenues of the Corporation 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 Bonds. The Revenues are described below. The C&W study analyzes 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 described in the C&W Study. See "SECTION VI: CUSHMAN & WAKEFIELD, INC. STUDY."

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, 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 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. 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 VIII: SUMMARY OF BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION" for a discussion of various scenarios showing the length of time the City may need to make Interest Support Payments.

Interest Support Payments are subject to annual appropriation by the City and to the availability of moneys 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 E 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 economic development authority or by other governmental entities, such as the MTA, under authority which permits such entities to grant exceptions from City real property taxes. As an inducement to commercial development in the Project Area and in furtherance of its mission of encouraging job growth and the economic well being of the City, the IDA enacted a Uniform Tax Exemption Policy for the Project Area, except for the Western Railyard and Javits Marshalling Yard, in August 2006 (the "Project Area UTEP") that includes a schedule (set forth in Section 3 of the C&W Study) for PILOT Payments for property owners that enter into PILOT Agreements. The schedule provides a substantial discount for up to 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 PILOT Agreements with the IDA 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 PILOT Payment program because the PILOT Payments during the first 19 years will be lower than the real estate tax on their projects would have been. The IDA is expected to adopt a general restatement and amendment of its general Uniform Tax Exemption Policy on December 12, 2006. This restatement will result in technical changes to the Project Area UTEP which are not expected to reduce the projected Revenues.

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 PILOT Payments to the Corporation and the City has agreed to such assignment. In accordance with the IDA Assignment Agreement, 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 without the prior 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 PILOT Agreement, PILOT Mortgage or instrument of assignment executed pursuant to the IDA Assignment Agreement or in or to the PILOT Assets 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 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 a 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 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 PILOT Payment in accordance with the 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 on a PILOT Mortgage. Failure of a property owner to make PILOT Payments could result in loss of the property owner's interest in the property.

The MTA has agreed in the Railyards Agreement that, if it leases the Eastern Railyard or Western Railyard for development, such leases will require the developer to pay PILOT Payments on commercial development according to the Project UTEP and PILOT Payments equal to real property taxes for other development. The MTA has further agreed that all such PILOT Payments will be paid to the Corporation or to the City upon the Corporation's direction. The Corporation has covenanted in the Indenture that as long as any Bonds are Outstanding, it will not direct the 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, payments 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 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, MTA or CCDC. 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 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. 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 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 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 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 in the assessed value of the property.

Tax Receipts means all *ad valorem* real property taxes and payments in lieu of real property taxes 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 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 advised the Corporation that it will establish procedures which will 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 Study 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 is scheduled to expire on December 2007. See "Appendix F: Cushman & Wakefield, Inc. Study" for a description provided by the City of the 421-a Program and possible changes in 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 described in the C&W Study attached to this Official Statement as Appendix F.

Tax Equivalency Payments are subject to annual appropriation by the City and to the availability of moneys 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

<u>District Improvement Fund Bonus Payments</u>. As authorized in the Zoning Resolution, commercial and residential developments in certain portions of the Project Area are eligible to receive additional density in exchange for DIB payments contributing to density-ameliorating infrastructure improvements. An as-of-right base floor area ratio ("FAR") has been established in certain sections of the Project Area for development, generally 6.5 for residential development and 10 for commercial development. Above this FAR, developments may increase their floor area, up to a specified amount, in exchange for DIB Payments which would be used to finance the infrastructure that is necessary to support high-density residential and commercial development. See the C&W Study attached hereto as Appendix F for 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 payment required by the Zoning Resolution is currently $106.48 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 July 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 Zoning Resolution adopted by the City Council, the City has assigned to the Corporation the DIB Payments. The Zoning Resolution directs 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 Zoning Resolution 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>Eastern Railyard Transferable Development Rights</u>. The Project Area zoning plan provides for a maximum development floor area ratio (FAR) of 19 over the Eastern Railyard, of which up to 11 FAR (maximum 9 FAR commercial, 2 FAR community facility, and 3 FAR residential) could be utilized on the Eastern Railyard, and up to 10 FAR could be redistributed to sites within a commercial core area generally located between Tenth and Eleventh Avenues, from West 33rd to West 41st Streets. A portion of the transferable development rights over the Eastern Railyard will be acquired by the Corporation from TBTA for $200 million as provided in the Railyards Agreement. The Corporation expects to sell such transferable development rights for use in the Project Area. Once the Corporation has received payments for the transferable development rights equal to $200 million (plus interest on such amount at the rate of interest on the Bonds issued to finance the purchase of the transferable development rights), the Corporation must pay any additional amounts received for the sale of such transferable development rights to the MTA.

<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 commercial development projects in significant portions of the Project Area. However, the recipient of such exemption is required to make payments in lieu of the mortgage recording tax ("PILOMRT Payments") of 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 $2.75 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 Railyards Agreement that if it leases the Eastern Railyard or the Western Railyard for development, such leases shall 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 shall 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 9% of the total tax.

Bond Insurance

The principal of and interest on the Series 2007A Bonds (4.5% coupon) (the "MBIA Insured Bonds") are expected to be insured by MBIA Insurance Corporation ("MBIA"). The principal of and interest on the Series 2007A Bonds (5% coupon, 4.10% yield) are expected to be insured by Financial Guaranty Insurance Company ("FGIC") (the "FGIC Insured Bonds" together with the MBIA Insured Bonds, the "Insured Bonds"). Information about MBIA and FGIC is set forth in Appendix H. A specimen MBIA insurance policy and a specimen FGIC insurance policy are set forth in Appendix I. So long as certain events of default with respect to FGIC and MBIA have not occurred, FGIC and MBIA will each 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 either FGIC or MBIA 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 FGIC or MBIA, as the case may be, will be subrogated to the rights of the holders of the Insured Bonds insured by it.

Conversion Date

The Corporation is not obligated to make any payments of principal on its Bonds, including the Series 2007A Bonds, prior to maturity before Conversion unless and until the Corporation receives Revenues in amounts sufficient to make such payments. After the date on which the Series 2007A 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 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 for the Corporation's Senior Bonds, then the Corporation must first reimburse the City for such Interest Support Payments prior to purchasing or redeeming Senior Bonds. Not later than the June 30 following the Conversion Date, 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. See "SECTION IX: THE BONDS — Redemption of Bonds" for a description of how the amounts and dates of such Sinking Funds Installments are to be established.

The Indenture defines "Conversion Date" as the date on which the Corporation has certified that for each of the two prior 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 2007A Bonds. See "SECTION VIII: SUMMARY OF

BOND STRUCTURING ASSUMPTIONS AND AMORTIZATION" for a discussion of various scenarios for the payment of principal of the Series 2007A 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 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, 2007, $1,000,000 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 Corporation may issue $1.5 billion principal amount of additional Senior Bonds without meeting any of the debt service coverage tests described below, subject to the provisions of the Indenture which limit the principal amount of Senior Bonds that can be issued prior to the Conversion Date, other than for refunding purposes, to an aggregate of $3.5 billion. Notwithstanding the foregoing, the Corporation may not issue more than $3 billion of Bonds, other than for refunding purposes, that would be subject to the Support and Development Agreement unless the City is authorized by an appropriate City Council resolution to make, and the Support and Development Agreement provides for the payment of, Interest Support Payments, on the principal amount of Bonds that would be subject to the Support and Development Agreement after issuance of the Bonds then being issued. Based on current projections regarding the cost of the Project, the Corporation expects to issue an additional amount of Senior Bonds in the aggregate amount of $1.0 billion for the Project in 2011. As noted herein, such projections are based on a number of assumptions, which may not be correct. There can be no assurance that completion of the Project will not require the issuance of more Bonds than projected. See "SECTION II: RISK FACTORS." The Indenture permits the Corporation to issue Subordinate Bonds without regard to the $3.5 billion limit on Senior Bonds described above, 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 Tender 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 a 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 2007A Bonds. These funds include: (i) the Revenue Fund; (ii) the Construction Fund; (iii) the Debt Service Fund; (iv) the Debt Service Reserve Fund, if any; (v) the Corporation Expense Fund; and (vi) the Surplus Fund. All moneys 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 2007A 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 2007A Bonds be deposited in the Construction Fund, along with any moneys 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 2007A Bonds, the costs of the Project, including 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 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;

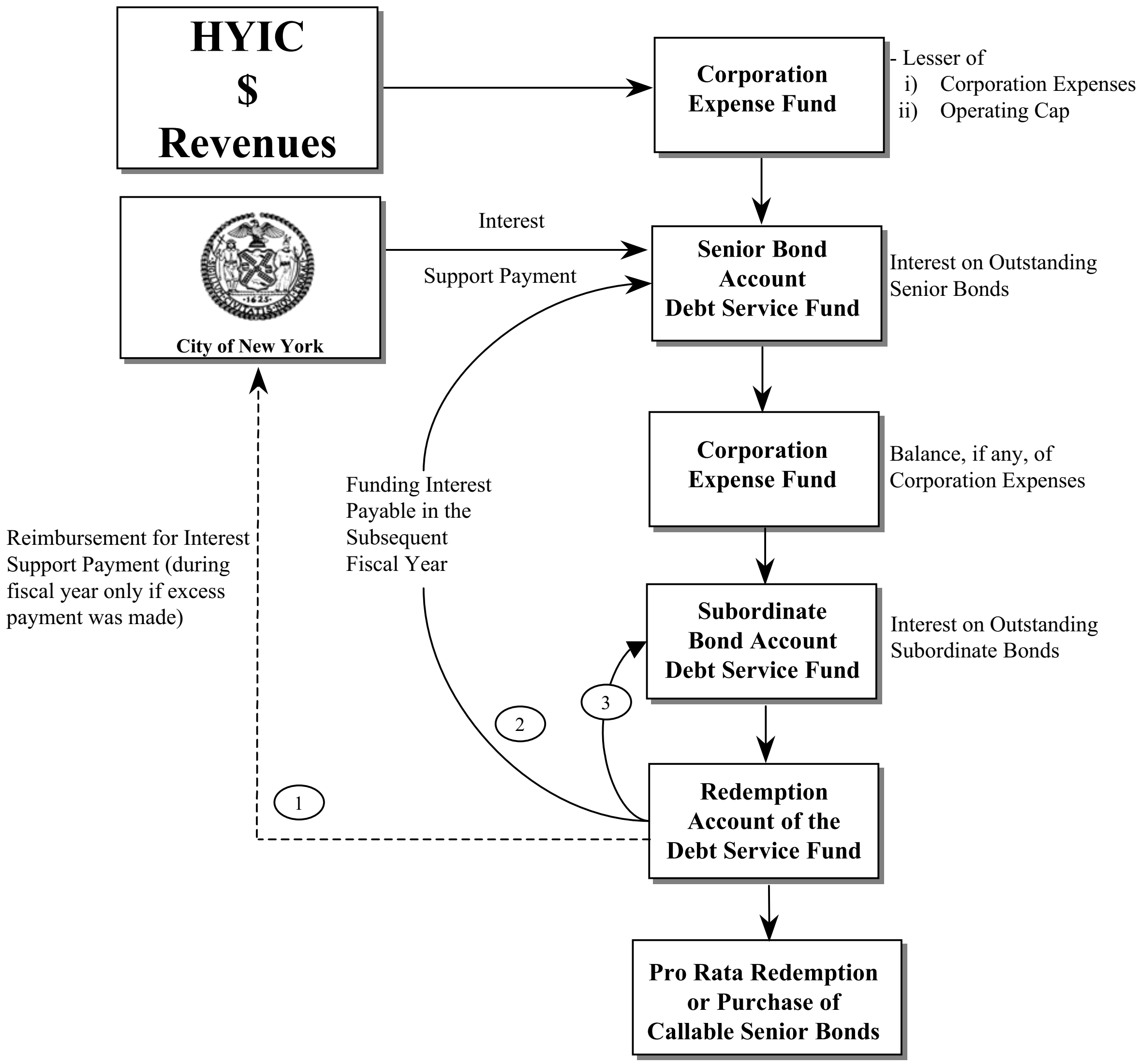
fourth: unless a Payment Default has occurred, to the Subordinate Bond Account of the Debt Service Fund, the amount required to pay (i) interest on Outstanding Subordinate Bonds payable during such Fiscal Year and (ii) Hedge Agreement Payments and interest on Parity Reimbursement Obligations as the same 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 (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; and (iii) third, if any Outstanding Senior Bonds are subject to redemption at the option of the Corporation during the then current Fiscal Year, 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 such Senior Bonds. Any money remaining in the Redemption Account on June 30 of such Fiscal Year that is not required to be transferred pursuant to clause (ii) of the preceding sentence or to pay the Redemption Price or purchase price of Senior Bonds theretofor called for redemption or contracted to be purchased will be transferred to the Revenue Fund.

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 in Appendix A.

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 on and after the Conversion Date, but prior to 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 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.

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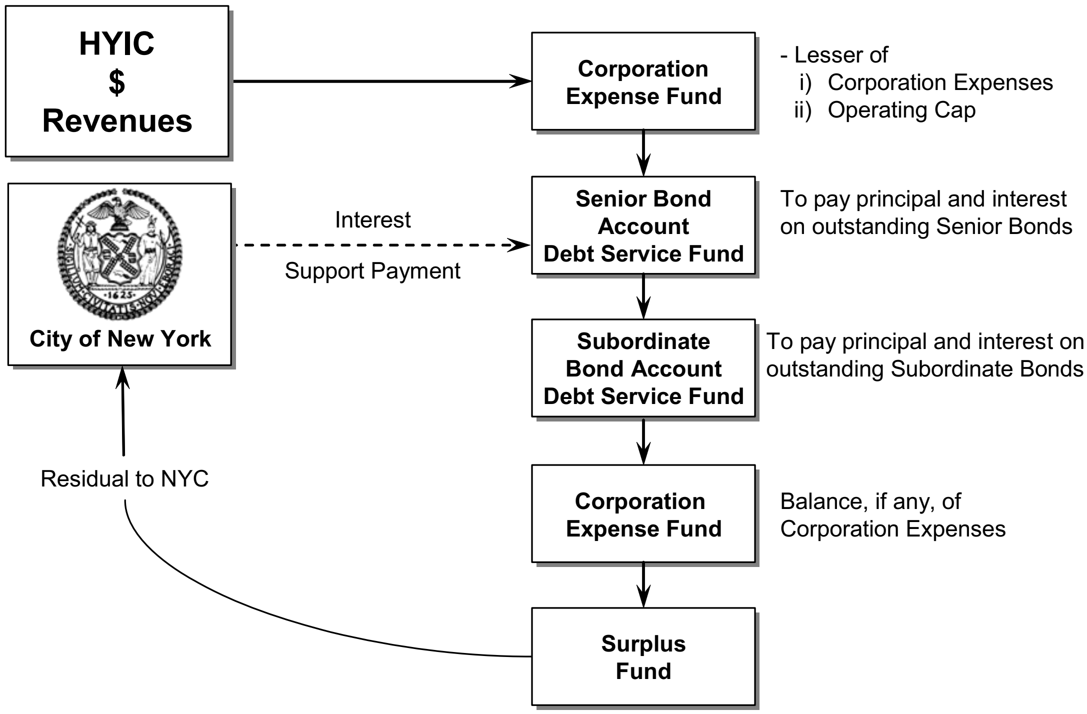
Set forth below is a chart showing the flow of funds for Revenues received by the Corporation on or after the Conversion Date unless a Payment Default has occurred:



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, the Outstanding Bonds will be subject to mandatory redemption in accordance with the Indenture. See "APPENDIX A: SUMMARY OF INDENTURE." 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 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 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 Agreement assigned to it.

SECTION VI: CUSHMAN & WAKEFIELD, INC. STUDY

The Corporation retained Cushman & Wakefield, Inc. ("C&W") 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. Based on an economic and demographic forecast provided by Economy.com, C&W forecast real estate demand for the Hudson Yards area which, together with historical tax revenue data and a tax revenue calculation model provided by HYDC and the City, was used by HYDC to project real estate related revenues that are expected to be received by the Corporation. The projected Revenues were analyzed in the C&W Study which concludes that the tax revenue calculation model methodology and the projections of Revenues, based on the assumptions and limitations contained in the C&W Study, are reasonable. One of the limitations of the C&W Study is that its conclusions are based on the analysis of data provided to C&W, 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 150 offices globally. 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 Study is attached hereto as Appendix F. The C&W Study is not summarized in this Official Statement and the statements about the C&W Study in this Official Statement are qualified by reference to the entire C&W Study. Prospective investors should read the C&W Study in its entirety, paying specific attention to the assumptions and limitations described therein.

In forecasting the future demand for real estate, C&W relied upon and assumed the correctness of two economic and demographic forecasts (the "Base" and "Cyclical" scenarios) for a 30-year period provided by Economy.com which are set forth in Chapter 2 of the C&W Study. The Base scenario assumes steady growth based on long term trends while in the Cyclical scenario, three recessions and recoveries affecting the City occurring at 10 year intervals are assumed, with the first recession occurring in 2009-2010. 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, including the Javits Convention Center expansion in 2010; the existence of sites in Midtown Manhattan excluding the Project Area, which could accommodate development in the future – roughly 16.3 million square feet of space, based on current zoning; the need to build a platform over certain operating railyards, including the Eastern Railyard which is 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 Study 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 analysis of projected Revenues. Additional assumptions and limitations are described in the C&W Study.

Revenue Projections Analyzed by the Study

The C&W Study analyzes Revenues (other than Interest Support Payments) projected to be generated by forecast development within the Project Area over a 30-year period. The C&W Study analyzes 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 Study does not attempt in every instance to separately itemize sources of Revenue within each development category. For example, the C&W Study does 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) analyzed in the C&W Study represent the total amount of projected Revenues pledged under the Indenture. The C&W Study concludes that projected Revenues generated from projected new office, residential, hotel and retail developments expected to total \$38.9 billion under the Base scenario during the period from 2006 to 2050, and \$34.4 billion under the Cyclical scenario over the same time period, are, given the correctness of assumptions and limitations, reasonable.

Set forth below is a brief summary of the development projections for each real estate sector contained in the C&W Study – office, residential, hotel and retail – from which the Revenue estimates were generated. The analysis and conclusions contained in the C&W Study regarding specific real estate sectors are subject to certain limitations and assumptions which are described in the C&W Study.

Office Buildings

The C&W Study concludes that the projections for the number of office workers ("office-using employment") provided by Economy.com for the New York region are the primary driver of demand and absorption of office space. 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 Economy.com. The accuracy of future economic and demographic projections made by Economy.com is among the assumptions made by the C&W Study.

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 large 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 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 18 large sites in the Project Area of which 14 were considered appropriate for office development and four appropriate for hotel development. Since the projected demand for office space and resulting completions would exceed the zoned office capacity of 25.7 msf for the 14 sites studied, completions in the Base scenario were capped at 25.7 msf. Completions in the Cyclical scenario were projected to total 24 msf. Revenues from office building development are projected to be $20.9 billion under the Base scenario during the period from 2006 to 2050 and $18.4 billion under the Cyclical scenario during the same time period.

Residential

The C&W Study notes that Manhattan has experienced strong residential construction, characterized by rising market rents and sales prices and increasing numbers of permits. According to the C&W Study, observed housing demand appears to exceed household growth and may be influenced by other factors.

While the underlying assumptions for new household formation in Manhattan provided by Economy.com were used as the primary demand driver in the C&W Study 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 Study. 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 Study concludes that it would not likely hinder the forecast completions of residential developments.

During the period between 2006 and 2036, 15.6 msf of construction completions or 15,972 units, is projected in the Base scenario, and 13.4 msf of construction completions or 13,765 units, is projected in the Cyclical scenario. This development is expected to substantially absorb all the residential development capacity permissible under the Zoning Resolution. Revenues from residential development are projected to be $14.4 billion under the Base scenario during the period from 2006 to 2050 and $12.7 billion under the Cyclical scenario over the same time period.

Hotels

The mixed-use development within the Project Area is projected in the C&W Study 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.

In both forecasts, the hotel construction schedule is dictated by cumulative room night demand projected in the C&W Study. Under the Base scenario, 2.3 msf is projected, and under the Cyclical scenario, 2.1 msf is projected. Revenues from hotel development are projected to be $959 million under the Base scenario during the period from 2006 to 2050 and $851 million under the Cyclical scenario over the same time period. (These Revenue projections exclude the 1,000-room hotel expected to be built in connection with the expansion of the Javits Convention Center.)

Retail Space

The demand for retail space in the Project Area is generated from the new office employees, residents, visitors to the Javits Convention Center and other "inflow" visitors and residents to the Project Area from other areas in Manhattan.

The cumulative demand is projected to result in 1.4 msf and 1.3 msf of construction completions in the Base and Cyclical scenarios respectively. Revenues from retail development are projected to be $1.1 billion under the Base scenario during the period from 2006 to 2050 and $1.0 billion under the Cyclical scenario over the same time period.

Aggregate Annual Revenues

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

Year	Base Scenario	Cyclical Scenario
2007	$ 13,237,443	$ 13,237,511
2008	10,191,886	10,232,833
2009	92,040,670	55,884,201
2010	98,304,950	54,915,847
2011	106,086,304	61,094,613
2012	125,767,091	84,285,557
2013	153,091,645	104,475,530
2014	216,363,530	174,495,831
2015	244,448,420	206,445,413
2016	270,073,085	221,575,298
2017	267,361,577	267,303,320
2018	253,138,000	310,173,317
2019	271,135,717	267,010,774
2020	311,913,853	269,840,920
2021	345,638,026	258,078,066
2022	376,144,814	287,170,543
2023	411,397,507	338,070,549
2024	463,571,134	435,934,482
2025	518,974,636	471,611,712
2026	576,254,790	503,213,224
2027	635,999,202	552,647,194
2028	704,335,691	637,437,801

Year	Base Scenario	Cyclical Scenario
2029	741,525,183	655,165,886
2030	799,716,482	718,880,816
2031	876,794,689	740,919,049
2032	960,924,550	811,045,969
2033	1,027,751,332	889,076,013
2034	1,102,076,437	956,852,473
2035	1,171,663,306	1,049,906,152
2036	1,237,193,824	1,109,984,841
2037	1,302,115,564	1,165,326,669
2038	1,357,824,210	1,211,293,330
2039	1,421,403,225	1,264,811,017
2040	1,486,375,705	1,320,675,986
2041	1,554,488,770	1,378,912,990
2042	1,625,037,871	1,444,027,161
2043	1,698,314,681	1,510,893,660
2044	1,771,958,930	1,583,548,123
2045	1,847,425,339	1,656,673,987
2046	1,924,300,196	1,731,547,621
2047	2,003,716,878	1,803,628,878
2048	2,082,549,615	1,875,752,804
2049	2,164,216,495	1,947,787,062
2050	2,245,734,213	2,023,114,899
Total	$ 38,868,577,466	$ 34,434,959,925

C&W Study Assumptions and Limitations

The conclusions of the C&W Study are premised on numerous assumptions and limitations described throughout the C&W Study which is attached hereto as Appendix F. In the event that assumptions upon which the C&W Study 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."

SECTION VII: ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources of Funds	
Principal Amount of Series 2007 A Bonds	$ 2,000,000,000
Original Issue Premium	102,840,000
Total Sources	$ 2,102,840,000
Uses of Funds	
Deposit to Subway Extension Subaccount	$ 1,425,325,000
Deposit to the Public Amenities Subaccount	430,194,447
Deposit to the TDRs Purchase Subaccount	200,000,000
Deposit to Costs of Issuance Account (including bond insurance premium)	15,956,006
Deposit to HYDC Expense Account	17,000,000
Underwriters' Discount	14,364,547
Total Uses	$ 2,102,840,000

SECTION VIII: 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 Series 2007A 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 Conversion.

Bond Structuring Methodology

The Series 2007A 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 2007A Bonds nor is the Corporation permitted to issue any Bonds which mature prior to the maturity of the Series 2007A Bonds.

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 additional Senior Bonds and Subordinate Bond interest and principal payable on their respective payment dates of each such period assuming the following:

- Revenues are received in the amounts set forth in the Base or Cyclical Scenarios analyzed in the C&W Study;
- Corporation operating expenses are $1 million in the first Fiscal Year and grow by 3% each Fiscal Year thereafter;
- Investment income on the Construction Fund assumes interest earnings of 4.4%;
- Investment income on the Debt Service Fund assumes interest earnings of 2.0%;
- Funds Available for Debt Service are aggregate Revenues (other than Interest Support Payments) plus investment income 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 prefunds 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 $1.5 billion are issued on January 1, 2011, at an assumed interest rate of 7.0% and mature on February 15, 2047; and

- Interest of $30 million is paid annually on Subordinate Bonds, but no principal payments are made on Subordinate 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 Revenues projected under the Base and Cyclical scenarios, (ii) 80% of Cyclical scenario Revenues, (iii) 60% of Cyclical scenario Revenues, (iv) 60% of Cyclical scenario Revenues and a five year delay in revenue receipt and (v) 40% of Cyclical scenario Revenues. C&W takes no responsibility for the calculations in this section.

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Base Scenario 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($)	Current Interest on Series 2007A($)	Debt Service on Series 2007A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2008	104,701,534	7,423,466	-	112,125,000	112,125,000	-	112,125,000	112,125,000	-
2009	97,500,000	-	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2010	97,500,000	-	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2011	110,333,333	-	-	97,500,000	97,500,000	-	110,333,333	110,333,333	-
2012	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2013	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2014	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2015	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2016	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2017	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2018	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2019	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2020	296,795,089	-	36,735,000	97,500,000	134,235,000	64,295,000	232,500,000	296,795,000	-
2021	352,495,550	-	70,700,000	95,709,175	166,409,175	123,715,000	228,779,975	352,494,975	-
2022	386,320,697	-	94,115,000	92,262,550	186,377,550	164,695,000	221,622,300	386,317,300	-
2023	423,757,343	-	120,945,000	87,674,450	208,619,450	211,660,000	212,093,600	423,753,600	-
2024	676,721,109	-	38,335,000	81,778,375	120,113,375	59,960,000	199,847,475	259,807,475	418,450,026
2025	515,843,052	-	40,195,000	79,911,925	120,106,925	63,335,000	196,467,275	259,802,275	257,469,928
2026	573,181,345	-	42,160,000	77,954,725	120,114,725	66,920,000	192,890,275	259,810,275	314,691,009
2027	632,988,428	-	44,205,000	75,901,650	120,106,650	70,700,000	189,104,000	259,804,000	374,389,091
2028	701,319,004	-	46,355,000	73,748,800	120,103,800	74,700,000	185,096,500	259,796,500	442,678,896
2029	737,655,373	-	48,620,000	71,491,025	120,111,025	78,950,000	180,854,575	259,804,575	479,804,505
2030	796,523,040	-	50,985,000	69,122,700	120,107,700	83,440,000	176,363,150	259,803,150	537,939,745
2031	873,601,224	-	53,465,000	66,638,950	120,103,950	88,190,000	171,607,550	259,797,550	614,964,345
2032	957,739,045	-	56,075,000	64,034,150	120,109,150	93,235,000	166,572,000	259,807,000	699,023,772
2033	1,024,567,581	-	58,810,000	61,301,925	120,111,925	98,570,000	161,238,575	259,808,575	765,786,166
2034	1,098,234,395	-	61,670,000	58,436,175	120,106,175	104,210,000	155,589,625	259,799,625	840,055,523
2035	1,168,379,912	-	64,680,000	55,430,775	120,110,775	110,200,000	149,606,425	259,806,425	909,568,953
2036	1,233,932,464	-	67,835,000	52,278,400	120,113,400	116,540,000	143,267,650	259,807,650	975,029,609
2037	1,298,882,210	-	71,140,000	48,971,950	120,111,950	123,255,000	136,551,850	259,806,850	1,039,881,451
2038	1,354,613,800	-	74,605,000	45,504,100	120,109,100	130,370,000	129,435,950	259,805,950	1,095,518,180
2039	1,418,224,943	-	78,245,000	41,867,000	120,112,000	137,910,000	121,895,300	259,805,300	1,159,022,842
2040	1,483,228,590	-	82,060,000	38,052,100	120,112,100	145,905,000	113,903,850	259,808,850	1,223,914,520
2041	1,551,375,016	-	86,060,000	34,050,825	120,110,825	154,375,000	105,433,425	259,808,425	1,291,948,440
2042	1,621,963,712	-	90,250,000	29,854,125	120,104,125	163,345,000	96,454,675	259,799,675	1,362,424,334
2043	1,695,279,401	-	94,655,000	25,452,700	120,107,700	172,865,000	86,936,600	259,801,600	1,435,614,803
2044	1,769,370,373	-	99,270,000	20,836,025	120,106,025	182,955,000	76,845,225	259,800,225	1,509,173,478
2045	1,844,621,990	-	104,115,000	15,993,825	120,108,825	193,660,000	66,145,075	259,805,075	1,584,545,481
2046	1,921,272,430	-	109,195,000	10,914,850	120,109,850	205,005,000	54,797,950	259,802,950	1,661,330,219
2047	2,000,454,840	-	114,520,000	5,587,575	120,107,575	217,040,000	42,763,975	259,803,975	1,740,650,865
	32,589,376,825	7,423,466	2,000,000,000	2,762,885,825	4,762,885,825	3,500,000,000	6,382,123,158	9,882,123,158	22,733,876,181

This scenario assumes Base scenario Revenues. Subordinate Bonds are assumed to be issued in 2014 with no principal payments prior to 2047. Conversion is achieved in 2023 and the average life of the Series 2007A Bonds is 28.33 years.

Cyclical Scenario 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($)	Current Interest on Series 2007A($)	Debt Service on Series 2007A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2008	104,742,550	7,382,450	-	112,125,000	112,125,000	-	112,125,000	112,125,000	-
2009	97,500,000	-	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2010	91,001,140	6,498,860	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2011	77,836,235	32,497,098	-	97,500,000	97,500,000	-	110,333,333	110,333,333	-
2012	129,785,024	72,714,976	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2013	130,717,827	71,782,173	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2014	188,028,167	14,471,833	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2015	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2016	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2017	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2018	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2019	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2020	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2021	236,664,004	-	2,380,000	97,500,000	99,880,000	4,160,000	232,500,000	236,660,000	-
2022	290,507,204	-	33,285,000	97,383,975	130,668,975	58,245,000	232,259,375	290,504,375	-
2023	344,483,709	-	66,055,000	95,761,325	161,816,325	115,590,000	228,889,525	344,479,525	-
2024	443,890,429	-	126,680,000	92,541,150	219,221,150	221,685,000	222,201,900	443,886,900	1,664,334
2025	485,850,890	-	157,985,000	86,365,500	244,350,500	276,470,000	209,375,900	485,845,900	1,336,946
2026	713,697,505	-	42,540,000	78,663,725	121,203,725	67,235,000	193,380,175	260,615,175	454,412,951
2027	549,624,453	-	44,610,000	76,592,275	121,202,275	71,035,000	189,580,075	260,615,075	290,226,008
2028	634,409,385	-	46,785,000	74,419,825	121,204,825	75,060,000	185,557,875	260,617,875	374,959,631
2029	651,276,593	-	49,065,000	72,141,250	121,206,250	79,320,000	181,300,050	260,620,050	392,629,732
2030	715,674,265	-	51,450,000	69,751,400	121,201,400	83,820,000	176,792,350	260,612,350	456,294,880
2031	737,712,807	-	53,965,000	67,245,150	121,210,150	88,600,000	172,020,200	260,620,200	478,266,055
2032	807,847,972	-	56,595,000	64,616,150	121,211,150	93,655,000	166,966,750	260,621,750	548,330,441
2033	885,888,064	-	59,345,000	61,858,750	121,203,750	99,000,000	161,615,150	260,615,150	626,304,272
2034	952,988,447	-	62,240,000	58,967,100	121,207,100	104,670,000	155,947,650	260,617,650	694,013,534
2035	1,046,614,304	-	65,275,000	55,934,125	121,209,125	110,675,000	149,944,575	260,619,575	786,998,649
2036	1,106,716,336	-	68,455,000	52,752,950	121,207,950	117,035,000	143,585,400	260,620,400	847,007,876
2037	1,162,083,460	-	71,790,000	49,416,475	121,206,475	123,770,000	136,848,325	260,618,325	902,281,082
2038	1,208,077,454	-	75,285,000	45,917,150	121,202,150	130,905,000	129,710,400	260,615,400	948,177,850
2039	1,261,624,615	-	78,960,000	42,247,125	121,207,125	138,475,000	122,146,975	260,621,975	1,001,613,960
2040	1,317,525,208	-	82,810,000	38,397,600	121,207,600	146,490,000	114,131,400	260,621,400	1,057,402,251
2041	1,375,796,958	-	86,845,000	34,360,000	121,205,000	154,980,000	105,636,200	260,616,200	1,115,564,885
2042	1,440,948,194	-	91,080,000	30,125,275	121,205,275	163,985,000	96,632,025	260,617,025	1,180,596,273
2043	1,507,858,027	-	95,520,000	25,683,625	121,203,625	173,530,000	87,087,025	260,617,025	1,247,378,357
2044	1,580,964,333	-	100,175,000	21,025,050	121,200,050	183,645,000	76,967,750	260,612,750	1,319,950,146
2045	1,653,873,841	-	105,065,000	16,139,000	121,204,000	194,380,000	66,238,800	260,618,800	1,392,980,403
2046	1,728,520,443	-	110,195,000	11,013,975	121,208,975	205,765,000	54,861,725	260,626,725	1,467,753,869
2047	1,800,366,841	-	115,565,000	5,638,225	121,203,225	217,820,000	42,796,075	260,616,075	1,539,750,766
	28,796,096,685	205,347,391	2,000,000,000	2,804,583,150	4,804,583,150	3,500,000,000	6,394,931,983	9,894,931,983	19,125,895,152

This scenario assumes Cyclical scenario Revenues. Subordinate Bonds are assumed to be issued in 2016 with no principal payments prior to 2047. Conversion is achieved in 2025 and the average life of the Series 2007A Bonds is 28.76 years.

80% of Cyclical Scenario 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($)	Current Interest on Series 2007A($)	Debt Service on Series 2007A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2008	101,464,331	10,660,669	-	112,125,000	112,125,000	-	112,125,000	112,125,000	-
2009	92,941,486	4,558,514	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2010	73,267,279	24,232,721	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2011	65,617,313	44,716,021	-	97,500,000	97,500,000	-	110,333,333	110,333,333	-
2012	112,927,912	89,572,088	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2013	109,822,721	92,677,279	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2014	153,129,001	49,370,999	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2015	165,465,039	37,034,961	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2016	175,955,466	26,544,534	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2017	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2018	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2019	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2020	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2021	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2022	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2023	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	-
2024	264,030,002	-	18,015,000	97,500,000	115,515,000	31,530,000	232,500,000	264,030,000	1,858,419
2025	380,400,496	-	85,555,000	96,621,775	182,176,775	149,720,000	230,675,725	380,395,725	1,665,489
2026	412,696,746	-	108,965,000	92,450,975	201,415,975	190,680,000	222,013,375	412,693,375	1,404,334
2027	454,735,142	-	139,285,000	87,138,925	226,423,925	243,750,000	210,981,275	454,731,275	1,056,108
2028	525,669,089	-	187,880,000	80,348,775	268,228,775	328,790,000	196,878,575	525,668,575	747,564
2029	721,082,847	-	48,420,000	71,189,625	119,609,625	77,720,000	177,855,725	255,575,725	467,457,541
2030	571,910,333	-	50,785,000	68,831,425	119,616,425	82,135,000	173,446,525	255,581,525	317,549,541
2031	589,547,757	-	53,255,000	66,357,800	119,612,800	86,800,000	168,778,400	255,578,400	335,124,045
2032	645,649,954	-	55,850,000	63,763,625	119,613,625	91,745,000	163,836,075	255,581,075	391,161,922
2033	708,082,544	-	58,570,000	61,042,800	119,612,800	96,975,000	158,602,600	255,577,600	453,526,619
2034	761,638,155	-	61,425,000	58,189,200	119,614,200	102,520,000	153,060,650	255,580,650	507,680,039
2035	836,646,569	-	64,420,000	55,196,225	119,616,225	108,395,000	147,191,025	255,586,025	582,050,969
2036	884,728,214	-	67,560,000	52,057,025	119,617,025	114,610,000	140,973,575	255,583,575	630,047,733
2037	929,029,385	-	70,850,000	48,764,500	119,614,500	121,195,000	134,387,550	255,582,550	674,251,523
2038	965,825,416	-	74,305,000	45,311,325	119,616,325	128,175,000	127,410,225	255,585,225	710,949,359
2039	1,008,671,348	-	77,920,000	41,689,400	119,609,400	135,560,000	120,017,400	255,577,400	753,696,331
2040	1,053,394,188	-	81,725,000	37,890,925	119,615,925	143,400,000	112,184,125	255,584,125	798,304,329
2041	1,100,016,809	-	85,710,000	33,906,600	119,616,600	151,700,000	103,882,550	255,582,550	844,815,937
2042	1,152,147,416	-	89,885,000	29,727,625	119,612,625	160,495,000	95,084,275	255,579,275	896,828,591
2043	1,205,683,088	-	94,270,000	25,344,675	119,614,675	169,825,000	85,758,625	255,583,625	950,233,025
2044	1,264,248,792	-	98,870,000	20,747,500	119,617,500	179,710,000	75,872,600	255,582,600	1,008,270,672
2045	1,322,535,072	-	103,695,000	15,925,550	119,620,550	190,195,000	65,391,850	255,586,850	1,066,677,556
2046	1,382,209,920	-	108,745,000	10,867,825	119,612,825	201,300,000	54,279,125	255,579,125	1,126,491,945
2047	1,439,641,065	-	114,040,000	5,563,300	119,603,300	213,075,000	42,495,750	255,570,750	1,184,070,315
	23,078,310,892	379,367,788	2,000,000,000	2,841,052,400	4,841,052,400	3,500,000,000	6,271,015,933	9,771,015,933	13,705,919,904

This scenario assumes 80% of Cyclical scenario Revenues. Subordinate Bonds are assumed to be issued in 2022 with no principal payments prior to 2047. Conversion is achieved in 2028 and the average life of the Series 2007A Bonds is 29.14 years.

60% of Cyclical Scenario 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($)	Current Interest on Series 2007A($)	Debt Service on Series 2007A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2008	98,186,112	13,938,888	-	112,125,000	112,125,000	-	112,125,000	112,125,000	-
2009	81,764,645	15,735,355	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2010	62,284,109	35,215,891	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2011	53,398,390	56,934,943	-	97,500,000	97,500,000	-	110,333,333	110,333,333	-
2012	96,070,801	106,429,199	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2013	88,927,615	113,572,385	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2014	118,229,835	84,270,165	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2015	124,175,956	78,324,044	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2016	131,640,406	70,859,594	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2017	159,038,076	43,461,924	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2018	184,719,756	17,780,244	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2019	158,780,703	43,719,297	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2020	160,436,018	42,063,982	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2021	153,334,250	49,165,750	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2022	170,744,358	31,755,642	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2023	201,237,623	1,262,377	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2024	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	1,875,000
2025	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	1,837,500
2026	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	1,800,000
2027	238,642,485	-	3,510,000	97,500,000	101,010,000	6,140,000	232,500,000	238,640,000	1,752,727
2028	384,178,626	-	86,875,000	97,328,875	184,203,875	152,030,000	232,144,775	384,174,775	1,435,321
2029	402,239,873	-	102,220,000	93,093,725	195,313,725	178,890,000	223,348,775	402,238,775	2,387,399
2030	442,897,929	-	131,365,000	88,110,500	219,475,500	229,895,000	212,998,650	442,893,650	1,279,452
2031	459,014,968	-	148,180,000	81,706,450	229,886,450	259,315,000	199,697,500	459,012,500	1,071,537
2032	686,953,588	-	65,250,000	74,482,675	139,732,675	106,340,000	184,694,275	291,034,275	397,193,446
2033	530,094,097	-	68,430,000	71,304,225	139,734,225	112,395,000	178,639,525	291,034,525	240,254,492
2034	569,989,582	-	71,760,000	67,970,575	139,730,575	118,800,000	172,228,325	291,028,325	280,861,870
2035	626,495,525	-	75,260,000	64,474,375	139,734,375	125,595,000	165,439,325	291,034,325	336,621,438
2036	662,579,154	-	78,925,000	60,807,300	139,732,300	132,785,000	158,248,800	291,033,800	372,600,539
2037	695,822,984	-	82,765,000	56,961,300	139,726,300	140,395,000	150,632,600	291,027,600	405,741,139
2038	723,448,136	-	86,805,000	52,927,800	139,732,800	148,470,000	142,565,000	291,035,000	433,240,918
2039	755,607,294	-	91,035,000	48,697,025	139,732,025	157,015,000	134,017,675	291,032,675	465,278,853
2040	789,174,281	-	95,470,000	44,259,675	139,729,675	166,065,000	124,961,725	291,026,725	498,726,532
2041	824,171,100	-	100,125,000	39,605,725	139,730,725	175,665,000	115,366,125	291,031,125	533,584,764
2042	863,297,856	-	105,010,000	34,724,400	139,734,400	185,835,000	105,197,000	291,032,000	572,570,434
2043	903,479,675	-	110,120,000	29,604,450	139,724,450	196,605,000	94,419,300	291,024,300	612,613,618
2044	947,606,714	-	115,495,000	24,234,875	139,729,875	208,035,000	82,995,775	291,030,775	656,112,872
2045	991,245,449	-	121,130,000	18,602,675	139,732,675	220,145,000	70,885,775	291,030,775	699,898,834
2046	1,035,924,071	-	127,040,000	12,695,150	139,735,150	232,990,000	58,047,200	291,037,200	744,724,346
2047	1,078,915,289	-	133,230,000	6,498,825	139,728,825	246,595,000	44,434,375	291,029,375	787,885,914
	17,352,247,329	804,489,680	2,000,000,000	3,032,715,600	5,032,715,600	3,500,000,000	6,628,420,833	10,128,420,833	8,051,348,945

This scenario assumes 60% of Cyclical scenario Revenues. Subordinate Bonds are assumed to be issued in 2023 with no principal payments prior to 2047. Conversion is achieved in 2031 and the average life of the Series 2007A Bonds is 31.10 years.

60% of Cyclical Scenario Revenues with a 5 Year Delay in Revenue Receipt: Projected Available Funds and Principal Retirement

12-Month Period Ending June 30,	Funds Available for Debt Service($)	Interest Support Payment($)	Principal of Series 2007A($)	Current Interest on Series 2007A($)	Debt Service on Series 2007A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2008	88,351,456	23,773,544	-	112,125,000	112,125,000	-	112,125,000	112,125,000	-
2009	48,234,124	49,265,876	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2010	29,334,601	68,165,399	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2011	16,741,623	93,591,711	-	97,500,000	97,500,000	-	110,333,333	110,333,333	-
2012	49,121,973	153,378,027	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2013	32,381,996	170,118,004	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2014	47,062,857	155,437,143	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2015	33,258,217	169,241,783	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2016	35,351,994	167,148,006	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2017	49,227,418	153,272,582	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2018	61,301,084	141,198,916	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2019	103,271,738	99,228,262	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2020	122,398,714	80,101,286	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2021	131,432,589	71,067,411	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2022	158,824,025	43,675,975	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2023	184,499,284	18,000,716	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2024	156,678,617	45,821,383	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,875,000
2025	158,364,619	44,135,381	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,837,500
2026	151,293,333	51,206,667	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,800,000
2027	168,733,714	33,766,286	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,762,500
2028	199,219,535	3,280,465	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,762,500
2029	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	2,962,500
2030	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	2,044,500
2031	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	2,044,500
2032	235,603,557	-	1,775,000	97,500,000	99,275,000	3,100,000	232,500,000	235,600,000	2,039,893
2033	383,471,314	-	86,375,000	97,413,475	183,788,475	151,150,000	232,320,725	383,470,725	1,668,196
2034	401,670,972	-	101,765,000	93,202,700	194,967,700	178,095,000	223,575,700	401,670,700	2,599,571
2035	442,362,147	-	130,910,000	88,241,650	219,151,650	229,090,000	213,271,550	442,361,550	1,454,948
2036	458,493,600	-	147,700,000	81,859,775	229,559,775	258,475,000	200,017,075	458,492,075	1,223,292
2037	502,269,745	-	181,265,000	74,659,400	255,924,400	317,205,000	185,062,450	502,267,450	889,361
2038	718,680,809	-	107,980,000	65,822,725	173,802,725	181,275,000	166,709,975	347,984,975	371,726,547
2039	570,653,272	-	113,240,000	60,561,075	173,801,075	191,665,000	156,317,675	347,982,675	223,553,726
2040	626,569,259	-	118,760,000	55,042,600	173,802,600	202,675,000	145,309,450	347,984,450	279,306,906
2041	662,705,512	-	124,550,000	49,254,600	173,804,600	214,340,000	133,647,400	347,987,400	315,271,600
2042	696,000,964	-	130,625,000	43,183,825	173,808,825	226,700,000	121,291,325	347,991,325	348,390,814
2043	723,679,813	-	136,980,000	36,816,375	173,796,375	239,780,000	108,198,625	347,978,625	375,899,095
2044	756,479,667	-	143,665,000	30,138,525	173,803,525	253,660,000	94,324,775	347,984,775	407,916,609
2045	789,725,692	-	150,675,000	23,134,150	173,809,150	268,370,000	79,620,750	347,990,750	441,340,058
2046	824,383,925	-	158,015,000	15,787,325	173,802,325	283,950,000	64,035,275	347,985,275	476,195,492
2047	863,154,259	-	165,720,000	8,081,900	173,801,900	300,470,000	47,514,400	347,984,400	515,169,859
	12,378,488,017	1,834,874,823	2,000,000,000	3,275,325,100	5,275,325,100	3,500,000,000	6,961,175,483	10,461,175,483	3,780,734,967

This scenario assumes 60% of Cyclical scenario Revenues and a five year delay in Revenue receipt. Subordinate Bonds are assumed to be issued in 2028 with no principal payments prior to 2047. Conversion is achieved in 2037 and the average life of the Series 2007A Bonds is 33.59 years.

40% of Cyclical Scenario 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($)	Current Interest on Series 2007A($)	Debt Service on Series 2007A($)	Aggregate Principal($)	Aggregate Current Interest($)	Aggregate Debt Service($)	Surplus Fund($)
2008	94,907,893	17,217,107	-	112,125,000	112,125,000	-	112,125,000	112,125,000	-
2009	70,587,805	26,912,195	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2010	51,300,940	46,199,060	-	97,500,000	97,500,000	-	97,500,000	97,500,000	-
2011	41,179,468	69,153,866	-	97,500,000	97,500,000	-	110,333,333	110,333,333	-
2012	79,213,690	123,286,310	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2013	68,032,509	134,467,491	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2014	83,330,668	119,169,332	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2015	82,886,873	119,613,127	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2016	87,325,346	115,174,654	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2017	105,577,412	96,922,588	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2018	122,685,093	79,814,907	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2019	105,378,549	97,121,451	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2020	106,467,834	96,032,166	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2021	101,718,637	100,781,363	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2022	113,310,250	89,189,750	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2023	133,623,513	68,876,487	-	97,500,000	97,500,000	-	202,500,000	202,500,000	-
2024	170,845,945	31,654,055	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,875,000
2025	185,104,752	17,395,248	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,837,500
2026	197,731,784	4,768,216	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,800,000
2027	202,500,000	-	-	97,500,000	97,500,000	-	202,500,000	202,500,000	1,762,500
2028	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	1,762,500
2029	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	2,962,500
2030	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	2,044,500
2031	232,500,000	-	-	97,500,000	97,500,000	-	232,500,000	232,500,000	2,044,500
2032	265,097,709	-	18,625,000	97,500,000	116,125,000	32,595,000	232,500,000	265,095,000	1,967,433
2033	358,306,129	-	72,965,000	96,592,025	169,557,025	127,690,000	230,614,125	358,304,125	1,708,273
2034	389,894,899	-	95,235,000	93,034,975	188,269,975	166,665,000	223,226,325	389,891,325	2,630,462
2035	430,290,845	-	123,835,000	88,392,275	212,227,275	216,705,000	213,583,525	430,288,525	1,496,909
2036	457,208,159	-	146,380,000	82,355,325	228,735,325	256,160,000	201,045,675	457,205,675	1,243,537
2037	481,589,156	-	168,780,000	75,219,300	243,999,300	295,360,000	186,225,050	481,585,050	962,378
2038	670,917,358	-	109,895,000	66,991,275	176,886,275	184,490,000	169,136,425	353,626,425	318,344,484
2039	502,452,613	-	115,250,000	61,636,300	176,886,300	195,065,000	158,559,800	353,624,800	149,724,524
2040	524,885,637	-	120,870,000	56,019,875	176,889,875	206,275,000	147,356,325	353,631,325	171,986,734
2041	548,268,725	-	126,760,000	50,129,025	176,889,025	218,145,000	135,487,125	353,632,125	195,201,166
2042	574,407,171	-	132,940,000	43,950,550	176,890,550	230,720,000	122,911,700	353,631,700	221,165,302
2043	601,259,110	-	139,415,000	37,470,250	176,885,250	244,040,000	109,586,800	353,626,800	247,832,386
2044	631,023,622	-	146,220,000	30,673,700	176,893,700	258,165,000	95,466,500	353,631,500	276,802,523
2045	659,997,230	-	153,345,000	23,544,750	176,889,750	273,130,000	80,501,400	353,631,400	305,963,411
2046	689,657,960	-	160,825,000	16,067,725	176,892,725	288,995,000	64,639,425	353,634,425	335,817,597
2047	718,189,514	-	168,660,000	8,225,275	176,885,275	305,800,000	47,825,075	353,625,075	364,564,439
	11,637,154,797	1,453,749,374	2,000,000,000	3,282,427,625	5,282,427,625	3,500,000,000	7,006,123,608	10,506,123,608	2,613,500,556

This scenario assumes 40% of Cyclical scenario Revenues. 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 Series 2007A Bonds is 33.67 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 assumption set forth under "Bond Structuring Methodology" and assumptions for each principal retirement schedule shown above, including the Base scenario Revenues, Cyclical scenario Revenues, 80% of Cyclical scenario Revenues, 60% of Cyclical scenario Revenues, 60% of Cyclical Revenues with a five year delay in Revenue receipt and 40% of Cyclical scenario 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 Series 2007A Bonds will be as set forth in the table. 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 for the Series 2007A Bonds will be either shorter or longer than projected below.

Scenario	Average Life	Conversion
Base Revenues	28.33	2023
Cyclical Revenues	28.76	2025
80% of Cyclical Revenues	29.14	2028
60% of Cyclical Revenues	31.10	2031
60% of Cyclical Revenues and 5 year delay	33.59	2037
40% of Cyclical Scenario Revenues	33.67	2037

SECTION IX: THE BONDS

General

The Series 2007A 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 2007A Bonds are subject to optional and mandatory redemption prior to maturity as described under "Redemption of Bonds."

Principal of, redemption premium, if any, and interest on, the Series 2007A Bonds will be payable in lawful money of the United States of America. The Series 2007A 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 2007A Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

Interest on the Series 2007A 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 first day (whether or not a Business Day) of the calendar month during which interest thereon is payable.

The Series 2007A 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 2007A Bonds nor is the Corporation permitted to issue any Bonds which mature prior to February 15, 2047, the maturity date of the Series 2007A Bonds.

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, 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, after principal due on Senior Bonds has been funded, 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 Bonds

Optional Redemption

The Series 2007A 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 par beginning on

February 15, 2017, plus accrued interest, if any, to the redemption date. Any Bonds that may be defeased to maturity will remain subject to optional redemption by the Corporation.

Mandatory Redemption

After the date on which the Series 2007A 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 for the subsequent Fiscal Year must be used to purchase or redeem Senior Bonds, including the Series 2007A Bonds, callable during the current Fiscal Year in advance of their maturity pro rata among the Series of Senior Bonds and the maturities within a Series of Senior Bonds. However, 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.

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 2007A Bonds and all other then Outstanding Bonds. The Sinking Fund Installments to be established must:

(a) with respect to the Senior Bonds of a Series, provide for 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 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 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.

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 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 not less than 30 days nor more than 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 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 2007A 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 2007A Bonds in any order the Corporation may determine in its discretion.

Selection of Bonds to be Redeemed

In the event less than all of the Series 2007A 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 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 2007A 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 2007A 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 2007A Bonds. Purchasers of beneficial ownership interests in the Series 2007A Bonds will not receive certificates representing their interests in the Series 2007A Bonds purchased. The Series 2007A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of the Series 2007A 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 $400 million, one bond certificate will be issued with respect to each $400 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn is owned by a number of Direct Participants ("Direct Participants") of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2007A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007A Bond ("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 interest in the Series 2007A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bond certificates representing their ownership interests in the Series 2007A Bonds, except in the event that use of the book-entry system for the Series 2007A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the Series 2007A Bonds with DTC and their registration in the name of Cede & Co. effect no change in the beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2007A 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. will consent or vote with respect to the Series 2007A Bonds. Under its usual procedures, DTC mails an 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 2007A Bonds, as appropriate, are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the Series 2007A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payable date. 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 principal and interest to DTC is the responsibility of the Corporation or the Trustee, disbursement of such payments to the Beneficial Owners shall be 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 2007A Bonds registered in its name for the purpose of payment of the principal of or interest on the Series 2007A Bonds, giving any notice permitted or required to be given to registered owners under the Indenture registering the transfer of the Series 2007A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Corporation and the Trustee shall not have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Series 2007A 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 or interest on the Series 2007A 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.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF ALL OF THE SERIES 2007A BONDS, REFERENCES HEREIN TO THE OWNERS, HOLDERS OR BONDHOLDERS OF THE SERIES 2007A BONDS (OTHER THAN UNDER "SECTION XI: TAX EXEMPTION" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

For every transfer and exchange of beneficial ownership of the Series 2007A 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 2007A Bonds at any time by giving notice to the Corporation 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 2007A 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 2007A 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 2007A Bonds is the fifteenth day of the calendar month preceding each interest payment date.

Other Information

For additional information regarding the Series 2007A Bonds and the Indenture including the events of default under the Indenture and the remedies of the Bondholders thereunder, which include acceleration of the Series 2007A Bonds under certain circumstances, see "APPENDIX A—SUMMARY OF INDENTURE."

SECTION X: 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 and Rebuilding (Daniel L. Doctoroff), the Deputy Mayor for Administration (Edward Skyler), the Director of Management and Budget (Mark Page), the City Comptroller (William Thompson) 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.

Lawrence R. Glantz, Comptroller

Mr. Glantz was appointed Comptroller on January 25, 2005. He is a graduate of Hofstra 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. He is a certified treasury professional.

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.

Sanna Wong-Chen, Deputy Treasurer

Ms. Wong-Chen was appointed Assistant Treasurer on January 25, 2005 and was subsequently appointed Deputy Treasurer on October 12, 2006. Ms. Wong-Chen is a graduate of Cornell University.

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 Law School.

Michele Levine, Assistant Comptroller

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

SECTION XI: 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 2007A 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 2007A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2007A 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 2007A 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 2007A 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 2007A 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 2007A Bonds is exempt from personal income taxes of the State of New York and its political subdivisions.

Original Issue Premium

The Series 2007A Bonds are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Series 2007A 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 Series 2007A Bond based on the purchaser's yield to maturity (or, in the case of Series 2007A 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 Series 2007A Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Series 2007A 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 Series 2007A Bonds. Owners of the Series 2007A Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Series 2007A Bonds.

Ancillary Tax Matters

Ownership of the Series 2007A 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, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2007A Bonds.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Series 2007A 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 2007A 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 under the caption "Tax Matters." 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 2007A 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

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 2007A Bonds, and thus on the economic value of the Series 2007A 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 2007A 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 2007A Bonds may be proposed or enacted.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2007A Bonds may affect the tax status of interest on the Series 2007A Bonds. Bond Counsel expresses no opinion as to any federal, State or local tax law consequences with respect to the Series 2007A Bonds, or the interest thereon, if any action is taken with respect to the Series 2007A Bonds or the proceeds thereof upon the advice or approval of other counsel.

SECTION XII: UNDERWRITING

The Series 2007A Bonds are being purchased for reoffering by the Underwriters for whom Goldman, Sachs & Co., Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. are acting as lead managers. The Underwriters will purchase the Series 2007A Bonds from the Corporation at an aggregate underwriters' discount of $14,364,547. The Underwriters will be obligated to purchase all the Series 2007A Bonds if any such Series 2007A Bonds are purchased.

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

SECTION XIII: RATINGS

The Series 2007A Bonds, other than the Insured Bonds, are rated "A3" 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 "Aaa," "AAA" and "AAA" by Moody's, Standard & Poor's and Fitch, respectively, based on the ratings of MBIA and FGIC.

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 2007A Bonds.

SECTION XIV: LITIGATION

There is not now pending any litigation (i) restraining or enjoining the issuance or delivery of the Series 2007A Bonds or questioning or affecting the validity of the Series 2007A 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 moneys 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.

Clean Air Litigation

A neighborhood group has filed a federal Clean Air Act citizens suit in the Southern District of New York alleging that aspects of the Hudson Yards Rezoning and Redevelopment Program relating to parking violate the New York State Implementation Plan ("SIP") by amending prior limits on as-of-right off-street parking under the Zoning Amendment.

In 1982, the City's zoning resolution was amended to limit the amount of off-street parking permitted as-of-right in certain parts of Manhattan, including the Project Area. Plaintiffs claim that the 1982 zoning regulations were intended to address air pollution caused by traffic, and were required under the then-applicable New York SIP.

The Zoning Resolution modified the off-street parking regulations in the Project Area district. Plaintiffs claim, therefore, that the new zoning, as it relates to parking, is inconsistent with the SIP and violates the Clean Air Act. Plaintiffs also challenge the approval of a 950-space public parking garage in the district. The complaint includes a state law claim under the Environmental Quality Review Act ("SEQRA"), alleging that the environmental review was defective because of the alleged violation of the Clean Air Act.

On August 30, 2005, the City and MTA, a co-defendant on the State claim, filed a joint motion to dismiss the SEQRA claims under the doctrine of abstention, based on plaintiffs' then pending State court Article 78 proceeding challenging SEQRA. The Court has not yet ruled on the motion.

The City has answered those portions of the complaint related to the federal claim and denied any violation of the SIP. The Corporation does not expect this case to prevent the Project from proceeding.

Condemnation

In November 2005, six proceedings were brought in the Appellate Division, First Department pursuant to Section 207 of the Eminent Domain Procedure Law challenging the Determination and Findings of the City and MTA which had approved the acquisition of certain real property and easements for the Project. Thereafter, the Court consolidated all six petitions into one proceeding. After the matter was fully briefed, one property owner withdrew its challenge. On May 25, 2006, the Court dismissed all five remaining petitions and confirmed the Determination and Findings. The petitioners had challenged the Determination and Findings on several grounds, including the adequacy of the environmental review, the unconstitutionality of rezoning only certain properties, and that certain of the acquisitions were excessive. The decision was not appealed.

The City plans to acquire the properties necessary for the Project in phases. On August 18, 2006, the City acquired title by eminent domain to temporary and permanent subsurface easements under approximately 41 properties pursuant to an order entered in the Supreme Court of the State of New York as part of Phase I, Stage 1 of the condemnation for the No. 7 Subway Extension. On September 29, 2006, the MTA acquired title by eminent domain to one temporary and four permanent subsurface easements pursuant to an order entered in the Supreme Court of the State of New York.

On or about September 1, 2006, the City filed a petition in the Supreme Court of the State of New York, New York County, seeking to acquire Block 705 Lot 54, also known as 528-556 West 34th Street, located between 10th and 11th Avenues, as Phase I, Stage 2 of the condemnation for the Project. That property is owned by the Bulwark Corporation and is leased and occupied by the FedEx Corporation, which currently operates a major distribution facility at the property.

Bulwark has filed papers in opposition to the City's application to condemn the property. The premise of Bulwark's opposition to the City's application to acquire Block 705 Lot 54 by eminent domain is that the acquisition will be funded through bond proceeds and since the bonds have not been issued, there are no funds available currently to pay for the acquisition.

It is not likely that Bulwark will prevail in opposing the condemnation. As set forth in the petition, the City has set aside funds to pay for this acquisition.

The return date of the petition is now scheduled for December 18, 2006, but that date could be adjourned because of ongoing settlement discussions with Bulwark.

Although Bulwark did submit papers opposing the condemnation, in general, because the Appellate Division has confirmed the Determination and Findings, acquisition of title to property for the Project should occur within a few weeks after petitions are filed in the Supreme Court and will not be delayed by disagreement over the price of property to be acquired.

SECTION XV: LEGAL MATTERS

All legal matters incident to the authorization, issuance and delivery of the Series 2007A 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 J. Certain legal matters are subject to the approval of the New York City Corporation Counsel, counsel to the Corporation and the City, Fulbright & Jaworski, L.L.P., New York, New York, Special Counsel to the City and Clifford Chance US LLP, New York, New York, counsel to the Underwriters.

SECTION XVI: 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 2007A 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 2007A Bonds.

Under the City Continuing Disclosure Agreement, the City will undertake for the benefit of the holders of the Series 2007A Bonds to provide within 185 days after the end of each fiscal year, to each Nationally Recognized Municipal Securities Information Repository (each, a "Repository") and to any New York State information depository (the "State Information Depository"), 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 "2002-2006 Summary of Operations" in Section VI and "Pension Systems" in Section IX of Appendix E to this Official Statement.

The City 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 2007A Bonds, the City does not apply for or participate in obtaining the enhancement and the enhancement is not described in this Official Statement.

Under the HYIC Continuing Disclosure Agreement, the Corporation has undertaken for the benefit of the holders of the Series 2007A Bonds to provide:

(a) by November 30, 2007 and by November 30 of each subsequent Fiscal Year, to each such Repository or to the MSRB and to the State Information Depository, 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 Eastern Railyard 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 budget for the Subway Extension and (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.

(b) in a timely manner, to each such Repository or to the MSRB, and to the State Information Depository, notice of any of the following events with respect to the Series 2007A Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2007A Bonds; (7) modifications to rights of the holders of the Series 2007A Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2007A Bonds; (11) rating changes; and (12) failure of the Corporation to comply with clause (a) above.

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

No Bondholder may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of 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 a series of Series 2007A 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) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the SEC staff to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

(b) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the first series of Series 2007A Bonds, ceases to be in effect for any reason, and the City elects that the Undertaking shall be deemed terminated or amended (as the case may be) accordingly.

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 Series 2007A 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) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the SEC staff to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

(b) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the first series of Series 2007A Bonds, ceases to be in effect for any reason, and the Corporation elects that the Undertaking 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 Undertaking. 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 2007A 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 XVII: FINANCIAL ADVISOR

Public Resources Advisory Group, New York, New York, is acting as financial advisor to the Corporation in connection with the issuance of the Series 2007A Bonds.

SECTION XVIII: FINANCIAL STATEMENTS

The Corporation was created in 2004 but did not receive any Revenues until its 2006 Fiscal Year during which it received Revenues in the amount of $11,100,000. For the 2006 Fiscal Year, the financial statements of the Corporation were prepared on a consolidated basis with the financial statements for

HYDC and were audited by a firm of certified public accountants. The financial statements for the 2006 Fiscal Year are attached hereto as Appendix G. Neither the Corporation's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Corporation or any estimates or projections contained herein, nor have they expressed any opinion or any other form of assurance on projected Revenues or prospective financial information or its achievability, and assume no responsibility for, and disclaim any association with, all such projected Revenues or prospective financial information.

SECTION XIX: MISCELLANEOUS

The references herein to the Indenture, the Support and Development Agreement, the IDA Assignment Agreement, the DIB Assignment Agreement, the Subway Extension MOU and the 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 IDA Assignment Agreement, the DIB Assignment Agreement, the Subway Extension MOU and the Railyards Agreement for full and complete statements of such provisions. Copies of the Indenture, the Support and Development Agreement, the IDA Assignment Agreement, the DIB Assignment Agreement, the Subway Extension MOU and the Railyards Agreement are available at the offices of the Trustee.

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

HUDSON YARDS INFRASTRUCTURE CORPORATION

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Appendix A

Summary of Indenture

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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, an Assistant 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 Administration, 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, Article III, Article IV, Article XI or Article XII of the Indenture and the provisions of Article IX and Article X 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 Year 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 for 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, (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 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 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 Payments 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, insurance company, 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 hold such securities, free and clear of any lien, as agent for the Trustee, (3) the agreement provides that the securities that are the subject of the repurchase agreement must be repurchased 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 Investment 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, 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 hereto 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 Article IV of 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 as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms and provisions of the Indenture.

"**Initial Bonds**" means the Bonds of the first Series authorized and issued under the Indenture.

"Insurance Trustee" means the person designated in a Financial Guaranty Insurance Policy to act on behalf of the Insurer thereunder to affect payment of the principal and Sinking Fund Installments of and interest on Fiscal 2007 Series A Bonds insured thereby in accordance with the terms of such Financial Guaranty Insurance Policy.

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

(i) there shall occur a failure of the Insurer to make payment under the Financial Guaranty Insurance Policy issued by it in connection with the Fiscal 2007 Series A Bonds;

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

(iii) a proceeding shall have been instituted in a court having jurisdiction seeking a decree or order for relief in an involuntary case under the applicable bankruptcy, insolvency or other similar law now or hereafter in effect or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) of the Insurer or for any substantial part of its property or for the winding–up or liquidation of its affairs and such proceeding shall remain undismissed or unstayed and in effect for a period of thirty (30) consecutive days or such court shall enter a decree or order granting the relief sought in such proceeding; or

(iv) the Insurer shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

"**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) an 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, 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 made 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, the Debt Service Reserve 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 City's 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, Liquidity Facility or Reserve Fund 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 herein 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 designed 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 herein 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 herein 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 specification 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 therefore as certified to the Trustee by the Corporation; and

(ii) 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 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 herein 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 others 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, 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 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 copy of the Indenture and the Supplemental Indenture authorizing such Bonds, certified by an Authorized Officer of the Corporation; 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; 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; 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 section, 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). 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. 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; except in the case of Refunding Bonds issued pursuant to Bonds issued pursuant to this section 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); except in the case of Refunding Bonds issued pursuant to the Indenture and Bonds issued pursuant to this section 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); 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; 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 will be continuing; 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; a certificate of an officer of the NYC IDA to the effect that it is not in default under the IDA Assignment Agreement; and 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)

Additional Indebtedness

The Corporation reserves the right to incur Subordinated 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 in the Trust Estate.

(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 herein 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 herein 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 provided in the provisions of the Indenture described herein 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 Article IV 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 section) 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 section, 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 herein 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)

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;

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 Article V of the Indenture, (i) money in the Subway Extension Subaccount shall only be used to pay the Project Costs of the Subway Extension and (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 (iv) 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 section, 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 Fiscal Year, 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 Fiscal Year.

(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 Fund for application in accordance with the provisions of the Indenture described herein 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 herein 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 section, 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 herein under subparagraph (b)(iv) of the heading "Redemption Account".

(Indenture Section 5.04)

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 amount 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 herein 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 director 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 herein 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 herein under subparagraph (b)(iii) of the heading "Redemption Account".

(iv) **Redemption Account**. 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 section shall be irrevocably pledged to and applied to such payments.

(b) Notwithstanding the provisions of this section, 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 be come 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, on June 30th of such Fiscal Year an amount of money in the Redemption Account, up to the amount of interest on Outstanding TFA Supported Bonds payable during the next succeeding Fiscal Year, shall be transferred to the TFA Supported 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; and

(iii) Third, unless the Supplemental Indenture authorizing the issuance of the Initial Bonds provides otherwise, if any Outstanding TFA Supported 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 the Corporation given or confirmed in writing and in accordance with such direction shall be applied:

(1) First, to purchase such TFA Supported Bonds at a purchase price not to exceed the Redemption Price of such TFA Supported Bonds on the next date during such Fiscal Year on which such TFA Supported Bonds are redeemable at the option of the Corporation or to redeem such TFA Supported Bonds. The TFA Supported Bonds to be so redeemed shall be the TFA Supported 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 *pro rata* based upon the relationship that the principal amount of TFA Supported Bonds of each maturity within a Series that is so redeemable bears to the aggregate principal of TFA Supported 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 TFA Supported Bonds authorized thereby; and

(2) Then, any money remaining in the Redemption Account on June 30th of such Fiscal Year that is not required to pay the Redemption Price or purchase price of TFA Supported Bonds theretofor called for redemption or contracted to be purchased shall be transferred to the Revenue Fund.

Money remaining in the Redemption Account on June 30th of the Fiscal Year during which Conversion Date occurs shall be withdrawn and transferred to the Revenue Fund for application in accordance with the Indenture.

(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 (c) of the heading "Debt Service Reserve 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 TFA Supported 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 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;
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> 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 subsection, (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 section 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. 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 in the Bond Insurance Reserve) on June 30th of a Fiscal Year shall, after provision for the 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, to any other fund or account under the Indenture pursuant to the written direction of the Corporation; ***provided***, ***however***, that the Corporation may elect by written notice to the Trustee to retain in the Corporation Expense Fund an amount equal to twenty percent (20%) of the Corporation Expenses for the next succeeding 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 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 in subparagraph (c) 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 herein under subparagraph (b) of the heading "Redemption Account".

(Indenture Section 5.10)

Application of Money on 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 herein under subparagraph (b) of the heading "Defeasance" for the payment of such Bonds at the maturity or redemption dates thereof; or
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> (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 herein 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 as provided in Article IV of the Indenture, or (ii) give the Trustee irrevocable instructions in accordance with the provisions of the Indenture described below under the heading "Defeasance" 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.

(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 section shall be subject to the provisions of the Indenture.

(Indenture Section 7.10)

Amendment of Agreements

(a) Except as otherwise provided herein, 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 herein provided, 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 Section 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 section.

(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 section, 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 Section with the same effect as a consent given by the Holder of such Bonds.

For the purposes of this section, (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 section, 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 section 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 section.

(b) For the purposes of this section, 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 section with the same effect as a consent given by the Holder of such Bonds.

For the purposes of this section, 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 section, 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 so established for the Bonds of each maturity within a Series shall conform to the following:

(a) with respect to the Senior Bonds of a Series, provide for the *pro rata* redemption of a 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 shall 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 therefore 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 therefore in accordance with the Indenture.

(Indenture Section 7.18)

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 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 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 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 and subject to the provisions of Article X 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 Article IX and Article X of the Indenture. Nothing contained in Article IX or Article X of 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

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 section. 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.

(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" to take effect when and as provided in this section. 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 section). 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" 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 provided as described in this section. 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 section 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 section, 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 section 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 Paying 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 Article X 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" and "Modifications 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 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 by 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 include: (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)

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)

Funded Bonds Excluded from Calculations

In any calculation of the principal amount of Outstanding Bonds for any purpose required or permitted by Article XI 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 Article XI 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, 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 paragraph (a) of this section. 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 paragraph (a) of this section 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 Article IV of 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 section 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 section would not (A) cause said Bonds to be considered 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 section. The Trustee shall select the Bonds of like Series and maturity payment of which shall be made in accordance with this section 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 section 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 Payment Procedures

As long as a Financial Guaranty Insurance Policy issued by an Insurer shall be in full force and effect, the Corporation, the Trustee and any Paying Agent agree to comply with the following provisions:

(a) At least one (1) Business Day prior to each interest payment date, the Trustee or Paying Agent, if any, will determine whether there will be sufficient funds in the Debt Service Fund to pay the principal of or interest on the Fiscal 2007 Series A Bonds on such interest payment date. If the Trustee or Paying Agent determines that there will be insufficient funds in the Debt Service Fund, the Trustee or Paying Agent shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Fiscal 2007 Series A Bonds to which such deficiency is applicable and whether such Fiscal 2007 Series A Bonds will be deficient as to principal or interest, or both. If the Trustee or Paying Agent has not so notified the Insurer at least one (1) Business Day prior to a interest payment date, the Insurer will make payments of principal or interest due on the Fiscal 2007 Series A Bonds on or before the first (1^{st}) Business Day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee or Paying Agent.

(b) The Trustee or Paying Agent shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer, and, at the Insurer's written direction, to the Insurance Trustee the under the Financial Guaranty Insurance Policy, the registration books of the Corporation maintained by the Trustee or Paying Agent, and all records relating to the funds and accounts maintained under the Indenture.

(c) The Trustee or Paying Agent shall provide the Insurer and its Insurance Trustee with a list of registered owners of Fiscal 2007 Series A Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Financial Guaranty Insurance Policy, and shall make arrangements with its Insurance Trustee (i) to mail checks to the registered owners of Fiscal 2007 Series A Bonds entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal upon Fiscal 2007 Series A Bonds surrendered to the Insurance Trustee by the registered owners of the Fiscal 2007 Series A Bonds entitled to receive full or partial principal payments from the Insurer.

(d) The Trustee or Paying Agent shall, at the time it provides notice to the Insurer pursuant to (a) above, notify registered owners of Fiscal 2007 Series A Bonds entitled under the Financial Guaranty Insurance Policy to receive the payment of principal or interest thereon from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of Fiscal 2007 Series A Bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Fiscal 2007 Series A Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Fiscal 2007 Series A Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Fiscal 2007 Series A Bonds for payment thereon first to the Trustee or Paying Agent, who shall note on such Fiscal 2007 Series A Bonds the portion of the principal paid by the Trustee or Paying Agent, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

In the event that the Trustee or the Paying Agent has notice that any payment of principal of or interest on a Fiscal 2007 Series A Bond which has become due for payment and which is made to a Fiscal 2007 Series A Bondholder by or on behalf of the Corporation has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, non–appealable order of a court having competent jurisdiction, the Trustee or Paying Agent, shall, at the time the Insurer is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent, shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Fiscal 2007 Series A Bonds which have been made by the Trustee or Paying Agent, and subsequently recovered from registered owners and the dates on which such payments were made.

(Supplemental Indenture Section 5.01)

Subrogation

Notwithstanding anything in the Supplemental Indenture to the contrary, in the event that the principal or interest on Fiscal 2007 Series A Bonds shall be paid by an Insurer pursuant to a Financial Guaranty Insurance Policy, such Fiscal 2007 Series A Bonds shall remain Outstanding for all purposes, not be deemed paid pursuant to the provisions of the Indenture described above under the heading "Defeasance" or otherwise satisfied and the assignments and pledges made by or pursuant to the Indenture and all covenants, agreements and other obligations of the Corporation to the Holders of such Fiscal 2007 Series A Bonds shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered owners. To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent shall note the Insurer's rights as subrogee on the registration books of the Corporation maintained by the Trustee or Paying Agent, upon receipt from the Insurer of proof of the payment of interest thereon to the registered owners of the Fiscal 2007 Series A Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent shall note the Insurer's rights as subrogee on the registration books of the Corporation maintained by the Trustee or Paying Agent, if any, upon surrender of the Fiscal 2007 Series A Bonds by the registered owners thereof together with proof of the payment of principal thereof.

(Supplemental Indenture Section 5.02)

Insurer as Bondholder

Whenever by the terms of Article VII, VIII, IX, X or XI of the Indenture or by the term of the Supplemental Indenture the Holders of any percentage in principal amount of Outstanding Fiscal 2007 Series A Bonds may exercise any right or power, consent to an amendment, modification or waiver, or request or direct Trustee to take any action, the Insurer of particular Fiscal 2007 Series A Bonds shall be deemed to be the Holder of such Outstanding Fiscal 2007 Series A Bond, **except** that if an event of default specified in clause (c) of the provisions of the Indenture described above under the heading "Events of Default" has occurred with respect to such Fiscal 2007 Series A Bonds, the Insurer shall not be deemed the Holder of such Fiscal 2007 Series A Bonds for the purpose of giving any consent or direction or making any request pursuant to Article XI of the Indenture.

Notwithstanding any other provision of the Indenture, whenever the Indenture or the Supplemental Indenture requires that it be determined whether an act will adversely affect the Holders of Fiscal 2007 Series A Bonds such determination shall be made as if there were no Financial Guaranty Insurance Policy for the Fiscal 2007 Series A Bonds.

(Supplemental Indenture Section 5.03)

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Appendix B

Summary of Support and Development Agreement

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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 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 in 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 it 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 in 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 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 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 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 in 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; and

(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 therefore 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 2.04)

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) maintain and update 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 Element to assess the progress of the Project and the Additional Project Element; 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 2.05)

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 2.06)

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 2.10)

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 2.11)

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 2.13)

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 therefore, 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 section 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, as required by the provisions of the Agreement described herein under the heading "Records; preservation and Inspection of Documents", 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 section.

(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 herein 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 an 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 section and to the provisions of the provisions of the Agreement described herein under the heading "Assignment of Payments by the 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 section, 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 section 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, (iii) PILOT Payments payable to the City during such Fiscal Year and (ii) 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 section, 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 section, 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

HYDC represents and warrants as follows:

(a) Legal Entity. HYDC is 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

The Corporation represents and warrants as follows:

(a) Legal Entity. The Corporation is 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 the 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 the 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 section 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 herein 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 herein 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 the 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. 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 the 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.

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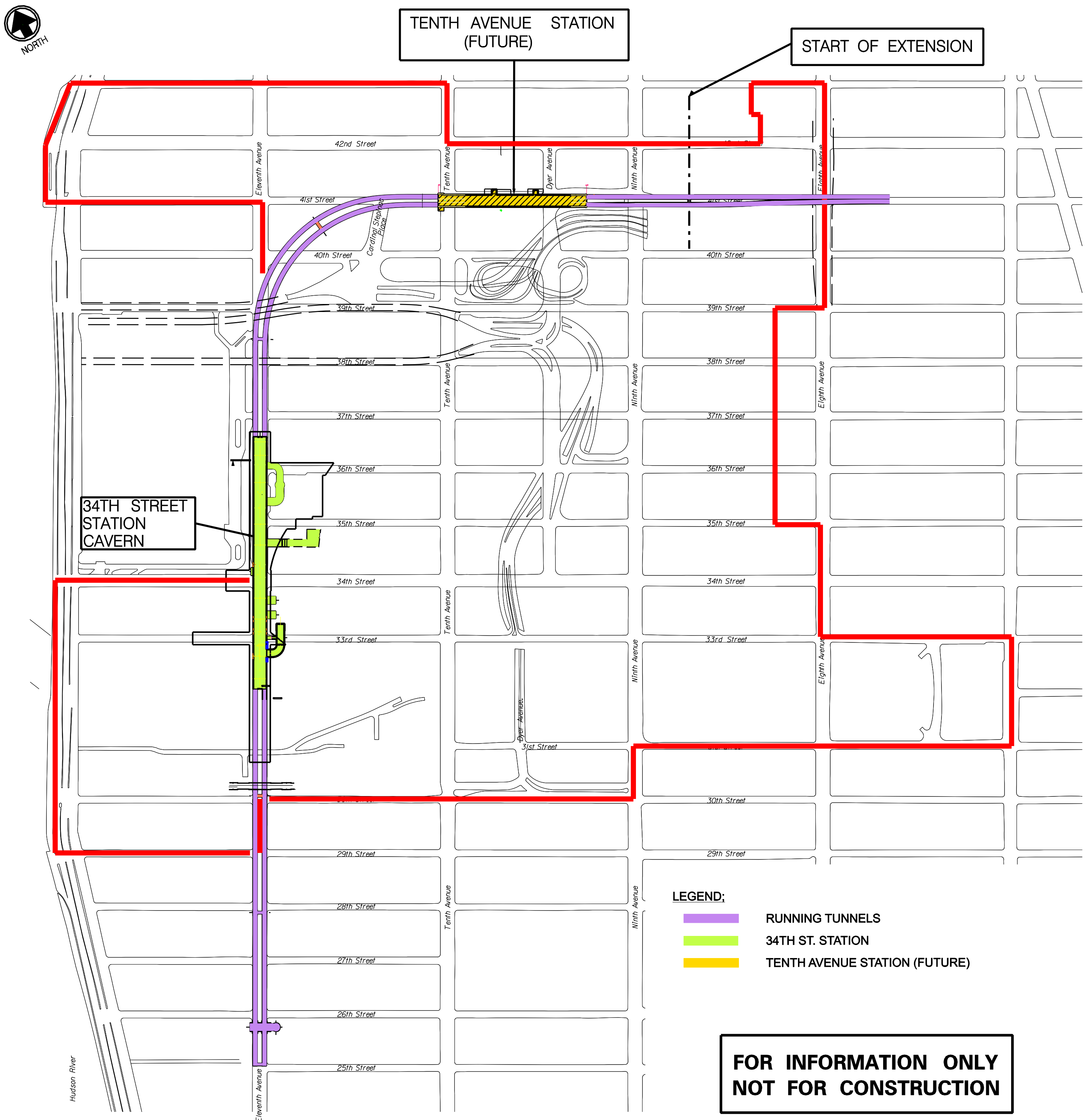
Route of Subway Extension

NUMBER 7 LINE EXTENSION



PROJECT SITE PLAN

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Appendix E

Information About The City of New York

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APPENDIX E

THE CITY OF NEW YORK

This Appendix E provides certain information concerning The City of New York (the "City") in connection with the sale of the Hudson Yards Senior Revenue Bonds, Fiscal 2007 Series A, by the Hudson Yards Infrastructure Corporation.

TABLE OF CONTENTS TO APPENDIX E

The factors affecting the City's financial condition are complex. This Appendix E 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.

This Appendix E 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 E 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 E, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date they were prepared. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based between modifications to the City's financial plan required by law.

Deloitte & Touche LLP, the City's independent auditor has not reviewed, commented on or approved, and is not associated with, this Appendix E. The report of Deloitte & Touche LLP relating to the City's financial statements for the fiscal years ended June 30, 2005 and 2006, which is a matter of public record, is included in this Appendix E. 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 E, since the date of such report and has not been asked to consent to the inclusion of its report in this Appendix E.

SECTION I: INTRODUCTORY STATEMENT

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

For each of the 1981 through 2006 fiscal years, the City's General Fund had an operating surplus, before discretionary and other transfers, and achieved balanced operating results as reported in accordance with then applicable generally accepted accounting principles ("GAAP"), after discretionary and other transfers. See "SECTION VI: FINANCIAL OPERATIONS—2002-2006 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 ("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 2007 fiscal year and budget gaps for each of the 2008 through 2010 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." The City is required to submit its financial plans to the New York State Financial Control Board (the "Control Board"). For further information regarding the Control Board, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Review and Oversight.*"

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

The Mayor is responsible for preparing the City's financial plan which relates to the City and certain entities that receive funds from the City, including the financial plan for the 2007 through 2010 fiscal years submitted to the Control Board in July 2006 (the "July Financial Plan") and Modification No. 07-1 to the July Financial Plan (as so modified the "2007-2010 Financial Plan" or "Financial Plan"). The City's projections set forth in the Financial Plan are based on various assumptions and contingencies which are uncertain and which may not materialize. Such assumptions and contingencies are described throughout this Official Statement and include the condition of the regional and local economies, the provision of State and federal aid, the impact on City revenues and expenditures of any future federal or State policies affecting the City and the cost of future labor settlements. See "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

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

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

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

SECTION II: RECENT FINANCIAL DEVELOPMENTS

2007-2010 Financial Plan

For the 2006 fiscal year, the City's General Fund had an operating surplus of $3.756 billion, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers. The 2006 fiscal year is the twenty-sixth consecutive year that the City has achieved balanced operating results when reported in accordance with GAAP.

The City's expense and capital budgets for the 2007 fiscal year were adopted on June 30, 2006. The July Financial Plan, which was consistent with the City's expense and capital budgets as adopted for the 2007 fiscal year, projected revenues and expenditures for the 2007 fiscal year balanced in accordance with GAAP, and projected gaps of $3.8 billion, $4.6 billion and $4.1 billion in fiscal years 2008 through 2010, respectively.

On November 1, 2006, the City submitted to the Control Board the Financial Plan which is a modification to the July Financial Plan and projects revenues and expenses for the 2007 fiscal year balanced in accordance with GAAP, and projects gaps of $510 million, $4.1 billion and $3.6 billion in fiscal years 2008 through 2010, respectively.

The Financial Plan reflects increases in projected net revenues since the July Financial Plan totaling $2.3 billion, $1.9 billion, $1.4 billion and $1.5 billion in fiscal years 2007 through 2010, respectively. Changes in projected revenues include: (i) increases in projected net tax revenues of $2.2 billion, $2.0 billion, $1.5 billion and $1.5 billion in fiscal years 2007 through 2010, respectively, resulting primarily from increases in projected real estate transaction, personal income and business tax revenues, offset by a proposed City child care tax credit against the personal income tax with an estimated cost of approximately $42 million, $43 million and $44 million in fiscal years 2008, 2009 and 2010, respectively, which requires State legislative and City Council approval and (ii) an increase in non-tax revenues of $27 million in fiscal year 2007 followed by decreases of $5 million, $5 million and $4 million in fiscal years 2008 through 2010, respectively.

The Financial Plan also reflects, since the July Financial Plan, increases in projected net expenditures totaling $308 million, $553 million, $906 million and $1.0 billion in fiscal years 2007 through 2010, respectively. Changes in projected expenditures since the July Financial Plan include: (i) increases in labor costs totaling $256 million, $452 million, $783 million and $930 million in fiscal years 2007 through 2010, respectively, reflecting settlements of labor negotiations, provision for similar increases for collective bargaining units not yet settled and subsequent increases in the out-years of the Financial Plan; (ii) decreases in annual State education aid of $41 million in each of fiscal years 2007 through 2010 associated with debt service on bonds issued by the Municipal Bond Bank Agency to finance prior year education claims by the City; (iii) decreases in pension contributions of $22 million, $24 million, $27 million and $29 million in fiscal years 2007 through 2010, respectively; and (iv) increases in agency spending of $48 million, $17 million, $15 million and $16 million in fiscal years 2007 through 2010, respectively. The Financial Plan also reflects a decrease in net debt service costs of $15 million in fiscal year 2007 and increases in net debt service costs of $67 million, $94 million and $62 million in fiscal years 2008 through 2010, respectively, reflecting: increases in City education funding of $57 million, $79 million, $103 million and $92 million in fiscal years 2007 through 2010, respectively, to replace State education building aid currently assigned to the TFA in connection with its financing a portion of the City's five-year educational facilities capital plan, decreases in City debt service of $129 million, $160 million, $190 million and $209 million in fiscal years 2007 through 2010, respectively, as a result of lower general obligation borrowing levels and interest rates, and decreases in personal income tax revenues of $57 million, $148 million, $180 million and $180 million in fiscal years 2007 through 2010, respectively, as a result of increased personal income tax revenue retention by the TFA for debt service on the additional $2 billion of bonds authorized to be issued by the TFA for general City capital purposes. For additional information on bonds issued by the TFA, see "SECTION VII: FINANCIAL PLAN—Financing Program."

The Financial Plan does not reflect the additional cost of the recently negotiated tentative agreement with the United Federation of Teachers (the "UFT") which covers the period from October 13, 2007 through October 31, 2009. This agreement calls for a one-time cash payment of $750 payable on January 1, 2007 and wage increases of 2% effective October 2007 and 5% effective May 2008. The proposed settlement also includes provision for a $1,000 longevity payment to most UFT members with 5 to 10 years of service. This settlement will result in expenditures beyond those assumed in the Financial Plan of approximately $70 million, $60 million, $101 million and $85 million in fiscal years 2007 through 2010, respectively. For additional information, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs."

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

The State

The State ended its fiscal year 2005-2006 on March 31, 2006 in balance on a cash basis, with a reported closing balance in the General Fund of $3.3 billion. The Governor's Executive Budget for fiscal year 2006-2007 projected balance on a cash basis for fiscal year 2006-2007, with a closing balance in the General Fund of $3.8 billion, and projected gaps of $1.9 billion in fiscal year 2007-2008 and $3.9 billion in fiscal year 2008-2009, assuming that all of the Governor's Executive Budget savings proposals were implemented.

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

The State released updates to its AIS dated as of August 4, 2006 and November 6, 2006 (the "November AIS Update" and, together with the August 4, 2006 update, the "AIS Updates"). The AIS Updates contain information regarding changes to the Enacted Budget, revisions to the State financial plan projections for fiscal years 2006-2007 through 2008-2009, a review of operating results for the first and second quarters of fiscal year 2006-2007, a GAAP basis summary of results for fiscal year 2005-2006 and projections for fiscal year 2006-2007, a summary of debt and capital management, State retirement system information, a revised economic forecast for the nation and State and the status of certain litigation with the potential to adversely affect the State's finances. The State financial plan, as updated in the AIS Updates, projects a $1.1 billion surplus on a cash basis for fiscal year 2006-2007, with a closing balance in the general fund of $3.1 billion, and projected gaps of $2.4 billion in fiscal year 2007-2008 and $4.5 billion in fiscal year 2008-2009.

The AIS and AIS Updates identify a number of substantive fiscal and policy actions since the adoption of the Enacted Budget, including the use of a $787 million spending stabilization reserve (funded with the fiscal year 2005-2006 surplus) and a portion of the fiscal year 2006-2007 surplus ($256 million) to lower the projected budget gap for fiscal year 2007-2008 to the indicated projected level; a new statewide school construction grant program totaling $2.6 billion with $1.8 billion for the City; authorization for the TFA to issue $9.4 billion in bonds which will be supported by State aid payments for the purpose of funding City school construction projects; Medicaid and health care cost containment; a $250 million deposit to the State's debt reduction reserve that was used to eliminate high cost debt; an expansion of local property tax relief initiatives; a cap on the State sales tax on gasoline; and authorization for new State debt for economic development projects. The November AIS Update includes information from a preliminary report by the State's consultants on liabilities for retiree health care costs that will be reported starting with fiscal year 2007-2008 under Governmental Accounting Standards Board Statement 45. According to that preliminary report, the State's total unfunded long-term liability could be roughly $47 billion based on several actuarial cost methods or up to $54 billion based on one method, with the liability amortized over a period of up to 30 years.

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

The State plans to issue its third update to the AIS in February of 2007 in conjunction with its third quarterly update to the 2006-2007 State financial plan.

SECTION III: GOVERNMENT AND FINANCIAL CONTROLS

Structure of City Government

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

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

— *The City Comptroller.* William C. Thompson, Jr., the Comptroller of the City, took office on January 1, 2002 and was elected to a second term which commenced on January 1, 2006. The City Comptroller is elected in a general election for a four-year term and is the chief fiscal officer of the City. The City Comptroller has extensive investigative and audit powers and responsibilities which include keeping the financial books and records of the City. The City Comptroller's audit responsibilities include a program of performance audits of City agencies in connection with the City's management, planning and control of operations. In addition, the City Comptroller is required to evaluate the Mayor's budget, including the assumptions and methodology used in the budget. The Office of the City Comptroller is responsible under the City Charter and pursuant to State law and City investment guidelines for managing and investing City funds for operating and capital purposes. The City Comptroller is also a member of the Control Board and is a trustee, the custodian and the delegated investment manager of the City's five pension systems. The investments of those pension system assets, aggregating approximately $100 billion as of September 30 2006, are made pursuant to the directions of the respective boards of trustees.

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

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

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

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

City Financial Management, Budgeting and Controls

The Mayor is responsible under the City Charter for preparing the City's annual expense and capital budgets (as adopted, the "Expense Budget" and the "Capital Budget," respectively, and collectively, the "Budgets") and for submitting the Budgets to the City Council for its review and adoption. The Expense

Budget covers the City's annual operating expenditures for municipal services, while the Capital Budget covers expenditures for capital projects, as defined in the City Charter. Operations under the Expense Budget must reflect the aggregate expenditure limitations contained in financial plans.

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

Office of Management and Budget

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

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

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

Office of the Comptroller

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

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

The Comprehensive Annual Financial Report of the Comptroller (the "CAFR") for the 2005 fiscal year, which includes, among other things, the City's financial statements for the 2005 fiscal year, has received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the twenty-sixth consecutive year the CAFR has won such award.

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

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

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

Financial Reporting and Control Systems

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

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

In June 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). GASB 45 establishes standards for the measurement, recognition, and display of other post-employment benefits ("OPEB") expense and related liabilities. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits such as life insurance, when provided separately from a pension plan. The approach followed in GASB 45 generally is consistent with the approach adopted with regard to accounting for pension expense and liabilities, with modifications to reflect differences between pension benefits and OPEB. Although GASB 45 was not required to be implemented by the City until its 2008 fiscal year, the City implemented GASB 45 in its financial statements for fiscal year 2006 and reported an accrued amount of $53.5 billion for OPEB liability in its government-wide financial statements, based upon an actuarial valuation in accordance with GASB 45. See "APPENDIX B—FINANCIAL STATEMENTS—Note A.2" and "—Note E.4.". The component units currently included in the City's financial reporting entity have implemented or will implement GASB 45 for their first fiscal year ending on or after June 30, 2006. There is no requirement to fund the future OPEB obligation and the City anticipates that the implementation of GASB 45 will not have an adverse impact on the budgets and financial plans of the City. For information on the trust established to fund a portion of the future OPEB liability, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs."

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

More than 95% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of trustees. As of September 30, 2006 aggregate pension assets were allocated approximately as follows: 48% U.S. equities; 28% U.S. fixed income; 19% international equities; 4% private equity and real estate; and 1% cash.

Financial Emergency Act and City Charter

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

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

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

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

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

Under current law, the Control Board is funded by MAC, using the City sales tax. Because MAC's existence terminates on July 1, 2008, there will be no source of funding for the Control Board thereafter unless legislative action is taken.

Financial Review and Oversight

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

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

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

SECTION IV: SOURCES OF CITY REVENUES

The City derives its revenues from a variety of local taxes, user charges and miscellaneous revenues, as well as from federal and State unrestricted and categorical grants. State aid as a percentage of the City's revenues has remained relatively constant over the period from 1980 to 2006, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 71.8% of total revenues in the 2007 fiscal year while federal aid, including categorical grants, will provide 9.8%, and State aid, including unrestricted aid and categorical grants, will provide 18.4%. 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 37.4% of its total tax revenues and 23.3% of its total revenues for the 2007 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—2002-2006 Summary of Operations."

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

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

Fiscal Year	Total Levy(1)	Levy Within Operating Limit	Debt Service Levy(2)	Debt Service Levy as a Percentage of Total Levy	Operating Limit	Levy Within Operating Limit as a Percentage of Operating Limit	Rate Per $100 of Full Valuation(3)	Average Tax Rate Per $100 of Assessed Valuation(4)
			(Dollars in Millions, except for Tax Rates)					
2002	$ 9,271.2	$ 8,085.9	$1,148.9	12.4%	$ 8,128.0	99.5%	$2.46	$10.37
2003	10,688.8	8,694.6	1,982.3	18.5	8,925.2	97.4	2.52	12.28
2004	12,250.7	9,387.4	2,821.2	23.0	9,893.5	94.9	2.50	12.28
2005	12,720.0	9,615.0	2,485.6	19.5	10,675.8	90.1	2.46	12.28
2006	13,668.1	11,633.5	1,141.0	8.3	11,666.2	99.7	2.49	12.28
2007	14,291.2	13,094.4	221.0	1.5	13,224.4	99.0	2.30	12.28

(1) As approved by the City Council.

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

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

(4) The increase in the rate between fiscal year 2002 and fiscal year 2003 reflects the 18.49% real estate tax increase effective January 1, 2003 which resulted in approximately $839 million, $1.7 billion, $1.8 billion, $2.0 billion and $2.1 billion in increased collections in the 2003 through 2007 fiscal years, respectively.

Assessment

The City has traditionally assessed real property at less than market value. The State Board of Real Property Services (the "State Board") is required by law to determine annually the relationship between taxable assessed value and market value which is expressed as the "special equalization ratio." The special equalization ratio is used to compute full value for the purpose of measuring the City's compliance with the operating limit and general debt limit. For a discussion of the City's debt limit, see "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*" The ratios are calculated by using the most recent market value surveys available and a projection of market value based on recent survey trends, in accordance with methodologies established by the State Board from time to time. Ratios, and therefore full values, may be revised when new surveys are completed. The ratios and full values used to compute the 2007 fiscal year operating limit and general debt limit which are shown in the table below, have been established by the State Board and include the results of the calendar year 2005 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)
2003......	$ 94,506,250,871		0.2230		$423,794,846,955
2004......	99,854,097,559		0.2056		485,671,680,734
2005......	103,676,971,611		0.1860		557,403,073,177
2006......	111,397,956,330		0.1925		578,690,682,234
2007......	116,477,764,261		0.1875		621,214,742,725
				Average:	$533,355,005,165

(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 2006 fiscal year, the billable assessed value of all real estate (taxable and exempt) was $192.6 billion comprised of $71.5 billion of fully exempt real estate, $44.6 billion of partially taxable real estate and $76.5 billion of fully taxable real estate.

(2) Figures are based on estimates of the special equalization ratio which are revised annually. These figures are derived from official City Council Tax Resolutions adopted with respect to the 2007 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 2006, class one was assessed at approximately 6% of market value and classes two, three and four were each assessed at 45% of market value. In addition, individual assessments on class one parcels cannot increase by more than 6% per year or 20% over a five-year period. Market value increases and decreases for most of class two and all of class four are phased in over a period of five years. Increases in class one market value in excess of applicable limitations are not phased in over subsequent years. There is also no phase in for class three property.

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

The share of the total levy that can be borne by each class is regulated by the provisions of the State Real Property Tax Law. Each class share of the total tax levy is updated annually to reflect new construction, demolition, alterations or changes in taxable status and is subject to limited adjustment to reflect market value changes among the four classes. Class share adjustments are limited to a 5%

maximum increase per year. Maximum class increases below 5% must be, and typically are, approved by the State legislature. Fiscal year 2007 tax rates were set on June 29, 2006 and reflect a 5% limitation on the market value adjustment for 2006 while the average tax rate was held at $12.283 per $100 of assessed value, though individual class tax rates changed from the prior year level.

City real estate tax revenues may be reduced in future fiscal years as a result of tax refund claims asserting overvaluation, inequality of assessment and illegality. For a discussion of various proceedings challenging assessments of real property for real estate tax purposes, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes.*" For further information regarding the City's potential exposure in certain of these proceedings, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.4."

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," which are determined for each class by the State Board by calculating the ratio of assessed value to market value, are used in real estate tax *certiorari* proceedings involving allegations of inequality of assessments. For further information regarding the City's proceedings, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes.*"

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 years 1998, 1999, and 2000 growing 0.7%, 2.6%, and 3.4%, respectively, as the local recovery began to accelerate and office vacancy rates dropped below 12%.

For fiscal year 2001, billable assessed valuation rose by $3.2 billion to $83.3 billion. The billable assessed valuation as determined by the City Department of Finance and as reported in the CAFR rose to $88.3 billion, $93.3 billion, $98.6 billion, $102.4 billion and $110.2 billion for fiscal years 2002 through 2006 respectively. The Department of Finance released the final assessment roll for fiscal year 2007 on May 25, 2006. The billable assessed value rose by $5.1 billion over the 2006 assessment roll to $115.1 billion, a growth of 4.6% over fiscal year 2006. Billable assessed valuations are forecast to grow by 4.9% in fiscal year 2008 and 4.7% and 4.6% in fiscal years 2009 and 2010, respectively.

Collection of the Real Estate Tax

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

The City primarily uses two methods to enforce the collection of real estate taxes. The City is 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. In addition, the City is entitled to foreclose delinquent tax liens by *in rem* proceedings after one year of delinquency with respect to properties other than one- and two-family dwellings and condominium apartments for which the annual tax bills do not exceed $2,750, as to which a three-year delinquency rule is in effect.

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

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

In fiscal years 2002 through 2006, the City sold to separate statutory trusts real estate tax liens for which the City received net proceeds of approximately $44.5 million, $22.6 million, $89.8 million, $37.7 million and $93.8 million, respectively. The Financial Plan reflects receipt of $49.0 million in fiscal year 2007 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)					
2002	$ 9,271.2	$ 8,590.8	92.6%	$151.2	$(138.1)	$(374.2)	$(306.2)	3.30%	$44.5
2003	10,688.8	9,943.5	93.0	126.3	(149.1)	(457.2)	(288.1)	2.70	22.6
2004	12,250.7	11,370.3	92.8	180.1	(195.1)	(591.0)	(289.3)	2.36	89.8
2005	12,720.0	11,521.7	90.6	136.2	(231.4)	(898.0)	(300.3)	2.36	37.7
2006	13,668.1	12,459.0	91.2	140.3	(222.1)	(929.9)	(279.2)	2.04	93.8
2007(6) . . .	14,291.2	12,988.9	90.9	148.0	(215.0)	(976.2)	(326.0)	2.28	49.0

(1) As approved by the City Council through fiscal year 2006.
(2) Quarterly collections on current year levy.
(3) Includes repurchases of defective tax liens amounting to $3.9 million, $11.1 million, $5.6 million, $2.9 million and $0.2 million in the 2002, 2003, 2004, 2005 and 2006 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 62.6% of its total tax revenues for the 2007 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4⅛% sales and compensating use tax, in addition to the 4½% sales and use tax imposed by the State upon receipts from retail sales of tangible personal property and certain services in the City; (ii) the personal income tax on City residents; (iii) a general corporation tax levied on the income of corporations doing business in the City; and (iv) a banking corporation tax imposed on the income of banking corporations doing business in the City.

For local taxes other than the real estate tax, the City may adopt and amend local laws for the levy of local taxes to the extent authorized by the State. This authority can be withdrawn, amended or expanded by State legislation. Without State authorization, the City may impose real estate taxes to fund general operations in an amount not to exceed 2.5% of property values in the City as determined under a State mandated formula. In addition, the State cannot restrict the City's authority to levy and collect real estate taxes in excess of the 2.5% limitation in the amount necessary to pay principal of and interest on City indebtedness. For further information concerning the City's authority to impose real estate taxes, see "Real Estate Tax" above. Payments by the State to the City of sales tax and stock transfer tax revenues are subject to appropriation by the State. Until the defeasance of all of MAC's outstanding bonds with the proceeds of Sales Tax Asset Receivable Corporation ("STAR Corp.") bonds and MAC funds in fiscal year 2005, such sales tax and stock transfer tax revenues were made available first to MAC for payment of MAC debt service, reserve fund requirements, operating expenses, and State oversight costs with the balance payable to the City. Sales tax and stock transfer tax revenues are currently made available first to MAC for payment of MAC operating expenses and State oversight costs with the balance payable to the City. Such costs are expected to total approximately $10 million in fiscal year 2007. A portion of sales tax payments payable to the City would be paid to the TFA if personal income tax revenues do not satisfy specified debt service ratios.

Revenues from taxes other than the real estate tax in the 2006 fiscal year increased by $2.325 billion, an increase of approximately 12.1% from the 2005 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real estate tax, for each of the City's 2002 through 2006 fiscal years.

	2002	2003	2004	2005	2006
			(In Millions)		
Personal Income(1)	$ 4,538	$ 4,460	$ 5,984	$ 6,638	$ 7,657
General Corporation	1,330	1,237	1,540	1,994	2,379
Banking Corporation	320	213	415	601	656
Unincorporated Business Income	791	832	908	1,117	1,308
Sales	3,360	3,535	4,018	4,355	4,418
Commercial Rent	380	397	426	445	477
Real Property Transfer	425	513	766	1,055	1,295
Mortgage Recording	477	526	817	1,250	1,353
Utility	258	295	291	340	391
Cigarette	27	159	138	125	123
Hotel	184	192	217	257	296
All Other(2)	381	367	487	475	448
Audits	485	571	576	600	775
Total	$12,957	$13,297	$16,583	$19,250	$21,575

Note: Totals may not add due to rounding.

(1) Personal Income excludes $451 million, $537 million, $109 million, $497 million and $350 million retained by the TFA in fiscal years 2002 through 2006, respectively. In fiscal years 2002 through 2006, Personal Income includes $520 million, $540 million, $540 million, $632 million and $692 million, respectively, which was provided to the City by the State as a reimbursement for the reduced personal income tax revenues resulting from the School Tax Relief Program ("STAR Program"). Personal Income taxes flow directly from the State to the TFA, and from the TFA to the City only to the extent not required by the TFA for debt service, reserves, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. Personal Income also reflects the impact of grants to the TFA of $624 million, $400 million and $947 million in fiscal years 2003, 2004 and 2005, respectively, which were used by the TFA to pay debt service in each subsequent fiscal year, thereby increasing tax revenue by $624 million, $400 million and $947 million in fiscal years 2004, 2005 and 2006, respectively.

(2) All Other includes, among others, surtax revenues from the New York City Off-Track Betting Corporation ("OTB"), beer and liquor taxes, and the automobile use tax, but excludes the State's STAR Program aid of $632 million, $660 million, $677 million, $784 million and $857 million in fiscal years 2002 through 2006, 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 2002 through 2006 fiscal years.

	2002	2003	2004	2005	2006
			(In Millions)		
Licenses, Permits and Franchises	$ 356	$ 357	$ 374	$ 395	$ 418
Interest Income	81	43	30	149	362
Charges for Services	461	501	592	614	611
Water and Sewer Payments	858	846	885	899	990
Rental Income	115	109	108	944	209
Fines and Forfeitures	485	548	697	745	723
Other	1,383	2,244	684	1,327	548
Total	$3,739	$4,648	$3,370	$5,073	$3,862

Note: Totals may not add due to rounding.

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

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

Other miscellaneous revenues for fiscal years 2002 through 2006 include $211 million, $150 million, $67 million, $68 million and $5 million, respectively, of tobacco settlement receivables ("TSRs") from the settlement of litigation with certain cigarette manufacturers, that are not retained by TSASC for debt service, trapping requirements and operating expenses. Other miscellaneous revenues for fiscal years 2002 through 2006 do not include TSRs retained by TSASC for debt service, trapping requirements and operating expenses, totaling $45 million, $103 million, $147 million, $149 million and $194 million, respectively. 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 2002 include $208 million from the sale of mortgages of the Department of Housing Preservation and Development ("HPD"), $154 million reimbursement by HHC for malpractice claims and $361 million in TFA reimbursement for costs related to or arising from the September 11 attack ("Recovery Costs"). Other miscellaneous revenues for fiscal year 2003 include $50 million in recovery of prior expenditures, $106 million in reimbursement for landfill closure costs and $1.5 billion of TFA bond proceeds to reimburse Recovery Costs. For information on TFA borrowing for Recovery Costs, see "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities." Other miscellaneous revenues for fiscal year 2004 include $95 million from the sale of 300 taxi medallions and $71 million from a financing by the New York City Industrial Development Agency ("IDA") which reimbursed the City for costs incurred in connection with the New York Stock Exchange project. Other miscellaneous revenues for fiscal year 2005 include $631 million from the refinancing of MAC debt by STAR Corp. which reimbursed the City for revenues retained by MAC in fiscal years 2004 and 2005, $97.9 million from the sale of 273 taxi medallions, $44.5 million from the sale of the former headquarters of the BOE (as defined below) and $39.6 million from the refund of prior year expenditures. Other miscellaneous revenues for fiscal year 2006 include a $49 million payment from the Fiscal Year 2005 Securitization Corp., $45 million from the release of remediation funds in a trust and agency account, $11 million from the refund of prior year expenditures, $9 million from the reimbursement for landfill closure costs and $7.9 million from HHC for City administrative support.

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 2002 through 2006 fiscal years.

	2002	2003	2004	2005	2006
			(In Millions)		
State Per Capita Aid	$328	$ 400	$327	$327	$327
Other(1)	338	1,043	636	277	167
Total	$666	$1,443	$963	$604	$494

(1) Included in the 2002 through 2006 fiscal years are $201 million, $180 million, $250 million, $264 million and $142 million, respectively, of aid associated with the partial State takeover of long-term care Medicaid costs. Included in the 2003 and 2004 fiscal years are approximately $762 million and $151 million, respectively, in non-recurring Federal Emergency Management Agency ("FEMA") reimbursement for costs related to the September 11 attack. A total of approximately $197 million for unpaid prior year education aid and $9 million of federal reimbursement for snow removal costs are included in fiscal year 2004.

Federal and State Categorical Grants

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

The following table sets forth amounts of federal and State categorical grants received by the City for each of the City's 2002 through 2006 fiscal years.

	2002	2003	2004	2005	2006
			(In Millions)		
Federal					
Community Development(1)	$ 281	$ 226	$ 240	$ 268	$ 261
Social Services(2)	2,541	2,550	2,448	2,405	2,181
Education(2)	1,364	1,595	1,770	1,909	1,693
Other(2)(3)	1,911	1,247	957	2,072	1,109
Total	$6,097	$5,618	$5,415	$6,654	$5,243
State					
Social Services	$1,585	$1,576	$1,724	$1,741	$1,906
Education	5,592	5,834	5,873	6,177	6,702
Higher Education	129	133	139	140	153
Health and Mental Health	434	416	377	393	415
Other	290	358	342	372	410
Total	$8,030	$8,317	$8,455	$8,823	$9,586

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

(2) A total of approximately $1.1 billion in non-recurring reimbursement from FEMA for costs relating to the September 11 attack is included in Social Services, Education and Other in fiscal year 2002.

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

SECTION V: CITY SERVICES AND EXPENDITURES

Expenditures for City Services

Three types of governmental agencies provide public services within the City's borders and receive financial support from the City. One category is the mayoral agencies established by the City Charter which include, among others, the Police, Fire and Sanitation Departments. Another is the independent agencies which are funded in whole or in part through the City Budget by the City but which have greater independence in the use of appropriated funds than the mayoral agencies. Included in this category are certain Covered Organizations such as HHC and the Transit Authority. A third category consists of certain PBCs which were created to finance the construction of housing, hospitals, dormitories and other facilities and to provide other governmental services in the City. The legislation establishing this type of agency contemplates that annual payments from the City, appropriated through its Expense Budget, may or will constitute a substantial part of the revenues of the agency. Included in this category is, among others, the City University Construction Fund ("CUCF"). For information regarding expenditures for City services, see "SECTION VI: FINANCIAL OPERATIONS—2002-2006 Summary of Operations."

Federal and State laws require the City to provide certain social services for needy individuals and families who qualify for such assistance. The City receives the federal Temporary Assistance for Needy Families ("TANF") block grant funds through the State which, supplemented by City and State contributions, fund the Family Assistance Program. The Family Assistance Program provides benefits for households with minor children subject, in most cases, to a five-year time limit. The federal block grant has been extended through September 30, 2010. The Safety Net Assistance Program provides benefits for adults without minor children, families who have reached the Family Assistance Program time limit, and others, including certain immigrants, who are ineligible for the Family Assistance Program but are eligible for public assistance. The cost of the Safety Net Assistance Program is borne equally by the City and the State.

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

As of July 2002, the Mayor assumed responsibility for the City's public schools. The Board of Education ("BOE") has been replaced by the Department of Education ("DOE") which is overseen by a Chancellor, appointed by the Mayor, and the 13-member Panel for Educational Policy where the Mayor appoints 8 members including the Chancellor, and the Borough Presidents each appoint one member. The number of pupils in the school system is estimated to be approximately 1 million in each of the 2007 through 2010 fiscal years. Actual enrollment in fiscal years 2002 through 2006 has been 1,068,849, 1,065,363, 1,060,415, 1,048,664 and 1,033,553, 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 37.9% of the costs of the Community Colleges in the 2007 fiscal year. The State has full responsibility for the costs of operating the Senior Colleges, although the City is required initially to fund these costs.

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

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

The City's Expense Budget increased during the five-year period ended June 30, 2006, 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 2002 through 2006 fiscal years.

	2002	2003	2004	2005	2006
Education	138,411	135,282	134,325	135,771	137,067
Police	51,924	50,787	50,544	50,141	51,223
Social Services, Homeless and Children's Services	24,376	22,361	23,340	23,060	23,178
City University Community Colleges and Hunter Campus Schools	5,756	6,039	6,450	6,582	6,444
Environmental Protection and Sanitation	15,985	14,933	15,473	15,570	15,800
Fire	15,854	15,180	15,522	15,902	16,140
All Other	54,062	49,982	50,903	52,645	53,186
Total	306,368	294,564	296,557	299,671	303,038

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 2002 through 2006 fiscal years.

	2002	2003	2004	2005	2006
Transit Authority	47,954	47,694	47,400	46,706	47,114
Housing Authority	14,694	14,673	13,841	13,128	12,751
HHC	35,377	35,956	35,833	36,227	36,727
Total(1)	98,025	98,323	97,074	96,061	96,592

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

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

Labor Relations

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

Collective bargaining for City employees is under the jurisdiction of either the New York City Office of Collective Bargaining, which was created under the New York City Collective Bargaining Law, or New York State Public Employment Relations Board ("PERB"), which was created under the State Employees Fair Employment Act. Collective bargaining matters relating to police, firefighters and pedagogical employees are under the jurisdiction of PERB. Under applicable law, the terms of future wage settlements could be determined through an impasse procedure which, except in the case of pedagogical employees, can result in the imposition of a binding settlement. Pedagogical employees do not have access to binding arbitration but are covered by a fact-finding impasse procedure under which a binding settlement may not be imposed.

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

Pensions

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

Capital Expenditures

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

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

On May 5, 2005, the City published the Ten-Year Capital Strategy for fiscal years 2006 through 2015. The Ten-Year Capital Strategy totals $62.4 billion, of which approximately 85% would be financed with City funds. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*"

The Ten-Year Capital Strategy includes: (i) $17.6 billion to construct new schools and improve existing educational facilities; (ii) $15.8 billion for improvements to the water and sewer system; (iii) $4.1 billion for expanding and upgrading the City's housing stock; (iv) $3.1 billion for reconstruction or resurfacing of City streets; (v) $743 million for continued City-funded investment in mass transit; (vi) $4.9 billion for the continued reconstruction and rehabilitation of all four East River bridges and 149 other bridge structures; (vii) $1.6 billion to expand current jail capacity; and (viii) $582 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 general obligation bonds issued by the City and bonds issued by the TFA and the Water Authority. From time to time in the past, during recessionary periods when operating revenues have come under increasing pressure, capital funding levels have been reduced from those previously contemplated in order to reduce debt service costs. For information concerning the City's long-term financing program for capital expenditures, see "SECTION VII: FINANCIAL PLAN—Financing Program."

The City's capital expenditures, including expenditures funded by State and federal grants, totaled $31.1 billion during the 2002 through 2006 fiscal years. City-funded expenditures, which totaled $27.3 billion during the 2002 through 2006 fiscal years, have been financed through the issuance of bonds by the City, the TFA, the Water Authority, TSASC, HHC and the Dormitory Authority of the State of New York ("DASNY"). The following table summarizes the major categories of capital expenditures in the City's 2002 through 2006 fiscal years.

	2002	2003	2004	2005	2006	Total
			(In Millions)			
Education	$1,765	$1,315	$1,192	$ 975	$1,782	$ 7,029
Environmental Protection	1,037	1,301	1,631	1,679	1,841	7,489
Transportation	724	739	763	786	657	3,669
Transit Authority(1)	191	446	199	160	126	1,122
Housing	380	301	360	343	459	1,843
Hospitals	62	67	35	346	232	742
Sanitation	185	114	173	159	94	725
All Other(2)	1,976	1,451	1,402	2,207	1,404	8,440
Total Expenditures(3)	$6,320	$5,734	$5,755	$6,655	$6,595	$31,059
City-funded Expenditures(4)	$5,436	$5,376	$5,133	$5,274	$6,065	$27,284

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

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

(3) Total Expenditures for the 2002 through 2006 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures for the 2002 through 2006 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, 2006, 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 "2002-2006 Summary of Operations" below.

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

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

2002-2006 Summary of Operations

The following table sets forth the City's results of operations for its 2002 through 2006 fiscal years in accordance with GAAP.

The information regarding the 2002 through 2006 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 2005 and 2006 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 2002 through 2004 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				
	2002	2003	2004	2005	2006
	(In Millions)				
Revenues and Transfers					
Real Estate Tax(2)	$ 8,761	$10,063	$11,582	$11,616	$12,636
Other Taxes(3)(4)	12,957	13,297	16,583	19,250	21,575
Miscellaneous Revenues(3)	3,739	4,648	3,370	5,073	3,862
Other Categorical Grants	615	1,006	956	862	1,150
Unrestricted Federal and State Aid(3)	666	1,443	963	604	494
Federal Categorical Grants	6,097	5,618	5,415	6,654	5,243
State Categorical Grants	8,030	8,317	8,455	8,823	9,586
Less: Disallowances Against Categorical Grants	0	(47)	(27)	(87)	(542)
Total Revenues and Transfers(5)	$40,865	$44,345	$47,297	$52,795	$54,004
Expenditures and Transfers					
Social Services	$ 9,098	$ 9,321	$ 9,650	$10,329	$10,148
Board of Education	11,718	12,673	13,061	13,776	14,794
City University	418	444	493	567	550
Public Safety and Judicial	6,462	6,204	6,125	6,507	6,694
Health Services	2,132	2,241	2,418	2,424	2,758
Pensions(6)	1,392	1,631	2,308	3,234	3,879
Debt Service(3)(7)	1,371	2,309	3,472	4,023	4,510
MAC Debt Service and Administrative Expenses(3)(7)	5	225	502	111	10
All Other(7)	8,264	9,292	9,263	11,819	10,656
Total Expenditures and Transfers(5)	$40,860	$44,340	$47,292	$52,790	$53,999
Surplus(7)	$ 5	$ 5	$ 5	$ 5	$ 5

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

(2) In fiscal years 2002 through 2006, Real Estate Tax includes $112.4 million, $119.6 million, $137.3 million, $151.7 million and $165.4 million, respectively, which was provided to the City by the State as a reimbursement for the reduced property tax revenues resulting from the State's STAR Program.

(3) Other Taxes and MAC Debt Service and Administrative Expenses include amounts paid to MAC by the State for debt service, operating expenses and State oversight costs from sales tax receipts, stock transfer tax receipts and State per capita aid otherwise payable by the State to the City. For more information see "SECTION IV: SOURCES OF CITY REVENUES—Other Taxes." MAC Debt Service and Administrative Expenses is reduced by payments by the City of debt service on City obligations held by MAC. Personal income taxes exclude $451 million, $537 million, $109 million, $497 million and $350 million

in fiscal years 2002 through 2006, respectively, retained by the TFA. Debt Service does not include debt service on TFA bonds or TSASC bonds. Miscellaneous Revenues includes TSRs that are not retained by TSASC for debt service and operating expenses.

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

(5) Total Revenues and Transfers and Total Expenditures and Transfers exclude Inter-Fund Revenues. Approximately $1.245 billion of fiscal year 2002 expenditures are costs related to the September 11 attack.

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

(7) The Surplus is the surplus after discretionary and other transfers and expenditures. The City had general fund operating revenues exceeding expenditures of $3.756 billion, $3.534 billion, $1.928 billion, $1.422 billion and $686 million before discretionary and other transfers and expenditures for the 2006, 2005, 2004, 2003 and 2002 fiscal years, respectively. Discretionary and other transfers are included in Debt Service, MAC Debt Service and Administrative Expenses and for transit and other subsidies in All Other. All Other includes grants to the TFA of $624 million, $400 million and $947 million in fiscal years 2003, 2004 and 2005, respectively, which were used by the TFA to pay TFA debt service in each subsequent fiscal year and thereby increased tax revenue by $624 million, $400 million, and $947 million in fiscal years 2004, 2005 and 2006, respectively.

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Forecast of 2007 Results

The following table compares the forecast for the 2007 fiscal year contained in the July Financial Plan, which was submitted to the Control Board in July 2006 (the "July 2006 Forecast") with the forecast contained in the Financial Plan, which was submitted to the Control Board in November 2006 (the "November 2006 Forecast"). Each forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see "SECTION II: RECENT FINANCIAL DEVELOPMENTS."

	July 2006 Forecast	November 2006 Forecast	Increase/(Decrease) from July 2006 Forecast	
		(In Millions)		
REVENUES				
Taxes				
General Property Tax	$12,972	$12,971	$ (1)	
Other Taxes	19,040	20,961	1,921	(1)
Tax Audit Revenue	509	759	250	(2)
Miscellaneous Revenues	5,155	5,232	77	
Unrestricted Intergovernmental Aid	340	340	—	
Less: Intra-City Revenues	(1,355)	(1,395)	(40)	
Disallowances Against Categorical Grants	(15)	(15)	—	
Subtotal – City Funds	$36,646	$38,853	$2,207	
Other Categorical Grants	967	1,041	74	
Inter-Fund Revenues	395	414	19	
Total City Funds & Inter-Fund Revenues	$38,008	$40,308	$2,300	
Federal Categorical Grants	5,063	5,464	401	(3)
State Categorical Grants	9,869	9,872	3	
Total Revenues	$52,940	$55,644	$2,704	
EXPENDITURES				
Personal Services				
Salaries and Wages	$19,248	$19,624	$ 376	(4)
Pensions	4,891	4,869	(22)	
Fringe Benefits	6,920	7,085	165	(5)
Total – Personal Services	$31,059	$31,578	$ 519	
Other Than Personal Services				
Medical Assistance	4,935	4,935	—	
Public Assistance	2,199	1,355	(844)	(6)
Pay-As-You-Go Capital	200	200	—	
All Other	15,410	16,665	1,255	(7)
Total – Other Than Personal Services	$22,744	$23,155	$ 411	
Debt Service & MAC Administrative Expenses	3,943	3,812	(131)	(8)
FY 2006 Budget Stabilization & Discretionary Transfers	(3,751)	(3,751)	—	(9)
FY 2007 Budget Stabilization & Discretionary Transfers	—	1,946	1,946	
General Reserve	300	299	(1)	
Total Expenditures	$54,295	$57,039	$2,744	
Less: Intra-City Expenses	(1,355)	(1,395)	(40)	
Net Total Expenditures	$52,940	$55,644	$2,704	

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(1) The increase in Other Taxes is due to increases in personal income taxes of $325 million, sales and use taxes of $30 million, banking corporation tax of $131 million, general corporation tax of $215 million, unincorporated business tax of $143 million, mortgage recording tax of $406 million, real property transfer tax of $406 million, utility tax of $15 million, hotel occupancy tax of $23 million, cigarette tax revenue of $2 million, all other taxes of $6 million and the State's STAR Program aid of $219 million.

(2) The increase in Tax Audit Revenue reflects increases of $250 million in general corporation tax as a result of the resolution of eight years of open audits.

(3) The increase in Federal Categorical Grants is due to increases of $353.6 million in categorical grants which offset categorical expenditures, $43.6 million in social services funding and $3.8 million in other grants.

(4) The increase in Personal Services—Salaries and Wages is due to increases of $136 million for recent collective bargaining settlements, $10 million in net agency needs, and $230 million in budget modifications reflecting categorical expenditures which are offset by categorical grants and the transfer of expenditures from Personal Services to Other Than Personal Services.

(5) The increase in Personal Services—Fringe Benefits is primarily due to the recent collective bargaining settlement.

(6) The decrease in Other Than Personal Services—Public Assistance is due to the reclassification of certain social service expenditures from Public Assistance to All Other.

(7) The increase in Other Than Personal Services — All Other is due to increases of $335 million in budget modifications reflecting categorical expenditures which are offset by categorical grants and the transfer of expenditures from Personal Services to Other Than Personal Services. $844 million reflecting the reclassification of certain social services expenditures from Public Assistance to All Other, and $76 million in net agency spending.

(8) The decrease in Debt Service & MAC Administrative Expenses is due to the elimination of short-term borrowing and reduced level of general obligation debt issuance.

(9) FY 2006 Budget Stabilization & Discretionary Transfers reflects the discretionary transfer of $3.204 billion into the General Debt Service Fund in fiscal year 2006 for debt service due in fiscal year 2007 and the payment in fiscal year 2006 of $74 million in lease debt service and $473 million in subsidies, respectively, otherwise due in fiscal year 2007.

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SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2007 through 2010 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) 2007	2008	2009	2010
	(In Millions)			
REVENUES				
Taxes				
General Property Tax(3)	$12,971	$13,852	$14,508	$15,187
Other Taxes(4)(5)	20,961	20,692	20,742	21,734
Tax Audit Revenue	759	559	559	560
Tax Reduction Program(6)	—	(298)	(299)	(300)
Miscellaneous Revenues(7)	5,232	5,194	4,781	4,808
Unrestricted Intergovernmental Aid	340	340	340	340
Less: Intra-City Revenues	(1,395)	(1,326)	(1,328)	(1,328)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$38,853	$38,998	$39,288	$40,986
Other Categorical Grants	1,041	983	996	1,001
Inter-Fund Revenues(8)	414	392	384	384
Total City Funds and Inter-Fund Revenues	$40,308	$40,373	$40,668	$42,371
Federal Categorical Grants	5,464	5,112	5,110	5,113
State Categorical Grants	9,872	9,857	9,928	10,054
Total Revenues	$55,644	$55,342	$55,706	$57,538
EXPENDITURES				
Personal Services				
Salaries and Wages	$19,624	$20,054	$20,495	$20,776
Pension	4,869	5,595	5,960	5,972
Fringe Benefits(9)	7,805	6,349	6,669	6,928
Subtotal-Personal Services	$31,578	$31,998	$33,124	$33,676
Other Than Personal Services				
Medical Assistance	4,935	5,083	5,222	5,376
Public Assistance	1,355	1,355	1,355	1,355
Pay-As-You-Go Capital	200	200	200	200
All Other(10)	16,665	16,024	16,396	16,709
Subtotal-Other Than Personal Services	$23,155	$22,662	$23,173	$23,640
Debt Service & MAC Administrative Expenses(11)	3,812	4,164	4,505	4,858
FY 2006 Budget Stabilization & Discretionary Transfers(12)	(3,751)	—	—	—
FY 2007 Budget Stabilization & Discretionary Transfers	1,946	(1,946)	—	—
General Reserve	299	300	300	300
	$57,039	$57,178	$61,102	$62,474
Less: Intra-City Expenses	(1,395)	(1,326)	(1,328)	(1,328)
Total Expenditures	$55,644	$55,852	$59,774	$61,146
GAP TO BE CLOSED	$ —	$ (510)	$ (4,068)	$ (3,608)

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

The four year financial plan for the 2006 through 2009 fiscal years, as submitted to the Control Board on July 6, 2005, contained the following projections for the 2006-2009 fiscal years: (i) for 2006, total revenues of $50.188 billion and total expenditures of $50.188 billion; (ii) for 2007, total revenues of $49.433 billion and total expenditures of $53.940 billion, with a gap to be closed of $4.507 billion; (iii) for 2008, total revenues of $50.518 billion and total expenditures of $54.988 billion, with a gap to be closed of $4.470 billion; and (iv) for 2009, total revenues of $52.142 billion and total expenditures of $56.067 billion, with a gap to be closed of $3.925 billion.

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

The four year financial plan for the 2004 through 2007 fiscal years, as submitted to the Control Board on June 30, 2003, contained the following projections for the 2004-2007 fiscal years: (i) for 2004, total revenues of $43.658 billion and total expenditures of $43.658 billion; (ii) for 2005, total revenues of $43.737 billion and total expenditures of $45.751 billion, with a gap to be closed of $2.014 billion; (iii) for 2006, total revenues of $44.134 billion and total expenditures of $47.372 billion, with a gap to be closed of $3.238 billion; and (iv) for 2007, total revenues of $45.186 billion and total expenditures of $48.471 billion, with a gap to be closed of $3.285 billion.

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

(3) For a description of the effects of the real estate tax increase effective January 1, 2003, the State's STAR Program, the real estate tax rebates to owner-occupants of houses, co-ops and condominiums, and other real estate tax reductions and other assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—2. Real Estate Tax."

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

(5) For Financial Plan assumptions, including the personal income tax and sales tax increases authorized by the State Legislature, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—3. Other Taxes."

(6) Tax Reduction Program reflects the proposed extension through fiscal year 2010 of the real estate tax rebate to owner-occupants of houses, co-ops and condominiums which has an estimated value of $256 million annually and a City child care credit against the City personal income tax for families with children up to three years old with an estimated annual value of $42 million, $43 million and $44 million in fiscal years 2008, 2009 and 2010, respectively. Both tax proposals require State and local approval. For information on the rebate in fiscal year 2007, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—2. Real Estate Tax."

(7) 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 VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—4. Miscellaneous Revenues."

(8) 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.

(9) Personal Services—Fringe Benefits includes contributions of $1 billion in fiscal year 2007 to a trust fund for the future cost of health benefits for retirees; see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs."

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

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

(12) FY 2006 Budget Stabilization & Discretionary Transfers reflects discretionary transfers of $3.204 billion into the General Debt Service Fund in fiscal year 2006 for debt service due in fiscal year 2007 and the payment in fiscal year 2006 of $74 million in lease debt service and $473 million in subsidies, respectively, otherwise due in fiscal year 2007.

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

Actions to Close the Remaining Gaps

Although the City has maintained balanced budgets in each of its last twenty-six fiscal years and is projected to achieve balanced operating results for the 2007 fiscal year, there can be no assurance that the Financial Plan or future actions to close projected outyear gaps can be successfully implemented or that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

Assumptions

The Financial Plan is based on numerous assumptions, including the condition of the City's and the region's economies and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for City employees exceed the annual wage costs assumed for the 2007 through 2010 fiscal years; realization of projected interest earnings for pension fund assets and current assumptions with respect to wages for City employees affecting the City's required pension fund contributions; the willingness and ability of the State to provide the aid contemplated by the Financial Plan and to take various other actions to assist the City; the ability of HHC and other such entities to maintain balanced budgets; the willingness of the federal government to provide the amount of federal aid contemplated in the Financial Plan; the impact on City revenues and expenditures of federal and State welfare reform and any future legislation affecting Medicare or other entitlement programs; adoption of the City's budgets by the City Council in substantially the forms submitted by the Mayor; the ability of the City to implement cost reduction initiatives, and the success with which the City controls expenditures; the impact of conditions in the real estate market on real estate tax revenues; and the ability of the City and other financing entities to market their securities successfully in the public credit markets. See "SECTION 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 recognizes that after three consecutive years of contraction, the City's economy experienced a broad based recovery in calendar years 2004 and 2005. The economic projections contained therein assume that moderate growth will continue through calendar year 2006 with improvements in the labor market.

The following table presents a forecast of the key economic indicators for the calendar years 2005 through 2010. This forecast is based upon information available in October 2006.

FORECAST OF KEY ECONOMIC INDICATORS

	Calendar Years					
U.S. ECONOMY	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Economic Activity and Income						
Real GDP (billions of 2000 dollars)	11,049	11,430	11,690	12,058	12,465	12,862
Percent Change	3.2	3.4	2.3	3.1	3.4	3.2
Non-Agricultural Employment (millions)	133.5	135.3	136.7	138.5	140.6	142.5
Change from Prior Year	2.0	1.8	1.4	1.8	2.1	1.8
CPI-All Urban (1982-84=100)	195.3	201.8	206.5	210.9	215.1	219.3
Percent Change	3.4	3.4	2.3	2.1	2.0	2.0
Wage Rate ($ per year)	42,446	45,134	46,771	48,511	50,429	52,425
Percent Change	3.5	6.3	3.6	3.7	4.0	4.0
Personal Income ($ billions)	10,239	10,963	11,554	12,206	12,947	13,710
Percent Change	5.2	7.1	5.4	5.6	6.1	5.9
Pre-Tax Corp Profits ($ billions)	1,519	1,805	1,803	1,840	1,852	1,848
Percent Change	32.7	18.9	(0.1)	2.1	0.6	(0.2)
Unemployment Rate (Percent)	5.1	4.7	4.9	4.9	4.7	4.5
10-Year Treasury Bond Rate	4.3	4.9	5.0	5.2	5.6	5.6
Federal Funds Rate	3.2	5.0	5.1	4.8	5.0	5.1
NEW YORK CITY ECONOMY						
Real Gross City Product (billions of 2000 dollars)	453	464	456	468	485	501
Percent Change	3.7	2.3	(1.6)	2.7	3.6	3.3
Non-Agricultural Employment (thousands)	3,599	3,653	3,674	3,701	3,753	3,795
Change from Prior Year	49.0	53.9	20.8	27.0	51.3	42.7
CPI-All Urban NY-NJ Area (1982-84=100)	212.7	220.2	225.9	230.8	235.6	240.5
Percent Change	3.9	3.5	2.6	2.2	2.1	2.1
Wage Rate ($ per year)	67,912	72,391	73,382	75,039	78,455	81,907
Percent Change	4.7	6.6	1.4	2.3	4.6	4.4
Personal Income ($ billions)	345.7	368.2	381.0	397.2	420.2	443.6
Percent Change	5.0	6.5	3.5	4.3	5.8	5.6
NEW YORK REAL ESTATE MARKET						
Manhattan Primary Office Market						
Asking Rental Rate ($ per square foot)	47.75	50.81	52.27	53.28	54.64	58.24
Percent Change	1.4	6.4	2.9	1.9	2.5	6.6
Vacancy Rate – Percent	9.4	7.7	8.1	8.4	7.9	6.9

Source: OMB.

2. REAL ESTATE TAX

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

The increase in average tax rate to $12.283 per $100 of assessed value enacted November 25, 2002 began in the second half of fiscal year 2003 and is projected to remain in effect for the forecast period through 2010.

Projections of real estate tax revenues include $49 million net revenue in fiscal year 2007 and $37 million net revenue in each of fiscal years 2008 through 2010 from the sale of real property tax liens.

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 $165 million in each of fiscal years 2007 through 2010. 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 $294 million, $309 million, $323 million and $338 million in fiscal years 2007 through 2010, respectively. Projections of real estate tax revenues reflect the real estate tax rebate of $400 to owner-occupants of houses, co-ops and condominiums which has an estimated cost of $256 million in fiscal year 2007. The Tax Reduction Program proposes the extension of this rebate through fiscal year 2010.

The delinquency rate was 2.4% for each of fiscal years 2004 and 2005 and 2.0% in fiscal 2006. The Financial Plan projects delinquency rates of 2.3%, 2.5%, 2.6% and 2.6% in fiscal years 2007 through 2010, respectively. For information concerning the delinquency rates for prior years, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Collection of the Real Estate Tax.*" For a description of proceedings seeking real estate tax refunds from the City, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes.*"

3. OTHER TAXES

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

	2007	2008	2009	2010
		(In Millions)		
Personal Income(1)(2)	$ 6,469	$ 6,543	$ 6,333	$ 6,764
General Corporation	2,593	2,599	2,637	2,729
Banking Corporation	656	646	658	693
Unincorporated Business Income	1,382	1,380	1,418	1,505
Sales(2)	4,538	4,600	4,804	5,040
Commercial Rent	502	520	536	553
Real Property Transfer	1,269	1,113	1,065	1,084
Mortgage Recording	1,288	995	956	972
Utility	374	363	378	393
Cigarette	120	117	113	111
Hotel	332	332	338	350
All Other(3)	1,439	1,485	1,506	1,540
Total	$20,961	$20,692	$20,742	$21,734

Note: Totals may not add due to rounding.

(1) Personal Income does not include $745 million, $778 million, $1.166 billion and $1.165 billion of personal income tax revenues projected to be paid to the TFA for debt service and other expenses in the 2007, 2008, 2009 and 2010 fiscal years, respectively. Personal income includes $229 million and $350 million of additional personal income tax revenues in fiscal years 2007 and 2008, respectively, reflecting the early payment of debt service to the TFA otherwise expected to be made in those fiscal years. These projections include the effects of the State's STAR Program, which will reduce personal income tax revenues by an estimated $668 million, $709 million, $731 million and $759 million in the 2007 through 2010 fiscal years, respectively. The State will reimburse the City for such reduced revenues. These projections include the effects of the earned income tax credit which will reduce personal income tax revenues by approximately $62 million, $67 million, $72 million and $77 million in fiscal years 2007 through 2010, respectively.

(2) These projections include the effects of the enacted increase in the personal income tax rates for three years commencing January 1, 2003 which will generate $9 million in fiscal year 2007. Sales includes the early restoration of the local sales tax exemption on clothing purchases under $110 which will reduce sales tax revenues by $166 million in fiscal year 2007.

(3) All Other includes, among others, OTB surtax revenues, beer and liquor taxes, and the automobile use tax. All Other also includes $836 million, $856 million, $880 million and $907 million in fiscal years 2007 through 2010, 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 personal income tax, a slight decline in growth in fiscal year 2007 reflecting the expiration of the temporary tax increase and other State actions in calendar year 2006, coupled with a forecast increase in capital gains from commercial real estate transaction activity in calendar year 2006, flat growth in fiscal year 2008 reflecting lower bonuses and a slowdown in real estate transaction activity in calendar year 2007 and trend growth in fiscal years 2009 and 2010 reflecting trend growth in both wage income and the local economy; (ii) with respect to the general corporation tax, strong growth in fiscal year 2007, reflecting robust Wall Street revenue growth and national corporate profits in calendar year 2006, flat growth in fiscal year 2008 reflecting a forecast decline in New York Stock Exchange ("NYSE") member firm profits in calendar year 2007 and a slowdown in the national economy, increased growth in fiscal year 2009 reflecting a forecast rebound in NYSE member-firm profits in calendar year 2008 and modest growth in fiscal year 2010; (iii) with respect to the banking corporation tax, a slight decline in growth in fiscal years 2007 and 2008 reflecting higher interest expenses, a slowdown in the real estate market and the liquidation of large overpayments accumulated on account during the prior few years of extraordinary payments and modest growth in fiscal years 2009 and 2010 reflecting the maturing national economic recovery; (iv) with respect to the unincorporated business tax, strong growth in fiscal year 2007 reflecting robust Wall Street revenue growth in calendar year 2006 and continued strength in real estate transactions, flat growth in fiscal year 2008 reflecting a forecast decline in NYSE member firm profits in calendar year 2007 and a slowdown in the national economy, and moderate growth in fiscal years 2009 and 2010 paralleling growth in the national and local economies; (v) with respect to sales tax revenues, moderate growth in fiscal year 2007 reflecting the reinstatement of the exemption for clothing and footwear under $110, a further slowing in growth in fiscal year 2008 with trend growth in fiscal years 2009 and 2010 paralleling wage earnings growth and the local economic expansion; (vi) with respect to the real property transfer tax, a slight decline in fiscal year 2007 with the decline in the number of residential transactions and a slowdown in average sales price growth, offset partially by a stronger commercial market, further decline in fiscal years 2008 and 2009 from the decline in the number and average sale price of residential and commercial real estate transactions and resumption of growth in fiscal year 2010 as the national and local recoveries continue; (vii) with respect to the mortgage recording tax, a decline in fiscal year 2007 reflecting a slowdown in refinancing, further decline in fiscal years 2008 and 2009 from the decline in the number and average sale price of residential and commercial real estate transactions and resumption of growth in fiscal year 2010 as the national and local recoveries continue; and (viii) with respect to the commercial rent tax, strong growth in fiscal year 2007 reflecting lower vacancy rates and increases in asking rents paralleling growth in the local economy and with growth slowing in fiscal years 2008 through 2010.

4. MISCELLANEOUS REVENUES

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

	2007	2008	2009	2010
	(In Millions)			
Licenses, Permits and Franchises	$ 395	$ 396	$ 402	$ 405
Interest Income	351	135	137	144
Charges for Services	553	534	535	533
Water and Sewer Payments(1)	1,096	1,087	1,097	1,115
Rental Income	176	173	172	171
Fines and Forfeitures	721	737	735	736
Other	545	806	375	376
Intra-City Revenues	1,395	1,326	1,328	1,328
Total	$5,232	$5,194	$4,781	$4,808

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

Miscellaneous Revenues—Rental Income reflects approximately $93.5 million in fiscal years 2007, 2008, 2009 and 2010, respectively, for lease payments for the City's airports.

Miscellaneous Revenues—Other reflects $574 million, $144 million and $145 million of projected resources in fiscal years 2008 through 2010, respectively, from the receipt by the City of TSRs. The downgrade of major tobacco companies 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. Therefore, funds in the trapping account will be released to the City. The Financial Plan reflects that the funds in the trapping account and the unpledged TSRs received in fiscal years 2006 and 2007 will be released to the City in fiscal year 2008. Economic and legal uncertainties relating to the tobacco industry and the settlement, including pending anti-trust litigation challenging a State statute implementing the settlement agreement and adjustments provided for under the settlement agreement, may significantly affect the receipt of TSRs by TSASC and the City.

5. Unrestricted Intergovernmental Aid

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

	2007	2008	2009	2010
		(In Millions)		
State Revenue Sharing	$327	$327	$327	$327
Other Aid	13	13	13	13
Total	$340	$340	$340	$340

The Other Aid category consists of $13 million in prior year claims settlements in fiscal years 2007 through 2010.

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

	2007	2008	2009	2010
		(In Millions)		
Federal				
Community Development	$ 260	$ 253	$ 253	$ 253
Welfare	2,362	2,348	2,351	2,353
Education	1,717	1,717	1,717	1,717
Other	1,125	794	789	790
Total	$5,464	$5,112	$5,110	$ 5,113
State				
Welfare	$1,763	$1,765	$1,755	$ 1,755
Education	7,048	7,147	7,227	7,358
Higher Education	188	188	188	188
Health and Mental Hygiene	447	417	416	412
Other	426	340	342	341
Total	$9,872	$9,857	$9,928	$10,054

The Financial Plan assumes that all existing federal and State categorical grant programs will continue, unless specific legislation provides for their termination or adjustment, and assumes increases in aid where increased costs are projected for existing grant programs. For information concerning projected State budget gaps and the possible impact on State aid to the City, see "Section I: Introductory Statement" and "Section II: Recent Financial Developments—The State." As of September 30, 2006, approximately 15.0% of the City's full-time and full-time equivalent employees (consisting of employees of the mayoral agencies and the DOE) were paid by Community Development funds, water and sewer funds and from other sources not funded by unrestricted revenues of the City.

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

The City's receipt of categorical aid is contingent upon the satisfaction of certain statutory conditions and is subject to subsequent audits, possible disallowances and possible prior claims by the State or federal governments. The general practice of the State and federal governments has been to deduct the amount of any disallowances against the current year's payment. Substantial disallowances of aid claims may be asserted during the course of the Financial Plan. The amounts of such disallowances attributable to prior years increased from $124 million in the 1977 fiscal year to $542 million in the 2006 fiscal year. The reserve was increased in part in anticipation of federal audits of Medicaid reimbursement for special education programs. The federal government is auditing and reviewing claims by the City for Medicaid reimbursement for special education programs, which may form the basis for a recommendation of a disallowance of a substantial portion of such Medicaid reimbursements made to the City since 1990. The City has received approximately $100 million annually for such Medicaid reimbursements. The Financial Plan forecasts lower Medicaid payments for special education programs. The federal government has released its audit reports on the portion of such claims relating to speech and transportation services, respectively. For additional information see "SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous*." As of June 30, 2006, the City had an accumulated reserve of $899 million 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.

	2007	2008	2009	2010
		(In Millions)		
Wages and Salaries	$19,135	$18,983	$18,889	$18,820
Pensions	4,869	5,595	5,960	5,972
Other Fringe Benefits	7,085	6,349	6,669	6,928
Reserve for Collective Bargaining				
Department of Education	30	164	408	408
Other	459	907	1,198	1,548
Reserve Subtotal	489	1,071	1,606	1,956
Total	$31,578	$31,998	$33,124	$33,676

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 259,399 on June 30, 2007 to an estimated level of 256,167 by June 30, 2010.

Other Fringe Benefits includes $1.4 billion, $1.5 billion, $1.7 billion and $1.8 billion in fiscal years 2007 through 2010, respectively, for OPEB expenditures for current retirees, which costs are currently paid by the City on a pay-as-you-go basis. For its fiscal year 2006, the City reported an accrued amount of $53.5 billion for OPEB liability in its government-wide financial statements, based upon an actuarial valuation and in accordance with GASB 45. Though there is no requirement to fund such liability, Other Fringe Benefits includes deposits into a trust of $1 billion in fiscal year 2007 to fund a portion of the future cost of OPEB for current and future retirees. 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 A.2."

The Financial Plan reflects the costs of all labor contract settlements in the 2002-2005 round of bargaining covering the vast majority of City employees. The Reserve for Collective Bargaining contains funds for the cost of collective bargaining increases for the 2002-2005 round of bargaining, for collective bargaining units not yet settled, consistent with the settled contract patterns. In addition, the Reserve for Collective Bargaining contains funds for providing a 3% increase in the third year for unsettled uniform forces unions. The Reserve for Collective Bargaining also contains funds to provide all employees who do not have a four-year settlement in place with a 3.15% wage increase in a fourth contract year under the 2002-2005 round of collective bargaining. The Financial Plan reflects the recent contract settlement with DC 37, which covers the period from July 1, 2005 through March 2, 2008. That agreement provides for a retroactive increase of 3.15% effective July 1, 2005, followed by increases of 2% effective August 1, 2006 and 4% effective February 1, 2007. The settlement also provides funding equivalent to .34% of total annual DC 37 wages to be used to fund salary increases for specific titles. In addition, the settlement provides for an increase in the City's annual contribution to the union welfare fund of $100 for each active and retired employee and a one-time contribution to such fund by the City in November 2006 of $166.67 for each active and retired employee. The Reserve for Collective Bargaining contains funding sufficient for all employees to receive a settlement patterned on this agreement. The Reserve for Collective Bargaining does not contain funding for the additional cost associated with the recent tentative settlement with the UFT. This settlement is expected to increase City expenditures by approximately $70 million, $60 million, $101 million and $85 million in fiscal years 2007 through 2010, respectively. For additional information, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

In July 2006 the City filed a request for mediation with PERB in relation to the bargaining between the City and the Patrolmen's Benevolent Association ("PBA"). Three mediation sessions were held between the City and the PBA, the last of which was on October 20, 2006. The City filed a petition for arbitration with PERB on October 24, 2006 and a request for the appointment of an arbitrator with PERB on November 6, 2006. The City expects such appointment in December 2006. For additional information, see "SECTION V: CITY SERVICES AND EXPENDITURES—Employee and Labor Relations—*Labor Relations*."

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

2. OTHER THAN PERSONAL SERVICES COSTS

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

	2007	2008	2009	2010
		(In Millions)		
Administrative OTPS	$14,179	$13,580	$13,784	$14,000
Public Assistance	1,355	1,355	1,355	1,355
Medical Assistance	4,935	5,083	5,222	5,376
HHC Support	189	201	287	289
Pay-As-You-Go Capital	200	200	200	200
Other	2,297	2,243	2,325	2,420
Total	$23,155	$22,662	$23,173	$23,640

Administrative OTPS and Energy

The Financial Plan contains estimates of the City's administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services and estimates of energy costs in the 2007 fiscal year. Thereafter, to account for inflation, OTPS expenditures are projected to rise by 2.5% annually in fiscal years 2008 through 2010, respectively. Energy costs for each of the 2007 through 2010 fiscal years are assumed to vary annually, with total energy expenditures projected at $916 million in fiscal year 2007 and decreasing to $913 million by fiscal year 2010.

Public Assistance

The average number of persons receiving income benefits under public assistance programs is projected to average 411,120 per month in the 2007 fiscal year. Of total public assistance expenditures in the City for the 2007 fiscal year, the City-funded portion is projected to be $495.1 million and is projected to remain at that level through fiscal year 2010.

Medical Assistance

Medical assistance payments projected in the Financial Plan consist of payments to voluntary hospitals, skilled nursing facilities, intermediate care facilities, home care and physicians and other medical practitioners. The City-funded portion of medical assistance payments is estimated at $3.019 billion for the 2007 fiscal year and is expected to increase to $4.449 billion in fiscal year 2010. Such payments include, among other things, City-funded Medicaid payments, but exclude City-funded Medicaid payments to HHC, as discussed below. City Medicaid costs (including City-funded Medicaid payments to HHC) assumed in the Financial Plan do not include the non-federal share of long-term care costs which have been assumed by the State.

Health and Hospitals Corporation

HHC operates under its own section of the Financial Plan as a Covered Organization. The HHC financial plan projects City-funded expenditures of $968 million annually for the 2007 through 2010 fiscal years. In the 2007 fiscal year City-funded expenditures include $52.6 million for the care of prisoners and uniformed personnel, $103 million of intra-City payments and grants, and $786 million for the City's share of HHC Medicaid payments.

HHC is projected to achieve balanced budgets in fiscal years 2007 through 2010 on an accrual basis. Total receipts before implementation of the HHC gap-closing program are projected to be $4.1 billion in fiscal year 2007 increasing to $4.7 billion in fiscal year 2010. Total disbursements before implementation of the HHC gap-closing program are projected to be $5.3 billion, in fiscal year 2007 increasing to $5.8 billion in fiscal year 2010. These projections assume: (i) increases in other than personal services costs and fringe benefits in fiscal years 2007 through 2010 and (ii) growth in Medicaid revenue between fiscal years 2007 and 2010. 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 2006 through 2010 fiscal years was prepared in July 2006. The NYCT fiscal year coincides with the calendar year. The NYCT financial plan projects City assistance to the NYCT operating budget of $257 million in 2006 increasing to $288.0 million in 2010, in addition to real estate tax revenue dedicated for NYCT use of $500.1 million in 2006 decreasing to $411.1 million in 2010.

For 2006, the NYCT financial plan projects $6.2 billion in revenues and $7.5 billion in expenses, leaving a budget gap of $1.3 billion. This gap will be offset by a $1.1 billion depreciation adjustment, approximately $48.6 million in anticipated cash flow adjustments including reserve funds and additional receipts, $15.4 million in an MTA gap-closing program, and funds made available from a $432.8 million cash basis surplus in 2005, leaving a net surplus of $253.1 million in 2006. It is expected that the NYCT cash basis budget will be balanced for 2006. The NYCT financial plan forecasts operating budget gaps of $342.2 million, $1.2 billion, $2.4 billion and $3.9 billion in 2007 through 2010, respectively, after depreciation, before the implementation of cash flow adjustments and additional gap-closing actions. The Financial Plan does not require that the NYCT financial plan out-year gaps be funded by the City. The Financial Plan assumes that the gaps in 2007 through 2010 will be closed by NYCT in part by productivity measures, increased user charges, additional management actions, reduced service levels, or some combination of these actions.

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

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

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

Department of Education

State law requires the City to provide City funds for the DOE each year, beginning in fiscal year 2004, 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.

In June 2003, the State Court of Appeals held, in the Campaign for Fiscal Equity ("CFE") litigation, that with respect to education in the City, the State was not in compliance with a State Constitutional mandate requiring the provision of a sound basic education to children. The court directed the State, by July 30, 2004, to determine the actual cost of providing a sound basic education in the City and enact appropriate reforms. The State did not implement a compliance plan by the deadline. The State Supreme Court appointed a three member panel to report on the measures taken by the State to bring the State's funding mechanism into Constitutional compliance. The panel's report recommended additional operational funding of $5.63 billion per year for education in the City, phased in over four years beginning with $1.41 billion in fiscal year 2006, and additional spending on capital improvements for education in the City, over five years, of $9.179 billion. On February 14, 2005, the State Supreme Court confirmed the panel's report. On March 23, 2006, the First Department, Appellate Division, while vacating confirmation of the panel's report, ordered the State to increase annual operating funding for the City's schools by between $4.7 billion and $5.63 billion, phased in over four years. Additionally, the court ordered the State to implement a capital improvement plan that expends $9.179 billion over the next five years or otherwise satisfies the City schools' capital needs. The City maintains that the State is responsible for providing all required incremental education funding but the Governor has proposed that the City cover a substantial portion of such funding. The case was appealed to the State Court of Appeals and on November 20, 2006, the State Court of Appeals declared that the State should provide the City's schools with $1.93 billion in additional operating funds adjusted for inflation since 2004 and in accordance with a geographic cost index. The ultimate cost, if any, to the City is uncertain.

Additionally, the State Court of Appeals vacated the capital funding requirement in light of recent legislation designed to remedy inadequacies in City school facilities. Such legislation includes the provision of $1.8 billion in State grants for the City's current five-year educational facilities capital plan and the authorization for the TFA to issue additional debt specifically for the City's five-year educational facilities capital plan payable from State building aid. For information on the five-year educational facilities capital plan funding by the State, see "SECTION VII: FINANCIAL PLAN—Long-Term Capital Program," and "—Financing Program."

Judgments and Claims

In the fiscal year ended on June 30, 2006, the City expended $516.8 million for judgments and claims, $162.8 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of $601.5 million, $644.8 million, $697.7 million and $748.2 million for the 2007 through 2010 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 2007 through 2010. 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, 2006 amounted to approximately $5.0 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, 2006 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2006, could amount to approximately $568 million. Provision has been made in the Financial Plan for estimated refunds of $215 million, $210 million, $205 million and $210 million for the 2007 through 2010 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.4."

3. DEBT SERVICE

Debt service estimates for the 2007 through 2010 fiscal years include estimates of debt service costs on outstanding City bonds and notes and conduit debt and future debt issuances based on current and projected future market conditions. Such debt service estimates also include estimated payments pursuant to interest rate exchange agreements but do not reflect receipts pursuant to such agreements.

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 26, 2006, the City Comptroller released a report on the City's adopted budget and July Financial Plan. The report noted that budget balance for fiscal year 2007 had been achieved by the use of surplus funds carried forward from fiscal year 2006. The large fiscal year 2006 surplus was primarily due to strong tax revenues, which exceeded initial projections by $4 billion. Pension contributions are projected to increase significantly in fiscal years 2008 and 2009, and are expected to level off in fiscal year 2010. Employee and retiree health care costs were projected to increase at a rate of 8.64% in fiscal year 2007 and 8.0% in fiscal years 2008 through 2010. Debt service is expected to increase by 24.6%, including TSASC, over the period from fiscal year 2007 through fiscal year 2010.

In his report, the City Comptroller identified net risks and possible offsets for fiscal years 2007 through 2010, which would result in a surplus of $128 million in fiscal year 2007, a gap of $3.8 billion in fiscal year 2008, a gap of $5.1 billion in fiscal year 2009, and a gap of $4.6 billion in fiscal year 2010. The difference as compared with the July Financial Plan, which shows a balanced budget in fiscal year 2007, a gap of $3.8 billion in fiscal year 2008 and moderately smaller gaps in fiscal years 2009 and 2010, results primarily from the City Comptroller's higher projections of collective bargaining settlements. The report stated that the tentative collective bargaining agreement with DC 37 could become the basis for remaining settlements, which would accordingly increase the City's collective bargaining expenditures by $254 million in fiscal year 2007, $463 million in fiscal year 2008, $782 million in fiscal year 2009, and $853 million in fiscal year 2010 above the amounts assumed in the July Financial Plan. The report also noted the risk of unfunded overtime spending of $103 million in fiscal year 2007 and $75 million in each of fiscal years 2008 through 2010.

These risks were reported by the City Comptroller's Office to be partially offset by revenues exceeding the City's projections by $360 million in fiscal year 2007, $420 million in fiscal year 2008, $190 million in fiscal year 2009, and $270 million in fiscal year 2010. The difference in revenue projections in fiscal years 2007 and 2008 was primarily due to the City Comptroller's forecast of greater non-property tax revenues during those periods, and in fiscal years 2009 and 2010 was primarily due to the City Comptroller's Office forecast of greater property and real-estate tax revenues during those periods. In addition, the City Comptroller's report projected potential savings of $125 million in each of fiscal years 2007 through 2010, due to the expected re-calculation of Medicaid payments to the State based on the State's final estimate of the local share of 2005 Medicaid spending for the City, which is used to determine Medicaid payments to the State in ensuing years. Overall, the City Comptroller's report identified additional resources exceeding July Financial Plan projections by $128 million and $7 million in fiscal years 2007 and 2008, respectively, and budget shortfalls exceeding July Financial Plan projections by $542 million and $533 million in fiscal years 2009 and 2010, respectively.

The City Comptroller's report also identified unresolved issues that could affect the City's financial outlook. These included the potential for the State to adopt a plan to address the court decision in the *Campaign for Fiscal Equity v. State of New York* lawsuit, which could require the City to expend significant additional resources on public education. The report also identified rising expenses of the HHC, resulting in significant recurring budget deficits, and efforts by the Federal and State governments to control Medicaid costs in future years cast further uncertainty on HHC's fiscal outlook. These factors could require the City to increase subsidies to HHC if sufficient gap-closing measures cannot be identified.

On July 24, 2006, the staff of the Control Board issued a report on the July Financial Plan. The report noted that the City has adopted a fiscal year 2007 budget that will likely end the year in balance but that the reliance on the fiscal year 2006 surplus to balance the fiscal year 2007 budget leaves projected deficits of $3.8 billion in fiscal year 2008, $4.6 billion in fiscal year 2009 and $4.1 billion in fiscal year 2010. The report noted that the large fiscal year 2006 surplus was due primarily to strong nonproperty tax collections, which increased City-funded revenues by $3.9 billion. The report also noted that the projected deficits will likely grow as the next round of collective bargaining is completed. The report further noted that if the tentative collective bargaining agreement with DC 37 becomes the basis for remaining settlements with other unions it would increase the City's collective bargaining expenditures in fiscal year 2007 by $250 million and increase the projected gaps in the July Financial Plan by $450 million in fiscal year 2008, $800 million in fiscal year 2009 and $950 million in fiscal year 2010. The report noted that the City expects fiscal year 2007 revenues and expenditures to decline by $1.7 billion. The report noted that the Board is concerned that the City's revenue plan remains subject to the downside risks emanating from the inflation-induced run up of long term interest rates in financial markets.

The report also quantified certain small risks and possible resources. The report identified net risks of $232 million in fiscal year 2007, $456 million in fiscal year 2008, $810 million in fiscal year 2009 and $965 million in fiscal year 2010, that when combined with the results projected in the July Financial Plan result in estimated gaps of $232 million in fiscal year 2007, $4.3 billion in fiscal year 2008, $5.4 billion in fiscal year 2009 and $5.1 billion in fiscal year 2010. The risk identified is the possibility that overtime could be greater than expected by $132 million in fiscal year 2007, $156 million in fiscal year 2008, $160 million in fiscal year 2009 and $165 million in fiscal year 2010. The report further noted that this risk could be partially offset by miscellaneous revenues of $150 million in each of fiscal years 2007 through 2010.

The report also identified salaries and wages, fringe benefits, pensions, Medicaid, health care and debt service as sources of spending growth in the July Financial Plan.

On November 29, 2006, the staff of the OSDC issued a report on the Financial Plan. The report identified net benefits of approximately $415 million in fiscal year 2007, $380 million in fiscal year 2008, $125 million in fiscal year 2009 and $80 million in fiscal year 2010, which, when added to the results projected in the Financial Plan, would produce an additional surplus of $415 million in fiscal year 2007 and, after an assumed transfer to fiscal year 2008 of that additional surplus, result in a surplus of $285 million in fiscal year 2008 and gaps of $3.9 billion and $3.5 billion in fiscal years 2009 and 2010, respectively.

The risks to the Financial Plan identified in the report include: (i) possible additional costs of the UFT collective bargaining settlement of $70 million in fiscal year 2007, $60 million in fiscal year 2008, $100 million in fiscal year 2009 and $85 million in fiscal year 2010; (ii) increased spending for uniformed agency overtime of $75 million in each of fiscal years 2008 through 2010; and (iii) increased debt service of $35 million in fiscal year 2010. The report noted that such risks could be offset by possible additional resources, including: (i) increased tax revenues in the amount of $300 million in fiscal year 2007, $250 million in fiscal year 2008 and $200 million in each of fiscal years 2009 and 2010; (ii) debt service savings of $85 million in fiscal year 2007, $50 million in fiscal year 2008 and $25 million in fiscal year 2009; (iii) decreased Medicaid expenses of $75 million in each of fiscal years 2007 through 2010; (iv) $25 million savings from delayed hiring in fiscal year 2007; and (v) $140 million from a refund from the Internal Revenue Service in fiscal year 2008.

In addition to the benefits and risks presented as quantified adjustments to the Financial Plan projections, the OSDC identified other risks that could have a significant impact on the City. These include: (i) the possibility that wages increase, after the expiration of current or tentative agreements, at the projected rate of inflation rather than the 1.25% per annum provided for in the Financial Plan, which would increase costs by $40 million, $180 million and $400 million in fiscal years 2008 through 2010, respectively: and (ii) the possibility that the City could incur penalties with respect to recently-adjusted federal work participation rates for public assistance recipients, with an annual impact of up to $130 million beginning in fiscal year 2008. The report did not include either additional risk in its risk assessment totals. Other significant issues identified by the OSDC in the report include: (i) the possibility that the State might require additional City resources to be directed to the City's public schools as a result of the final resolution of the CFE litigation; and (ii) that certain City-related public authorities face financial challenges that could draw on City resources. The OSDC report did not quantify the potential financial impact on the City from these issues. In addition, the report notes that the City's debt service burden is projected to increase annually and consume 14.7 percent of City fund revenues in fiscal year 2010, and that while the rapid growth in pension contributions will ease by fiscal year 2010, contributions will remain at a level almost four times larger than the average contribution during the 1990s.

The report further noted that the City's OPEB obligation at the end of fiscal year 2006 totaled $53.5 billion. The report also noted that though the new accounting rules do not require governmental entities to fund the OPEB obligation, the credit rating agencies, when determining their ratings, will consider the size of these liabilities and how they are addressed.

The OSDC noted that, while one of the greatest risks to the City budget would come from a prolonged economic downturn, the City has prudently increased its reserves during the current economic expansion, which would mitigate the impact of any short-term adverse development.

Long-Term Capital Program

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

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

City-funded commitments, which were $344 million in fiscal year 1979, are projected to reach $9.8 billion in fiscal year 2007. City-funded expenditures are forecast at $5.5 billion in fiscal year 2007; total expenditures are forecast at $8.4 billion in fiscal year 2007. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2007 through 2015, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures."

The following table sets forth the major areas of capital commitment projected for the 2007 through 2010 fiscal years. See "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures." See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*"

2007-2010 CAPITAL COMMITMENT PLAN

	2007		2008		2009		2010		Total	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
					(In Millions)					
Mass Transit(1)	$ 104	$ 290	$ 81	$ 89	$ 89	$ 89	$ 90	$ 90	$ 364	$ 558
Roadway, Bridges	1,148	1,546	1,087	1,378	1,003	1,354	448	465	3,686	4,742
Environmental Protection(2)	3,229	3,406	1,946	1,974	1,222	1,250	1,145	1,170	7,542	7,800
Education(3)	1,024	3,097	1,014	3,018	1,210	3,214	1,097	1,097	4,344	10,427
Housing	578	757	349	464	338	438	329	430	1,593	2,089
Sanitation	427	431	719	719	135	135	311	311	1,592	1,597
City Operations/Facilities	7,100	7,419	2,587	2,713	1,560	1,596	694	724	11,940	12,452
Economic and Port Development	1,402	1,551	295	375	78	78	4	4	1,779	2,008
Reserve for Unattained Commitments	(5,254)	(5,254)	589	589	1,060	1,060	903	903	(2,703)	(2,702)
Total Commitments(4)	$ 9,757	$13,244	$8,666	$11,319	$6,695	$9,215	$5,021	$5,194	$30,139	$38,972
Total Expenditures(5)	$ 5,465	$ 8,393	$6,943	$ 9,415	$7,399	$9,510	$7,132	$8,207	$26,939	$35,525

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 recent legislation that will provide State funding for the current five-year educational facilities capital plan in the amount of $6.5 billion. This includes $1.8 billion to be provided in the form of State grants as well as $4.7 billion of debt to be issued by the TFA that is expected to be paid from State aid to education.

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

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

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

In October 2005, 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 $4.91 billion in capital investment would be needed for fiscal years 2007 through 2010 to bring the assets to a state of good repair. The report also estimated that $297 million, $147 million, $189 million and $153 million should be spent on maintenance in fiscal years 2007 through 2010, respectively.

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

The most recent Reconciliation Report, issued in May 2006, concluded that the capital investment in the Four-Year Capital Plan for the specifically identified inventoried assets funds 49% of the total investment recommended in the preceding AIMS Report issued in October 2005. Capital investment allocated in the Ten-Year Capital Strategy published in April 2005 will fund an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 40% 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 2007 through 2010 fiscal years to implement the Four-Year Capital Program. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

2007-2010 FINANCING PROGRAM

	2007	2008	2009	2010	TOTAL
			(IN MILLIONS)		
CITY GENERAL OBLIGATION BONDS	$2,260	$4,415	$4,654	$5,657	$16,986
TFA BONDS (1)(2)	2,000	—	—	—	2,000
WATER AUTHORITY BONDS (1)(3)	2,001	1,738	1,813	1,501	7,053
TOTAL	$6,261	$6,153	$6,467	$7,158	$26,039

Note: Totals may not add due to rounding.

(1) Figures include notes and exclude refunding bonds.

(2) TFA Bonds shown above are to be issued for general City capital purposes and are payable from City personal income tax revenues and, if necessary, City sales tax revenues. In addition, the TFA has issued $650 million of Building Aid Revenue Bonds (as described below) in fiscal year 2007 and expects to issue an additional $628 million of Building Aid Revenue Bonds in fiscal year 2007. The TFA also expects to issue $1.394 billion, $1.394 billion and $635 million of such bonds in fiscal years 2008 through 2010, respectively.

(3) Water Authority Bonds includes a total allocation for reserve funds and costs of issuance of $570 million.

The City's financing program includes the issuance of water and sewer revenue bonds by the Water Authority which is authorized to issue bonds to finance capital investment in the City's water and sewer system. Pursuant to State law, debt service on this indebtedness is secured by water and sewer fees paid by users of the water and sewer system. Such fees are revenues of the Water Board, which holds a lease interest in the City's water and sewer system. After providing for debt service on obligations of the Water Authority and certain incidental costs, the revenues of the Water Board are paid to the City to cover the City's costs of operating the water and sewer system and as rental for the system. The City's Ten-Year Capital Strategy applicable to the City's water and sewer system covering fiscal years 2006 through 2015, projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately $15.6 billion. The City's Capital Commitment Plan for fiscal years 2007 through 2010 reflects total anticipated City-funded water and sewer commitments of $7.5 billion which are expected to be financed with the proceeds of Water Authority debt.

The City's financing program also includes the issuance of bonds by the TFA. The TFA is authorized to issue $13.5 billion of obligations for general City capital purposes and to have outstanding $2.5 billion of obligations to pay Recovery Costs. Such obligations are secured by the City's personal income tax revenues and, to the extent such revenues do not satisfy specified debt ratios, sales tax revenues. To date, the TFA has issued $12.3 billion of obligations for general City capital purposes and has outstanding $1.8 billion of bonds issued for Recovery Costs. The City expects annually to seek legislation to increase the statutory cap on the TFA's indebtedness for general City capital puposes. In addition, the TFA is authorized to have outstanding $9.4 billion of Building Aid Revenue Bonds to pay for a portion of the City's five-year educational facilities capital plan. Building Aid Revenue Bonds are secured by State building aid, which the Mayor has assigned to the TFA. To date, the TFA has issued $650 million of Building Aid Revenue Bonds.

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 2006 through 2015 totals $62.4 billion, of which approximately 85% is to be financed with funds borrowed by the City and such other entities. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness*." Congressional developments affecting federal taxation generally could reduce the market value of tax-favored investments and increase the debt-service costs of carrying out the major portion of the City's capital plan which is currently eligible for tax-exempt financing. For information concerning litigation which, if determined against the City, could have an adverse impact on the amount of debt the City can have outstanding under the general debt limit (defined as 10% of the average full value of taxable real estate in the City for the most recent five years), see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*."

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.14." As of September 30, 2006, the total marked-to-market value of the City's interest rate exchange agreements was ($12,421,737).

In addition, in connection with its Courts Facilities Lease Revenue Bonds (The City of New York Issue) Series 2005A and B, DASNY entered into interest rate exchange agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. and JPMorgan Chase Bank, National Association. The City is obligated, subject to appropriation, to make lease payments to DASNY reflecting DASNY's obligations under these interest rate exchange agreements. Pursuant to such agreements with a notional amount of $125,500,000, an effective date of May 15, 2013 and a termination date of May 15, 2032, DASNY is to make payments based on the BMA Municipal Swap Index ("BMA") and receive a fixed rate of 4.179%. Pursuant to such agreements with a notional amount of $125,500,000, an effective date of June 15, 2005 and a termination date of May 15, 2039, DASNY pays a fixed rate of 3.017% and receives payments based on a LIBOR-indexed variable rate. As of September 30, 2006, the total marked-to-market value of the DASNY agreements was $5,579,426.

In addition, in connection with its Special Revenue Bonds, Fiscal 2004 Series A and B (New York Stock Exchange Project), the IDA entered into eight interest rate exchange agreements with Morgan Stanley Capital Services Inc., each with an effective date of August 21, 2003. The City is obligated, subject to appropriation, to make payments to the IDA reflecting the IDA's obligations under these interest rate exchange agreements. Pursuant to an agreement with a notional amount of $18,520,000 and a termination date of May 29, 2008 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 4.8%. Pursuant to an agreement with a notional amount of $2,580,000 and a termination date of March 1, 2012 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5%. Pursuant to an agreement with a notional amount of $2,710,000 and a termination date of December 14, 2012 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.125%. Pursuant to an agreement with a notional amount of $2,850,000 and a termination date of October 3, 2013 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.2%. Pursuant to an agreement with a notional amount of $3,000,000 and a termination date of July 24, 2014 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.3%. Pursuant to an agreement with a notional amount of $3,155,000 and a termination date of May 14, 2015 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.4%. Pursuant to an agreement with a notional amount of $3,325,000 and a termination date of February 26, 2016 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.4%. Pursuant to an agreement with a notional amount of $41,820,000 and a termination date of August 20, 2020 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.625%. As of September 30, 2006, the total marked-to-market value of these IDA interest rate exchange agreements was $2,821,782.

Seasonal Financing Requirements

The City since 1981 has fully satisfied its seasonal financing needs in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. To finance its projected cash flow needs, the City issued $1.5 billion of short-term obligations in fiscal years 2002, 2003 and 2004. No short-term obligations were required to be issued in fiscal years 2005 and 2006. 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 2007 but does reflect the issuance of short term obligations in the amount of $2.4 billion in each of fiscal years 2008 through 2010.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City and PBC Indebtedness

The following table sets forth outstanding City and PBC indebtedness as of September 30, 2006. "City indebtedness" refers to general obligation debt of the City, excluding City bonds held by MAC, net of reserves. "PBC indebtedness" refers to obligations of the City, net of reserves, to the following public benefit corporations ("PBCs"): the Housing Authority, the New York City Educational Construction Fund ("ECF"), New York State Housing Finance Agency ("HFA"), DASNY, CUCF, and the New York State Urban Development Corporation ("UDC"). PBC indebtedness is not debt of the City. However, the City has entered into agreements to make payments, subject to appropriation, to PBCs to be used for debt service on certain obligations constituting PBC indebtedness. Neither City indebtedness nor PBC indebtedness includes outstanding debt of the TFA, TSASC, Fiscal Year 2005 Securitization Corp., STAR Corp., or MAC, which are not obligations of, and are not paid by, the City.

(In Thousands)		
Gross City Long-Term Indebtedness(1)	$35,725,622	
Less: Assets Held for Debt Service(2)	(464,056)	
Net City Long-Term Indebtedness		$35,261,566
PBC Indebtedness		
Bonds Payable	345,272	
Capital Lease Obligations	1,581,264	
Gross PBC Indebtedness	1,926,536	
Less: Assets Held for Debt Service	(289,964)	
Net PBC Indebtedness		1,636,572
Combined Net City and PBC Indebtedness		$36,898,138

(1) Reflects capital appreciation bonds at accreted values as of June 30, 2006

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

Trend in Outstanding Net City and PBC Indebtedness

The following table shows the trend in the outstanding City and PBC indebtedness as of June 30 of each of the fiscal years 1997 through 2006 and at September 30, 2006.

	City Indebtedness			
	Long-Term	Short-Term	PBC Indebtedness	Total
	(In Millions)			
1997	$26,180	$—	$1,182	$27,362
1998	25,917	—	1,129	27,046
1999	26,287	—	1,403	27,690
2000	25,543	—	1,575	27,118
2001	25,609	—	1,533	27,142
2002	27,312	—	1,537	28,849
2003	29,043	—	2,059	31,102
2004	30,498	—	1,766	32,264
2005	33,688	—	1,941	35,629
2006	34,076	—	1,751	35,827
September 30, 2006	35,262	—	1,637	36,898

Rapidity of Principal Retirement

The following table details, as of September 30, 2006, 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	19.78%
10 years	44.30
15 years	66.52
20 years	84.97
25 years	94.83
30 years	99.64

City and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of September 30, 2006, on City and PBC indebtedness.

	City Long-Term Indebtedness			
Fiscal Years	Principal	Interest	PBC Indebtedness	Total
	(In Thousands)			
2007(1)	$ 1,645,847	$ 1,640,180	$ 84,071	$ 3,370,098
2008	1,758,516	1,579,543	88,367	3,426,426
2009	1,820,570	1,511,998	58,630	3,391,198
2010	1,830,795	1,431,452	71,955	3,334,202
2011 through 2147	28,669,894	12,582,357	1,623,513	42,875,764
Total	$35,725,622	$18,745,530	$1,926,536	$56,397,688

(1) Does not reflect discretionary transfers in fiscal year 2006 to pay debt service due in fiscal year 2007.

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 1997 through 2006.

Fiscal Year	City Long-Term Indebtedness (In Millions)	Percentage of Actual Taxable Value of Property(1)	Per Capita
1997	$27,549	35.54%	$3,544
1998	27,310	34.67	3,475
1999	27,834	33.88	3,502
2000	27,245	31.73	3,398
2001	27,147	29.97	3,365
2002	28,465	29.20	3,518
2003	29,679	28.90	3,660
2004	31,378	29.38	3,872
2005	33,903	30.73	4,183
2006	35,844	29.26	4,402

Source: CAFR for the fiscal year ended June 30, 2006.

(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 1997 through 2006. 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 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	TFA	TSASC	STAR	SFC(2)	PBC Indebtedness and Other(3)	IDA Stock Exchange
				(In Millions)					
1997	$27,549	$165	$4,424	$ —	$ —	$ —	$200	$1,099	$ —
1998	27,310	188	4,066	2,150	—	—	200	1,141	—
1999	27,834	150	3,832	4,150	—	—	160	1,525	—
2000	27,245	142	3,532	5,923	709	—	120	1,803	—
2001	27,147	134	3,217	7,386	704	—	80	1,805	—
2002	28,465	125	2,880	8,289	740	—	40	2,298	—
2003	29,679	117	2,151	12,024	1,258	—	—	2,211	—
2004	31,378	107	1,758	13,364	1,256	—	—	2,346	108
2005	33,903	135	—	12,977	1,283	2,552	—	3,044	106
2006	35,844	84	—	12,233	1,334	2,470	—	2,925	104

Source: CAFR for the fiscal year ended June 30, 2006.

(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 $391 million, $365 million, $299 million, $230 million, $168 million, $116 million, $64 million, $52 million and $39 million in fiscal years 1997 through 2005, respectively. All of such general obligation ''mirror'' bonds have been paid.

(2) 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.

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

Certain Provisions for the Payment of City Indebtedness

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

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

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

Limitations on the City's Authority to Contract Indebtedness

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

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

The TFA and TSASC were created to provide financing for the City's capital program. Debt of the TFA and TSASC is not subject to the general debt limit of the City. Without the TFA and TSASC, or other legislative relief, new contractual commitments for the City's general obligation financed capital program would have been virtually brought to a halt during the financial plan period beginning early in the 1998 fiscal year. TSASC has issued approximately $1.3 billion of bonds that are payable from TSRs. TSASC does not intend to issue additional bonds. The TFA is authorized to issue $13.5 billion of obligations for general City capital purposes and has issued $12.3 billion of obligations for such purposes. In addition, the TFA has outstanding approximately $2 billion of its statutory maximum of $2.5 billion of bonds for Recovery Costs, $1.5 billion of which was used for revenue losses constituting Recovery Costs. Such 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. In addition, recent State legislation authorized the TFA to issue an additional $9.4 billion of bonds to fund the City's five-year educational facilities plan. Such TFA educational facilities bonds will be secured by certain State aid to education.

The following table sets forth the calculation of the debt-incurring power of the City as of October 31, 2006, which does not include the recently-enacted expansion of the TFA's debt-issuing capacity to fund the City's five-year educational facilities plan as described above.

(In Thousands)

Total City Debt-Incurring Power under General Debt Limit		$53,335,500
Gross Debt-Funded	$34,293,065	
Less: Excluded Debt	(405,254)	
	33,887,811	
Less: Appropriations for Payment of Principal	(433,473)	
	33,454,338	
Contracts and Other Liabilities, Net of Prior Financings Thereof	6,804,340	
Total Indebtedness		40,258,678
Less: TFA Debt-Incurring Power for General City Capital Purposes	(1,200,000)	
City Debt-Incurring Power		$14,276,822

Note: Numbers may not add due to rounding.

Federal Bankruptcy Code

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

Public Benefit Corporation Indebtedness

City Financial Commitments to PBCs

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

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

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

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

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

Certain PBCs are further described below.

New York City Educational Construction Fund

As of September 30, 2006, $84.0 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF's leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

New York State Housing Finance Agency

As of September 30, 2006, $79.8 million principal amount of HFA refunding bonds relating to hospital and family care facilities leased to the City was outstanding. HFA does not receive third party revenues to offset the City's capital lease obligations with respect to these bonds. Lease payments, which are made by the City seven months in advance of payment dates of the bonds, are intended to cover development and construction costs, including debt service, of each facility plus a share of HFA's overhead and administrative expenses.

Dormitory Authority of the State of New York

As of September 30, 2006, $615.2 million principal amount and $846.9 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities and health facilities, respectively, in the City were outstanding. The court facilities and health facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

City University Construction Fund

As of September 30, 2006, approximately $504.4 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 the DASNY.

New York State Urban Development Corporation

As of September 30, 2006, $39.5 million principal amount of UDC bonds subject to executed or proposed lease arrangements was outstanding. The City leases schools and certain other facilities from UDC.

SECTION IX: OTHER INFORMATION

Pension Systems

The City maintains a number of pension systems providing benefits for its employees and employees of various independent agencies (including certain Covered Organizations). The systems combine features of a defined benefit pension plan with those of a defined contribution pension plan. Membership in the City's five major actuarial systems on June 30, 2005 consisted of approximately 350,000 active employees, of whom approximately 83,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there were approximately 275,000 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 2006, 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, 2004, plus the other pension expenditures were approximately $3.919 billion. Expense projections for fiscal years 2007 through 2010 are estimated at $4.869 billion, $5.595 billion, $5.960 billion and $5.972 billion, respectively. These projections are based on actuarial valuation estimates and reflect funding assumptions formulated by the Chief Actuary. These projections incorporate the additional costs of significant benefit enhancements enacted in 2000, including automatic cost of living adjustments ("COLA") for eligible retirees and beneficiaries. The projections also incorporate the impact of actual pension fund investment performance since 2000 which include significant losses in fiscal years 2001 through 2003, respectively, followed by slight investment gains in each of fiscal years 2004, 2005 and 2006. The assumed rate of return on pension investments is eight percent as governed by State law. The costs or incremental benefit of the return on pension investments in any given year is phased in using six-year averaging periods under the Chief Actuary's funding assumptions.

An independent actuarial firm has recently concluded a statutory audit of the actuarial assumptions and methods governing City pension contributions and the report will be released shortly. It is expected that the report will call for changing certain actuarial assumptions such as life expectancy which, with other recommendations, could result in net increased annual pension contributions of between $250 million and $500 million. The Chief Actuary of the City will review the report and may recommend revised funding assumptions to the trustees of the City's pension funds.

The City funds its pensions consistent with one of the six methodologies accepted by GASB, which has resulted in the City's pensions being 99.7% funded. In the last three comprehensive annual financial reports for each of the pension systems, the Chief Actuary has included two alternative measures of funded status, along with the required calculation, for the purpose of providing additional insight on the funded status of each plan. One of the alternative measures utilizes different assumptions including a conservative investment rate based on government securities rather than the actuarial assumed rate of 8%, which results in increased liability of approximately $49 billion. The second of the two alternative measures results in approximately the same funded status as the required calculation.

Certain of the systems provide pension benefits of 50% to 55% of "final pay" after 20 to 25 years of service with additional benefits for subsequent years of service. For the 2006 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 29% of total payroll costs. In addition, contributions are also made by certain component units of the City and other government units directly to the three cost sharing multiple employer actuarial systems. The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired.

Annual pension costs are computed in accordance with GASB Statement No. 27 and are consistent with generally accepted actuarial principles. Actual pension contributions are less than annual pension costs, primarily because (i) the City is only one of the participating employers in the New York City Employees' Retirement System ("NYCERS"), the Teachers' Retirement System of The City of New York (the "Teachers System") and the New York City Board of Education Retirement System (the "BOE System") and (ii) Chapter 125 of the Laws of 2000 ("Chapter 125"), which provides eligible retirees and eligible beneficiaries with increases in supplementation as of September 2000 and with automatic COLA benefits beginning September 2001, also provides for a phase-in schedule, subsequently extended from five to ten years by Chapter 278 of the Laws of 2002, for funding the additional liabilities created by the benefits provided by Chapter 125.

For the New York City Police Pension Fund, Subchapter Two (the "Police Fund") and the New York City Fire Department Pension Fund, Subchapter Two, Net Pension Obligations, which reflect the current funding assumptions which commenced in fiscal year 2000, of approximately $543.9 million and approximately $220.1 million, respectively, were recorded as of June 30, 2006.

The following table sets forth, for the five major actuarial pension systems, the amounts by which the actuarial accrued liabilities exceeded the actuarial values of assets for June 30, 1995 to June 30, 2003. For those retirement systems where the actuarial asset values exceeded the actuarial accrued liabilities (i.e., NYCERS for June 30, 1995 to 1999, the Teachers System for June 30, 1999 only, the BOE System for June 30, 1999 to 2002 and the Police Fund for June 30, 1999 to 2005) the amounts shown include zero for these retirement systems.

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

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

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

Litigation

The following paragraphs describe certain material legal proceedings and claims involving the City and Covered Organizations other than routine litigation incidental to the performance of their governmental and other functions and certain other litigation arising out of alleged constitutional violations, torts, breaches of contract and other violations of law and condemnation proceedings. While the ultimate outcome and fiscal impact, if any, on the City of the proceedings and claims described below are not currently predictable, adverse determinations in certain of them might have a material adverse effect upon the City's ability to carry out the Financial Plan. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 2006 amounted to approximately $5.0 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 $568 million at June 30, 2006. 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.4."

Miscellaneous

1. In March 2005, the United Federation of Teachers, the union that represents the teachers in the New York City public school system, commenced an action and an Article 78 proceeding in New York Supreme Court, New York County, against the Teachers' System and the City alleging that, due to certain

miscalculations relating, *inter alia*, to the interest earned on member contributions to a retirement plan known as the 20 Year Pension Plan, teachers who retired under this plan do not receive the entire amount of retirement benefits to which they are entitled. Plaintiffs seek declaratory relief and an award to 20 Year Pension Plan members of not less than $800 million to equal the difference between what plaintiffs allege they are entitled to under the 20 Year Pension Plan and the amount actually received. The City has moved to dismiss the Article 78 proceeding and has submitted an answer in the action. By decision dated October 17, 2006, the Court denied the City's motion to dismiss the Article 78 proceeding but granted the City's motion to dismiss the petitioners' contract claims. If plaintiffs were to prevail in this matter, it could result in substantial costs to the City.

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

3. Numerous proceedings alleging respiratory or other injuries from alleged exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City and other entities involved in the post-September 11 rescue and recovery process. Plaintiffs include Department of Sanitation employees, firefighters, police officers, construction workers and building clean-up workers. Currently, 622 of the proceedings are confirmed actions against the City seeking approximately $500 million in damages. Several summonses with notice filed on behalf of a total of approximately 5,000 plaintiffs and alleging similar causes of action have also been filed naming the City and dozens of other defendants. The amount of damages has not yet been alleged. However, only approximately 200 of these plaintiffs have served complaints on the City. Complaints so served are included in the 491 actions described above. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to federal court pursuant to the Air Transportation and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (2001), which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions was denied on October 17, 2006 and a motion to appeal has been filed. Oral argument was held on April 6, 2006 on a motion to confirm jurisdiction in the action brought on behalf of building clean-up workers and a decision on the motion is pending. A not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the "WTC Insurance Company") has been formed to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of $999,900,000. Most of the claims set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims.

One property damage claim relating to the September 11 attack alleges significant damages. The claim, which relates to the original 7 World Trade Center ("7 WTC"), alleges damages to Con Edison and its insurers of $214 million, subject to clarification, for the loss of the electrical substation over which 7 WTC was built. The claim alleges that a diesel fuel tank, which stored fuel for emergency back-up power to the City's Office of Emergency Management facility on the 23rd floor, contributed to the building's collapse. Con Edison and its insurers filed suit based on the allegations in their claim. Plaintiff has submitted to the Court a claim form required of all property damage plaintiffs in the September 11 litigation in the amount of approximately $750 million for damages suffered at several different locations in the aftermath of the September 11, 2001 attacks. Although it is not clear what portion of the increased damages plaintiff alleges to be the responsibility of the City, it appears that no part of the increased claim can be attributed to the City's actions. The City's motion for summary judgment was granted in January 2006. The action, however, is proceeding against other defendants, and plaintiff intends to appeal the dismissal of its claim against the City when discovery is complete or at the conclusion of the case.

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

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

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

Further Information

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

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

APPENDIX A
TO APPENDIX E

ECONOMIC AND DEMOGRAPHIC INFORMATION

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ECONOMIC AND DEMOGRAPHIC INFORMATION

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

New York City Economy

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

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

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s which was followed by an expansion that lasted until 2001. The economic slowdown that began in 2001 as a result of the September 11 attack, a national economic recession, and a downturn in the securities industry came to an end in 2003. Since then, Wall Street activity, tourism, and the real estate market have driven a broad based economic recovery. The Financial Plan assumes continued moderate growth in calendar year 2006.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1994 to 2004 (the most recent year for which City personal income data are available). From 1994 to 2004, personal income in the City averaged 4.7% growth compared to 5.2% for the nation. After increasing by 7.9% in 2004, total personal income is estimated by OMB to have increased in 2005. The following table sets forth information regarding personal income in the City from 1994 to 2004.

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.
1994	$207.5	$27,403	$22,176	123.6%
1995	221.2	28,981	23,078	125.6
1996	234.1	30,407	24,176	125.8
1997	245.5	31,579	25,334	124.7
1998	262.0	33,341	26,880	124.0
1999	275.4	34,658	27,933	124.1
2000	296.0	36,911	29,847	123.7
2001	302.7	37,485	30,571	122.6
2002	299.8	36,984	30,813	120.0
2003	305.2	37,535	31,478	119.2
2004	329.4	40,342	33,108	121.9

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census. Data as of October 2006.

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

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1993 to 2001, the City experienced significant private sector job growth with the addition of approximately 423,000 new private sector jobs (an average annual growth rate of approximately 2.0%). In 2002 and 2003, average annual employment in the City fell by approximately 108,600 and 51,800 jobs, respectively. In 2004 and 2005, average annual employment in the City increased by 18,600 and 49,000 jobs, respectively. As of October 2006, total employment in the City was approximately 3,684,800 compared to approximately 3,633,800 in October 2005, an increase of approximately 1.4%.

The table below shows the distribution of employment from 1995 to 2005.

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Goods Producing Sectors											
Construction	90	91	93	101	112	120	122	116	113	112	113
Manufacturing	208	200	201	196	187	177	156	139	127	121	114
Service Producing Sectors											
Trade Transportation and Utilities	533	533	538	542	556	570	557	536	534	539	545
Information	154	159	163	166	173	187	200	177	164	160	163
Financial Activities	467	464	468	477	481	489	474	445	434	436	446
Professional and Business Services	445	468	494	525	553	587	582	550	537	541	554
Education and Health Services	552	565	576	589	606	620	627	646	658	665	679
Leisure and Hospitality	208	217	228	236	244	257	260	255	260	270	277
Other Services	123	125	129	134	142	147	149	150	149	151	153
Total Private	2,779	2,823	2,890	2,966	3,053	3,154	3,127	3,015	2,975	2,995	3,044
Government	560	546	552	561	567	569	565	569	557	555	555
Total	3,339	3,369	3,442	3,528	3,621	3,723	3,692	3,584	3,532	3,550	3,599

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 Income

In 2004, the City's service producing sectors provided approximately 2.8 million jobs and accounted for approximately 78% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2004, the employment share for the financial activities and professional and business services sectors was approximately 28% while the earnings share for that same sector was approximately 48%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2004. 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 2004 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2004(1)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.4%	0.1%	0.9%
Construction	3.1	5.3	2.9	6.2
Manufacturing	3.4	10.9	2.7	13.0
Total Goods Producing	6.6	16.6	5.8	20.2
Service Producing Sectors				
Trade, Transportation and Utilities	15.2	19.4	9.3	16.3
Information	4.5	2.4	8.0	3.9
Financial Activities	12.3	6.1	28.6	10.2
Professional and Business Services	15.3	12.5	19.1	14.9
Education and Health Services	18.7	12.9	10.6	10.7
Leisure & Hospitality	7.6	9.5	3.9	3.8
Other Services	4.2	4.1	2.5	3.0
Total Service Producing	77.8	66.9	81.8	62.8
Total Private Sector	84.4	83.6	88.9	83.3
Government(3)	15.6	16.4	11.1	16.7

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 2004 data.

(3) Excludes military establishments.

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

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

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

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

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

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

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

(3) Excludes military establishments.

Unemployment

As of October 2006, the total unemployment rate in the City was 4.1% compared to 5.8% in October 2005. The annual unemployment rate of the City's resident labor force is shown in the following table.

ANNUAL UNEMPLOYMENT RATE(1)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
New York City	8.2%	8.8%	9.4%	7.9%	6.9%	5.8%	6.1%	8.1%	8.3%	7.0%	5.8%
United States	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%

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

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

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

Public Assistance

As of October 2006, the number of persons receiving public assistance in the City was 386,992 compared to 417,988 in October 2005. The following table sets forth the number of persons receiving public assistance in the City.

PUBLIC ASSISTANCE(1)

(Annual Averages in Thousands)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1,140.7	1,109.5	1,003.3	873.6	760.1	668.2	573.0	492.8	434.0	424.7	434.8	416.9

(1) Figures do not include aged, disabled or blind persons who were transferred from public assistance to the SSI program, which is primarily federally funded.

Taxable Sales

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. The sales tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. The total taxable sales volume has grown steadily since 1993 with a growth rate averaging over 5%. It is projected that total taxable sales will increase in 2004. The following table illustrates the volume of sales and purchases subject to the sales tax from 1993 to 2003.

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
1993	$24.1	$ 9.4	$ 9.1	$3.2	$ 8.7	$54.5
1994	26.2	9.3	10.3	3.3	8.1	57.2
1995	27.6	9.0	10.7	3.3	8.8	59.4
1996	29.1	9.8	11.4	3.6	9.3	63.2
1997	31.5	9.8	13.5	3.9	8.8	67.5
1998	33.4	9.8	14.8	4.2	9.7	71.9
1999	35.0	9.6	16.1	4.2	9.6	74.5
2000(6)	29.9	9.8	19.4	2.1	15.4	76.6
2001(6)	25.1	11.3	21.4	2.2	19.0	79.1
2002(6)	25.6	11.9	20.7	2.0	15.2	75.5
2003(6)	26.2	11.4	21.0	1.9	14.9	75.4

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

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

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

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

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

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

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

Population

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

POPULATION

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

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

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

DISTRIBUTION OF POPULATION BY AGE

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

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

Housing

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

HOUSING INVENTORY
(In Thousands)

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

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

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

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

LARGEST REAL ESTATE TAXPAYERS

No single taxpayer accounts for 10% or more of the City's real property tax. For the 2007 fiscal year, the billable assessed valuation of real estate of utility corporations is $11.5 billion. The following table presents the 40 non-utility properties having the greatest assessed valuation in the 2007 fiscal year as indicated in the tax rolls.

Property	2007 Fiscal Year Assessed Valuation	Property	2007 Fiscal Year Assessed Valuation
Met Life Building	$285,224,000	Chase World Headquarters	$162,980,000
General Motors Building	277,340,000	399 Park Avenue	159,587,910
International Building	258,790,000	Simon & Schuster Building	158,670,000
McGraw-Hill Building	258,120,000	Morgan Stanley Building	153,040,000
Solow Building	256,520,000	595 Lexington Avenue	150,640,000
Credit Lyonnais Building	240,799,998	Kalikow Building	150,480,000
Sperry Rand Building	238,860,000	One Astor Plaza	149,780,000
Stuyvesant Town	236,160,000	Morgan Guaranty	149,640,000
Time & Life Building	227,140,000	617 Lexington Avenue	147,707,100
Bear Stearns Bldg (Park Ave.)	221,419,997	Carpet Center	145,440,000
Celanese Building	218,500,000	One Liberty Plaza	142,494,871
One Penn Plaza	209,970,000	Waldorf-Astoria	142,363,000
Alliance Capital Building	205,340,000	IBM Tower	137,850,000
Empire State Building	196,200,000	Time Warner Center	137,090,611
Paramount Plaza	195,920,000	Continental Illinois	136,600,000
UBS Financial Services Bldg.	193,439,993	1 Chase Manhattan Plaza	135,395,000
Worldwide Plaza	190,830,000	Park Avenue Plaza	127,940,000
Bristol Meyers Building	187,160,000	The Port of New York	125,910,000
666 Fifth Avenue	180,359,000	Park Avenue Atrium	125,265,000
Equitable Tower	171,112,000	W.R. Grace Building	124,290,000

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

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APPENDIX B
TO APPENDIX E

FINANCIAL STATEMENTS
OF
THE CITY OF NEW YORK

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Basic Financial Statements
of
The City of New York
June 30, 2006 and 2005

Index

Deloitte.

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Independent Auditors' Report

The People of The City of New York:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City of New York (The "City") as of and for the years ended June 30, 2006 and 2005, which collectively comprise The City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The City's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of those entities disclosed in Note E.1 which represent 35 percent and 16 percent and 35 percent and 17 percent, as of and for the years ended June 30, 2006 and 2005 respectively, of the assets and revenues of the government-wide financial statements and 21 percent and 17 percent and 21 percent and 15 percent, as of and for the years ended June 30, 2006 and 2005 respectively, of the assets and revenues of the fund financial statements of The City. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities disclosed in Note E.1, are based on the reports of our auditors. The report of the independent auditor for the New York City-Off Track Betting Corporation contained an explanatory paragraph regarding its ability to continue as a going concern (see Note A.1).

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City, as of June 30, 2006 and 2005, 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 basic financial statements, in 2006, The City adopted Governmental Accounting Standards Board Statement (GASB) No. 43, *Financial Reporting for Postemployment Benefit Plans Other Then Pension Plans*, GASB No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions,* GASB Statement No.47, *Accounting for Termination Benefits*, GASB Technical Bulletin (TB) No. 2004-2, *Recognition of Pension and Other Post Retirement Benefit Expenditures and/Expense and Liabilities by Cost sharing Employers,* and GASB TB No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D.*

The Management's Discussion and Analysis as listed in the foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of The City's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2006 and 2005 supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

October 26, 2006

Member of
Deloitte Touche Tohmatsu

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, 2006 and 2005. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Government-wide financial statements

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

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

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

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

Fund financial statements

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

Governmental funds

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

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

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

Fiduciary funds

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

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB No. 43). GASB No. 43 establishes financial reporting standards for other postemployment benefits (OPEB) plans that are administered by a trust. The City also established the New York City Retiree Health Benefits Trust (RHBT), for the administration of the City's OPEB Plan (Plan). The RHBT is reported in the City's financial statement as a fiduciary component unit. The RHBT was established for the exclusive benefit of the City's retired employees and their dependents in providing the following current postemployment benefits: a health insurance program, Medicare Part B premium reimbursements and welfare fund contributions. The City is not required to provide funding for the Plan other than the "pay-as-you-go" amount necessary to provide these benefits to current eligible retirees and their dependents. The City contributed $1 billion to RHBT during fiscal year 2006.

Notes to financial statements

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

Financial Reporting Entity

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

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

Blended Component Units

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

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

Discretely Presented Component Units

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

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

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

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

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

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

Financial Analysis of the Government-wide Financial statements

In the government-wide financial statements, all of the activities of the City, aside from its discretely presented component units, are considered governmental activities. Governmental activities decreased the City's net assets by $53.7 billion during fiscal year 2006, and decreased net assets by $671 million during fiscal year 2005 and increased net assets by $83 million during fiscal year 2004.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2006 governmental funds statement of revenues, expenditures, and changes in fund balances which reports a decrease of $736 million in fund balances and the reported decrease in the excess of liabilities over assets reported in the government-wide statement of activities $53.7 billion, a difference of $53.0 billion. A similar reconciliation is provided for fiscal year 2005 amounts.

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

Key elements of these changes are as follows:

	Governmental Activities for the fiscal years ended June 30,		
	2006	2005	2004
		(in thousands)	
Revenues:			
Program revenues:			
Charges for services	$ 3,345,160	$ 4,143,436	$ 3,286,407
Operating grants and contributions	15,126,979	15,936,907	14,507,980
Capital grants and contributions	475,674	366,432	477,280
General revenues:			
Taxes	35,381,695	31,708,689	28,493,546
Investment income	465,685	232,109	49,677
Unrestricted Federal and State aid	973,766	1,258,399	1,254,101
Other	311,847	581,497	348,915
Total revenues	56,080,806	54,227,469	48,417,906
Expenses:			
General government	3,854,068	3,374,268	2,602,630
Public safety and judicial	38,107,802	12,696,849	9,566,889
Education	34,564,249	15,613,925	14,539,644
City University	907,472	646,397	668,841
Social services	13,025,782	10,882,448	10,283,512
Environmental protection	6,906,033	2,375,604	2,453,205
Transportation services	2,155,180	1,827,871	1,702,394
Parks, recreation and cultural activities	974,610	628,807	560,670
Housing	1,711,951	1,007,341	745,544
Health (including payments to HHC)	4,699,686	3,186,166	2,853,898
Libraries	301,342	389,739	263,976
Debt service interest	2,573,905	2,269,181	2,093,597
Total expenses	109,782,080	54,898,596	48,334,800
Change in net assets	(53,701,274)	(671,127)	83,106
Net Deficit—Beginning	(27,192,541)	(26,521,414)	(26,604,520)
Net Deficit—Ending	$ (80,893,815)	$(27,192,541)	$(26,521,414)

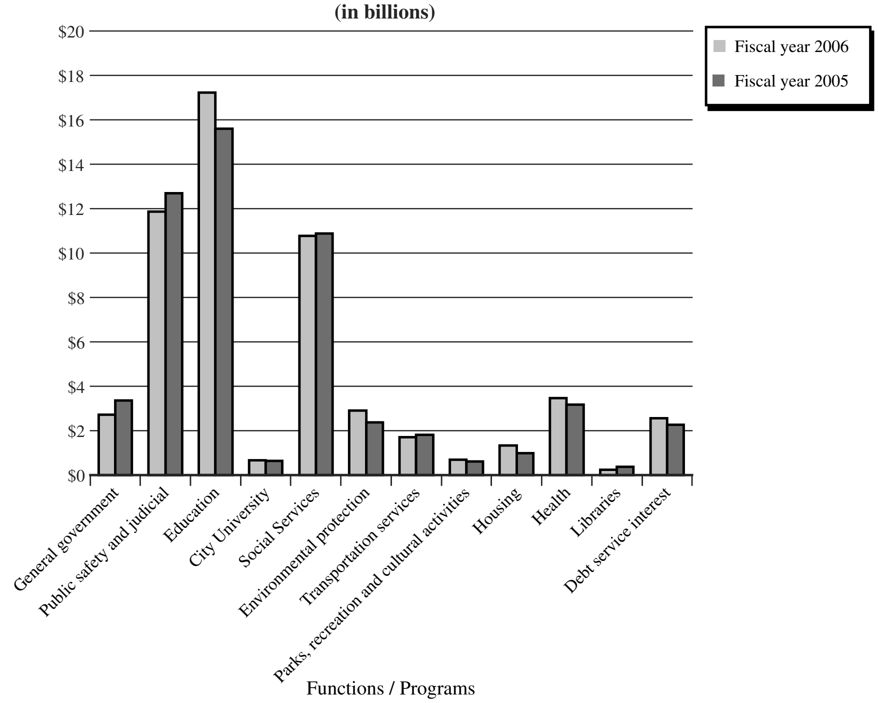
In fiscal year 2006, the government-wide revenues increased from fiscal year 2005 levels by approximately $1.9 billion, while government-wide expenses grew by approximately $54.9 billion.

The City implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45) in fiscal year 2006. GASB No. 45 establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Postemployment benefits are part of an exchange of current salaries and benefits for employee services rendered. Prior to GASB No. 45, most OPEB Plans were reported on a pay-as-you-go basis and a government's financial statements did not report the financial effects of these postemployment benefits until paid.

GASB No. 45 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 GASB No. 45 expenses as they appear in the Statement of Activities for fiscal year 2006 and a comparison to fiscal year 2005:

	Fiscal Year 2006 (in thousands)			
Functions/Programs	**Expenses per Statement of Activities**	**GASB 45 Expenses**	**Expenses excluding GASB 45**	**Fiscal Year 2005 Expenses per Statement of Activities**
General government	$ 3,854,068	$ 1,118,835	$ 2,735,233	$ 3,374,268
Public safety and judicial	38,107,802	26,228,204	11,879,598	12,696,849
Education	34,564,249	17,319,446	17,244,803	15,613,925
City University	907,472	231,978	675,494	646,397
Social services	13,025,782	2,256,234	10,769,548	10,882,448
Environmental protection	6,906,033	3,996,576	2,909,457	2,375,604
Transportation services	2,155,180	450,137	1,705,043	1,827,871
Parks, recreation and cultural activities	974,610	273,514	701,096	628,807
Housing	1,711,951	358,978	1,352,973	1,007,341
Health (including payments to HHC)	4,699,686	1,222,566	3,477,120	3,186,166
Libraries	301,342	50,983	250,359	389,739
Debt service interest	2,573,905	—	2,573,905	2,269,181
Total expenses	$109,782,080	$53,507,451	$56,274,629	$54,898,596

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



(1) Fiscal year 2006 expenses exclude GASB 45.

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

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

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

- Recognition of $53.5 billion of unfunded retirement health and related benefits earned by employees in fiscal year 2006 and prior years as part of the City's implementation of GASB No. 45. These costs disproportionately impact uniform employees whose average length of retirement is longer than the general civilian workforce.
- An increase in salaries and wages City-wide of approximately $300 million in fiscal year 2006, reflecting collective bargaining increases.
- An increase in pension and fringe benefit payments for active and retired employees, including a $1 billion contribution to the New York City Retiree Health Benefits Trust.
- An increase in education spending resulting primarily from increased cost for pupil transportation and payments to contract schools.
- An increase in Medicaid payments to the Health and Hospitals Corporation of $645 million, offset by a decrease in subsidy payments in fiscal year 2005 to the Corporation of $172 million, and a one-time $120 million subsidy to the New York City Housing Authority.
- A decrease of general government spending because fiscal year 2005 included a one-time pass through of Federal funds to capitalize the WTC Captive.

In fiscal year 2005, the government-wide revenues increased from fiscal year 2004 by approximately $5.8 billion, while government-wide expenses grew by approximately $6.6 billion.

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

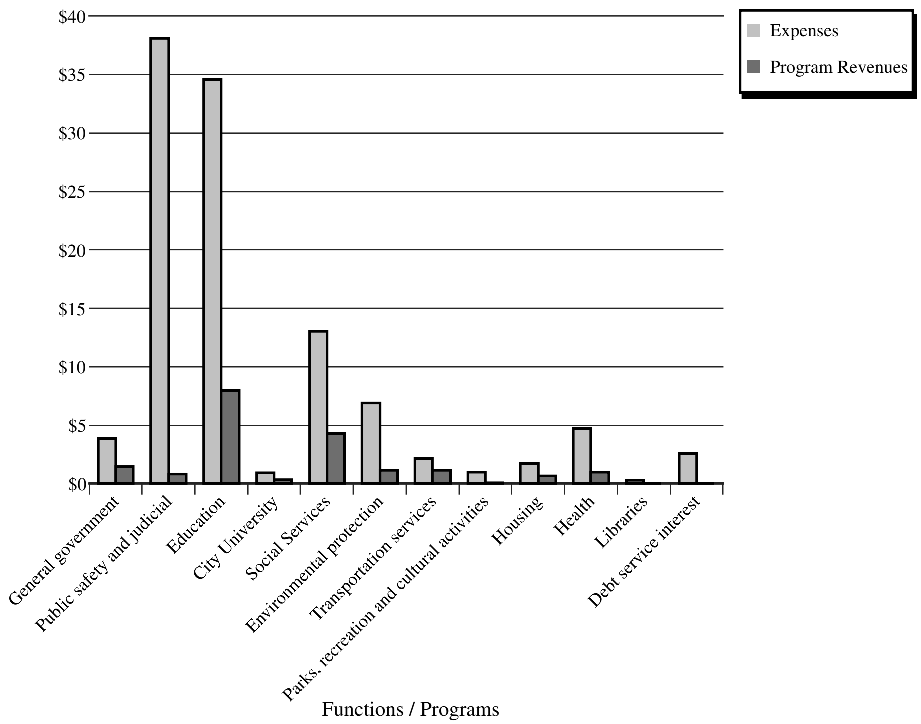
- An increase in the real estate tax resulting primarily from the continuing increase in billable assessed value.
- An increase in the sales tax from the boom in construction based taxable sales related to the new housing construction boom, the home refinancing boom and the sale of durable goods related to the unprecedented level of real estate transactions, as well as a continued boom in tourism spending.
- An increase in personal income tax resulting from the payout of almost $20 billion in Wall Street bonuses, installment payment strength based on estimated growth in non-wage income of 30%, plus non-finance wage income growth of 4.5% in fiscal year 2005.
- An increase in business income taxes (the general corporation, banking corporation and the unincorporated business tax) resulting from strong growth in payments from corporate, bank and unincorporated business taxpayers, as Wall Street profits continued strong in fiscal year 2005. In addition, national corporate profits posted double digit growth over the period buoying the non-finance sectors of the City economy. Further, fiscal year 2005 saw payments reflecting the final, and the smallest impact, year of the Federal bonus depreciation, contributing to the year-over-year rebound on collections.
- An increase in other taxes resulting primarily from the large increase in collections seen in the real estate transaction taxes. The real property transaction tax grew 37% in 2005 while the mortgage recording tax grew 53%. This robust growth resulted from the continuation of the real estate boom as homeowners moved to lock-in historically low interest rates and as investor interest in Manhattan commercial real estate, precipitated by low vacancy rates and high rents, continued apace.
- Increases in charges for services results primarily from a one time settlement of a dispute over back rent with the Port Authority of New York and New Jersey. Charges also increased due to new leases with the Port Authority for the City’s airports.
- An increase in operating grants reflecting a one-time pass through of Federal funds to capitalize the WTC Captive.

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

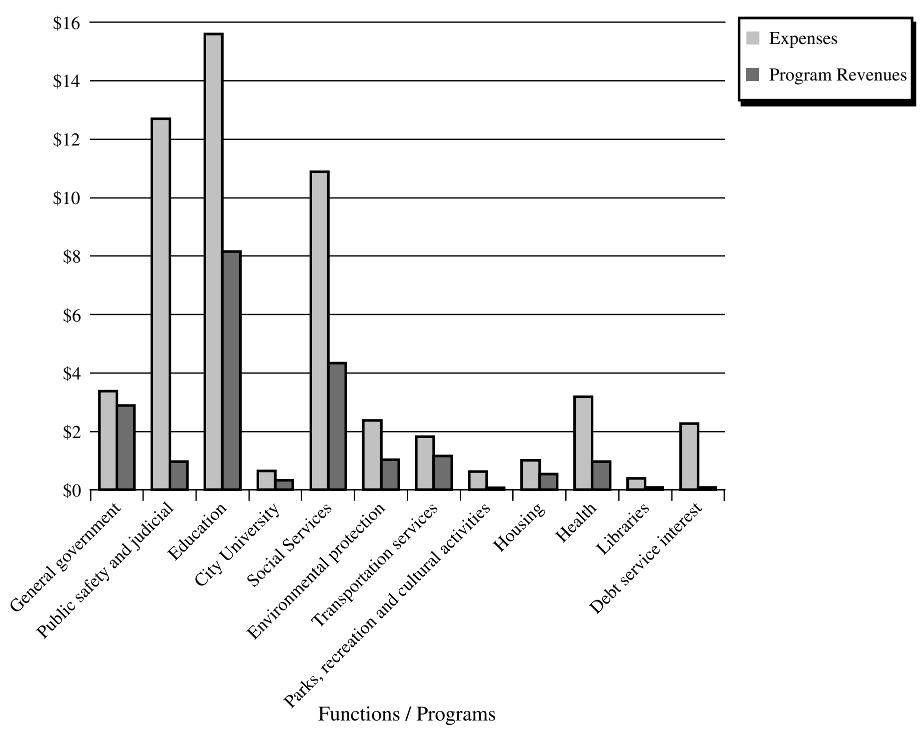
- An increase in general government expenditures, primarily as a result of the one-time pass through of Federal funds to the WTC Captive.
- An increase in public safety expenses reflecting a wage increase for police officers, as well as the increased pension and health benefits costs.
- An increase in social service spending reflecting growth in utilization and costs in the medical assistance program, as well as increases in employment and daycare services for public assistance recipients and cost of living increases for employees of not-for-profit social services providers.
- An increase in education spending resulting primarily from increased salary and fringe benefit costs. Increased contract costs for special education schools and pupil transportation also contributed significantly to education expenditure growth.

The following charts compare the amounts of expenses and program revenues for fiscal years 2006 and 2005:

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

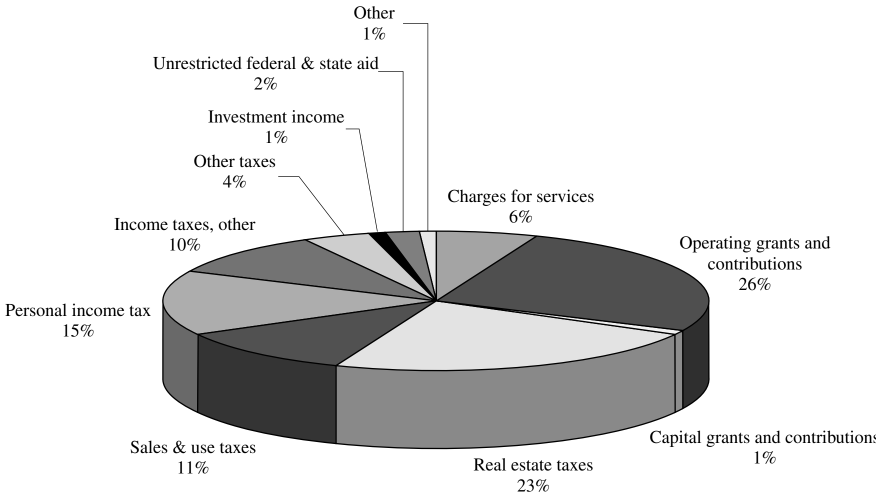


Expenses and Program Revenues — Governmental Activities
June 30, 2005
(in billions)

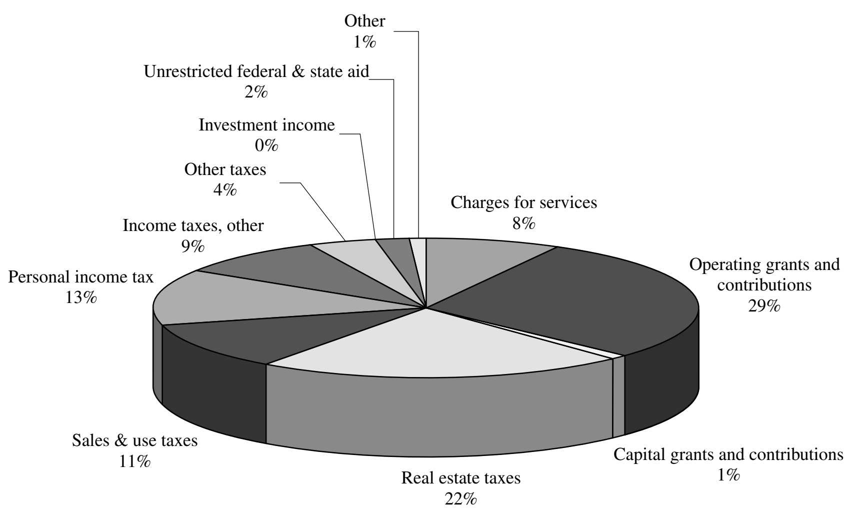


The following charts compare the amounts of program and general revenues for fiscal years 2006 and 2005:

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



Revenues by Source — Governmental Activities
for the Year Ended June 30, 2005



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 $80.9 billion at the close of the most recent fiscal year, an increase of $53.7 billion from June 30, 2005, compared with an increase in the excess of liabilities over net assets of $671 million in the prior fiscal year.

	Governmental Activities		
	2006	2005	2004
		(in thousands)	
Current and other assets	$ 27,878,882	$ 27,783,430	$ 19,691,909
Capital assets (net of depreciation)	32,170,950	30,682,882	29,958,556
Total assets	60,049,832	58,466,312	49,650,465
Long-term liabilities	121,963,394	66,590,911	61,288,787
Other liabilities	18,980,253	19,067,942	14,883,092
Total liabilities	140,943,647	85,658,853	76,171,879
Net assets:			
Invested in capital assets, net of related debt	(5,373,813)	(6,611,918)	(6,157,298)
Restricted	5,246,663	4,640,370	2,239,532
Unrestricted	(80,766,665)	(25,220,993)	(22,603,648)
Total net deficit	$(80,893,815)	$(27,192,541)	$(26,521,414)

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 is 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, 2006 and 2005:

Components of Net Deficit	2006	2005
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable life used for financial reporting that is different from the period over which the related debt principal is being repaid. Schools and related education assets depreciate more quickly than their related debt is paid, and they comprise one of the largest components of this difference	$ (5.3)	$ (6.6)
Net Assets Restricted for:		
Debt Service	4.8	3.8
Capital Projects	.5	.9
Total net assets restricted	5.3	4.7
Unrestricted Net Assets		
TFA issued debt to finance costs related to the recovery from the September 11, 2001 World Trade Center disaster, which are operating expenses of the City	(1.8)	(2.0)
STAR issued debt related to the defeasance of the MAC issued debt	(2.5)	(2.6)
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, NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end.	(12.1)	(11.4)
Certain long-term obligations do not require current funding:		
OPEB liability	(53.5)	—
Judgments and claims	(5.0)	(4.8)
Vacation and sick leave	(2.8)	(2.6)
Pension liability	(0.8)	(0.8)
Landfill closure and postclosure costs	(1.7)	(1.3)
Other:	(.7)	.2
Total unrestricted net assets	(80.8)	(25.3)
Total net deficit	$(80.9)	$(27.2)

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, 2004	$ 412,736	$(1,652,808)	$ 1,194,049	$ 1,275,789	$ (51,541)	$ 1,178,225
Revenues	52,163,585	1,901,136	79,008	2,200,405	(1,019,261)	55,324,873
Expenditures	(47,713,833)	(6,654,706)	(3,008,966)	(2,514,956)	1,072,631	(58,819,830)
Other financing sources (uses)	(4,444,647)	4,945,493	3,824,189	2,012,400	—	6,337,435
Fund balances (deficit), June 30, 2005	$ 417,841	$(1,460,885)	$ 2,088,280	$ 2,973,638	$ 1,829	$ 4,020,703
Revenues	53,900,778	2,155,522	27,350	2,550,523	(1,717,466)	56,916,707
Expenditures	(49,508,064)	(6,594,587)	(3,160,474)	(3,684,546)	1,715,637	(61,232,034)
Other financing sources (uses)	(4,388,072)	3,696,009	4,288,516	(17,340)	—	3,579,113
Fund balances (deficit), June 30, 2006	$ 422,483	$(2,203,941)	$ 3,243,672	$ 1,822,275	$ —	$ 3,284,489

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 $3.756 billion and $3.534 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2006 and 2005, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of $5 million in both fiscal years 2006 and 2005, 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, 2006, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling $3.205 billion in fiscal year 2006. Similar transfers in fiscal year 2005 of $1.849 million also primarily account for the General Debt Service Fund fund balance at June 30, 2005.

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 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, transfers from TFA and TSASC and other revenues and financing sources, the Capital Projects Fund will have a deficit. The deficit fund balances at June 30, 2006 and 2005, represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

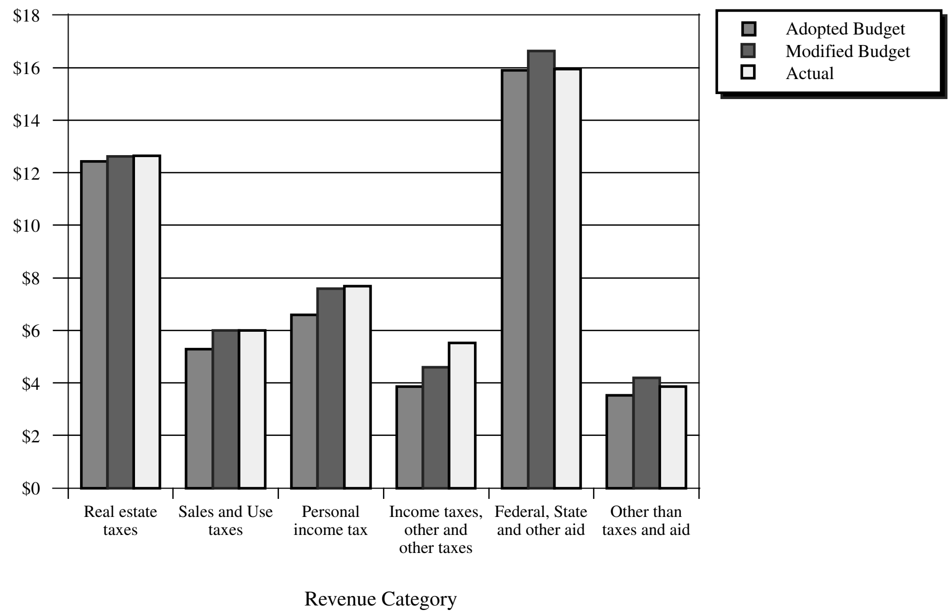
General Fund Budgetary Highlights

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

General Fund Revenues

The following charts and tables summarize actual revenues by category for fiscal years 2006 and 2005 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

General Fund Revenues
Fiscal Year 2006
(in billions)

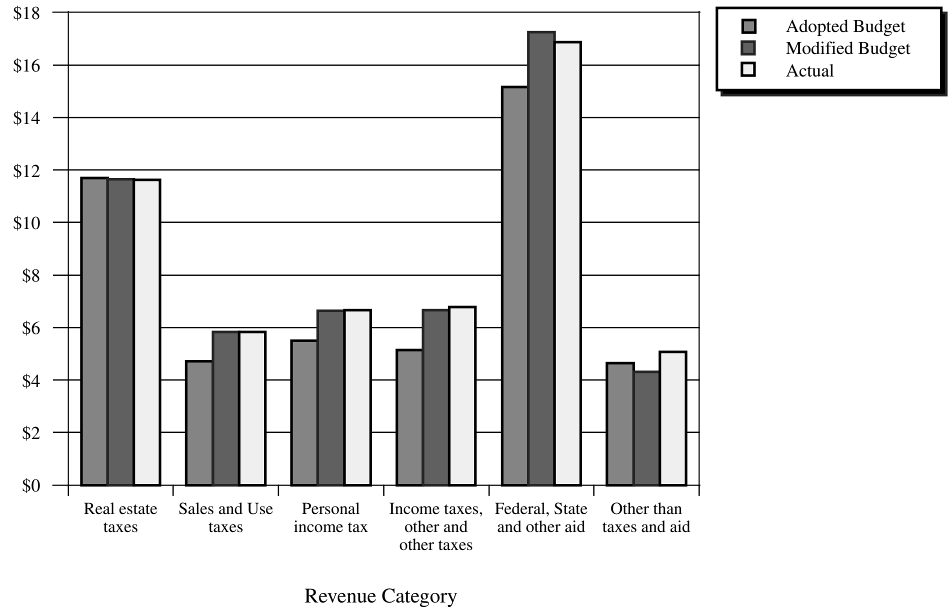


General Fund Revenues

Fiscal Year 2006
(in millions)

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

General Fund Revenues
Fiscal Year 2005
(in billions)



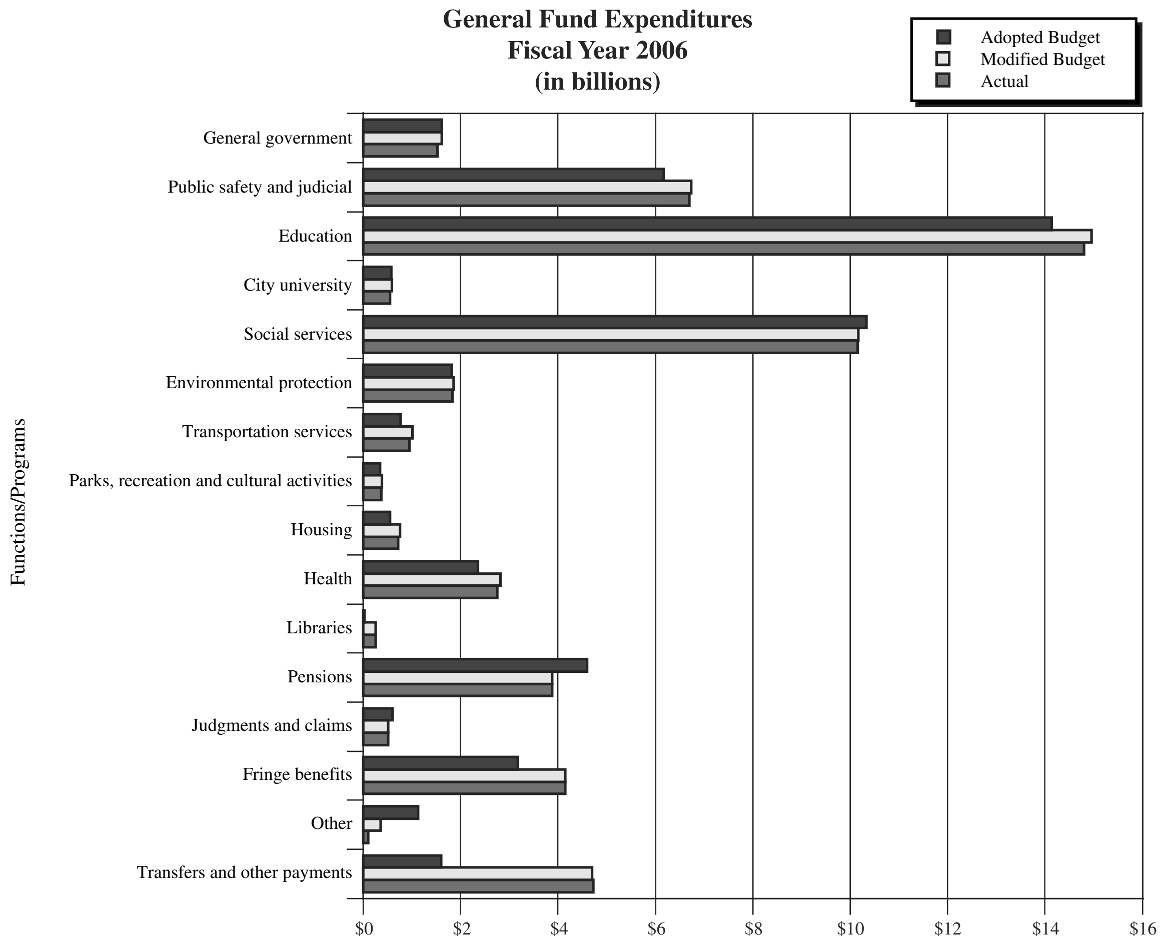
General Fund Revenues

Fiscal Year 2005
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	$11,698	$11,647	$11,616
Sales and use taxes	4,718	5,841	5,823
Personal income tax	5,496	6,637	6,656
Income taxes, other	3,265	4,070	4,641
Other taxes	1,884	2,594	2,130
Taxes (net of refunds)	27,061	30,789	30,866
Federal, State and other aid:			
Categorical	14,151	16,689	16,252
Unrestricted	1,012	562	604
Federal, State and other aid	15,163	17,251	16,856
Other than taxes and aid:			
Charges for services	2,315	2,474	2,479
Other revenues	1,821	2,207	1,963
Transfers from Nonmajor Debt Service Fund	502	631	631
Other than taxes and aid	4,638	5,312	5,073
Total revenues	$46,862	$53,352	$52,795

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2006 and 2005 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.



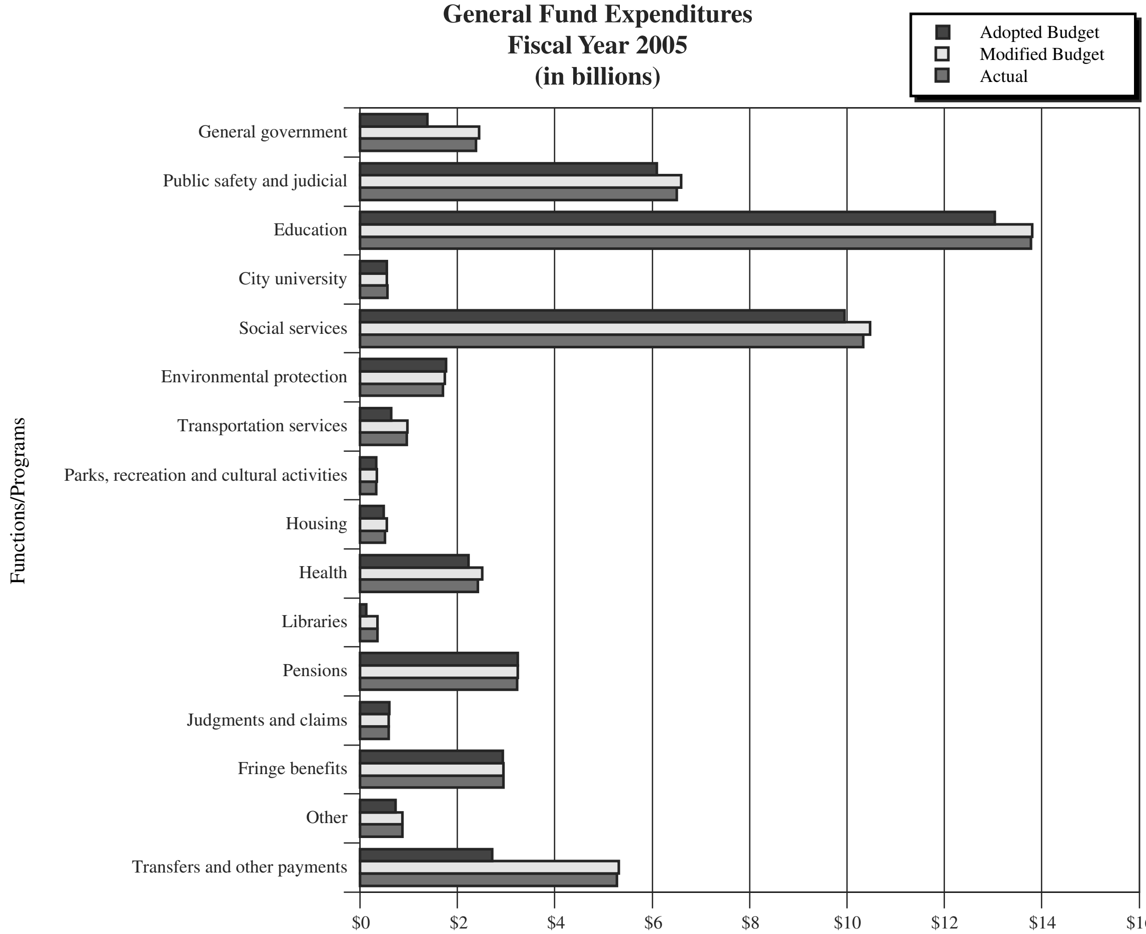
General Fund Expenditures

Fiscal Year 2006

(in millions)

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

General Fund Expenditures
Fiscal Year 2005
(in billions)



General Fund Expenditures
Fiscal Year 2005
(in millions)

	Adopted Budget	Modified Budget	Actual
General government	$ 1,388	$ 2,452	$ 2,385
Public safety and judicial	6,099	6,604	6,507
Education	13,042	13,803	13,776
City university	546	550	567
Social services	9,951	10,476	10,329
Environmental protection	1,774	1,750	1,707
Transportation services	635	984	957
Parks, recreation and cultural activities	331	349	343
Housing	491	552	511
Health (including HHC)	2,228	2,510	2,424
Libraries	135	362	362
Pensions	3,240	3,236	3,234
Judgments and claims	612	590	590
Fringe benefits and other benefit payments	2,944	2,947	2,948
Other	727	882	869
Transfers and other payments for debt service	2,719	5,305	5,281
Total expenditures	$46,862	$53,352	$52,790

General Fund Surplus

The City had General Fund operating surpluses of $3.756 billion, $3.534 billion and $1.928 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2006, 2005 and 2004, respectively. For the fiscal years 2006, 2005 and 2004, 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 2006, 2005, and 2004 budgets follow:

	2006	2005	2004
		(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	$ 98	$ 341	$ 307
Discretionary transfers to the General Debt Service Fund	3,106	1,507	662
Net equity contribution in bond refunding that accrued to future years debt service savings	1	1	3
Debt service prepayments for lease purchase debt service due in the fiscal year	74	88	71
Grant to TFA	—	947	400
Advance cash subsidies to the Public Library system	224	225	112
Advance cash subsidies to the Transit Authority (TA) and Metropolitan Transportation Authority (MTA)	248	248	209
Advance cash subsidies to the HHC	—	172	159
Total expenditures and transfers (discretionary and other)	3,751	3,529	1,923
Reported operating surplus	5	5	5
Total operating surplus	$3,756	$3,534	$1,928

Fiscal Year 2006

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

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

Fiscal Year 2005

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 2005 Adopted Budget:

	2005
	(in millions)
Additional resources:	
Federal categorical aid (including Homeland Security grants)	$ 921
Higher than expected general corporation tax revenue collections	731
Higher than expected personal income tax revenue collections	1,160
Higher than expected banking corporation revenue tax revenue collections	353
Higher than expected mortgage tax revenue collections	736
Higher than expected general sales tax revenue collections	391
Higher than expected net all other tax revenue collections, net of projected tax audit revenues	294
Higher than expected unincorporated business tax revenue collections	222
State categorical aid	196
Higher than expected MAC proceeds	130
Lower than expected all other general administrative OTPS spending	486
Higher than anticipated interest income	114
Higher than expected non-grant revenues	56
Higher than expected unrestricted Federal and State aid	41
Higher than expected charges for services	164
Lower than anticipated pension costs	6
Lower than anticipated judgment and claims	36
Licenses, permits, privileges, and franchises	37
Higher than expected assets sales	35
Lower than anticipated health insurance expenditures	90
Higher than expected revenues from fines and forfeitures	37
Lower than anticipated supplies and materials costs	242
Lower than anticipated all other social services excluding Medicaid and public assistance	63
Lower than anticipated debt service costs	80
Lower than anticipated public assistance spending	37
General reserve	300
Total	6,958
Enabled the City to provide for:	
Higher than anticipated personal services costs excluding pensions, health insurance, and overtime	1,092
Higher than expected other fixed and miscellaneous charges	196
Higher than expected property and equipment costs	153
Lower than expected all other miscellaneous revenues	80
Higher than anticipated overtime costs	299
Higher than anticipated Medicaid costs	117
Increased contractual services costs	1,053
Prepayment of certain debt service costs and subsidies due in fiscal year 2006	3,308
Lower than expected Federal and State revenue actions	450
Lower than expected real estate tax collections (including tax lien sales)	82
Higher than expected provisions for disallowance reserve	72
Higher than expected fuel and energy costs	48
All other net overspending and revenues below budget	3
Total	6,953
Reported surplus	$ 5

Capital Assets

The City's investment in capital assets includes land and buildings, equipment, highways, bridges, traffic signals, street reconstruction, and parks (net of accumulated depreciation), which are detailed as follows:

	Governmental Activities		
	2006	**2005**	**2004**
		(in millions)	
Land	$ 968	$ 948	$ 761
Buildings	19,319	19,006	17,652
Equipment	1,393	1,574	2,289
Infrastructure	7,537	7,101	6,569
Construction work-in-progress	2,954	2,054	2,688
Total	$32,171	$30,683	$29,959

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

The net increase in the City's capital assets during fiscal year 2005 was $724 million, a 2.4% increase. Capital assets additions in fiscal year 2005 were $5.451 billion, an increase of $393 million from fiscal year 2004. Capital assets additions in the Education program totaling $999 million and total new construction work-in-progress (the majority of which are in the Education program) totaling $1.707 billion accounted for 50% of the capital assets additions in fiscal year 2005.

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

Debt Administration

The City through the Comptroller's Office of Public Finance, in conjunction with the Mayor's Office of Management and Budget, is charged with issuing debt to finance the implementation of the City's capital program. The following table summarizes the debt outstanding for New York City and City-related issuing entities at the end of fiscal years 2006, 2005, and 2004.

	New York City and City-Related Debt		
	2006	**2005**	**2004**
		(in millions)	
General Obligation Bonds[a]	$35,844	$33,903	$31,378
1991 General Resolution Bonds (MAC)	—	—	1,758
Future Tax Secured Bonds (TFA)	10,392	11,022	11,337
TSASC, Inc.	1,334	1,283	1,256
IDA Bonds	104	106	108
STAR Bonds	2,470	2,552	—
FSC Bonds	387	460	—
Revenue Bonds (ECF)	84	135	107
Recovery Bonds (TFA)	1,841	1,955	2,027
Total bonds and notes payable	52,456	51,416	47,971
Less treasury obligations	—	39	51
Outstanding debt	$52,456	$51,377	$47,920

(a) Does not include capital contract liabilities.

General Obligation

On June 30, 2006, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled $39.7 billion (compared with $37.9 and $33.8 billion as of June 30, 2005 and 2004, 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 June 30, 2006, the City's 10% general limitation was $53 billion (compared with $47 and $43 billion as of June 30, 2005 and 2004 respectively). The combined City and TSASC remaining GO debt incurring power as of June 30, 2006, after providing for capital contract liabilities, totaled $13.6 billion.

As of June 30, 2006, the City's outstanding GO variable and fixed rate debt totaled $6.79 billion and $29.05 billion, respectively. During fiscal year 2006, the City's GO tax exempt daily and weekly variable rate debt averaged 2.974% and 3.031%, respectively. Of the $4.83 billion in GO bonds issued by the City in fiscal year 2006, a total of $1.42 billion was issued to refund certain outstanding bonds and a total of $3.41 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. The refundings produced debt service savings of $1.56 million, $92.20 million and $1.07 million in fiscal years 2006, 2007, and 2008, respectively. The refundings will generate approximately $91.16 million in net present value savings throughout the life of the bonds.

In fiscal year 2006, a total of $585 billion of the bonds refunded were second advance refunding bonds, additional advance refunding capacity of $727 million was provided by the Governor of New York State, charged against the States limit for bonds designated as advance refunding bonds.

A total of $180 billion of the $4.83 billion GO bonds issued during fiscal year 2006 were issued as taxable debt. The taxable debt issued in fiscal year 2006 was sold on a competitive basis.

On May 22, 2006, Standard & Poor's (S&P) improved its rating on New York City General Obligation bonds from A+ to AA–. Moody's Investors Service (Moody's) maintained its rating on New York City General Obligation bonds at Al. Fitch Ratings (Fitch) maintained its rating on New York City General Obligation debt at A+.

Short-term Financing

In fiscal year 2006, the City had no short-term borrowings.

TFA

The New York City Transitional Finance Authority (TFA) is a separate legal entity, created by the New York State Legislature in 1997 in order to ease the constraints imposed by the City's debt limit. TFA was originally authorized to issue up to $7.5 billion of debt. In fiscal year 2000, this authorization was increased by $4 billion, allowing TFA a total debt incurring capacity of $11.5 billion. As of June 30, 2004, TFA had reached its debt limit and did not have the authority to issue new money bonds pursuant to this authorization. On July 26, 2006, the debt incurring authorization was increased by $2 billion to a total of $13.5 billion.

TFA issued $597.24 million of refunding during fiscal year 2006. This refunding included $140.53 million of subordinate bonds. The refinancing produced debt service savings totaling $31.51 million. This refinancing will generate approximately $20.62 million in net present value savings throughout the life of the bonds.

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

In fiscal year 2006, the New York State Legislature authorized TFA to issue bonds and notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's educational facilities capital plan and authorized the City to assign to TFA all or any portion of the state aid payable to the City or its school district pursuant to section 3602.6 of the New York State Education Law. The City is expected to assign the building aid portion of the state aid to TFA for this purpose.

TFA's fixed rate debt outstanding, including $74.3 million of recovery bonds, was $9.41 billion as of June 30, 2006. This amount includes $261 million of bonds economically defeased through previous refundings, but that remain legally as outstanding debt. TFA's variable rate debt outstanding, including recovery bonds, was $2.82 billion. During fiscal year 2006, TFA's tax exempt daily and weekly variable rate debt averaged 2.89% and 2.96%, respectively.

In March, 2005, S&P upgraded TFA's bonds from AA+ to AAA. Moody's upgraded its rating on TFA's senior lien bonds from Aa2 to Aal. Fitch maintained its rating on TFA Bonds at AA+.

TSASC

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

In February, 2006, TSASC issued $1.35 billion of refunding bonds. The proceeds of the refunding issue 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. In connection with the refunding, certain Tobacco Settlement Revenues which had accumulated in a trapping account were released to TSASC free and clear of the lien of TSASC's original indenture. A portion of the refunding proceeds, $158.94 million, was used to pay off the outstanding balance on a Transportation Infrastructure Finance and Innovation Act of 1998 loan. As of June 30, 2006, TSASC had approximately $1.33 billion of bonds outstanding.

As of June 30, 2006, TSASC's bonds are rated BBB by both S&P and Fitch.

Additional information on the City's long-term debt can be found in Note D.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 the payments and to use the proceeds to retire existing MAC debt, thereby expecting to save the City approximately $500 million per year for fiscal years 2004 through 2008.

As of June 30, 2006, STAR has $2.47 billion bonds outstanding.

Fiscal Year 2005 Securitization Corporation

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

As of June 30, 2006, Fiscal Year 2005 Securitization Corporation has $386.6 million bonds outstanding.

Interest Rate Exchange Agreements

In an effort to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has entered into several interest rate exchange agreements (swaps). The City received specific authorization to enter into these agreements, or swaps, under Section 54.90 of the New York State Local Finance Law. No new agreements were initiated in fiscal year 2006. As of June 30, 2006, the City's outstanding notional amount on various swap agreements was $3.05 billion.

Subsequent Events

Subsequent to June 30, 2006, the City and TFA completed the following long-term financing:

On August 17, 2006, the City sold its Series A and B bonds of $850 million for refunding purposes.

On October 16, 2006, TFA sold its Series A Federal Tax Secured bonds of $800 million for capital purposes.

Commitments

At June 30, 2006, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $11.3 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 $55.8 billion over the remaining fiscal years 2007 through 2015. To help meet its capital spending program, the City borrowed $3.4 billion in the public credit market in fiscal year 2006.

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, 2006
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 10,097,096	$ 2,268,908
Investments, including accrued interest	1,975,921	2,164,852
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $380,276)	610,317	—
Federal, State and other aid	4,801,976	—
Taxes other than real estate	4,260,489	—
Other	1,130,376	2,855,359
Mortgage loans and interest receivable, net	101	4,589,845
Inventories	243,868	38,933
Due from Primary Government	—	8,506
Due from Component Units	1,248,261	—
Restricted cash and investments	2,197,224	2,237,996
Deferred charges	1,172,211	—
Capital assets:		
Land and construction work-in-progress	3,921,932	4,992,385
Other capital assets (net of depreciation):		
Property, plant and equipment	20,712,461	19,624,510
Infrastructure	7,536,557	—
Other	141,042	313,950
Total assets	60,049,832	39,095,244
LIABILITIES:		
Accounts payable and accrued liabilities	11,057,803	1,865,272
Accrued interest payable	631,506	97,878
Unearned revenues:		
Prepaid real estate taxes	3,722,964	—
Other	2,374,653	213,088
Due to Primary Government	—	1,248,261
Due to Component Units	8,506	—
Estimated disallowance of Federal, State and other aid	898,858	—
Payable for investment securities purchased	257,000	—
Other	28,963	65,024
Noncurrent Liabilities:		
Due within one year	5,527,130	843,801
Due in more than one year	116,436,264	25,563,618
Total liabilities	140,943,647	29,896,942
NET ASSETS:		
Invested in capital assets, net of related debt	(5,373,813)	8,792,877
Restricted for:		
Capital projects	506,564	120,593
Debt service	4,740,099	776,200
Loans/security deposits	—	70,220
Donor/statutory restrictions	—	43,684
Operations	—	157,806
Unrestricted (deficit)	(80,766,665)	(763,078)
Total net assets (deficit)	$(80,893,815)	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2005
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
Assets:		
Cash and cash equivalents	$ 12,837,451	$ 2,380,003
Investments, including accrued interest	841,084	2,556,322
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $357,758)	572,716	—
Federal, State and other aid	4,988,381	—
Taxes other than real estate	2,964,526	—
Other	594,217	1,930,525
Mortgage loans and interest receivable, net	308	3,738,030
Inventories	240,936	38,592
Due from Primary Government	—	31,390
Due from Component Units	711,088	—
Restricted cash and investments	2,687,790	1,787,922
Deferred charges	1,223,658	—
Capital assets:		
Land and construction work-in-progress	3,002,366	4,554,279
Other capital assets (net of depreciation):		
Property, plant and equipment	20,579,507	18,685,275
Infrastructure	7,101,009	—
Other	121,275	306,896
Total assets	58,466,312	36,009,234
Liabilities:		
Accounts payable and accrued liabilities	13,021,409	1,937,332
Accrued interest payable	644,431	73,805
Unearned revenues:		
Prepaid real estate taxes	3,287,473	—
Other	1,385,898	193,264
Due to Primary Government	—	711,088
Due to Component Units	31,390	—
Estimated disallowance of Federal, State and other aid	362,913	—
Payable for investment securities purchased	257,000	—
Other	77,428	64,044
Noncurrent Liabilities:		
Due within one year	3,937,817	1,253,277
Due in more than one year	62,653,094	20,780,107
Total liabilities	85,658,853	25,012,917
Net Assets:		
Invested in capital assets, net of related debt	(6,611,918)	8,883,401
Restricted for:		
Capital projects	880,627	64,986
Debt service	3,759,743	769,106
Loans/security deposits	—	70,982
Donor/statutory restrictions	—	39,807
Operations	—	145,693
Unrestricted (deficit)	(25,220,993)	1,022,342
Total net assets (deficit)	$(27,192,541)	$10,996,317

See accompanying notes to financial statements.

THE CITY OF NEW YORK

STATEMENT OF ACTIVITIES

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Units
Primary Government:						
General government	$ 3,854,068	$ 579,356	$ 843,680	$ 30,220	$ (2,400,812)	$ —
Public safety and judicial	38,107,802	254,835	562,163	21,394	(37,269,410)	—
Education	34,564,249	65,288	7,909,702	10,775	(26,578,484)	—
City University	907,472	189,293	156,367	—	(561,812)	—
Social services	13,025,782	54,595	4,218,203	3,205	(8,749,779)	—
Environmental protection	6,906,033	1,101,564	23,424	31,266	(5,749,779)	—
Transportation services	2,155,180	783,563	152,945	214,943	(1,003,729)	—
Parks, recreation and cultural activities	974,610	64,856	16,442	7,706	(885,606)	—
Housing	1,711,951	194,468	323,761	154,423	(1,039,299)	—
Health (including payments to HHC)	4,699,686	57,342	920,292	1,742	(3,720,310)	—
Libraries	301,342	—	—	—	(301,342)	—
Debt service interest	2,573,905	—	—	—	(2,573,905)	—
Total primary government	$109,782,080	$ 3,345,160	$15,126,979	$ 475,674	(90,834,267)	—
Component Units	$ 13,920,126	$ 9,023,077	$ 1,954,404	$ 831,956	—	(2,110,689)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					12,723,800	—
Sales and use taxes					5,974,655	—
Personal income tax					8,533,813	—
Income taxes, other					5,768,620	—
Other taxes					2,380,807	—
Investment income					465,685	213,981
Unrestricted Federal and State aid					973,766	8,231
Other					311,847	90,462
Total general revenues					37,132,993	312,674
Change in net assets					(53,701,274)	(1,798,015)
Net Assets (Deficit) — Beginning					(27,192,541)	10,996,317
Net Assets (Deficit) — Ending					$(80,893,815)	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Units
Primary Government:						
General government	$ 3,374,268	$ 1,345,622	$ 1,536,247	$ 4,023	$ (488,376)	$ —
Public safety and judicial	12,696,849	369,050	600,268	3,016	(11,724,515)	—
Education	15,613,925	53,168	8,066,532	26,699	(7,467,526)	—
City University	646,397	189,048	144,269	—	(313,080)	—
Social services	10,882,448	54,419	4,273,577	3,524	(6,550,928)	—
Environmental protection	2,375,604	1,002,679	4,939	32,683	(1,335,303)	—
Transportation services	1,827,871	818,110	147,765	197,941	(664,055)	—
Parks, recreation and cultural activities	628,807	68,090	14,448	1,323	(544,946)	—
Housing	1,007,341	186,500	269,113	76,811	(474,917)	—
Health (including payments to HHC)	3,186,166	56,750	879,749	20,412	(2,229,255)	—
Libraries	389,739	—	—	—	(389,739)	—
Debt service interest	2,269,181	—	—	—	(2,269,181)	—
Total primary government	$54,898,596	$ 4,143,436	$15,936,907	$ 366,432	(34,451,821)	—
Component Units	$11,016,520	$ 7,198,394	$ 2,116,813	$ 964,921	—	(736,392)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					11,677,383	—
Sales and use taxes					5,828,383	—
Personal income tax					7,176,764	—
Income taxes, other					4,888,238	—
Other taxes					2,137,921	—
Investment income					232,109	169,710
Unrestricted Federal and State aid					1,258,399	3,384
Other					581,497	497,201
Total general revenues					33,780,694	670,295
Change in net assets					(671,127)	(66,097)
Net Assets (Deficit) — Beginning					(26,521,414)	11,062,414
Net Assets (Deficit) — Ending					$(27,192,541)	$10,996,317

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2006
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 7,936,278	$ 54,871	$1,790,997	$ 314,950	$ —	$10,097,096
Investments, including accrued interest	258,405	—	1,459,987	257,529	—	1,975,921
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $380,276)	610,317	—	—	—	—	610,317
Federal, State and other aid	4,211,299	590,677	—	—	—	4,801,976
Taxes other than real estate	3,678,014	—	—	582,475	—	4,260,489
Other	1,136,038	—	—	—	—	1,136,038
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $314,550)	—	—	—	101	—	101
Due from other funds	2,289,648	—	—	200,733	(200,733)	2,289,648
Due from Component Units	922,137	326,124	—	—	—	1,248,261
Restricted cash and investments	—	680,148	—	1,517,076	—	2,197,224
Other	—	49,531	—	47,961	—	97,492
Total assets	$21,042,136	$ 1,701,351	$3,250,984	$2,920,825	$ (200,733)	$28,714,563
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 9,517,809	$ 1,276,179	$ 7,312	$ 256,503	$ —	$11,057,803
Accrued tax refunds:						
Real estate taxes	29,257	—	—	—	—	29,257
Personal income tax	33,672	—	—	38,475	—	72,147
Other	25,898	—	—	—	—	25,898
Accrued judgments and claims	394,244	138,732	—	—	—	532,976
Deferred revenues:						
Prepaid real estate taxes	3,722,964	—	—	—	—	3,722,964
Uncollected real estate taxes	561,308	—	—	—	—	561,308
Taxes other than real estate	3,202,691	—	—	—	—	3,202,691
Other	2,224,446	—	—	546,572	—	2,771,018
Due to other funds	—	2,490,381	—	—	(200,733)	2,289,648
Due to Component Units	8,506	—	—	—	—	8,506
Estimated disallowance of Federal, State and other aid	898,858	—	—	—	—	898,858
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	20,619,653	3,905,292	7,312	1,098,550	(200,733)	25,430,074
Fund balances:						
Reserved for:						
Capital projects	—	501,828	—	4,736	—	506,564
Debt service	—	—	3,243,672	1,496,326	—	4,739,998
Noncurrent mortgage loans	—	—	—	101	—	101
Unreserved (deficit), reported in:						
General Fund	422,483	—	—	—	—	422,483
New York City Capital Projects Fund	—	(2,705,769)	—	—	—	(2,705,769)
Nonmajor Capital Projects	—	—	—	16,079	—	16,079
Nonmajor Debt Service	—	—	—	305,033	—	305,033
Total fund balances (deficit)	422,483	(2,203,941)	3,243,672	1,822,275	—	3,284,489
Total liabilities and fund balances	$21,042,136	$ 1,701,351	$3,250,984	$2,920,825	$ (200,733)	$28,714,563

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

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2005
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 9,568,819	$ 83,660	$ 1,993,716	$ 1,191,256	$ —	$12,837,451
Investments, including accrued interest	390,258	—	103,248	387,625	(40,047)	841,084
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $357,758)	572,716	—	—	—	—	572,716
Federal, State and other aid	4,603,736	384,645	—	—	—	4,988,381
Taxes other than real estate	2,880,526	—	—	90,301	(6,301)	2,964,526
Other	600,310	—	—	—	—	600,310
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $451,620)	—	—	—	308	—	308
Due from other funds	1,715,766	—	—	167,327	(167,327)	1,715,766
Due from Component Units	422,952	288,136	—	—	—	711,088
Restricted cash and investments	—	1,015,664	—	1,672,126	—	2,687,790
Other	—	61,502	—	28,335	—	89,837
Total assets	$20,755,083	$ 1,833,607	$ 2,096,964	$ 3,537,278	$ (213,675)	$28,009,257
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$11,569,981	$ 1,277,486	$ 8,684	$ 213,435	$ (48,177)	$13,021,409
Accrued tax refunds:						
Real estate taxes	37,272	—	—	—	—	37,272
Personal income tax	38,078	—	—	6,301	—	44,379
Other	37,159	—	—	—	—	37,159
Accrued judgments and claims	411,842	120,820	—	—	—	532,662
Deferred revenues:						
Prepaid real estate taxes	3,287,473	—	—	—	—	3,287,473
Uncollected real estate taxes	519,855	—	—	—	—	519,855
Taxes other than real estate	2,419,628	—	—	—	—	2,419,628
Other	1,621,651	13,093	—	86,904	—	1,721,648
Due to other funds	—	1,883,093	—	—	(167,327)	1,715,766
Due to Component Units	31,390	—	—	—	—	31,390
Estimated disallowance of Federal, State and other aid	362,913	—	—	—	—	362,913
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	20,337,242	3,294,492	8,684	563,640	(215,504)	23,988,554
Fund balances:						
Reserved for:						
Capital projects	—	876,011	—	4,616	—	880,627
Debt service	—	—	2,088,280	1,669,326	1,829	3,759,435
Noncurrent mortgage loans	—	—	—	308	—	308
Unreserved (deficit), reported in:						
General Fund	417,841	—	—	—	—	417,841
New York City Capital Projects Fund	—	(2,336,896)	—	—	—	(2,336,896)
Nonmajor Capital Projects	—	—	—	8,179	—	8,179
Nonmajor Debt Service	—	—	—	1,291,209	—	1,291,209
Total fund balances (deficit)	417,841	(1,460,885)	2,088,280	2,973,638	1,829	4,020,703
Total liabilities and fund balances	$20,755,083	$ 1,833,607	$ 2,096,964	$ 3,537,278	$ (213,675)	$28,009,257

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, 2006
(in thousands)

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

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

JUNE 30, 2005
(in thousands)

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

Total fund balances—governmental funds	$ 4,020,703
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds	240,936
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	30,682,882
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	4,524,236
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds payable	(51,992,797)
Accrued interest payable	(644,431)
Capital lease obligations	(3,044,080)
Accrued vacation and sick leave	(2,593,691)
Pension liability	(806,200)
Landfill closure and post-closure care costs	(1,300,082)
Other long-term liabilities	(6,280,017)
Net assets (deficit) of governmental activities	$ (27,192,541)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

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

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$12,636,355	$ —	$ —	$ —	$ —	$12,636,355
Sales and use taxes	5,986,655	—	—	—	—	5,986,655
Personal income tax	7,675,813	—	—	350,000	—	8,025,813
Income taxes, other	5,531,620	—	—	—	—	5,531,620
Other taxes	2,380,744	—	—	—	—	2,380,744
Federal, State and other categorical aid	15,436,591	438,021	—	170,000	—	16,044,612
Unrestricted Federal and State aid	494,154	—	—	—	—	494,154
Charges for services	1,836,959	—	—	—	—	1,836,959
Tobacco settlement	5,410	—	—	193,688	—	199,098
Investment income	362,197	—	27,350	67,018	(1,829)	454,736
Interest on mortgages, net	—	—	—	4,809	—	4,809
Other revenues	1,554,280	1,717,501	—	1,765,008	(1,715,637)	3,321,152
Total revenues	53,900,778	2,155,522	27,350	2,550,523	(1,717,466)	56,916,707
EXPENDITURES:						
General government	1,530,074	665,096	—	3,235	—	2,198,405
Public safety and judicial	6,693,911	212,111	—	—	—	6,906,022
Education	14,794,254	1,781,904	—	1,715,593	(1,715,637)	16,576,114
City University	550,366	13,780	—	—	—	564,146
Social services	10,147,669	39,308	—	—	—	10,186,977
Environmental protection	1,836,396	1,935,273	—	—	—	3,771,669
Transportation services	954,155	782,904	—	—	—	1,737,059
Parks, recreation and cultural activities	376,808	382,845	—	—	—	759,653
Housing	721,483	459,376	—	—	—	1,180,859
Health (including payments to HHC)	2,757,802	269,673	—	—	—	3,027,475
Libraries	261,140	52,317	—	—	—	313,457
Pensions	3,878,950	—	—	—	—	3,878,950
Judgments and claims	516,801	—	—	—	—	516,801
Fringe benefits and other benefit payments	4,154,015	—	—	—	—	4,154,015
Administrative and other	105,394	—	145,324	50,934	—	301,652
Debt Service:						
Interest	—	—	1,559,898	818,904	—	2,378,802
Redemptions	—	—	1,455,252	1,095,880	—	2,551,132
Lease payments	228,846	—	—	—	—	228,846
Total expenditures	49,508,064	6,594,587	3,160,474	3,684,546	(1,715,637)	61,232,034
Excess (deficiency) of revenues over expenditures	4,392,714	(4,439,065)	(3,133,124)	(1,134,023)	(1,829)	(4,315,327)
OTHER FINANCING SOURCES (USES):						
Transfers from (to) General Fund	—	200,000	4,281,010	(92,938)	—	4,388,072
Transfers to Nonmajor Capital Projects Funds	—	—	—	(1,500)	—	(1,500)
Principal amount of bonds issued	—	3,405,000	—	—	—	3,405,000
Bond premium	—	76,818	64,182	—	—	141,000
Capitalized leases	—	14,191	—	—	—	14,191
Refunding bond proceeds	—	—	1,421,810	1,942,974	—	3,364,784
Transfers to New York City Capital Projects Fund	(200,000)	—	—	—	—	(200,000)
Transfers from (to) General Debt Service Fund	(4,281,010)	—	—	198	—	(4,280,812)
Transfers from (to) Nonmajor Debt Service Funds, net	92,938	—	(198)	1,500	—	94,240
Payments to refunded bond escrow holder	—	—	(1,478,288)	(1,860,299)	—	(3,338,587)
Cost of termination of rate cap obligation	—	—	—	(7,275)	—	(7,275)
Total other financing sources (uses)	(4,388,072)	3,696,009	4,288,516	(17,340)	—	3,579,113
Net change in fund balances	4,642	(743,056)	1,155,392	(1,151,363)	(1,829)	(736,214)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	417,841	(1,460,885)	2,088,280	2,973,638	1,829	4,020,703
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 422,483	$(2,203,941)	$ 3,243,672	$ 1,822,275	$ —	$ 3,284,489

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

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2005

(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$ 11,615,939	$ —	$ —	$ —	$ —	$11,615,939
Sales and use taxes	5,822,751	—	—	—	—	5,822,751
Personal income tax	6,656,334	—	—	497,094	46,632	7,200,060
Income taxes, other	4,640,541	—	—	—	—	4,640,541
Other taxes	2,130,072	—	—	—	—	2,130,072
Federal, State and other categorical aid	16,251,806	344,217	—	340,000	—	16,936,023
Unrestricted Federal and State aid	603,500	—	—	—	—	603,500
Charges for services	2,479,372	—	—	—	—	2,479,372
Tobacco settlement	67,579	—	—	149,341	—	216,920
Investment income	148,824	—	8,938	62,488	(369)	219,881
Interest on mortgages, net	—	—	—	3,743	—	3,743
Unrealized loss on investment	—	—	—	(1,182)	—	(1,182)
Other revenues	1,746,867	1,556,919	70,070	1,148,921	(1,065,524)	3,457,253
Total revenues	52,163,585	1,901,136	79,008	2,200,405	(1,019,261)	55,324,873
EXPENDITURES:						
General government	2,385,327	719,829	—	—	—	3,105,156
Public safety and judicial	6,506,707	996,069	—	—	—	7,502,776
Education	13,776,018	975,368	—	1,061,342	(1,065,524)	14,747,204
City University	566,613	15,042	—	—	—	581,655
Social services	10,329,111	57,221	—	—	—	10,386,332
Environmental protection	1,706,594	1,838,220	—	—	—	3,544,814
Transportation services	956,527	946,161	—	—	—	1,902,688
Parks, recreation and cultural activities	342,999	317,256	—	—	—	660,255
Housing	511,638	343,274	—	—	—	854,912
Health (including payments to HHC)	2,424,183	384,586	—	—	—	2,808,769
Libraries	362,310	61,680	—	—	—	423,990
Pensions	3,233,826	—	—	—	—	3,233,826
Judgments and claims	590,294	—	—	—	—	590,294
Fringe benefits and other benefit payments	2,947,681	—	—	—	—	2,947,681
Grant to The State of New York	—	—	—	170,000	—	170,000
Administrative and other	869,351	—	125,396	60,297	—	1,055,044
Debt Service:						
Interest	—	—	1,380,854	697,052	5,557	2,083,463
Redemptions	—	—	1,502,716	526,265	(12,664)	2,016,317
Lease payments	204,654	—	—	—	—	204,654
Total expenditures	47,713,833	6,654,706	3,008,966	2,514,956	(1,072,631)	58,819,830
Excess (deficiency) of revenues over expenditures	4,449,752	(4,753,570)	(2,929,958)	(314,551)	53,370	(3,494,957)
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	—	3,816,394	628,253	—	4,444,647
Transfers from Nonmajor Capital Projects Funds	—	44,140	—	11,703	(44,140)	11,703
Principal amount of bonds issued	—	3,920,000	—	3,097,685	—	7,017,685
Bond premium	—	145,453	123,026	112,985	—	381,464
Capitalized leases	—	835,900	—	—	—	835,900
Refunding bond proceeds	—	—	2,855,250	1,079,379	—	3,934,629
Transfer to New York City Capital Projects Fund	—	—	—	(44,140)	44,140	—
Transfers (to) from General Debt Service Fund	(3,816,394)	—	(6,270)	6,270	—	(3,816,394)
Transfer to Nonmajor Debt Service Funds, net	(628,253)	—	—	(11,703)	—	(639,956)
Payments to refunded bond escrow holder	—	—	(2,964,211)	(2,868,032)	—	(5,832,243)
Total other financing sources (uses)	(4,444,647)	4,945,493	3,824,189	2,012,400	—	6,337,435
Net change in fund balances	5,105	191,923	894,231	1,697,849	53,370	2,842,478
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	412,736	(1,652,808)	1,194,049	1,275,789	(51,541)	1,178,225
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 417,841	$(1,460,885)	$ 2,088,280	$ 2,973,638	$ 1,829	$ 4,020,703

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 Activities 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, 2006
(in thousands)

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

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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, 2005
(in thousands)

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

Net change in fund balances—governmental funds		$ 2,842,478
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 3,110,766	
Depreciation expense	(2,366,576)	744,190
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.,* sales, trade-ins, and donations) is to decrease net assets		(706,473)
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	(10,952,314)	
Principal payments of bonds	7,467,096	
Other	(121,785)	(3,607,003)
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		(386,990)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		442,671
Change in net assets—governmental activities		$ (671,127)

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006
(in thousands)

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

	Budget			Better (Worse) Than Modified Budget
	Adopted	Modified	Actual	
Revenues:				
Real estate taxes	$11,698,280	$11,647,280	$11,615,939	$ (31,341)
Sales and use taxes	4,717,700	5,840,700	5,822,751	(17,949)
Personal income tax	5,496,164	6,636,906	6,656,334	19,428
Income taxes, other	3,264,800	4,069,900	4,640,541	570,641
Other taxes	1,884,259	2,593,491	2,130,072	(463,419)
Federal, State and other categorical aid	14,150,524	16,688,677	16,251,806	(436,871)
Unrestricted Federal and State aid	1,012,418	562,418	603,500	41,082
Charges for services	2,315,042	2,474,064	2,479,372	5,308
Tobacco settlement	174,754	64,505	67,579	3,074
Investment income	34,760	150,740	148,824	(1,916)
Other revenues	1,611,318	1,992,035	1,746,867	(245,168)
Total revenues	46,360,019	52,720,716	52,163,585	(557,131)
Expenditures:				
General government	1,387,810	2,451,504	2,385,327	66,177
Public safety and judicial	6,099,409	6,603,928	6,506,707	97,221
Education	13,041,841	13,803,343	13,776,018	27,325
City University	546,199	550,112	566,613	(16,501)
Social services	9,951,189	10,476,108	10,329,111	146,997
Environmental protection	1,773,730	1,749,917	1,706,594	43,323
Transportation services	635,085	983,872	956,527	27,345
Parks, recreation and cultural activities	330,777	348,556	342,999	5,557
Housing	491,010	551,655	511,638	40,017
Health (including payments to HHC)	2,227,663	2,510,354	2,424,183	86,171
Libraries	134,765	362,371	362,310	61
Pensions	3,240,222	3,235,540	3,233,826	1,714
Judgments and claims	612,206	590,294	590,294	—
Fringe benefits and other benefit payments	2,943,805	2,947,048	2,947,681	(633)
Interest on short-term borrowings	39,715	—	—	—
Lease payments for debt service	128,732	206,222	204,654	1,568
Other	727,200	881,552	869,351	12,201
Total expenditures	44,311,358	48,252,376	47,713,833	538,543
Excess of revenues over expenditures	2,048,661	4,468,340	4,449,752	(18,588)
Other Financing Sources (Uses):				
Transfer from Nonmajor Debt Service Fund	501,535	631,232	631,232	—
Transfer to Nonmajor Debt Service Fund	(203,166)	(1,268,380)	(1,259,485)	8,895
Transfers and other payments for debt service	(2,347,030)	(3,831,192)	(3,816,394)	14,798
Total other financing uses	(2,048,661)	(4,468,340)	(4,444,647)	23,693
Excess of Revenues Over Expenditures and Other Financing Sources (Uses)	$ —	$ —	5,105	$ 5,105
Fund Balance at Beginning of Year			412,736	
Fund Balance at End of Year			$ 417,841	

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 711,094	$ 716,762
Receivables:		
Member loans	1,313,092	—
Investment securities sold	3,551,934	—
Accrued interest and dividends	456,588	—
Investments:		
Other short-term investments	2,954,289	—
Debt securities	24,444,649	776,714
Equity securities	53,735,093	—
Guaranteed investment contracts	2,273,787	—
Management investment contracts	104,297	—
Mutual funds	25,438,964	—
Collateral from securities lending transactions	18,163,920	—
Due from Pension Funds	3,498	—
Other	51,960	—
Total assets	133,203,165	1,493,476
LIABILITIES:		
Accounts payable and accrued liabilities	488,698	548,376
Payable for investment securities purchased	7,122,561	—
Accrued benefits payable	376,803	—
Due to VSF	3,498	—
Securities lending transactions	18,215,247	—
Other	983	945,100
Total liabilities	26,207,790	1,493,476
NET ASSETS:		
Held in Trust for Benefit Payments	$106,995,375	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 351,779	$ 623,829
Receivables:		
Member loans	1,569,615	—
Investment securities sold	3,057,868	—
Accrued interest and dividends	425,440	—
Investments:		
Other short-term investments	3,520,718	—
Debt securities	24,154,400	736,245
Equity securities	50,218,622	—
Guaranteed investment contracts	2,112,418	—
Management investment contracts	129,196	—
Mutual funds	21,086,381	—
Collateral from securities lending transactions	17,394,339	—
Due from Pension Funds	2,936	—
Other	97,267	—
Total assets	124,120,979	1,360,074
LIABILITIES:		
Accounts payable and accrued liabilities	330,467	619,119
Payable for investment securities purchased	6,116,650	—
Accrued benefits payable	339,981	—
Due to VSF	2,936	—
Securities lending transactions	17,450,308	—
Other	917	740,955
Total liabilities	24,241,259	1,360,074
NET ASSETS:		
Held in Trust for Benefit Payments	$ 99,879,720	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

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

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions	$ 1,203,213
Employer contributions	3,670,481
Other employer contributions	20,429
Total contributions	4,894,123
Investment income:	
Interest income	1,504,581
Dividend income	1,098,519
Net appreciation in fair value of investments	6,751,931
Less investment expenses	168,249
Investment income, net	9,186,782
Securities lending transactions:	
Securities lending income	428,609
Securities lending fees	(371,066)
Net securities lending income	57,543
Payments from Pension Funds	4,963
Other	88,869
Total additions	14,232,280
DEDUCTIONS:	
Benefit payments and withdrawals	9,074,863
Other	24,729
Administrative expenses	106,173
Total deductions	9,205,765
Increase in plan net assets	5,026,515
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	94,853,205
End of Year	$ 99,879,720

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2006
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2005	Housing Development Corporation October 31, 2005	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 966,959	$ 459,057	$ 242,950	$ 446,058	$ 44,565	$ 18,595	$ 90,724	$ 2,268,908
Investments, including accrued interest	515,317	525,035	95,520	53,562	237	—	975,181	2,164,852
Other receivables	463,495	120,805	303,841	1,239,975	100,214	675	626,354	2,855,359
Mortgage loans and interest receivable, net	—	100	4,546,842	—	42,903	—	—	4,589,845
Inventories	—	11,435	—	27,498	—	—	—	38,933
Due from Primary Government	8,506	—	—	—	—	—	—	8,506
Restricted cash and investments	—	311,914	1,507,687	195,926	139,643	10,358	72,468	2,237,996
Capital assets:								
Construction work-in-progress	4,546,209	—	—	446,176	—	—	—	4,992,385
Property, plant and equipment	19,224,903	10,403,479	4,579	4,863,452	10,051	65,583	164,783	34,736,830
Accumulated depreciation	(6,615,509)	(5,382,475)	(2,443)	(3,008,082)	(5,344)	(53,797)	(44,670)	(15,112,320)
Other	130,728	67,603	54,913	21,933	31,951	—	6,822	313,950
Total assets	19,240,608	6,516,953	6,753,889	4,286,498	364,220	41,414	1,891,662	39,095,244
LIABILITIES:								
Accounts payable and accrued liabilities	15,361	638,752	240,355	847,932	81,090	33,724	8,058	1,865,272
Accrued interest payable	33,558	9,955	42,070	12,295	—	—	—	97,878
Deferred revenues	93,289	16,922	92,307	—	1,323	—	9,247	213,088
Due to Primary Government	326,124	—	921,928	—	—	209	—	1,248,261
Other	—	42,945	—	583	12,983	5,458	3,055	65,024
Noncurrent Liabilities:								
Due within one year	566,061	53,702	55,352	141,257	—	6,644	20,785	843,801
Due in more than one year	15,306,834	506,653	4,552,018	3,301,559	109,427	117,669	1,669,458	25,563,618
Total liabilities	16,341,227	1,268,929	5,904,030	4,303,626	204,823	163,704	1,710,603	29,896,942
NET ASSETS:								
Invested in capital assets, net of related debt	2,556,766	4,911,341	—	1,189,552	3,612	11,493	120,113	8,792,877
Restricted for:								
Capital projects	—	—	—	38,646	73,568	8,379	—	120,593
Debt service	171,859	—	420,095	113,596	—	—	70,650	776,200
Loans/security deposits	—	—	—	—	67,849	—	2,371	70,220
Statutory reserve	—	—	—	31,530	—	—	—	31,530
Donor restrictions	—	—	—	12,154	—	—	—	12,154
Operations	157,806	—	—	—	—	—	—	157,806
Unrestricted (deficit)	12,950	336,683	429,764	(1,402,606)	14,368	(142,162)	(12,075)	(763,078)
Total net assets (deficit)	$ 2,899,381	$ 5,248,024	$ 849,859	$ (17,128)	$159,397	$(122,290)	$ 181,059	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2005
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2004	Housing Development Corporation October 31, 2004	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
Assets:								
Cash and cash equivalents	$ 1,099,053	$ 497,026	$ 188,060	$ 470,357	$ 49,296	$ 17,709	$ 58,502	$ 2,380,003
Investments, including accrued interest	868,302	555,463	90,820	42,209	236	—	999,292	2,556,322
Other receivables	437,477	93,974	63,598	648,391	91,250	917	594,918	1,930,525
Mortgage loans and interest receivable, net	—	327	3,708,419	—	29,284	—	—	3,738,030
Inventories	—	12,502	—	26,090	—	—	—	38,592
Due from Primary Government	31,390	—	—	—	—	—	—	31,390
Restricted cash and investments	—	9,367	1,235,548	260,061	135,110	8,268	139,568	1,787,922
Capital assets:								
Construction work-in-progress	4,010,861	—	—	543,418	—	—	—	4,554,279
Property, plant and equipment	18,179,382	10,056,173	5,364	4,426,387	8,654	63,665	149,405	32,889,030
Accumulated depreciation	(6,181,283)	(5,081,693)	(1,992)	(2,846,214)	(4,627)	(50,580)	(37,366)	(14,203,755)
Other	125,582	68,858	59,249	24,531	21,374	—	7,302	306,896
Total assets	18,570,764	6,211,997	5,349,066	3,595,230	330,577	39,979	1,911,621	36,009,234
Liabilities:								
Accounts payable and accrued liabilities	13,535	629,724	213,263	967,540	79,255	22,295	11,720	1,937,332
Accrued interest payable	31,300	1,225	28,339	12,941	—	—	—	73,805
Deferred revenues	89,210	16,883	74,509	—	790	—	11,872	193,264
Due to Primary Government	288,136	—	422,726	—	—	226	—	711,088
Other	—	47,946	—	—	3,744	9,219	3,135	64,044
Noncurrent Liabilities:								
Due within one year	1,037,984	41,532	108,730	61,982	—	1,900	1,149	1,253,277
Due in more than one year	13,955,495	212,133	3,697,386	1,088,998	91,293	6,981	1,727,821	20,780,107
Total liabilities	15,415,660	949,443	4,544,953	2,131,461	175,082	40,621	1,755,697	25,012,917
Net Assets:								
Invested in capital assets, net of related debt	2,803,031	4,871,990	—	1,081,764	2,933	12,682	111,001	8,883,401
Restricted for:								
Capital projects	—	—	—	—	58,554	6,432	—	64,986
Debt service	152,544	—	367,534	111,101	—	—	137,927	769,106
Loans/security deposits	—	—	—	—	68,385	—	2,597	70,982
Statutory reserve	—	—	—	27,948	—	—	—	27,948
Donor restrictions	—	—	—	11,859	—	—	—	11,859
Operations	145,693	—	—	—	—	—	—	145,693
Unrestricted (deficit)	53,836	390,564	436,579	231,097	25,623	(19,756)	(95,601)	1,022,342
Total net assets (deficit)	$ 3,155,104	$ 5,262,554	$ 804,113	$ 1,463,769	$ 155,495	$ (642)	$ 155,924	$10,996,317

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMPONENT UNITS
STATEMENT OF ACTIVITIES

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

	Water and Sewer System	Housing Authority December 31, 2005	Housing Development Corporation October 31, 2005	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
Expenses	$2,428,339	$2,774,499	$178,558	$ 7,456,772	$624,094	$ 382,973	$74,891	$13,920,126
Program Revenues:								
Charges for services	1,978,930	676,545	180,915	5,533,361	319,790	257,911	75,625	9,023,077
Operating grants and contributions	—	1,669,448	—	258,309	26,647	—	—	1,954,404
Capital grants, contributions and other	—	330,538	—	223,174	266,018	—	12,226	831,956
Total program revenues	1,978,930	2,676,531	180,915	6,014,844	612,455	257,911	87,851	11,809,437
Net (expenses) program revenues	(449,409)	(97,968)	2,357	(1,441,928)	(11,639)	(125,062)	12,960	(2,110,689)
General Revenues:								
Investment income	105,239	26,095	43,389	20,140	6,065	996	12,057	213,981
Unrestricted Federal and State aid	—	—	—	—	8,231	—	—	8,231
Other	88,447	57,343	—	(59,109)	1,245	2,418	118	90,462
General revenues, net	193,686	83,438	43,389	(38,969)	15,541	3,414	12,175	312,674
Change in net assets	(255,723)	(14,530)	45,746	(1,480,897)	3,902	(121,648)	25,135	(1,798,015)
Net Assets—Beginning	3,155,104	5,262,554	804,113	1,463,769	155,495	(642)	155,924	10,996,317
Net Assets (deficit)—Ending	$2,899,381	$5,248,024	$849,859	$ (17,128)	$159,397	$(122,290)	$181,059	$ 9,198,302

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2004	Housing Development Corporation October 31, 2004	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
EXPENSES	$ 2,460,002	$ 2,708,293	$ 150,416	$ 4,790,666	$ 601,067	$ 257,041	$ 49,035	$11,016,520
PROGRAM REVENUES:								
Charges for services	1,884,727	655,012	151,102	3,924,462	285,843	248,325	48,923	7,198,394
Operating grants and contributions	—	1,688,271	—	405,007	23,535	—	—	2,116,813
Capital grants, contributions and other	—	405,522	—	236,740	301,347	—	21,312	964,921
Total program revenues	1,884,727	2,748,805	151,102	4,566,209	610,725	248,325	70,235	10,280,128
Net (expenses) program revenues	(575,275)	40,512	686	(224,457)	9,658	(8,716)	21,200	(736,392)
GENERAL REVENUES:								
Investment income	97,362	28,585	25,875	11,915	3,645	483	1,845	169,710
Unrestricted Federal and State aid	—	—	—	—	3,384	—	—	3,384
Other	78,834	64,075	—	349,295	644	2,458	1,895	497,201
General revenues, net	176,196	92,660	25,875	361,210	7,673	2,941	3,740	670,295
Change in net assets	(399,079)	133,172	26,561	136,753	17,331	(5,775)	24,940	(66,097)
Net Assets—Beginning	3,554,183	5,129,382	777,552	1,327,016	138,164	5,133	130,984	11,062,414
Net Assets (deficit)—Ending	$ 3,155,104	$ 5,262,554	$ 804,113	$ 1,463,769	$ 155,495	$ (642)	$ 155,924	$10,996,317

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 in 1975 by the Municipal Assistance Corporation For The City of New York Act (Act) for purposes of providing financing assistance including funding for certain oversight of the City's financial activities. Pursuant to the Act, MAC is empowered to issue and 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. MAC is no longer authorized to issue bonds. All bonds of MAC have either been satisfied or defeased. The Act provides that MAC shall continue for a term of one year after all its liabilities have been fully paid and discharged. MAC's liabilities will be fully discharged and paid no later than July 1, 2008.

In May, 2003, the State of New York legislature passed a bill entitled the MAC Refinancing Act (MRA). Under the terms of MRA, the City established a local development corporation known as STAR — see **Sales Tax Asset Receivable Corporation (STAR).**

Debt service requirements and operating expenses are funded by allocations from the State's collection of sales taxes imposed by the State within the City, the stock transfer tax, and certain per capita aid subject in each case to appropriation by the State Legislature. Net collections of sales taxes and per capita aid are returned to the City by the State after MAC debt service requirements are met and subject to a TFA claim on sales taxes—see **New York City Transitional Finance Authority (TFA).**

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

In addition to State legislative authorization to issue Future Tax Secured bonds for capital purposes, TFA is authorized to have outstanding Recovery bonds to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center and to issue bonds, notes, or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system. Debt service requirements and operating expenses are funded by allocations from the State's collection of personal income taxes (imposed by the City and collected by the State) and, under certain circumstances, sales taxes. Sales taxes are only available to TFA after such amounts required by MAC are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. Net collections of personal income taxes not required by TFA are paid to the City by TFA. Debt service requirements on the obligations to be issued for the school five-year capital plan will be funded from building aid to be received from the State.

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

TSASC, Inc. (TSASC). TSASC is a special purpose, local development corporation organized in 1999 under the laws 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 purchase price of the City's future right, title, and interest in the TSRs was financed by the issuance of a series of bonds and the Residual Certificate. Prior to the restructuring of TSASC's debt, the Residual Certificate represented the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs as set forth in the original Indenture.

On February 8, 2006, TSASC completed the total restructuring of all outstanding indebtedness by issuing Series 2006-1 bonds in the amount of $1.353 billion. Under the Amended and Restated Indenture dated January 1, 2006, the Residual Certificate represents the entitlement to receive all amounts in excess of specified percentages of collections used to fund debt service and operating expenses of TSASC. The collections in excess of the specified percentages will be transferred to the TSASC Tobacco Settlement Trust (Trust), as owner of the Residual Certificate and then to the City as the beneficial owner of the Trust. The Indenture allows transfers to the Trust after December 6, 2007.

The restructuring relieved TSASC of its obligations under the original Indenture to deposit a portion of the TSRs and other revenue (Collections) into a trapping account. The new Indenture provides that a specified percentage of collections are pledged, and required to be applied to the payment of debt and operating costs. That percentage is initially 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 based on its allocated share of personnel and overhead costs.

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

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

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

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

Fiscal Year 2005 Securitization Corporation (FSC). FSC was established in 2004 as a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York. FSC is a financing instrumentality of the City, but is a separate legal entity from the City. FSC was formed for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing City general obligation bonds. The securities, which are held by the trustee for FSC, as they mature will fully fund the debt service and operational expenditures of FSC for the life of FSC's bonds. FSC does not have any employees; its affairs are administered by employees of the City and of another component unit of the City, for which FSC pays a management fee 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 to finance the payment of principal, interest, and redemption premium (if any), on all outstanding bonds, notes, or other obligations 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 based on its allocated share of personnel and overhead costs.

Hudson Yards Development Corporation (HYDC) and Hudson Yards Infrastructure Corporation (HYIC). The Hudson Yards Group (HYG), consisting of two legally separate and independent entities, HYDC and HYIC began operations in 2005. HYG finances and manages interrelated development and redevelopment activities (Project) in the City's Hudson Yards Area (Project Area).

HYDC is a local development corporation organized by the City under the not-for-profit corporation law of the State of New York to manage the implementation of the Project. HYDC is governed by a Board of Directors, a majority of whom are appointed by the Mayor. HYDC works with various City and State agencies and authorities and with private developers on the design and construction and implementation of the various elements of the Project, and to further private development and redevelopment of the Project Area. HYDC does not have any employees; its affairs are administered by employees of EDC. HYDC reimburses EDC for the cost of all salaries and benefits expended on its behalf by EDC employees.

HYIC is a local development corporation organized by the City under the not-for-profit corporation law of the State of New York to issue 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 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. In addition, the City has paid HHC's costs for 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. HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City.

New York City Off-Track Betting Corporation (OTB). OTB was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City. OTB earns: (i) revenues on its betting operations ranging between 15% and 31% of wagers handled, depending on the type of wager; (ii) a 5% surcharge and surcharge breakage on pari-mutuel winnings; (iii) a 1% capital acquisition surcharge on multiple, exotic, and super exotic wagering pools; (iv) breakage, the revenue resulting from the rounding down of winning payoffs; (v) uncashed pari-mutuel tickets which represent winning tickets outstanding; and (vi) 50% of all out-of-state and 45% of all Finger Lakes simulcasting surcharge revenues. Pursuant to State law, OTB: (i) distributes various portions of the surcharge and surcharge breakage to other localities in the State; (ii) allocates various percentages of wagers handled to the racing industry; (iii) allocates various percentages of wagers handled and breakage together with all uncashed pari-mutuel tickets to the State; (iv) allocates the 1% capital acquisition surcharge on multiple, exotic, and super exotic wagering pools for financing the acquisition, construction, or equipping of offices, facilities, or premises of OTB; and (v) pays regulatory fees (.50% of OTB's gross handle) to the Racing and Wagering Board. All remaining net revenue is distributable to the City. In addition, OTB acts as a collection agent for the City with respect to surcharge and surcharge breakage due from other community off-track betting corporations.

OTB's current liabilities exceeded its current assets by $24.5 million and coupled with an increase in the net asset deficit by $121.6 million during fiscal year 2006 (principally caused by the recording of an OPEB expense and liability of $115.5 million) raises questions concerning OTB's ability to operate as a "going concern." Operating initiatives instituted by OTB to reduce expenses, including a reduction in its workforce and maximizing branch profitability have not been sufficient to offset increases in operating expenses and statutory distributions. OTB has continued to seek legislative relief from the statutory distribution requirements of New York State laws. There is no assurance that the New York State legislature will adopt the necessary changes to New York State laws to provide relief to OTB.

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

The City entered into a Lease and Agreement with JSDC for the City to lease the Courts Facility in exchange for rental payments in amounts sufficient to pay the principal of and interest (and redemption premium, if any) on JSDC's bonds, financing costs for the bonds, administrative expenses of JSDC, and certain other costs. The City also entered into a ground lease with the Developer for an undivided interest in the land appurtenant to the Courts Facility (Ground Lease). On April 1, 2005, JSDC purchased the Courts Facility from the Developer pursuant to its purchase option under the lease with the Developer. The City assigned to JSDC its purchase option under the Ground Lease, and on April 1, 2005, JSDC also purchased the undivided interest in the land appurtenant to the Courts Facility from the Developer, pursuant to that assigned option. The lease and agreement will expire in 2022 (when all of JSDC's outstanding bonds will have been paid), at which time the title for the Courts Facility and the undivided interest in the land appurtenant will transfer to the City. The City has the option to purchase the Courts Facility and the undivided interest in the land appurtenant to the Courts Facility at any time prior to the expiration of the lease and agreement by providing 60 day's written notice and making payment to JSDC of an amount sufficient to pay in full all principal and interest on bonds outstanding and all other obligations of JSDC. JSDC does not have any employees; its affairs are administered by employees of another component unit of the City, for which JSDC pays a management fee based on its allocated share of personnel and overhead costs.

New York City Housing Development Corporation (HDC). HDC, a corporate governmental agency constituting a public benefit corporation and instrumentality of the State of New York was established in 1971 to encourage private housing development by providing low interest mortgage loans. The combined financial statements include the accounts of HDC and its discretely presented component units: Housing Assistance Corporation, Housing New York Corporation, and the New York City Residential Mortgage Insurance Corporation. As of November 3, 2003, the Housing New York Corporation became an inactive subsidiary of HDC and after October 31, 2005 will no longer be reported in HDC's combined financial statements. On September 20, 2004, the NYC HDC Real Estate Owned Corporation was established as a subsidiary of HDC and its limited activity as of October 31, 2005 has not given rise to any reportable financial events. It is treated as a blended component of HDC. HDC finances multiple dwelling mortgages substantially through issuance of HDC bonds and notes. The bonds and notes of HDC are not debts of either the State or the City. HDC has a fiscal year ending October 31.

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

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

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

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

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

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

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

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

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

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

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

Brooklyn Navy Yard Development Corporation (BNYDC). BNYDC was organized in 1966 as a not-for-profit corporation according to the not-for-profit corporation law of the State of New York. The primary purpose of BNYDC is to provide economic rehabilitation in Brooklyn, to revitalize the economy, and create job opportunities. In 1971, BNYDC leased the Brooklyn Navy Yard from the City for the purpose of rehabilitating it and attracting new businesses and industry to the area. BNYDC's financial statements include the accounts of BNYDC and its wholly-owned subsidiary, Craneway, Inc. In November, 2005, Craneway, Inc. was dissolved. The Mayor appoints the majority of the members of the Board of Directors.

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

WTC Captive Insurance Company, Inc. (WTC Captive). WTC Captive is a not-for-profit corporation incorporated in the State of New York in 2004 in response to the events of September 11, 2001. WTC Captive was funded by the Federal Emergency Management Agency (FEMA) and used this funding to support issuance of an insurance contract which 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. 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 will act as the conduit bond issuer for the Loan Enhanced Assistance Program (LEAP). LEAP's goal will be 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 that 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. For the most part, eliminations of internal activity have been made in these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. All of the activities of the City as primary government are governmental activities.

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

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

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

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

The City reports the following major governmental funds:

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

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

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

Additionally, the City reports the following fund types:

Fiduciary Funds

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

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

- New York City Employees' Retirement System (NYCERS)
- New York City Teachers' Retirement System—Qualified Pension Plan (TRS)
- New York City Board of Education Retirement System—Qualified Pension Plan (BERS)
- New York City Police Pension Fund (POLICE)
- New York City Fire Pension Fund (FIRE)
- New York Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- Transit Police Officers' Variable Supplements Fund (TPOVSF)
- Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)
- Housing Police Officers' Variable Supplements Fund (HPOVSF)
- Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- Correction Officers' Variable Supplements Fund (COVSF)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/457 Plan)

- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(k) Plan)
- New York City Retiree Health Benefits Trust (RHBT)

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

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

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

Discretely Presented Component Units

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

New Accounting Standards Adopted

In fiscal year 2006, the City adopted three new statements and two Technical Bulletins of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

— Statement No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

— Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

— Statement No. 47 *Accounting for Termination Benefits*

— Technical Bulletin No. 2004-2 *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*

— Technical Bulletin No. 2006-1 *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*

Statement No. 43 prescribes uniform financial reporting standards for Other Postemployment Benefits (OPEB) plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes: (i) postemployment healthcare benefits and (ii) other types of postemployment benefits (*e.g.,* life insurance) if provided separately from a pension plan. 'Plans' refer to trust or other funds through which assets are accumulated to finance OPEB, and benefits are paid as they become due. The Statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The requirements of Statement No. 43 apply whether an OPEB plan is reported as a trust or agency fund or a fiduciary component unit of a participating employer or plan sponsor, or the plan is separately reported by a public employee retirement system or other entity that administers the plan.

The early adoption of Statement No. 43 was prompted by the creation of the New York City Retiree Health Benefits Trust (RHBT) during fiscal year 2006 which is presented as an Other Employee Benefit Trust Fund in the City's financial statements. The City contributed $1 billion to RHBT to fund OPEB which is provided by the New York City Health Benefits Program (the Plan) to eligible retirees and beneficiaries (see Note E.3. for disclosure information relating to the OPEB trust fund).

Statement No. 45 establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (*e.g.,* life insurance) when provided separately from a pension plan. The approach followed in the Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows.

The financial reporting impact resulting from the implementation of Statement No. 45 is the recognition of a liability and expense totaling $53.5 billion in the government-wide financial statements (see Note E.4. for disclosure information relating to the OPEB Plan and liability).

Statement No. 47 provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, including voluntary termination benefits (*e.g.,* early-retirement incentives), without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits (*e.g.,* severance benefits). This Statement excludes postemployment benefits (pensions and other postemployment benefits [OPEB]) which are part of the compensation that is offered in exchange for services received because they differ in nature from termination benefits. Accounting and reporting requirements for pensions and OPEB are addressed in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* respectively. Statement No. 47 requires the City to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the City becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 47 for termination benefits provided through an existing defined benefit OPEB plan. For all other termination benefits, Statement No. 47 was implemented in fiscal year 2005.

Technical Bulletin No. 2004-2 clarifies the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for recognition of pension and other postemployment benefit (OPEB) expenditures/expense and liabilities by the City. This Technical Bulletin requires the City to recognize OPEB expenditures/expense equal to their contractually required contributions for the financial reporting period and a liability to the plan for contributions due and unpaid at the end of that period.

The provisions of Technical Bulletin No. 2004-2 as it relates to the recognition of pension transactions was implemented in fiscal year 2005.

Technical Bulletin No. 2006-1 clarifies: (i) How an employer should account for and report Medicare Part D retiree drug subsidy payments from the Federal government to the employer; (ii) How such payments to an employer affect the accounting for the transaction and financial reporting by a defined benefit OPEB plan; (iii) How an employer should account for and report such payments to the plan; and (iv) How a defined benefit OPEB plan should account for and report such payments to the plan.

There was no impact on the City's financial statements as a result of the implementation of Technical Bulletin No. 2006-1.

3. Basis of Accounting

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

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

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

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

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

4. Encumbrances

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

5. Cash and Investments

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

Cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during fiscal years 2006 and 2005 were approximately $785 million and $946 million, respectively.

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

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

Investments of the Pension and Other Employee Benefit Trust Funds are reported at fair value. Investments are stated at the last reported sales price on a national securities exchange on the last business day of the fiscal year.

A description of the City's securities lending activities for the Pension and certain Other Employee Benefit Trust Funds in fiscal years 2006 and 2005 is included in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2006 and 2005 (estimated at $244 million and $241 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 component unit bonds, as well as certain resources set aside for bond repayment, are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants. None of the government-wide statement of net assets is restricted by enabling legislation.

8. Capital Assets

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

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

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

9. Allowance for Uncollectible Mortgage Loans

Mortgage loans and interest receivable in the Debt Service Funds are net of an allowance for uncollectible amounts of $314.6 million and $451.6 million for fiscal years 2006 and 2005, respectively. The allowance is composed of the balance of first mortgages one or more years in arrears and the balance of refinanced mortgages where payments to the City are not expected to be completed for approximately 25 to 30 years.

10. Vacation and Sick Leave

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

11. Treasury Obligations

Bonds payable included in the government-wide financial statements and investments in the Debt Service Funds are reported net of treasury obligations. Treasury obligations represent City bonds held as investments of the Debt Service Funds which are offset and reported as if these bonds had been redeemed.

12. 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 liability.

13. 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.

14. Derivatives

While the City did not enter into any derivative transactions during fiscal year 2006, certain disclosures have been made for the following derivatives contracted during fiscal year 2005 which are reported at fair value on the government-wide statement of net assets to include disclosure of the objective for entering into the derivative and the derivative's terms, fair value, and risk exposures.

Swap Transaction Summary

In an effort to lower its borrowing costs over the life of its bonds and to diversify some of its existing derivatives portfolio, the City has entered into Interest Rate Exchange Agreements (swaps) and sold options related to some of these swaps. As of June 30, 2006 and 2005, the total notional amount of swaps and swaptions entered into by the City was $3.053 billion and $3.062 billion, respectively. The total marked to market value of the City's swaps and swaptions as of June 30, 2006 and 2005 was approximately $(14.8) million and $(73.8) million, respectively, which were reported on the government-wide statement of net assets. The table includes the significant terms and marked to market values for each of the City's individual swap transactions.

	2006	2005			Prior Years Since 2003
Transaction Number	**(a)**	**12**	**13**	**14**	**1-11**
Corresponding Bond Series		2005A and 2005B	2002C, 2002D, 2003F, 2003I, 2004C, 2004D, and 2004F	2005J, 2005K, and 2005L	
Swap Type		CPI Swap to Fixed	Basis Swap	CPI Swap to Fixed	
Notional Amount (000):					
as of 6/30/06	$ —	$50,000	$500,000	$44,145	$2,459,300
as of 6/30/05	$ —	$50,000	$500,000	$44,145	$2,467,670
Up-front Cash Payment to the City (000)		$ —	$20,585	$ —	$ 20,000
Effective Date		7/29/04	8/1/04	3/3/05	
Termination Date		8/1/14	12/1/33	8/1/17	
Final Bond Maturity		8/1/14	12/15/33	8/1/17	
Provider Cancel Option Date		N/A	N/A	N/A	
Option Premium (000)		$ —	$ —	$ —	$ 19,860
City Pays		4.01%/ 4.12%	BMA	4.55%/ 4.63%/ 4.71%	
Payments Made by the City (000):					
as of 6/30/06	$ —	$(3,060)	$(22,118)	$(1,867)	$(164,147)
as of 6/30/05	$ —	$(1,028)	$ (7,752)	$ —	$ (94,113)
City Receives		CPI plus .80% for the 2013 Maturity; and CPI plus .90% for the 2014 Maturity	Stepped % of 1-month LIBOR	CPI plus 1.50% for the 2015 Maturity; CPI plus 1.55% for the 2016 Maturity; and CPI plus 1.55% for the 2017 Maturity	
Payments Received by the City (000):					
as of 6/30/06	$ —	$ 2,885	$ 24,007	$ 2,302	$ 151,554
as of 6/30/05	$ —	$ 747	$ 8,330	$ —	$ 77,660
First Counterparty Payment Date		2/1/05	9/1/04	8/1/05	
First City Payment Date		2/1/05	9/1/04	8/1/05	
Marked to Market Value (000):					
as of 6/30/06	$ —	$ (372)	$(30,317)	$ 778	$ 15,083
as of 6/30/05	$ —	$(1,828)	$(11,427)	$(1,257)	$ (59,309)

(a) No swap transactions were entered into by the City during fiscal year 2006.
N/A Not applicable.
LIBOR London Interbank Offered Rate
BMA Bond Market Association Municipal Swap Index
CPI Consumer Price Index

Consumer Price Index Swaps

In July, 2004, the City entered into a $50 million Consumer Price Index (CPI) swap because the resulting synthetic fixed rate was lower than that available with traditional fixed rate bonds. To execute this transaction, the City issued variable rate bonds referenced to an 80 basis points (2013 maturity) and 90 basis points (2014 maturity) spread to the CPI index. Under the terms of this swap, the City receives a variable rate equal to that on its underlying bonds and pays fixed rates of 4.01% (2013) and 4.12% (2014). This structure was repeated in the $44.1 million CPI swap executed in March, 2005, except that the City pays three fixed rates (4.55%/4.63%/4.71%) and receives three variable rates (CPI+1.50%/CPI+1.55%/CPI+1.55%) referenced to each of three separate maturities (2015/2016/2017).

Basis Swap

In August, 2004, the City entered into a $500.0 million basis swap in which the City pays a variable rate based on BMA and receives a variable rate based on a stepped percentage of one-month LIBOR. This basis swap serves as partial protection against the City's increased debt service costs associated with rising interest rates. Because rising interest rates drive down the ratio of BMA to LIBOR, they result in a net increase in the City's basis swap receipts. Although this effect is mitigated somewhat by the stepped decreases in the percentage of LIBOR that the City receives as the overall level of LIBOR increases, this structure provides protection against the historic compression of the BMA and LIBOR indices in low interest rate environments.

Risks

While the City did not enter into any swap transactions during fiscal year 2006, below is a list of risks inherent in the types of swap transactions that the City had entered into during fiscal year 2005.

Credit Risk: The risk that a counterparty (or its guarantor) will not meet its obligations under the swap. In this event, the City would have to pay another entity to assume the position of the defaulting counterparty. The City has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

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

Basis Risk: The risk that the City's variable rate payments will not equal its variable rate receipts because they are based on different indexes. Under the terms of its synthetic fixed rate swap transactions, the City pays a variable rate on its bonds based on the BMA index but receives a variable rate on the swap based on a percentage of LIBOR. In its August, 2004 basis swap, the City's variable payer rate is based on BMA and its variable receiver rate on a percentage of LIBOR. However, the stepped percentages of LIBOR received by the City mitigate the risk that the City will be harmed in low interest rate environments by the compression of the BMA and LIBOR indices. As the overall level of interest rates decrease, the percentage of LIBOR received by the City increases.

Tax Risk: The risk that a change in Federal tax rates will alter the fundamental relationship between BMA and LIBOR. 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 transaction and variable payer rate in the basis swap.

15. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2006 were due July 1, 2005 and January 1, 2006 except that payments by owners of real property assessed at $80,000 or less and cooperatives whose individual units on average are valued at $80,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2006 taxes was June 29, 2005. The lien date is the date taxes are due.

Real estate tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first two months of the following fiscal year reduced by tax refunds for the fund financial statements.

Additionally, the government-wide financial statements recognize real estate tax revenue (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied.

The City offered an actual 1.5% discount for the prepayment of real estate taxes for fiscal years 2006 and 2005. Payment of real estate taxes before July 15, 2006, on properties with an assessed value of $80,000 or less and before July 1, 2006, on properties with an assessed value over $80,000 received the discount. Collections of these real estate taxes received on or before June 30, 2006 and 2005 were $3.7 billion and $3.3 billion, respectively. These amounts were recorded as deferred revenue.

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

In fiscal year 2006, $21.8 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2005 sale. This resulted in a decrease to fiscal year 2006 revenue of $10.8 million for the refund amount in excess of the fiscal year 2005 accrual of $11 million and decreased the proceeds of the fiscal year 2005 sale to $26.9 million down from the original fiscal year 2005 proceeds reported last year of $37.7 million.

The City sold approximately $48.7 million of real property tax liens, fully attributable to fiscal year 2005, at various dates in fiscal year 2005. 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 $8.9 million worth of liens sold in fiscal year 2005 will require replacement. The estimated refund accrual amount of $11 million, including the surcharge and interest, resulted in fiscal year 2005 net sale proceeds of $37.7 million.

In fiscal year 2005, $10.9 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2004 sale. This resulted in a decrease to fiscal year 2005 revenue of $2.9 million for the refund amount in excess of the fiscal year 2004 accrual of $8 million and decreased the proceeds of the fiscal year 2004 sale to $86.9 million down from the original fiscal year 2004 proceeds reported last year of $89.8 million.

In fiscal years 2006 and 2005, $380 million and $358 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, 2006 and 2005, excess amounts of $98 million and $341 million, respectively, were transferred to the Debt Service Funds.

16. 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.

17. 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.

18. Bond Discounts/Issuance Costs

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

19. 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.

20. Subsidies

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

21. Pensions

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

22. Other Postemployment Benefits

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

23. Reclassifications and Adjustments

Reclassifications and adjustments of certain prior year amounts have been made to conform with the current year presentation and separately issued financial statements of reported entities.

24. 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.

25. Pronouncements Issued But Not Yet Effective

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

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

In addition to clarifying guidance on accounting for sales and pledges of receivables and future revenues, Statement No. 48:

- Requires enhanced disclosures pertaining to future revenues that have been pledged or sold
- Provides guidance on sales of receivables and future revenues within the same financial reporting entity
- Provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues.

The City will be required to implement Statement No. 48 in fiscal year ending June 30, 2008.

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 $4.941 billion and $6.490 billion subsequent to its original adoption in fiscal years 2006 and 2005, 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 $2.2 billion and $1.5 billion at June 30, 2006 and 2005, respectively. These deficits represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

D. Detailed Notes on All Funds

1. Deposits and Investments

Deposits

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

The City Charter limits the amount of deposits at any time in any one bank or trust company to a maximum of one-half of the amount of the capital and net surplus of such bank or trust company. The discretely presented component units included in the City's reporting entity maintain their own banking relationships which generally conform with the City's. Bank balances are currently insured up to $100,000 in the aggregate by the Federal Deposit Insurance Corporation (FDIC) for each bank for all funds other than monies of the retirement systems, which are held by well-capitalized banks and are insured by the FDIC up to $100,000 per retirement system member. At June 30, 2006 and 2005, the carrying amount of the City's unrestricted cash and cash equivalents was $10.097 billion and $12.837 billion, respectively, and the bank balances were $2.204 billion and $5.282 billion, respectively. Of the unrestricted bank balances, $.008 billion and $1.172 billion 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) because the respective bank balances were uninsured and uncollateralized at June 30, 2006 and 2005, respectively. Neither the City's General Debt Service Fund nor the blended component units: SCA, HYG, and Private Housing Loan Programs have a deposit policy for custodial credit risk as of June 30, 2006. At June 30, 2006 and 2005, the carrying amount of the restricted cash and cash equivalents was $1.055 billion and $1.784 billion, respectively, and the bank balances were $.7 million and $3.665 million, respectively. Of the restricted bank balances, $.6 million and $3.347 million were exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it) because the respective bank balances were uninsured and uncollateralized at June 30, 2006 and 2005, respectively. TFA, a blended component unit does not have a deposit policy for custodial credit risk as of June 30, 2006.

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, 2006 and 2005:

Governmental activities:

	Investment Maturities (in years)			
	2006		2005	
Investment Type	**Less than 1**	**1 to 5**	**Less than 1**	**1 to 5**
	(in thousands)			
Unrestricted				
U.S. Government securities	$1,700,040	$ 18,352	$ 19,946	$ 18,352
U.S. Government agency obligations	257,529	—	679,038	19,894
Repurchase agreements	—	—	103,854	—
Total unrestricted	$1,957,569	$ 18,352	$802,838	$ 38,246
Restricted				
U.S. Government securities	$ 444,210	$328,374	$157,316	$392,021
Commercial paper	85,960	—	48,637	—
U.S. Government agency obligations	—	266,351	18	306,091
Repurchase agreements	17,475	—	—	—
Total restricted	$ 547,645	$594,725	$205,971	$698,112

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

Credit risk. Investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. As of June 30, 2006 and 2005, investments in Federal National Mortgage Association (FNMA or Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and Federal Home Loan Bank (FHLB) were rated in the highest long-term or short-term ratings category (as applicable) by Standard & Poor's and/or Moody's Investor Service. These ratings were AAA and A-1+ by Standard & Poor's and Aaa and P-1 by Moody's for long-term and short-term instruments respectively. The majority of these investments were not rated by Fitch ratings, but those that were carried its highest long-term or short-term ratings of AAA or F1+, respectively. Investments in commercial paper were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor's, P-1 by Moody's, and/or F1+ by Fitch ratings). Repurchase agreements are not rated. Resolution Funding Strip investments are guaranteed by the U.S. Treasury.

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

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

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

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

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

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

Securities Lending

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

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

All securities loans can be terminated on demand within a period specified in each agreement by either the Systems and Funds or the borrowers. The underlying fixed income securities have an average maturity of 10 years. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. During fiscal year 2003, the value of certain underlying securities became impaired because of the credit failure of the issuer. Accordingly, the carrying amounts of the collateral reported in four of the Systems' statements of fiduciary net assets were reduced by a total of $80 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions. During fiscal year 2004, $5.8 million of this amount was recovered as a distribution of bankruptcy proceeds and during fiscal year 2005, an additional $18.2 million was received as a partial settlement from litigation. In fiscal year 2006, an additional $4.6 million was recovered as an ongoing distribution of bankruptcy proceeds.

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

2. Capital Assets

The following is a summary of capital assets activity for the fiscal years ended June 30, 2005 and 2006:

Primary Government	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
				(in thousands)			
Governmental activities:							
Capital assets, not being depreciated:							
Land	$ 760,605	$ 187,630	$ —	$ 948,235	$ 35,362	$ 15,643	$ 967,954
Construction work-in-progress	2,687,733	1,706,981	2,340,583	2,054,131	2,358,965	1,459,118	2,953,978
Total capital assets, not being depreciated	3,448,338	1,894,611	2,340,583	3,002,366	2,394,327	1,474,761	3,921,932
Capital assets, being depreciated:							
Buildings	28,112,914	2,340,583	41,318	30,412,179	1,459,118	165,292	31,706,005
Equipment	5,698,114	170,562	343,773	5,524,903	186,148	251,772	5,459,279
Infrastructure	10,494,268	1,045,593	433,963	11,105,898	942,048	433,537	11,614,409
Total capital assets, being depreciated	44,305,296	3,556,738	819,054	47,042,980	2,587,314	850,601	48,779,693
Less accumulated depreciation:							
Buildings	10,460,843	981,157	35,940	11,406,060	1,128,775	147,934	12,386,901
Equipment	3,408,827	871,976	329,288	3,951,515	359,687	245,280	4,065,922
Infrastructure	3,925,408	513,443	433,962	4,004,889	530,350	457,387	4,077,852
Total accumulated depreciation	17,795,078	2,366,576(1)	799,190	19,362,464	2,018,812(1)	850,601	20,530,675
Total capital assets, being depreciated, net	26,510,218	1,190,162	19,864	27,680,516	568,502	—	28,249,018
Governmental activities capital assets, net	$29,958,556	$3,084,773	$2,360,447	$30,682,882	$2,962,829	$1,474,761	$32,170,950

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2006 and 2005 as follows:

	2006	2005
	(in thousands)	
Governmental activities:		
General government	$ 350,163	$ 260,528
Public safety and judicial	223,287	644,899
Education	577,368	564,431
City University	10,487	10,870
Social services	73,874	49,554
Environmental protection	125,214	193,380
Transportation services	391,729	399,272
Parks, recreation and cultural activities	189,524	167,689
Housing	33,917	32,354
Health	30,363	31,761
Libraries	12,886	11,838
Total depreciation expense—governmental activities	$2,018,812	$2,366,576

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2006 and 2005. Sources of funding for capital assets are not available prior to fiscal year 1987.

	2006	2005
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	$ 5,105,519	$ 5,356,751
City bonds	42,395,200	39,776,698
Federal grants	1,050,947	881,652
State grants	105,331	168,352
Private grants	330,494	161,950
Capitalized leases	3,714,134	3,699,943
Total funding sources	$52,701,625	$50,045,346

At June 30, 2006 and 2005, 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, 2006 and 2005 are leased properties that have elements of ownership. These assets are recorded as capital assets as follows:

	Capital Leases	
Governmental activities:	**2006**	**2005**
	(in thousands)	
Capital asset:		
Buildings, gross	$3,714,134	$3,699,943
Less accumulated amortization	789,515	655,863
Buildings, net	$2,924,619	$3,044,080

Capital Commitments

At June 30, 2006, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $11.3 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 $55.8 billion over the remaining fiscal years 2007 through 2015. To help meet its capital spending program, the City borrowed $3.5 billion in the public credit market in fiscal year 2006. The City and TFA plan to borrow $4.2 billion in the public credit market in fiscal year 2007.

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, 2006 and 2005 were approximately $587 million and $556 million, respectively.

As of June 30, 2006, 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:			
2007	$ 258,140	$ 348,615	$ 606,755
2008	255,008	326,498	581,506
2009	229,375	309,763	539,138
2010	237,025	287,246	524,271
2011	236,302	262,103	498,405
2012-2016	1,124,598	1,066,625	2,191,223
2017-2021	969,652	682,703	1,652,355
2022-2026	538,129	244,885	783,014
2027-2031	334,793	17,193	351,986
2032-2036	139,094	2,746	141,840
2037-2041	56,552	135	56,687
Future minimum payments	4,378,668	$3,548,512	$7,927,180
Less interest	1,454,049		
Present value of future minimum payments	$2,924,619		

The present value of future minimum lease payments includes approximately $1.581 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, 2006 and 2005 was approximately $209 million and $944 million, respectively. As of June 30, 2006, 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:			
2007	$ 4,202	$ 156,526	$ 160,728
2008	4,266	146,832	151,098
2009	4,295	144,780	149,075
2010	4,334	142,727	147,061
2011	4,184	135,897	140,081
2012-2016	10,705	653,096	663,801
2017-2021	12,528	623,279	635,807
2022-2026	13,104	586,335	599,439
2027-2031	14,122	565,362	579,484
2032-2036	12,867	565,973	578,840
2037-2041	3,225	530,042	533,267
2042-2046	2,019	518,288	520,307
2047-2051	1,822	469,397	471,219
2052-2056	1,800	44,097	45,897
2057-2061	1,800	44,097	45,897
2062-2066	1,800	44,097	45,897
2067-2071	1,800	43,460	45,260
2072-2076	1,800	41,973	43,773
2077-2081	1,260	30,221	31,481
2082-2086	—	26,697	26,697
2087-2091	—	2,670	2,670
2092-2096	—	1	1
2097-2101	—	1	1
Future minimum lease rentals	$101,933	$5,515,848	$5,617,781
Less interest	58,383		
Present value of future minimum lease rentals	$ 43,550		

4. Long-Term Liabilities

Changes in Long-term liabilities

In fiscal years 2005 and 2006, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
				(in thousands)				
Governmental activities:								
Bonds payable:								
General obligation bonds	$31,378,385	$ 6,775,250	$4,250,356	$33,903,279	$4,826,810	$ 2,885,657	$ 35,844,432	$1,632,881
1991 general resolution bonds	1,758,015	—	1,758,015	—	—	—	—	—
Future tax secured bonds	13,363,885	920,645	1,307,915	12,976,615	597,235	1,341,305	12,232,545	368,660
Tobacco flexible amortization bonds	1,255,719	48,333	20,755	1,283,297	1,353,778	1,303,510	1,333,565	—
IDA bonds	107,960	—	1,695	106,265	—	1,775	104,490	1,860
STAR bonds	—	2,551,435	—	2,551,435	—	81,030	2,470,405	48,145
FSC bonds	—	498,845	38,550	460,295	—	73,735	386,560	49,440
Revenue bonds(1)	107,190	99,140	71,370	134,960	—	51,015	83,945	12,095
Total before treasury obligations and discounts	47,971,154	10,893,648	7,448,656	51,416,146	6,777,823	5,738,027	52,455,942	2,113,081
Less treasury obligations	51,516	—	12,664	38,852	—	38,852	—	—
Total before discounts	47,919,638	10,893,648	7,435,992	51,377,294	6,777,823	5,699,175	52,455,942	2,113,081
Less premiums/discounts (net)	(175,983)	37,933	477,453	(615,503)	97,728	226,096	(743,871)	—
Total bonds payable	48,095,621	10,855,715	6,958,539	51,992,797	6,680,095	5,473,079	53,199,813	2,113,081
Capital lease obligations	2,345,989	835,900	137,809	3,044,080	14,191	133,652	2,924,619	133,437
Other tax refunds	1,169,867	81,538	(170,133)	1,421,538	98,045	31,538	1,488,045	98,045
Judgments and claims	4,427,134	1, 424,305	1,041,268	4,810,171	1,263,000	1,054,263	5,018,908	1,360,426
Real estate tax certiorari	634,379	125,323	137,350	622,352	92,374	146,381	568,345	115,265
Vacation and sick leave	2,556,665	237,811	200,785	2,593,691	494,459	247,937	2,840,213	247,937
Pension liability	708,000	176,100	77,900	806,200	64,500	106,700	764,000	—
OPEB liability	—	—	—	—	55,690,322	2,182,871	53,507,451	1,400,000
Landfill closure and post-closure care costs	1,351,132	49,797	100,847	1,300,082	381,578	29,660	1,652,000	58,939
Total changes in governmental activities long-term liabilities	$61,288,787	$13,786,489	$8,484,365	$66,590,911	$64,778,564	$ 9,406,081	$121,963,394	$5,527,130

(1) The debt of ECF is reported as bonds outstanding pursuant to its treatment as a component unit (see Note A.1.).

Note: City bonds payable are generally liquidated with resources of the General Debt Service Fund. Other long-term liabilities are generally liquidated with resources of the General Fund.

The bonds payable, net of treasury obligations, at June 30, 2006 and 2005 summarized by type of issue are as follows:

Primary Government	2006 General Obligations	2006 Revenue	2006 Total	2005 General Obligations	2005 Revenue	2005 Total
	(in thousands)					
Governmental activities:						
Bonds payable:						
General obligation bonds	$35,844,432	$ —	$35,844,432	$33,864,427	$ —	$33,864,427
Future tax secured bonds	12,232,545	—	12,232,545	12,976,615	—	12,976,615
Tobacco flexible amortization bonds	1,333,565	—	1,333,565	1,283,297	—	1,283,297
IDA bonds	104,490	—	104,490	106,265	—	106,265
STAR bonds	2,470,405	—	2,470,405	2,551,435	—	2,551,435
FSC bonds	386,560	—	386,560	460,295	—	460,295
Revenue bonds	—	83,945	83,945	—	134,960	134,960
Total bonds payable	$52,371,997	$ 83,945	$52,455,942	$51,242,334	$134,960	$51,377,294

The following table summarizes future debt service requirements as of June 30, 2006:

Primary Government	Governmental Activities: General Obligation Bonds Principal	General Obligation Bonds Interest(1)	Revenue Bonds Principal	Revenue Bonds Interest
	(in thousands)			
Fiscal year ending June 30:				
2007	$ 2,100,986	$ 2,402,043	$ 12,095	$ 3,365
2008	1,935,745	2,319,452	13,665	2,903
2009	2,327,091	2,230,938	7,220	2,364
2010	2,370,100	2,126,940	5,880	2,063
2011	2,326,376	2,019,570	5,810	1,887
2012-2016	11,975,342	8,876,702	17,545	6,344
2017-2021	11,421,663	5,989,846	9,770	3,919
2022-2026	9,574,674	3,254,577	11,960	1,623
2027-2031	5,514,532	1,285,634	—	—
2032-2036	2,255,212	336,448	—	—
2037-2041	11,203	143,892	—	—
2042-2046	559,028	28,666	—	—
Thereafter until 2147	45	155	—	—
	52,371,997	31,014,863	83,945	24,468
Less interest component	—	31,014,863	—	24,468
Total future debt service requirements	$52,371,997	$ —	$ 83,945	$ —

(1) Includes interest for general obligation bonds estimated at 4% rate on tax-exempt adjustable rate bonds and at 6% rate on taxable adjustable rate bonds which are the rates at the end of the fiscal year.

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 2006 and 2005 were 4.7% and 4.8%, respectively, and both ranged from 0% to 10.0%, and the interest rates on outstanding MAC bonds as of June 30, 2005 ranged from 9% to 13.5%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2006 and 2005, the City issued $1.422 billion and $2.855 billion, respectively, of general obligation bonds to advance refund general obligation bonds of $1.424 billion and $2.741 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of $.8 million and $1.4 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 2006, the refunding transactions will decrease the City's aggregate debt service payments by $114.1 million and provide an economic gain of $91.2 million. In fiscal year 2005, the refunding transactions decreased the City's aggregate debt service payments by $174.7 million and provided an economic gain of $126.6 million. At June 30, 2006 and 2005, $10.279 billion and $10.524 billion, respectively, of the City's outstanding general obligation bonds were considered defeased.

The State Constitution requires the City to pledge its full faith and credit for the payment of the principal and interest on City term and serial bonds and guaranteed debt. The general debt-incurring power of the City is limited by the Constitution to 10% of the average of five years' full valuations of taxable real estate. Excluded from this debt limitation is certain indebtedness incurred for water supply, certain obligations for transit, sewage, and other specific obligations which exclusions are based on a relationship of debt service to net revenue.

As of July 1, 2006, the 10% general limitation was approximately $53.336 billion (compared with $47.051 billion as of July 1, 2005). Also, as of July 1, 2006, the combined City and TSASC remaining debt-incurring power totaled $13.621 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 2006, discretionary and other transfers of $3.205 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2007 debt service. In addition, in fiscal year 2006, discretionary transfers of $74 million were made to component units of the Debt Service Funds. In fiscal year 2005, discretionary and other transfers of $1.849 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2006 debt service. In addition, in fiscal year 2005, discretionary transfers of $88 million were made to component units of the Debt Service Funds.

Swap payments and associated debt

The table that follows represents debt service payments on certain general obligation variable-rate bonds, net of swap payments (see Note A.14.) associated with those bonds, as of June 30, 2006. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2006 remains constant over the life of the bonds.

	Governmental Activities			
	General Obligation Bonds			
Primary Government	Principal	Interest	Interest Rate Swaps, Net	Total
	(in thousands)			
Fiscal year ending June 30:				
2007	$ 8,660	$ 119,959	$(9,050)	$ 119,569
2008	9,005	119,485	(9,042)	119,448
2009	19,845	118,720	(9,027)	129,538
2010	49,705	117,061	(8,946)	157,820
2011	37,900	115,440	(8,812)	144,528
2012-2016	313,700	540,670	(41,296)	813,074
2017-2021	743,245	416,969	(33,689)	1,126,525
2022-2026	559,140	263,809	(28,062)	794,887
2027-2031	607,925	150,197	(18,943)	739,179
2032-2036	256,350	15,994	(2,200)	270,144
Total	$2,605,475	$1,978,304	$(169,067)	$4,414,712

Judgments and Claims

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings.

As of June 30, 2006 and 2005, claims in excess of $548 billion and $529 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be $5.0 billion and $4.8 billion, respectively.

As explained in Note A.12., the estimate of the liability for unsettled claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by categorizing the various claims and applying a historical average percentage, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and supplemented by information provided by the New York City Law Department with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information and application of the foregoing procedures.

Numerous proceedings alleging respiratory or other injuries from alleged toxic 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. Plaintiffs include Department of Sanitation employees, firefighters, police officers, construction workers and building clean-up workers. Currently, 491 of the proceedings are confirmed actions against the City seeking approximately $500 million in damages. Additionally, a Summons with Notice representing 1,958 plaintiffs alleging similar World Trade Center related injuries naming the City and numerous other parties as defendants was served on the City in May, 2005. Since that time, several additional Summonses with Notice representing approximately 3000 plaintiffs have been served. The amount of damages has not yet been alleged. To date, fewer than 200 of these plaintiffs have served complaints on the City. Complaints so served are included in the 491 actions described above. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions were either commenced in or have been removed to Federal court pursuant to the Air Transportation and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (2001) (the Act), which grants exclusive Federal jurisdiction for all claims related to or resulting from the September 11 attack. On March 10, 2004, the Southern District of New York dismissed a case filed on behalf of 12 firefighters alleging wrongful death. Plaintiffs appealed this decision, and on April 29, 2005, the Second Circuit Court of Appeals upheld the District Court decision dismissing the action. On July 15, 2005, the Court of Appeals for the Second Circuit denied plaintiffs' petition for a rehearing. On June 20, 2003, the Southern District of New York ordered that actions alleging injuries resulting from exposure to World Trade Center debris on or before September 29, 2001 would remain in Federal court, while those alleging injuries based on exposure after that date would be remanded to state court. The City appealed this decision and on July 14, 2005, the Court of Appeals for the Second Circuit issued an opinion that reversed the District Court and held that all current actions alleging respiratory related injuries, regardless of when or where the alleged exposure took place, are to be litigated in Federal court. The City has moved to dismiss these actions and oral argument was held on June 22, 2006. Oral argument was held on April 6, 2006 on a motion to confirm jurisdiction in the action brought on behalf of building clean-up workers and a decision on the motion is pending. The City has formed a not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the WTC Insurance Company) to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site and the Fresh Kills landfill. The insurance company has been funded by a grant from the Federal Emergency Management Agency in the amount of $999,900,000. Most of the claims set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liabilities that might arise from such claims.

A property damage claim relating to the September 11 attack relating to 7 World Trade Center (7 WTC) alleges significant damages. The claim alleges damages to Con Edison and its insurers of $214 million, subject to further calculation, 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, 2001 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. Defendant's motion to dismiss was denied by the Court on November 30, 2004. In denying the motion to dismiss, the judge granted the City the right to renew the motion as one for summary judgment after the conduct of limited discovery. That motion was argued on July 28, 2005 and in January, 2006, the City's motion for summary judgment was granted. The action, however, is proceeding against other defendants, and plaintiff intends to appeal the dismissal of its claim against the City when discovery is complete or at the conclusion of the case.

One hundred ninety-one notices of claim were filed and of these, 177 actions have been commenced in Federal court against the City in connection with the Staten Island Ferry accident on October 15, 2003. The notices and actions seek damages exceeding $3 billion for various claims including personal injury, wrongful death, and emotional distress. On December 1, 2003, the City filed a limitation complaint in Federal court pursuant to Federal maritime law seeking to limit its potential liability to approximately $14 million, the value of the ferry involved in the accident. On August 3, 2005, plaintiffs brought a motion to dismiss the limitation complaint. The motion is pending.

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

In March, 2005, the United Federation of Teachers, the union that represents the teachers in the New York City public school system, commenced an action and an Article 78 proceeding in New York Supreme Court, New York County, against the Teachers Retirement System and the City alleging that, due to certain miscalculations relating, *inter alia,* to the interest earned on member contributions to a retirement plan known as the 20 Year Pension Plan, teachers who retired under this plan do not receive the entire amount of retirement benefits to which they are entitled. Plaintiffs seek declaratory relief and an award to 20 Year Pension Plan members of not less than $800 million to equal the difference between what plaintiffs allege they are entitled to under the 20 Year Pension Plan and the amount actually received. The City has moved to dismiss the Article 78 proceeding and has submitted an answer in the action. By decision dated October 17, 2006, the Court denied the City's motion to dismiss the Article 78 proceeding on the grounds of statute of limitations and laches, but granted the City's motion to dismiss petitioner's contract claims. If plaintiffs were to prevail in this matter, it could result in substantial costs to the City.

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

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

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality, and illegality of assessment. In response to these actions, in December, 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, the City estimates its potential liability for outstanding certiorari proceedings to be $568 million and $622 million at June 30, 2006 and 2005, respectively, as reported in the government-wide financial statements.

Pension Liability

For fiscal years 2001 through 2005 inclusive, the City incurred a pension liability that was the result of Chapter 125 of the Laws of 2000 (Chapter 125/00) which provided for a five-year phase-in schedule for funding the additional actuarial liabilities created by providing eligible retirees and eligible beneficiaries with increased Supplementation as of September, 2000 and with automatic Cost-of-Living Adjustments (COLA) beginning September, 2001. Chapter 278 of the Laws of 2002 (Chapter 278/02) extended the phase-in period for funding the additional liabilities attributable to the benefits provided under Chapter 125/00 to ten years from five years. Chapter 152 of the Laws of 2006 eliminated for fiscal year 2006 and thereafter the ten-year phase-in period arising under Chapter 278/02 and instead, the additional actuarial liabilities created by the benefits provided by Chapter 125/00 are funded as part of the normal contribution (see Note E.5.).

Landfill Closure and Postclosure Care Costs

Heretofore, the City's only active landfill available for waste disposal was the Fresh Kills landfill which initially ceased landfill operations in March, 2001. The landfill was reopened per the Governor's amended Executive Order No. 113, which authorized the City to continue the acceptance and disposal of waste materials received from the site of the World Trade Center disaster of September 11, 2001. The landfill subsequently closed in August, 2002. For government-wide financial statements, the measurement and recognition of the liability for closure and postclosure care is based on total estimated current cost and landfill usage to date. For fund financial statements, expenditures are recognized using the modified accrual basis of accounting where a liability is recognized only when liquidated with expendable financial resources.

Upon the landfill becoming inactive, the City is required by Federal and State law to close the landfill, including final cover, stormwater management, landfill gas control, and to provide postclosure care for a period of 30 years following closure. The City is also required under Consent Order with the New York State Department of Environmental Conservation to conduct certain corrective measures associated with the landfill. The corrective measures include construction and operation of a leachate mitigation system for the active portions of the landfill as well as closure, postclosure, and groundwater monitoring activities for the sections no longer accepting solid waste.

The liability for these activities as of June 30, 2006 which equates to the total estimated current cost is $1.425 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 2006, expenditures for landfill closure and postclosure care costs totaled $34.5 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 August 25, 2006, 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	$1,425,255
Hazardous waste sites	226,745
Total landfill and hazardous waste sites liability	$1,652,000

5. Interfund Receivables and Payables

At June 30, 2006 and 2005, primary government and discretely presented component unit receivable and payable balances were as follows:

Governmental activities:

Due from/to other funds:

Receivable Fund	Payable Fund	2006	2005
		(in thousands)	
General Fund:	NYC Capital Projects Fund	$2,289,648[1]	$1,715,766[1]
Total due from/to other funds		2,289,648	1,715,766

Component units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity	2006	2005
Primary government—General Fund:	Component units: HDC	921,928	422,726
	OTB	209	226
		922,137	422,952
Primary government—NYC Capital Projects Fund	Component unit—Water Authority	326,124	288,136
Total due from component units		1,248,261	711,088
Component unit—Water Board	Primary government—General Fund	8,506	31,390
Total due to component units		8,506	31,390
Total due from/to primary government and component units		1,256,767	742,478
Total primary government and component units receivable and payable balances		$3,546,415	$2,458,244

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

Note: During both fiscal years 2006 and 2005, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

E. Other Information

1. Audit Responsibility

In fiscal years 2006 and 2005, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than Deloitte & Touche LLP are the Municipal Assistance Corporation for The City of New York, New York City Transitional Finance Authority, New York City School Construction Authority, New York City Health and Hospitals Corporation, New York City Off-Track Betting Corporation, Jay Street Development Corporation, New York City Housing Development Corporation, New York City Industrial Development Agency, New York City Economic Development Corporation, Business Relocation Assistance Corporation, Brooklyn Navy Yard Development Corporation, New York City Water Board and New York City Municipal Water Finance Authority, Deferred Compensation Plans, and the WTC Captive Insurance Company, Inc. Fiscal year 2006 also includes the New York City Capital Resource Corporation and the New York City Educational Construction Fund.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2006 and 2005:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2006	2005	2006	2005	2006	2005	2006	2005
	(percent)							
Total assets	3	6	83	83	58	60	6	6
Revenues / additions (deductions) and other financing sources	3	5	77	74	13	64	9	8

The report of independent auditors dated August 26, 2005 on the New York City Off-Track Betting Corporation's financial statements included an explanatory paragraph stating that "...the Corporation's current liabilities exceed its current assets, it has a net deficit, and the statutory distribution requirements of New York State laws raise substantial doubt about its ability to continue as a going concern..."

2. Subsequent Events

Subsequent to June 30, 2006, the City and TFA completed the following long-term financing and the statutory debt limit was increased for TFA.

Long-term Financing

City Debt: On August 17, 2006, the City sold its Series A and B bonds of $850 million for refunding purposes.

TFA Debt: On October 16, 2006, TFA sold its Series A Federal Tax Secured bonds of $800 million for capital purposes.

Statutory Debt Limit

In July, 2006, State legislation increased TFA's statutory debt limit capacity to issue Future Tax Secured bonds by $2 billion to $13.5 billion.

3. Other Employee Benefit Trust Funds

Deferred Compensation Plans For Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(k). DCP is available to certain employees of The City of New York and related agencies and instrumentalities. DCP permits employees to defer a portion of their salary until future years. The compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency or hardship (as defined by the Internal Revenue Code).

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

Participants in DCP can choose among eight investment options, or one of nine pre-arranged portfolios consisting of varying percentages of those investment options.

New York City Retiree Health Benefits Trust (RHBT)

RHBT was established for the exclusive benefit of the City's retired employees and their dependents who meet the eligibility requirements to fund the postemployment benefits (other than those paid through the Management Benefits Fund) provided through the welfare benefit plans and welfare benefit funds and the reimbursement of certain Medicare premiums. RHBT was enacted by local law to afford the City the ability to address the ongoing liability of funding the costs of health benefits for the City's retired workers and their dependents covered under the City's health and welfare plans. Amounts contributed to RHBT by the City are held in trust and are irrevocable and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants. Consequently, RHBT is presented as an Other Employee Benefit Trust Fund in the City's financial statements. The separate annual financial statements of RHBT are available at: Office of the Comptroller, Bureau of Accountancy — Room 808, 1 Centre Street, New York, New York 10007.

Summary of Significant Accounting Policies:

Basis of Accounting. The measurement focus of RHBT is on the flow of economic resources. This focus emphasizes the determination of changes in trust net assets. With this measurement focus, all assets and liabilities associated with the operation of this fiduciary fund are included on the statement of fiduciary net assets. This fund uses the accrual basis of accounting whereby contributions from the employer are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments. Investments are reported on the statement of fiduciary net assets at fair value based on quoted market prices.

Required Supplementary Information

The schedule of funding progress presents the results of OPEB valuations as of June 30, 2005 for the fiscal year ending June 30, 2006. Looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)— Entry Age	(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)			
6/30/05	$0	$50,543,963	$50,543,963	0.0%	$15,737,531	321.2%

4. Other Postemployment Benefits

Plan Description. The New York City Health Benefits Program (Plan) is a single-employer defined benefit healthcare plan funded by the New York City Retiree Health Benefits Trust (RHBT), an Other Employee Benefit Trust Fund of the City, which provides Other Postemployment Benefits (OPEB) to eligible retirees and beneficiaries. OPEB includes: health insurance, Medicare Part B reimbursements, and welfare fund contributions. RHBT issues a publicly available financial report that includes financial statements and required supplementary information for funding the Plan's OPEB and the report is available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

Funding Policy. The Administrative Code of The City of New York (ACNY) defines OPEB to include Health Insurance and Medicare Part B Reimbursments; Welfare Benefits stem from the City's various collective bargaining agreements all of which are to be funded by RHBT. The City is not required by law or contractual agreement to provide funding for RHBT other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal year ended June 30, 2006, the City paid $2.2 billion on behalf of the Plan. Based on current practice (the Substantive Plan which is derived from ACNY), the City pays the full cost of basic coverage for non-Medicare-eligible/Medicare-eligible retiree participants. The costs of these benchmark plans are reflected in the actuarial valuations by using age-adjusted premium amounts. Plan retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for the benchmark plans. The City also reimburses covered employees 100% of the Medicare Part B premium rate applicable to a given year and there is no retiree contribution to the Welfare Funds. The City pays per capita contributions to the Welfare Funds the amounts of which are based on negotiated contract provisions.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was actuarially determined by using the Frozen Entry Age Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45). Under this method, the excess of the Actuarial Present Value of Projected Benefits over the sum of: (i) the Actuarial Value of Assets plus (ii) the Unfunded Frozen Actuarial Accrued Liability is allocated on a level basis over the earnings of the covered active employees between the valuation date and assumed exit. This allocation is performed for the group as a whole. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. Under this method, actuarial gains/losses, as they occur, reduce/increase future Normal Costs. The following table shows the elements of the City's annual OPEB cost for the year, the amount actually paid on behalf of the Plan, and changes in the City's net OPEB obligation to the plan for the year ended June 30, 2006:

	Amount (in thousands)
Annual required contribution	$55,690,322
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost (expense)	55,690,322
Payments made	2,182,871
Increase in net OPEB obligation	53,507,451
Net OPEB obligation—beginning of year	—
Net OPEB obligation—end of year	$53,507,451

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2006 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
	(in thousands)		
06/30/06	$55,690,322	3.9%	$53,507,451

Funded Status and Funding Progress. As of June 30, 2005, the most recent (initial) actuarial valuation date, the Plan was 0.0% funded. The actuarial accrued liability for benefits was $50.5 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $50.5 billion. The covered payroll (annual payroll of active employees covered by the Plan) was $15.7 billion, and the ratio of the UAAL to the covered payroll was 321.2%. 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 initial determined actuarial valuations of OPEB provided under the Plan incorporated the use of demographic and salary increase assumptions among others as reflected below. The use of estimating techniques and the reliance of available data were required to meet legally-imposed deadlines for early implementation of Statement No. 45 that in the future, equivalent results are expected to reflect refinements to the data and a reduction in the use of estimations. Amounts determined regarding the funded status of the Plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information in Note E.3. presents the results of OPEB valuations as of June 30, 2005 and looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. The actuarial assumptions used in the June 30, 2005 OPEB actuarial valuations are classified as those used in the New York City Retirement Systems (NYCRS) valuations and those specific to the OPEB valuations. NYCRS consist of: (i) New York City Employees' Retirement System; (ii) New York City Teachers' Retirement System; (iii) New York City Board of Education Retirement System; (iv) New York City Police Pension Fund; and (v) New York City Fire Pension Fund. The OPEB actuarial valuations for NYCRS incorporate only the use of the 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). The OPEB-specific actuarial assumptions used in the June 30, 2005 OPEB actuarial valuations of the Plan are as follows:

Valuation Date	June 30, 2005.
Discount Rate	4.0% per annum.[1]
Per-Capita Claims Costs	Age Adjusted from assumed average age of covered population.

The HIP HMO premium rate is used for all non-Medicare-eligible retirees and dependents with basic medical coverage. The Mental Health/Substance Abuse rider is reflected for retirees in HIP HMO and GHI/EBCBS. The GHI/EBCBS Senior Care premium is used for all Medicare-eligible retirees and dependents with basic medical coverage except those in HIP HMO. The premiums are age adjusted for HIP HMO and GHI/EBCBS participants from assumed age 40 for non-Medicare-eligible retirees and from assumed age 73 for Medicare-eligible retirees.

Initial monthly premium rates are shown in the following table:

	Monthly Rate for Fiscal Year 2006	
Plan	**Basic**	**MH/SA Rider[2]**
HIP HMO		
Non-Medicare		
Single	$286.86	$ 5.04
Family	$702.83	$12.34
Medicare	$ 58.15	N/A
GHI/EBCBS Senior Care	$140.23	N/A

Welfare Funds . . . . Reported contribution amounts for fiscal year 2006 were used for current retirees. Weighted average contribution rates for fiscal year 2006 were used for future retirees. Contributions assumed to increase by Medicare Plans trend rates.

Medicare Part B Premiums . . . .

Calendar Year	Monthly Premium
2005	$78.20
2006	$88.50

2006 Medicare Part B premiums assumed to increase by Part B trend rates. No retiree assumed to have income in excess of the threshold which would result in increasing Part B premium above 25% of Medicare Part B costs.

The actual 2007 Medicare Part B premium, which was announced prior to the issuance of this Report, was not reflected in these analyses.

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

	HCCTR Assumptions		
Year Ending*	**Pre-Medicare Plans**	**Medicare Plans**	**Part B Premium**
2007	10.0%	8.0%	10.0%
2008	9.5%	7.0%	9.5%
2009	9.0%	6.0%	9.0%
2010	8.5%	5.0%	8.5%
2011	8.0%	5.0%	8.0%
2012	7.5%	5.0%	7.5%
2013	7.0%	5.0%	7.0%
2014	6.5%	5.0%	6.5%
2015	6.0%	5.0%	6.0%
2016	5.5%	5.0%	5.5%
2017 and later	5.0%	5.0%	5.0%

* Fiscal year for Pre-Medicare Plans and Medicare Plans and calendar year for Medicare Part B premiums.

Age-Related Morbidity . . . . Assumed increases in the claims costs per year of age for HIP HMO and GHI/EBCBS consistent with those set forth in a July, 2005 article in 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%

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 for the following portion of retirees:

NYCERS	35%
TRS	45%
BERS	45%
POLICE	15%
FIRE	25%

Participation . . . . Active participation assumptions based on current retiree elections. Actual elections for current retirees. Portions of current retirees not eligible for Medicare were assumed to change elections upon attaining age 65 based on patterns of elections of Medicare-eligible retirees.

Dependent Coverage . . . . Dependent coverage is assumed to terminate when a retiree dies except in the following situations:

(i) Lifetime coverage is provided to the surviving spouse or domestic partner and coverage to age 19 (or 23 if full-time student) for children of uniformed members of the Police or Fire Departments who died in the Line-of-Duty.

(ii) Effective November 13, 2001, other surviving spouses of retired uniformed members of the Police and Fire Departments may elect to continue coverage for life by paying 102% of stated premium.

For survivors of POLICE and FIRE who die other than in the Line-of-Duty (assumed to be all who terminate with Accidental Death Benefits) the valuation assumes that 30% of spouses eligible for survivor continuation will elect the benefit, with costs equal to 30% greater than the age-adjusted premiums for surviving spouses for HIP HMO and GHI/EBCBS participants. The valuation includes the entire cost of additional surviving spouse benefits, although the Office of the Actuary understands that some of this amount may be reimbursed through welfare funds.

Dependents . . . . Dependent assumptions based on distribution of coverage of recent retirees which are shown in the following table. Wives assumed to be three years younger than husbands. Actual spouse data for current retirees. Child dependents of current retirees assumed to receive coverage until age 23. Child dependents of future retirees assumed to receive coverage for five years after retirement.

	NYCERS	TRS	BERS	POLICE	FIRE
Male					
Single Coverage	30%	45%	35%	15%	10%
Spouse	40%	35%	55%	15%	35%
Child/No Spouse	5%	5%	2%	5%	5%
Spouse and Child	25%	15%	8%	65%	50%
Total	100%	100%	100%	100%	100%
Female					
Single Coverage	70%	60%	60%	45%	10%
Spouse	20%	32%	35%	10%	35%
Child/No Spouse	5%	3%	2%	25%	5%
Spouse and Child	5%	5%	3%	20%	50%
Total	100%	100%	100%	100%	100%

Demographic Assumptions . . . . The same assumptions that were used to value the pension benefits of the NYCRS for determining employer contributions for fiscal year 2006 were adopted by each respective Board of Trustees.

COBRA Benefits . . . . Although COBRA beneficiaries pay 102% of "premiums", typical claim costs for COBRA participants run about 50% greater than other participants. There is no cost to the City for COBRA beneficiaries in community-rated HMOs, including HIP, since these individuals pay their full community rate. On the other hand, the City's costs under the experience-rated GHI coverage is affected by the claims for individuals who elect COBRA coverage.

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 assumed COBRA cost of $450 per person who terminated without other benefits. The $450 is increased by the Health Care Cost Trend Rates for future years but is not adjusted for age-related morbidity.

Stabilization Fund . . . . .25% Load on all Benefit Costs.

Educational Construction Fund . . . . The actuarial assumptions used for determining obligations for ECF are shown as follows:

- Eligibility for Benefits: ECF employees are eligible for retirement and OPEB at age 55 with 10 years of service. Termination after 10 years of service entitles employees to deferred pension benefits and OPEB. Disability retirement with OPEB is available after 10 years of service. Unlike the New York City Health Benefits Program, ECF is assumed to offer retiree health coverage that continues for dependents after the death of the retiree.

- Per Capita Plan Costs: As suggested as an alternative in the State Report[3], ECF's OPEB actuarial valuation uses premium amounts unadjusted for age. The premiums reported to the OA by ECF for health coverage are consistent with the Empire Plan medical and drug core plus enhancement premiums shown on Exhibit 2-1 of the State Report. ECF also provided information for dental premiums of $52.05 per quarter for single coverage and $170.94 per quarter for family coverage. Calculations reflect actual coverage for current retirees, except that individuals now under age 65 are assumed to qualify for Medicare and receive Medicare Part B premium reimbursement when they reach age 65.

- Dependents: 80% of employees are assumed to cover a spouse at retirement with husbands 3 years older than their wives.
- Elections: Future retirees are assumed to continue in the health and dental insurance programs.
- Cost Sharing: No retiree contributions are assumed.
- Interest Rate: 4.155% per annum, consistent with the State Report.
- Trend: The trend recommended in the State Report for medical benefits are used for all benefits measured for ECF. The separately-stated, greater drug trend was not applied. The same trend was used for dental benefits. Medicare Part B premiums were assumed to increase by the trend and actual 2007 Part B premiums were not reflected.
- Demographic Assumptions: The NYSLERS[4] actuarial valuation assumptions, as modified in the State Report are used.
- Salary Scale: The NYSLERS salary scale, as described in the State Report is used.

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[1] 2.5% CPI, 1.5% real rate of return on short-term investments.

[2] Included in OPEB obligations for both HIP HMO and GHI-CPB/EBCBS non-Medicare-eligible retirees but later determined to be provided only for HIP HMO retirees.

[3] A report on the "Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation — Participating Agency Version," dated August 7, 2006, prepared by Buck Consultants, LLC.

[4] New York State and Local Employees' Retirement System

N/A: Not Applicable

5. Pension and Other Employee Benefit Trust Funds

Pension Systems

Plan Descriptions

The City sponsors or participates in pension systems providing benefits to its employees. The pension systems function in accordance with existing State statutes and City laws. Each system combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employers and the members.

The majority of City employees are members of one of the following five major actuarially-funded pension systems collectively known as the New York City Retirement Systems (NYCRS):

1. New York City Employees' Retirement System (NYCERS) is a cost-sharing, multiple-employer public employee retirement system, for employees of the City not covered by one of the other pension systems and employees of certain component units of the City and certain other government units.
2. New York City Teachers' Retirement System-Qualified Pension Plan (TRS) is a cost-sharing, multiple-employer public employee retirement system, for pedagogical employees in the public schools of the City and Charter Schools and certain other specified school and college employees.
3. New York City Board of Education Retirement System-Qualified Pension Plan (BERS) is a cost-sharing, multiple-employer

public employee retirement system, for nonpedagogical employees of the Department of Education and Charter Schools and certain employees of the School Construction Authority.

4. New York City Police Pension Fund (POLICE) is a single-employer public employee retirement system, for full-time uniformed employees of the Police Department. Note: In conjunction with the establishment of an administrative staff separate from the New York City Police Department in accordance with Chapter 292 of the Laws of 2001, the New York City Police Department, Subchapter Two Pension Fund is generally referred to herein as the New York City Police Pension Fund as set forth in the Administrative Code of The City of New York (ACNY) Section 13-214.1.

5. New York City Fire Pension Fund (FIRE) is a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department. Note: The New York City Fire Department, Subchapter Two Pension Fund is generally referred to herein as the New York City Fire Pension Fund as set forth in ACNY Section 13-313.1.

NYCRS provide pension benefits to retired employees based on salary, length of service, and member contributions. In addition, NYCRS provide automatic Cost-of-Living Adjustments (COLA) and other supplemental pension benefits to certain retirees and beneficiaries. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. NYCRS also provide death benefits.

Subject to certain conditions, members become fully vested as to benefits upon the completion of 5 years of service. Except for NYCERS, permanent, full-time employees are generally required to become members of NYCRS upon employment. Permanent full-time employees who are eligible to participate in NYCERS are required to become members within six months of their permanent employment status but may elect to become members earlier. Other employees who are eligible to participate in NYCERS and BERS may become members at their option. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances.

Plan Membership

As of the June 30, 2004 (Lag) and June 30, 2004 actuarial valuations, the membership of NYCRS consisted of:

	2004 (Lag)					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Retirees and beneficiaries receiving benefits	127,345	62,728	11,625	39,452	17,459	258,609
Terminated vested members not yet receiving benefits	5,888	4,754	187	597	12	11,438
Active members	174,997	105,391	20,899	35,049	11,239	347,575
Total plan membership	308,230	172,873	32,711	75,098	28,710	617,622

	2004					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Retirees and beneficiaries receiving benefits	127,345	62,728	11,625	39,452	17,459	258,609
Terminated vested members not yet receiving benefits	5,888	4,754	187	597	12	11,438
Active members	174,997	105,391	20,899	35,049	11,239	347,575
Total plan membership	308,230	172,873	32,711	75,098	28,710	617,622

June 30, 2004 is the actuarial valuation date used for calculating fiscal year 2006 and 2005 employer contributions. Under the One-Year Lag methodology, the actuarial valuation determines the employer contributions for the second following fiscal year.

Funding Policy

The City's funding policy is to contribute statutorily-required contributions (statutory contributions). Together with member contributions and investment income, these statutory contributions would ultimately be sufficient to pay benefits when due.

Statutory contributions for the NYCRS, determined by the Actuary in accordance with State statutes and City laws, are generally funded by the employers within the appropriate fiscal year.

Member contributions are established by law and vary by Plan. In general, Tier I and Tier II member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees, are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Effective December, 2000, certain Transit Authority Tier III and Tier IV members make basic member contributions of 2.0% of salary in accordance with Chapter 10 of the Laws of 2000. Certain members of NYCERS and BERS also make additional member contributions.

During the Spring 2000 session, the New York State Legislature approved and the Governor signed laws which provided Supplementation benefits and COLA for retirees (Chapter 125 of the Laws of 2000), additional service credits for certain Tier I and Tier II members, reduced member contributions for certain Tier III and Tier IV members (Chapter 126 of the Laws of 2000), and several other changes in benefits for various groups. Except for the statutory limitations for funding certain Supplementation benefits and COLA, these enhancements are fully reflected in the actuarial valuations as of June 30, 2004, 2003, 2002, 2001, and 2000.

Chapter 152 of the Laws of 2006 (Chapter 152/06) implemented changes in the actuarial procedures for determining employer contributions beginning fiscal year 2006. In particular Chapter 152/06 provided the One-Year Lag methodology and Chapter 152/06 also eliminated the use of the ten-year phase-in of Chapter 278 of the Laws of 2002 (Chapter 278/02) for funding the additional actuarial liabilities created by Chapter 125 of the Laws of 2000 (Chapter 125/00) and these enhancements are fully reflected, without phase-in, in the June 30, 2004 (Lag) actuarial valuations.

Annual Pension Costs

NYCRS annual pension costs and the City's statutory contributions for fiscal year 2006 were determined as part of the June 30, 2004 (Lag) actuarial valuations on the basis of revised actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

The changes in actuarial assumptions and methods effective fiscal year 2006 results in somewhat lesser statutory contributions for fiscal years 2006 and 2007 and increased statutory contributions for future fiscal years.

The annual pension costs for NYCRS, for the fiscal years ended June 30, 2006, 2005, and 2004 were as follows:

	2006	2005	2004
		(in millions)	
NYCERS	$1,024.4	$1,020.4	$ 542.2
TRS	1,316.6	1,304.0	1,015.3
BERS	90.8	106.4	95.0
POLICE	1,302.6	1,105.9	902.7
FIRE	601.7	515.1	424.5
Total annual pension costs	$4,336.1	$4,051.8	$2,979.7

For fiscal year 2006, the City's statutory contributions for the NYCRS, based on the actuarial valuations performed as of June 30, 2004 (Lag), plus other pension expenditures, were approximately $4,008.5 million. These statutory contributions for NYCERS, TRS and BERS were less than the annual pension costs computed in accordance with Governmental Accounting Standards Board Statement No. 27 (GASB27).

For fiscal year 2006, the annual pension costs for NYCERS, TRS and BERS computed in accordance with GASB27 and consistent with generally accepted actuarial principles are greater than the statutory contributions primarily because the City is only one of the participating employers in NYCERS, TRS, and BERS.

For fiscal year 2006, the annual pension costs for POLICE and FIRE computed in accordance with GASB27 and consistent with generally accepted actuarial principles are less than the statutory contributions primarily because of the interest on and amortization of the Net Pension Obligations for POLICE and FIRE.

For fiscal years 2005 and 2004, the annual pension costs for NYCRS computed in accordance with GASB27 and consistent with generally accepted actuarial principles are greater than the statutory contributions primarily because (1) the City is only one of the participating employers in NYCERS, TRS, and BERS and (2) Chapter 125/00, as later modified by Chapter 278/02, provided for a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

Specifically, in accordance with Chapter 125/00, the Actuary for the NYCRS, in calculating the statutory contributions for fiscal years 2001 and 2002, included the following percentages of the increase in additional actuarial liabilities attributable to the Chapter 125/00 COLA benefits:

Phase-In Percent	Fiscal Year
20%	2001
40	2002

Chapter 278/02 revised the phase-in schedule of Chapter 125/00 for fiscal years 2003 and later.

Chapter 278/02 provided that, for the June 30, 2000 actuarial valuation, the Actuary was required to recognize, on a theoretical basis, only 10% of the additional actuarial liabilities created by the benefits provided by Chapter 125/00 for determining fiscal year 2001 employer contributions.

For each of the next eight June 30 actuarial valuations (*i.e.*, June 30, 2001 to June 30, 2008), the Actuary was required to recognize progressively increasing percentages (*i.e.*, 20% to 90%) of the additional actuarial liabilities attributable to the benefits funded by Chapter 125/00 for determining employer contributions for fiscal years 2002 to 2009.

For the June 30, 2009 and later actuarial valuations, the Actuary was required to recognize the full amount of the additional actuarial liabilities attributable to Chapter 125/00 for determining fiscal years 2010 and later employer contributions.

Because the fiscal years 2002 and 2001 accounting periods were closed, Chapter 278/02 had a retroactive effect. The interest-adjusted difference between employer contributions actually paid for fiscal years 2002 and 2001 under Chapter 125/00 and the amounts that would have been payable under the ten-year phase-in schedule for such fiscal years was deducted from the otherwise required employer contributions for fiscal year 2003.

The impact of the ten-year phase-in of Chapter 278/02 was to postpone funding of the additional actuarial liabilities attributable to Chapter 125/00 resulting in greater employer contributions in later years.

Chapter 152/06 eliminates the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by Chapter 125/00.

The City's statutory contributions for the fiscal years ended June 30, 2006, 2005, and 2004 were as follows:

	2006	2005 (in millions)	2004
NYCERS*	$ 584.8	$ 455.7	$ 166.0
TRS*	1,300.8	1,212.5	908.0
BERS*	87.1	92.6	80.9
POLICE	1,337.7	1,033.3	812.0
FIRE	608.8	489.5	392.7
OTHER**	95.8	86.3	84.9
Total actual pension contributions	$4,015.0	$3,369.9	$2,444.5

* 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 (calculated for fiscal years 2005 and 2004 on a basis reflecting the phase-in of liabilities required under Chapter 278/02 and Chapter 125/00) for all employers participating in NYCERS, TRS, and BERS for fiscal years ended June 30, 2006, 2005, and 2004 were:

	2006	2005	2004
NYCERS	57.09%	55.38%	53.44%
TRS	98.80	98.71	98.67
BERS	95.86	95.85	96.28

In accordance with GASB27, the City's obligation for NYCERS, TRS, and BERS is fulfilled by paying its portion of the total statutory contributions determined.

** Other pension expenditures represent contributions to other actuarial and pay-as-you-go pension systems for certain employees, retirees, and beneficiaries not covered by any of NYCRS. The City also contributes per diem amounts into certain union-administered annuity funds.

Net Pension Obligations

NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems and the City has no net pension obligations to these systems. Note: The annual pension costs for these systems are the statutory contributions. For fiscal year 2006 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 2006 are as follows:

	POLICE	FIRE (in millions)	TOTAL
(1) Annual Required Contribution	$1,337.7	$608.8	$1,946.5
(2) Interest on Net Pension Obligation	46.3	18.2	64.5
(3) Adjustment to Annual Required Contribution	81.4	25.3	106.7
(4) Annual Pension Cost=(1)+(2)-(3)	1,302.6	601.7	1,904.3
(5) Statutory Contribution	1,337.7	608.8	1,946.5
(6) Decrease in Net Pension Obligation=(4)-(5)	(35.1)	(7.1)	(42.2)
(7) Net Pension Obligation Beginning of Year	579.0	227.2	806.2
(8) Net Pension Obligation End of Year=(6)+(7)	$ 543.9	$220.1	$ 764.0

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

	Fiscal Year Ending	Annual Pension Cost (APC)	Pecentage Of APC Contributed	Net Pension Obligation
		(in millions)		
POLICE	6/30/06	$1,302.6	103%	$543.9
	6/30/05	1,105.9	93	579.0
	6/30/04	902.7	90	506.4
FIRE	6/30/06	601.7	101	220.1
	6/30/05	515.1	95	227.2
	6/30/04	424.5	93	201.6

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, 2006 and 2005 are as follows:

	2006	2005
Valuation Date	*June 30, 2004 (Lag).(1)*	*June 30, 2004.*
Actuarial Cost Method	*Frozen Initial Liability.(2)*	*Frozen Initial Liability.(2)*
Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)	*Increasing dollar for FIRE.(3) Level dollar for UAAL attributable to NYCERS 2000 Early Retirement Incentive (ERI); BERS, NYCERS, and TRS 2002 ERI (Part A only). (4) All outstanding components of UAAL are being amortized over closed periods.*	*Increasing dollar for FIRE. (3) Level dollar for UAAL attributable to NYCERS and TRS 1999 Early Retirement Incentive (ERI); NYCERS 2000 ERI; BERS, NYCERS, and TRS 2002 ERI (Part A only). (4) All outstanding components of UAAL are being amortized over closed periods.*
Remaining Amortization Period	*5 years for FIRE(3), 1 year for 2000 ERI, and 3 years for 2002 ERI (Part A only).*	*6 years for FIRE(3) and 1 year for 1999 ERI, 2 years for 2000 ERI, and 4 years for 2002 ERI (Part A only).*
Actuarial Asset Valuation Method	*Modified 6-year moving average of Market Value with Market Value Restart as of June 30, 1999.*	*Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.*
Investment Rate of Return	*8.0% per annum(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*	*8.0% per annum(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*
Post-Retirement Mortality	*Tables adopted by Boards of Trustees during fiscal year 2006.*	*Tables adopted by Boards of Trustees during fiscal year 2000.*
Active Service: Withdrawal, Death, Disability, Retirement	*Tables adopted by Board of Trustees during fiscal year 2006.*	*Tables adopted by Boards of Trustees during fiscal year 2000.*
Salary Increases	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)*	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)*
Cost-of-Living Adjustments	*1.3% per annum.(5)*	*1.3% per annum.(5)*

(1) Under One-Year Lag methodology, the actuarial valuation determines the employer contribution for the second following fiscal year.

(2) Under the Frozen Initial Liability Actuarial Cost Method, the excess of the Actuarial Present Value (APV) of projected benefits of the membership as of the valuation date, over the sum of the Actuarial Value of Assets plus the UAAL, if any, and the APV of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll as of the valuation date. The Initial Liability was reestablished by the Entry Age Actuarial Cost Method as of June 30, 1999 but with the UAAL not less than $0. Actuarial gains and losses are reflected in the employer normal contribution rate.

(3) *In conjunction with Chapter 85 of the Laws of 2000 (Chapter 85/00), there is an amortization method. However, the initial UAAL of NYCERS, TRS, BERS, and POLICE equal $0 and no amortization periods are required.*
(4) *Laws established UAAL for Early Retirement Incentive Programs to be amortized on a level dollar basis over periods of 5 years.*
(5) *Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.*

Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially-funded NYCRS are conducted by an independent actuarial firm every two years.

The most recent actuarial study, dated May 2006, analyzed experiences for fiscal years 2002 and 2003. The independent actuarial auditor intends to make recommendations to the actuarial assumptions and methods after the completion of the analysis of the experience for fiscal years 2004 and 2005 which should be completed in the winter 2006.

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.

Based upon a review of an October 2003 experience study, the Actuary issued in August 2005 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 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 to determine fiscal year 2006 employer contributions using a June 30, 2004 valuation date. This methodology requires technical adjustments to certain components used to determine fiscal year 2006 employer contributions.

For 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.

The revised AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuations to determine the fiscal year 2006 employer contributions in conjunction with the One-Year Lag methodology and the revised economic and noneconomic assumptions.

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 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 70 of the Laws of 1999 established UAAL as of June 30, 2000 for an Early Retirement Incentive Program to be amortized on a level basis over a period of 5 years beginning in fiscal year 2001.

Chapter 86 of the Laws of 2000 established UAAL as of June 30, 2001 for an Early Retirement Incentive Program to be amortized on a level basis over a period of 5 years beginning in fiscal year 2002.

Chapter 69 of the Laws of 2002 established UAAL as of June 30, 2003 for an Early Retirement Incentive Program (Part A only) to be amortized on a level basis over a period of 5 years beginning in fiscal year 2004.

Other Employee Benefit Trust Funds

Fund Descriptions

Per enabling State legislation, certain retirees of POLICE, FIRE, and NYCERS are eligible to receive scheduled supplemental benefits from certain Variable Supplements Funds (VSFs).

Under current law, VSFs are not to be construed as constituting pension or retirement system funds. Instead, they provide scheduled supplemental payments, other than pension or retirement system allowances, in accordance with applicable statutory provisions. While a portion of these payments are guaranteed by the City, the Legislature has reserved to itself and the State of New York, the right and power to amend, modify, or repeal VSFs and the payments they provide.

POLICE administers the Police Officers' Variable Supplements Fund (POVSF) and the Police Superior Officers' Variable Supplements Fund (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of ACNY.

1. POVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) as police officers and who retired on or after October 1, 1968.
2. PSOVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) holding the rank of sergeant or higher, or detective and who retired on or after October 1, 1968.

FIRE administers the Firefighters' Variable Supplements Fund (FFVSF) and the Fire Officers' Variable Supplements Fund (FOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 3 of ACNY.

3. FFVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) as firefighters (or wipers) and who retired on or after October 1, 1968.
4. FOVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) and who retired on or after October 1, 1968.

The New York City Employees' Retirement System administers the Transit Police Officers' Variable Supplements Fund (TPOVSF), the Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF), the Housing Police Officers' Variable Supplements Fund (HPOVSF), the Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF), and the Correction Officers' Variable Supplements Fund (COVSF). These funds operate pursuant to the provisions of Title 13, Chapter 1 of ACNY.

5. TPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of calculations performed by the Actuary during November 1993. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPOVSF whenever the assets of TPOVSF are not sufficient to pay benefits.
6. TPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000 became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPSOVSF whenever the assets of TPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2004, NYCERS is required to transfer assets so that TPSOVSF can meet its benefit obligations when due.
7. HPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of Chapter 719 of the Laws of 1994. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPOVSF whenever the assets of HPOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2006, NYCERS is required to transfer assets so that HPOVSF can meet its benefit obligations when due.

8. HPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000 became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPSOVSF whenever the assets of HPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2001, NYCERS is required to transfer assets so that HPSOVSF can meet its benefit obligations when due.

9. COVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or 25 years of service, depending upon the plan) as members of the Uniformed Correction Force on or after July 1, 1999. Prior to calendar year 2019, total supplemental benefits paid are limited to the assets of COVSF. For calendar years 2019 and later, the plan provides for a schedule of defined supplemental benefits that are guaranteed by the City.

Funding Policy and Contributions

The Administrative Code of The City of New York 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 2006 and 2005, 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, 2006 and June 30, 2005, respectively.

For both fiscal years 2006 and 2005, required transfers from NYCERS of approximately $2.3 million were made to HPSOVSF.

For both fiscal years 2006 and 2005, required transfers from NYCERS of approximately $2.4 million and $1.9 million, respectively, were made to TPSOVSF.

As of June 30, 2006, NYCERS has accrued approximately $.9 million, $1.2 million, and $1.2 million toward the amounts expected to be transferred to HPOVSF, HPSOVSF and TPSOVSF, respectively, to meet the December, 2006 benefit obligations of those funds.

Required Supplementary Information (Unaudited)

The schedule of funding progress presents the following information for each of the past six consecutive fiscal years for each of the NYCRS: the actuarial valuation date, the actuarial asset value, the actuarial accrued liability, the unfunded actuarial accrued liability, the actuarial asset value as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial accrued liability to annual covered payroll. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of June 30, 2004 (Lag), June 30, 2004, 2003, 2002, 2001, 2000, and 1999.

		(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial Valuation Date	Actuarial Asset Value (AAV)	Actuarial Accrued Liability (AAL)*	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(a) & (b)	(2) - (1) (in millions)	(1) ÷ (2)		(3) ÷ (5)
NYCERS	6/30/04(Lag)	$40,638.6	$40,786.6	$148.0	99.6%	$9,361.2**	1.6%
	6/30/04	40,088.2	40,236.2	148.0	99.6	9,157.4	1.6
	6/30/03	42,056.0	42,244.2	188.2	99.6	8,807.6	2.1
	6/30/02	43,561.1	43,619.9	58.8	99.9	8,901.1	0.7
	6/30/01	43,015.4	43,087.6	72.2	99.8	8,515.3	0.8
	6/30/00	42,393.6	42,418.7	25.1	99.9	7,871.0	0.3
	6/30/99	40,936.0	40,936.0	0.0	100.0	7,593.2	0.0
TRS	6/30/04(Lag)	33,149.3	33,159.7	10.4	100.0	6,175.9**	0.2
	6/30/04	32,817.1	32,827.5	10.4	100.0	6,219.8	0.2
	6/30/03	33,169.2	33,182.6	13.4	100.0	5,828.8	0.2
	6/30/02	34,177.8	34,181.1	3.3	100.0	5,469.2	0.1
	6/30/01	35,410.2	35,414.5	4.3	100.0	5,015.4	0.1
	6/30/00	36,142.4	36,147.5	5.1	100.0	4,721.5	0.1
	6/30/99	34,626.1	34,626.1	0.0	100.0	4,217.6	0.0
BERS	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	6/30/04(Lag)	18,735.1	18,735.1	0.0	100.0	2,757.7**	0.0
	6/30/04	18,510.6	18,510.6	0.0	100.0	2,460.8	0.0
	6/30/03	18,781.4	18,781.4	0.0	100.0	2,433.9	0.0
	6/30/02	18,913.6	18,913.6	0.0	100.0	2,496.2	0.0
	6/30/01	18,141.7	18,141.7	0.0	100.0	2,500.1	0.0
	6/30/00	17,601.9	17,601.9	0.0	100.0	2,465.7	0.0
	6/30/99	16,877.8	16,877.8	0.0	100.0	2,332.0	0.0
FIRE	6/30/04(Lag)	6,277.3	6,382.5	105.2	98.4	864.8**	12.2
	6/30/04	6,185.8	6,291.0	105.2	98.3	805.0	13.1
	6/30/03	6,441.5	6,558.0	116.5	98.2	748.8	15.6
	6/30/02	6,612.3	6,738.7	126.4	98.1	789.7	16.0
	6/30/01	6,525.7	6,660.7	135.0	98.0	799.2	16.9
	6/30/00	6,388.1	6,530.6	142.5	97.8	741.5	19.2
	6/30/99	6,179.8	6,328.7	148.9	97.6	729.7	20.4

* Based on the Frozen Initial Liability Actuarial Cost Method.

** The annualized covered payrolls as of June 30, 2004 under the One-Year Lag methodology used to compute fiscal year 2006 employer contributions differ from that as of June 30, 2004 to compute fiscal year 2005 employer contributions due to changes in actuarial assumptions and more recent information on labor contract settlements.

(a) The AAVM in use for the June 30, 2004 (Lag) and later actuarial valuations resets the AAV to Market Value (*i.e.*, "Market Value Restart") as of June 30, 1999. As of each June 30 thereafter the AAVM recognizes investment returns greater or less than expected over a period of six years.

Under this revised AAVM used for the fiscal year 2006 employer contributions, UIR for fiscal years 2000, 2001, etc., are phased into the AAV beginning June 30, 2000, 2001, etc., at rates of 15%, 15%, 15%, 15%, 20%, and 20% per year (*i.e.*, cumulative rates of 15%, 30%, 45%, 60%, 80% and 100% over a period of six years).

These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for fiscal years 2000 to 2004.

The revised AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the fiscal year 2006 employer contribution in conjunction with the One-Year Lag methodology and the revised economic and noneconomic assumptions in accordance with the August 2005 Reports.

As of June 30, 1999 the economic and noneconomic assumptions were revised due to experience review. The AAVM was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under the AAVM used for the June 30, 1999 to June 30, 2004 actuarial valuations, any UIR for Fiscal Years 2000 and later were phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25% and 30% per year (*i.e.*, cumulative rates of 10%, 25%, 45%, 70% and 100% over a period of five years).

(b) To effectively assess the funding progress of a Plan, it is usually appropriate to compare AAV and AAL calculated in a manner consistent with the Plan's funding method over a period of time. AAL is the portion of the actuarial present value of pension plan benefits and expenses which is not provided for by future employer normal costs and future member contributions.

Note, however, that UAAL is the excess of AAL over AAV. Under the FIL Actuarial Cost Method, the initial UAAL is frozen at 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.

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Appendix F

Cushman & Wakefield, Inc. Study

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.

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Appendix G

Financial Statements of the Corporation

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Hudson Yards Group

Consolidated Financial Statements
For the year ended June 30, 2006
Independent Auditors' Report

HUDSON YARDS GROUP

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INDEPENDENT AUDITORS' REPORT

To the Members of the Boards of Directors and Audit Committees of the
Hudson Yards Development Corporation and Hudson Yards Infrastructure Corporation:

We have audited the accompanying consolidated financial statements of the governmental activities of the Hudson Yards Development Corporation ("HYDC") and the Hudson Yards Infrastructure Corporation ("HYIC"), which collectively comprise the Hudson Yards Group ("HYG"), a component unit of The City of New York, New York, as of and for the year ended June 30, 2006. These consolidated financial statements are the responsibility of the HYG's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 respective consolidated 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 HYG's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective consolidated 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of HYG as of and for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 and 3 is not a required part of the basic consolidated financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of HYG's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

October 16, 2006

The following is a narrative overview and analysis of the financial activities of the Hudson Yards Group ("HYG") as of and for the year ended June 30, 2006. It should be read in conjunction with HYG's consolidated financial statements, governmental funds financial statements and the notes to the consolidated financial statements. HYG consists of two legally separate and independent entities, the Hudson Yards Development Corporation ("HYDC") and the Hudson Yards Infrastructure Corporation ("HYIC").

HYG's purpose is the financing and management of development and redevelopment activities (the "Project") on the west side of the borough of Manhattan 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) the design and construction of an extension of the No. 7 Subway from its current terminus at 7th Avenue and 41st Street to a new terminal at 11th Avenue and West 34th Street (the "No. 7 Subway Construction"), (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 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.

The consolidated financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the consolidated financial statements; and (3) the governmental funds financial statements.

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

HYG's governmental fund 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 unmatured interest on bonds payable, which is recognized when due.

As of June 30, 2006, HYG has no assets that are not currently available financial resources, and no general long-term liabilities. Therefore, there are no differences between the consolidated financial statements and its governmental fund financial statements for fiscal 2006, and no reconciliation is provided.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—CONSOLIDATED FINANCIAL STATEMENTS (amounts in thousands, except as noted)

At June 30, 2006, HYG had assets of $9,960 consisting of cash and cash equivalents of $9,951 and a receivable due from the New York City Economic Development Corporation ("NYCEDC") of $9 and liabilities of $1,817 consisting of a loan payable to NYCEDC of $793, accrued Project costs of $481 and accrued expenses of $543. The net asset balance of $8,143 at year end is primarily the result of collections of district improvement bonuses ("DIBs") during the year.

During the year ended June 30, 2006, HYG's revenue of $12,955 consisted mainly of DIBs of $11,120 and a grant from NYCEDC of $1,776. Expenses for the year of $4,812 consisted of Project costs of $3,235 and general and administrative costs of $1,577.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (amounts in thousands, except as noted)

At June 30, 2006, HYG had assets of $9,960 consisting of cash and cash equivalents of $9,951 and a receivable due from NYCEDC of $9 and liabilities of $1,817 consisting of a loan payable to NYCEDC of $793, accrued project costs of $481 and accrued expenses of $543. The fund balance of $8,143 at year end is primarily the result of collections of DIBs during the year.

During the year ended June 30, 2006, HYG's revenue of $12,955 consisted mainly of DIBs of $11,120 and a grant from NYCEDC of $1,776. Expenditures for the year of $4,812 consisted of Project costs of $3,235 and general and administrative costs of $1,577.

* * * * * *

HUDSON YARDS GROUP

CONSOLIDATED STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

ASSETS:	
Unrestricted cash and cash equivalents	$9,951,126
Due from NYC Economic Development Corporation	9,249
Total assets	9,960,375
LIABILITIES:	
Accrued project costs	$ 481,203
Accrued expenses	543,067
Loan payable to NYC Economic Development Corporation	793,368
Total liabilities	1,817,638
NET ASSETS:	
Unrestricted	$8,142,737

See notes to financial statements.

HUDSON YARDS GROUP

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES:	
District improvement bonuses	$ 11,120,100
Grant from NYC Economic Development Corporation	1,775,725
Investment income	59,387
Total revenues	12,955,212
EXPENSES:	
Project expenditures	3,235,238
General and administrative	1,577,237
Total expenses	4,812,475
CHANGE IN NET ASSETS	8,142,737
NET ASSETS—Beginning of year	-
NET ASSETS—End of year	$ 8,142,737

See notes to financial statements.

HUDSON YARDS GROUP

GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2006

	Debt Service Fund	Capital Projects Fund	Eliminations	Total Governmental Funds
ASSETS:				
Unrestricted cash and cash equivalents	$ 9,679,474	$ 271,652	$ -	$ 9,951,126
Due from NYC Economic Development Corporation	-	9,249	-	9,249
Total assets	$ 9,679,474	$ 280,901	$ -	$ 9,960,375
LIABILITIES:				
Accrued project costs	$ -	$ 481,203	$ -	$ 481,203
Accrued expenses	393,400	149,667	-	543,067
Loan payable to NYC Economic Development Corporation	-	793,368	-	793,368
Total liabilities	393,400	1,424,238	-	1,817,638
FUND BALANCE (DEFICIT):				
Unreserved	9,286,074	(1,143,337)	-	8,142,737
Total liabilities and fund balance (deficit)	$ 9,679,474	$ 280,901	$ -	$ 9,960,375

See notes to financial statements.

HUDSON YARDS GROUP

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2006

	Debt Service Fund	Capital Projects Fund	Eliminations	Total Governmental Funds
REVENUES:				
District improvement bonuses	$ 11,120,100	$ -	$ -	$ 11,120,100
Grant from NYC Economic Development Corporation	-	1,775,725	-	1,775,725
Investment income	59,374	13	-	59,387
Total revenues	11,179,474	1,775,738	-	12,955,212
EXPENDITURES:				
Project expenditures	-	3,235,238	-	3,235,238
General and administrative	393,400	1,183,837	-	1,577,237
Total expenditures	393,400	4,419,075	-	4,812,475
OTHER FINANCING SOURCES (USES):				
Transfers in (Out)	(1,500,000)	1,500,000	-	-
NET CHANGE IN FUND BALANCE (DEFICIT)	9,286,074	(1,143,337)	-	8,142,737
FUND BALANCE—Beginning	-	-	-	-
FUND BALANCE (DEFICIT)—Ending	$ 9,286,074	$ (1,143,337)	$ -	$ 8,142,737

See notes to financial statements.

1. ORGANIZATION

The Hudson Yards Group ("HYG") finances and manages interrelated development and redevelopment activities (the "Project") on the west side of the borough of Manhattan 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"). HYG consists of two legally separate and independent entities, the Hudson Yards Development Corporation ("HYDC") and the Hudson Yards Infrastructure Corporation ("HYIC").

HYDC, a local development corporation organized under the New York State Not-For-Profit Corporation Law, was organized by The City of New York ("City") to manage the implementation of the Project. 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 ("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. HYDC does not have any employees; its affairs are administered by employees of the New York City Economic Development Corporation ("NYCEDC"), which is a discretely presented component unit of The City. HYDC reimburses NYCEDC for the cost of all salaries and benefits for those NYCEDC employees who are dedicated to HYDC.

HYIC, a local development corporation organized under the New York State Not-For-Profit Corporation Law, was also organized by The City. Its purpose is to issue 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 based on its allocated share of personnel and overhead costs. For the year ended June 30, 2006, the allocable share of such costs was negligible, and thus no management fee was charged.

Although legally separate from The City, HYG is an instrumentality of The City and, accordingly, is included in The City's financial statements as a blended component unit, in accordance with GASB Statement 14, as amended.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement focus and basis of accounting

The consolidated financial statements of HYG, which include the consolidated statement of net assets (deficit) and the consolidated statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB Statement No. 34, as amended. The consolidated statement of net assets (deficit) and the consolidated statement of activities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus and basis of accounting (continued)

are prepared using the economic resources measurement focus and the accrual basis of accounting.

HYG's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. 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 unmatured interest on bonds payable, which is recognized when due.

The governmental fund financial statements consist of a debt service fund, which accounts for the accumulation of resources for payment of principal and interest on debt and supports the operations of HYIC; and a capital projects fund, which reports receipt of bond proceeds and expenditures for the Project and for the operations of HYDC.

As of June 30, 2006, HYG has no assets that are not currently available financial resources, and no general long-term liabilities. Therefore, there are no differences between the consolidated financial statements and its governmental fund financial statements for fiscal 2006, and no reconciliation is provided.

Capital Assets

HYG will not be the owner of the Project assets constructed or acquired (other than transferable development rights which may be acquired from the Metropolitan Transportation Authority) asthose assets become the property of The City. Therefore, HYG reports no infrastructure assets or construction work in progress.

For fixed assets used in the operations of HYDC and HYIC, the HYG'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 $35,000; no such assets have been acquired or constructed.

Use of Estimates

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

3. CASH AND CASH EQUIVALENTS

HYG's cash and cash equivalents consist of bank deposits, money market funds, and short –term securities with original maturities of three months or less. At June 30, 2006, cash and cash equivalents of $9,951 consist primarily of $9,599 of Federal Home Loan Bank discount notes held by HYIC's agent in HYIC's name. At June 30, 2006, the carrying amount of bank deposits was $352. Of this amount, $200 was insured by the Federal Deposit Insurance Corporation.

4. RELATED PARTY TRANSACTIONS

During fiscal year 2006, HYDC was assisted in its development and organization by NYCEDC. NYCEDC made expenditures to and on behalf of HYDC, both from of its own funds and from payments in lieu of taxes ("PILOT") which The City instructed NYCEDC to use on behalf of the Project. Expenditures by NYCEDC on behalf of HYG included salaries and benefits of employees dedicated to HYDC, other general and administrative expenses, and project costs. The combined value of the assistance was $4,069 of which $1,776 was a grant. HYG repaid $1,500 during fiscal 2006 and expects to repay the loan payable of $793 during fiscal 2007.

5. SUBSEQUENT EVENTS

On October 14, 2006, HYDC hired employees who now administer the affairs of HYDC, including human resources and payroll, and therefore, will pay their own payroll and benefits expenses. Thus, as of that date, NYCEDC employees will no longer be administering these affairs for HYDC.

The Rail Yards Agreement dated September 28, 2006, between the Metropolitan Transportation Authority ("MTA"), Triborough Bridge and Tunnel Authority, The Long Island Railroad Company, and The City of New York (the "Agreement"), calls for HYDC's participation in a joint planning and development process for the MTA's Eastern and Western Rail Yards in the Hudson Yards area. In addition, the agreement details the treatment of Eastern Rail Yards Transferable Development Rights ("TDRs"), including HYIC's acquisition of an interest in the TDRs for $200 million, and HYDC's authority to market the TDRs and manage their sale. The Boards of Directors of both HYDC and HYIC have passed resolutions agreeing to fulfill their obligations under the Agreement.

* * * * * *

Appendix H

Bond Insurers

The following information pertaining to Financial Guaranty Insurance Company ("FGIC") and MBIA Insurance Corporation ("MBIA") has been supplied by FGIC and MBIA. The Corporation makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the dates indicated. Summaries of or references to the insurance policies to be issued by FGIC and MBIA are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all such provisions. See "Appendix I: Specimen Bond Insurance Policies."

The Financial Guaranty Insurance Company Policy

Concurrently with the delivery of the Series 2007A Bonds, FGIC will issue its Municipal Bond New Issue Insurance Policy (the "FGIC Policy") for the Series 2007A Bonds indicated on the inside front cover of this Official Statement (the "FGIC Insured Bonds"). The FGIC Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the FGIC Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Corporation. FGIC will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Insurer's Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which FGIC shall have received notice (in accordance with the terms of the FGIC Policy) from an owner of a FGIC Insured Bond or the trustee or paying agent (if any) of the nonpayment of such amount by the Corporation. The Insurer's Fiscal Agent will disburse such amount due on any FGIC Insured Bond to its owner upon receipt by the Insurer's Fiscal Agent of evidence satisfactory to the Insurer's Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in FGIC. The term "nonpayment" in respect of a FGIC Insured Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a FGIC Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the FGIC Policy is non-cancellable by FGIC. The FGIC Policy covers failure to pay principal (or accreted value, if applicable) of the FGIC Insured Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the FGIC Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The FGIC Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the FGIC Insured Bonds is accelerated, FGIC will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, FGIC will become the owner of the FGIC Insured Bond, appurtenant coupon or right to payment of principal or interest on such FGIC Insured Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The FGIC Policy does not insure any risk other than Nonpayment by the Corporation, as defined in the FGIC Policy. Specifically, the FGIC Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the FGIC Insured Bonds, FGIC may be granted certain rights under the documentation for the Series 2007A Bonds. The specific rights, if any, granted to FGIC in connection with its insurance of the FGIC Insured Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The FGIC Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

FGIC is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. FGIC is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

FGIC is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At September 30, 2006, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of FGIC or any claims under any insurance policy, including the FGIC Policy, issued by FGIC.

FGIC is subject to the insurance laws and regulations of the State of New York, where FGIC is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, FGIC is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At September 30, 2006, FGIC had net admitted assets of approximately \$3.795 billion, total liabilities of approximately \$2.659 billion, and total capital and policyholders' surplus of approximately \$1.136 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The audited consolidated financial statements of FGIC and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of September 30, 2006 and the audited consolidated financial statements of FGIC and subsidiaries, on the basis of GAAP, as of December 31, 2005 and 2004, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under "Appendix H – Bond Insurers—The Financial Guaranty Insurance

Company Policy," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by FGIC with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of FGIC (if any) included in documents filed by FGIC with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the FGIC Insured Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although FGIC prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determination. A discussion of the principal differences between SAP and GAAP is contained in the notes to FGIC's SAP financial statements.

Copies of FGIC's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Recent Developments

On November 15, 2006, FGIC received a subpoena from the Antitrust Division of the U.S. Department of Justice. Based upon press reports, FGIC believes that the subpoena relates to an ongoing criminal investigation of alleged bid rigging of awards of municipal guaranteed investment contracts ("Municipal GICs") and that several other companies (including other financial guarantors) have received similar subpoenas. Until December 18, 2003, when FGIC was acquired from General Electric Capital Corporation ("GE Capital") by its current owners, FGIC was affiliated with certain companies (the "Former Affiliates") that provided Municipal GICs. The Former Affiliates remained a part of GE Capital after the acquisition of FGIC, and the outstanding Municipal GICs remained with the Former Affiliates. The subpoena contains no allegations or statements concerning the activities of FGIC. FGIC intends to cooperate fully with the investigation.

FGIC Credit Ratings

The financial strength of FGIC is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of FGIC should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of FGIC. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the FGIC Insured Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the FGIC Insured Bonds. FGIC does not guarantee the market price or investment value of the FGIC Insured Bonds nor does it guarantee that the ratings on the FGIC Insured Bonds will not be revised or withdrawn.

Neither FGIC nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the FGIC Insured Bonds, or omitted from such disclosure, other than with respect to

the accuracy of information with respect to FGIC or the FGIC Policy under the heading "Appendix H – Bond Insurers – The Financial Guaranty Insurance Company Policy." In addition, FGIC makes no representation regarding the FGIC Insured Bonds or the advisability of investing in the FGIC Insured Bonds.

The MBIA Insurance Corporation Insurance Policy

Concurrently with the delivery of the Series 2007A Bonds, MBIA will issue its Financial Guaranty Insurance Policy (the "MBIA Policy") for the Series 2007A Bonds indicated on the inside front cover of this Official Statement (the "MBIA Insured Bonds").

MBIA 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 the MBIA Policy and MBIA set forth under the heading "Bond Insurance" and in this Appendix H and Appendix I. Additionally, MBIA makes no representation regarding the Series 2007A Bonds or the advisability of investing in the Series 2007A Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Corporation to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2007A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2007A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The MBIA Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2007A Bond. The MBIA Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2007A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The MBIA Policy also does not insure against nonpayment of principal of or interest on the Series 2007A Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other trustee for the Series 2007A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Series 2007A Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2007A Bonds or presentment of such other proof of ownership of the Series 2007A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2007A Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2007A Bonds in any legal proceeding related to payment of insured amounts on the Series 2007A Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Series 2007A Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2007A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2007A Bonds. MBIA does not guaranty the market price of the Series 2007A Bonds nor does it guaranty that the ratings on the Series 2007A Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of $11.0 billion (audited), total liabilities of $7.2 billion (audited), and total capital and surplus of $3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of $11.5 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.4 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the MBIA Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

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Appendix I

Specimen Bond Insurance Policies

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FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to

or its successor (the "Paying Agent ") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

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, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest: ____________________

Assistant Secretary

STD-R-NY-7
01/05

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

SPECIMEN

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory New York State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

The insurance provided by this Policy is not covered by the New York Property/Casualty Insurance Security Fund (New York Insurance Code, Article 76).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory New York State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

Appendix J

Form of Bond Counsel Opinion

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437 Madison Avenue
New York, New York 10022-7001
(212) 940-3000
Fax: (212) 940-3111

December , 2006

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 $2,000,000,000 aggregate principal amount of Hudson Yards Senior Revenue Bonds, Fiscal 2007 Series A (the "Fiscal 2007 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 2007 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 (the "Master Indenture"), as supplemented by a First Supplemental Trust Indenture, dated as of December 1, 2006, by and between the Corporation and the Trustee, authorizing the issuance of the Fiscal 2007 Series A Bonds (the "First 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 2007 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 2007 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 2007 Series A Bonds, only upon the terms and conditions set forth in the Master Indenture and such Bonds, when issued, will with the Fiscal 2007 Series A Bonds be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Master Indenture.

The Fiscal 2007 Series A Bonds are dated the date hereof and mature on February 15, 2047. Interest on the Fiscal 2007 Series A Bonds is payable August 15, 2007 and semiannually thereafter on each February 15 and August 15. The Fiscal 2007 Series A Bonds will bear interest at the respective rates per annum, in the respective principal amounts and at the respective yields set forth below:

Principal Amount	Interest Rate	Yield
$500,000,000	4.5%	4.40%
700,000,000	5.0	4.10
800,000,000	5.0	4.28

The Fiscal 2007 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 2007 Series A Bonds are numbered from one upward in order of issuance.

The Fiscal 2007 Series A Bonds are subject to redemption prior to maturity as provided in the First Supplemental Trust Indenture.

The Fiscal 2007 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 organizational and initial 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 will assign 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 will assign to the Corporation their rights in and to certain payments in lieu of *ad valorem* real property taxes and payments made in lieu of any mortgage recording taxes (the "PILOT Payments"); 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 hereunder, including the Fiscal 2007 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 2007 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 2007 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 2007 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 2007 Series A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Fiscal 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 Series A Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Fiscal 2007 Series A Bonds, or the interest thereon, if any action is taken with respect to Fiscal 2007 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,

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