

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, 2012 and 2011. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Government-wide financial statements

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

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

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* (GASB61) in fiscal year 2012. The Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. For organizations that previously were required to be included as Component Units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and the organization for it to be included in the reporting entity as a Component Unit. For organizations that do not meet the financial accountability criteria for inclusion as Component Units, but should be included because the primary government's management determines that it would be misleading to exclude them, GASB61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. For Component Units that currently are blended based on "substantively the same governing body" criterion, GASB61 requires that the primary government and the Component Unit have a financial benefit or burden relationship or management of the primary government has operational responsibility of the activities of the Component Unit. New criteria also are added to require blending of Component Units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a Blended Component Unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a Component Unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. GASB61 requires a primary government to report its equity interest in a Component Unit as an asset. As a result of the analysis performed by the City in the course of implementing GASB61, a managerial decision was made to change the reporting of the New York City Tax Lien Trusts (NYCTLTs). The effect on the financial statements is to report the NYCTLTs as Blended Component Units of the City. They were formerly reported as Other Trust Funds. For the government-wide financial statements, the financial reporting impact of this change is an increase of \$150 million to "Net assets" in the *Statement of Net Assets*, and a decrease of \$10.9 million to the "Change in net assets" in the *Statement of Activities*. For the funds financial statements, the financial reporting impact is an increase of \$62.4 million to "Fund balance" in the *Balance Sheet* and a decrease of \$20 million to the "Net change in fund balance" in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*.

The government-wide financial statements present information about the City as a primary government, which includes the City's Blended Component Units. All of the activities of the primary government are considered to be governmental activities. This information is presented separately from the City's Discretely Presented Component Units.

Fund financial statements

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

Governmental funds

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

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

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

Fiduciary funds

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

The New York City Other Postemployment Benefits Plan (the PLAN) is composed of The New York City Retiree Health Benefits Trust (the Trust) and OPEB paid for directly by the City out of its general resources rather than through the Trust. The Trust is used to accumulate assets to pay for some of the OPEB provided by The City to its retired employees. The PLAN is reported in the City's financial statements as an Other Employee Benefit Trust Fund. The PLAN was established for the exclusive benefit of the City's retired employees and their dependents in providing the following current postemployment benefits: a health insurance program, Medicare Part B premium reimbursements and welfare fund contributions. The City is not required to provide funding for the PLAN other than the "pay-as-you-go" amounts necessary to provide current benefits to eligible retirees and their dependents. During fiscal year 2012, the City contributed approximately \$1.4 billion to the PLAN.

Notes to financial statements

The notes to financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements.

Financial Reporting Entity

The financial reporting entity consists of the primary government and its Component Units which are legally separate organizations for which the primary government is financially accountable, and other legally separate organizations for which the primary government has determined, through the exercise of management's professional judgment, that inclusion of those organizations do not meet the financial accountability criteria, but are necessary to be included to prevent the reporting entity's financial statements from being 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 organizations that are fiscally dependent on the primary government if there is a potential for the organizations to provide specific financial benefits to the primary government or impose specific financial burdens on the primary government regardless of whether the organizations have separate elected governing boards, governing

boards appointed by higher levels of government or jointly appointed boards. The City is financially accountable for all of its Component Units.

Blended Component Units

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

- New York City School Construction Authority (SCA)
- New York City Transitional Finance Authority (TFA)
- TSASC, Inc. (TSASC)
- New York City Educational Construction Fund (ECF)
- Fiscal Year 2005 Securitization Corporation (FSC)
- Sales Tax Asset Receivable Corporation (STAR)
- Hudson Yards Development Corporation (HYDC)
- Hudson Yards Infrastructure Corporation (HYIC)
- New York City Tax Lien Trusts (NYCTLTs):
 - NYCTLT 1998-2
 - NYCTLT 2010-A
 - NYCTLT 2011-A
 - NYCTLT 2012-A

Discretely Presented Component Units

Discretely Presented Component Units are legally separate from the primary government and are reported as Discretely Presented Component Units because the City appoints a majority of these organizations' governing bodies and either is able to impose its will on them or a financial benefit/burden situation exists.

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

- Water and Sewer System (NYW):
 - New York City Water Board (Water Board)
 - New York City Municipal Water Finance Authority (Water Authority)
- New York City Housing Authority (HA)
- New York City Housing Development Corporation (HDC)
- New York City Health and Hospitals Corporation (HHC)
- New York City Economic Development Corporation (EDC)

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

- WTC Captive Insurance Company, Inc. (WTC Captive)
- Brooklyn Navy Yard Development Corporation (BNDYDC)
- New York City Industrial Development Agency (IDA)
- New York City Energy Efficiency Corporation (EEC)
- The Trust for Governors Island (TGI)
- Brooklyn Bridge Park Corporation (BBPC)
- Business Relocation Assistance Corporation (BRAC)
- New York City Capital Resource Corporation (CRC)
- Build NYC Resource Corporation (Build NYC)

Financial Analysis of the Government-wide Financial statements

In the government-wide financial statements, all of the activities of the City, aside from its Discretely Presented Component Units, are considered governmental activities. Governmental activities increased the City's net deficit by \$7.5 billion during fiscal year 2012, and increased the net deficit by \$9.6 billion during fiscal year 2011, and increased the net deficit by \$11.7 billion during fiscal year 2010.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2012 governmental funds statement of revenues, expenditures, and changes in fund balances which reports an increase of \$47 million in fund balances and the increase in the net assets deficit reported in the government-wide statement of activities of \$7.5 billion, a difference of \$7.4 billion. A similar reconciliation is provided for fiscal year 2011 amounts.

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

Key elements of these changes are as follows:

	Governmental Activities for the fiscal years ended June 30,		
	2012	2011	2010
	(in thousands)		
Revenues:			
Program revenues:			
Charges for services	\$ 4,600,078	\$ 4,236,030	\$ 4,540,775
Operating grants and contributions	18,768,706	19,951,270	20,403,783
Capital grants and contributions	594,313	538,015	586,080
General revenues:			
Taxes	41,982,497	40,803,751	38,058,116
Investment income	117,608	133,758	65,508
Other Federal and State aid	730,310	470,117	478,811
Other	980,491	329,218	216,516
Total revenues	<u>67,774,003</u>	<u>66,462,159</u>	<u>64,349,589</u>
Expenses:			
General government	4,101,933	3,791,462	4,298,065
Public safety and judicial	17,077,117	18,815,201	18,293,989
Education	24,957,901	25,604,277	24,749,134
City University	954,590	947,402	1,035,471
Social services	14,181,836	12,896,220	13,183,110
Environmental protection	3,456,151	3,744,521	4,374,543
Transportation services	2,536,846	2,073,164	2,184,078
Parks, recreation, and cultural activities	1,077,230	1,119,677	1,012,404
Housing	1,327,674	1,317,725	1,425,949
Health (including payments to HHC)	2,419,857	2,484,876	2,554,881
Libraries	243,470	343,395	249,423
Debt service interest	2,931,953	2,911,817	2,690,732
Total expenses	<u>75,266,558</u>	<u>76,049,737</u>	<u>76,051,779</u>
Change in net assets	(7,492,555)	(9,587,578)	(11,702,190)
Net deficit—beginning ^(a)	(117,855,019)	(108,267,441)	(96,726,217)
Net deficit—ending	<u>\$(125,347,574)</u>	<u>\$(117,855,019)</u>	<u>\$(108,428,407)</u>

In fiscal year 2012, the government-wide revenues increased from fiscal year 2011 levels by approximately \$1.3 billion, while government-wide expenses decreased by approximately \$783 million.

(a) The fiscal year 2010 net deficit ending balance compared to the fiscal year 2011 net deficit beginning balance results in a change of \$161.0 million. This is a result of the analysis performed by the City in the course of implementing GASB61 to change the reporting of the NYCTLTs as Blended Component Units of the City. They were formerly reported as Other Trust Funds.

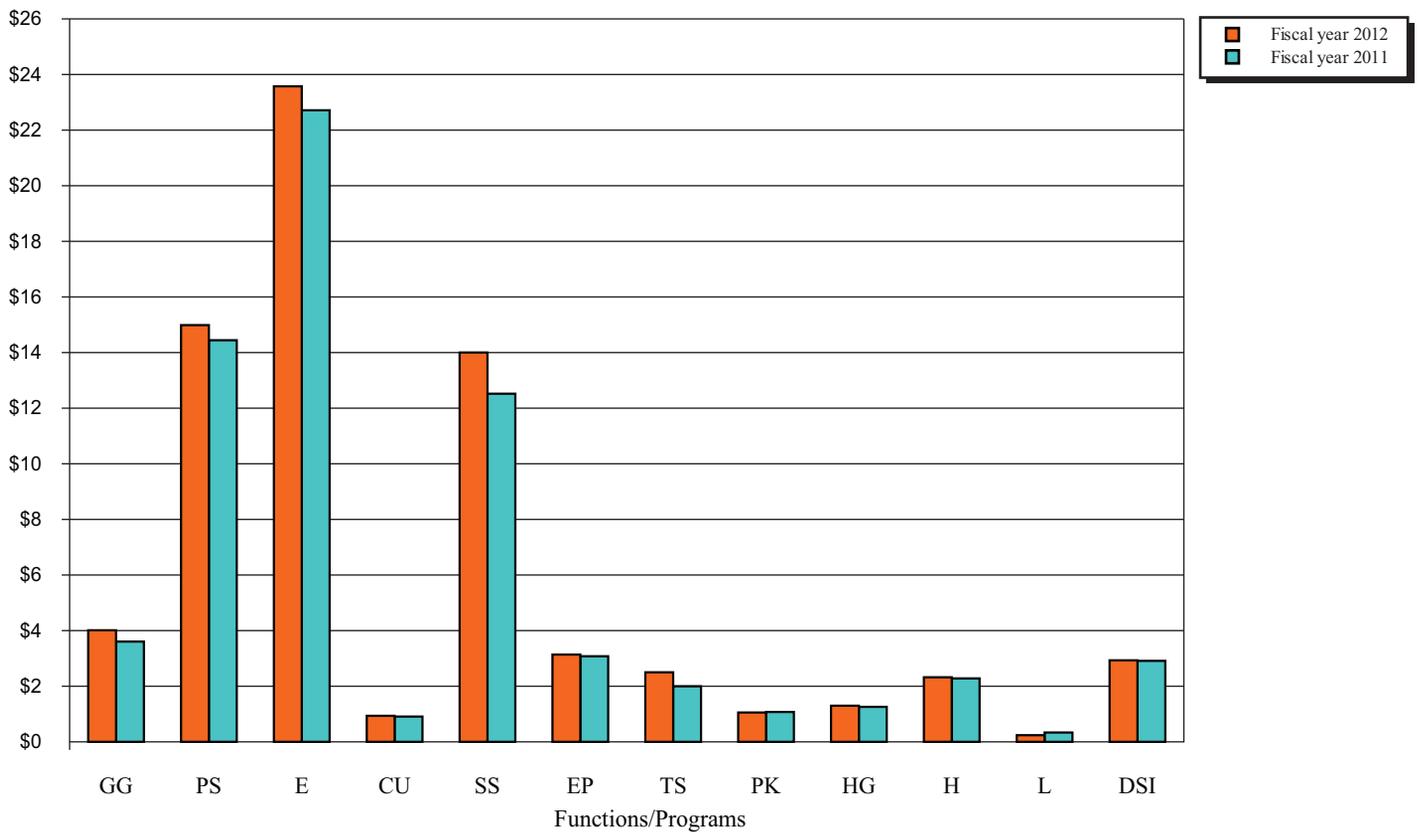
In fiscal year 2012, the increased costs of OPEB (i.e., the increase in the Net OPEB Obligation “NOO”) was approximately \$4.3 billion. The increase was due primarily to the increased value of benefits and interest in excess of employer contributions. In fiscal year 2011, the NOO increased by approximately \$8.9 billion.

GASB45 requires the financial reports of governments to provide a systematic, accrual-basis measurement of an annual OPEB cost. The following schedule displays the effect of the GASB45 expenses as they appear in the Statement of Activities for fiscal year 2012 and a comparison to fiscal year 2011:

Functions/Programs	Fiscal Year 2012		
	Expenses per Statement of Activities	GASB45 Expenses (in thousands)	Expenses excluding GASB45
General government (GG)	\$ 4,101,933	\$ 89,179	\$ 4,012,754
Public safety and judicial (PS)	17,077,117	2,090,568	14,986,549
Education (E)	24,957,901	1,382,753	23,575,148
City University (CU)	954,590	18,490	936,100
Social services (SS)	14,181,836	179,837	14,001,999
Environmental protection (EP)	3,456,151	318,555	3,137,596
Transportation services (TS)	2,536,846	35,879	2,500,967
Parks, recreation and cultural activities (PK)	1,077,230	21,801	1,055,429
Housing (HG)	1,327,674	28,613	1,299,061
Health, including payments to HHC (H)	2,419,857	97,447	2,322,410
Libraries (L)	243,470	4,064	239,406
Debt service interest (DSI)	2,931,953	—	2,931,953
Total expenses	<u>\$75,266,558</u>	<u>\$4,267,186</u>	<u>\$70,999,372</u>

Functions/Programs	Fiscal Year 2011		
	Expenses per Statement of Activities	GASB45 Expenses (in thousands)	Expenses excluding GASB45
General government (GG)	\$ 3,791,462	\$ 186,503	\$ 3,604,959
Public safety and judicial (PS)	18,815,201	4,372,081	14,443,120
Education (E)	25,604,277	2,889,801	22,714,476
City University (CU)	947,402	38,669	908,733
Social services (SS)	12,896,220	376,101	12,520,119
Environmental protection (EP)	3,744,521	666,205	3,078,316
Transportation services (TS)	2,073,164	75,035	1,998,129
Parks, recreation, and cultural activities (PK)	1,119,677	45,593	1,074,084
Housing (HG)	1,317,725	59,840	1,257,885
Health, including payments to HHC (H)	2,484,876	203,794	2,281,082
Libraries (L)	343,395	8,499	334,896
Debt service interest (DSI)	2,911,817	—	2,911,817
Total expenses	<u>\$76,049,737</u>	<u>\$8,922,121</u>	<u>\$67,127,616</u>

**Expenses — Governmental Activities⁽¹⁾
for the fiscal years ended June 30, 2012 and 2011
(in billions)**



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

(1) Expenses exclude GASB45.

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

- Operating grants and contributions decreased due to a winding down of the American Recovery and Reinvestment Act of 2009 in 2012 versus 2011.
- Unrestricted Federal and State aid increased because the reported amount in 2011 was unusually low due to a write-off of the prior year's accrued New York State Revenue Sharing.
- Tax revenues, net of refunds, increased overall, as a result of the following:
 - The increase in real estate taxes results from growth in billable assessed value during the fiscal year.
 - The overall increase in sales and use taxes is driven primarily by large growth in mortgage recording taxes reflecting a rebound in the commercial real estate market. Additionally, there was an increase in the collection of general sales tax which demonstrates an increase in taxable consumption resulting from the local economic recovery and strong tourist consumption.
 - The increase in personal income taxes continued from 2011 as both wage and nonwage income strengthened.
 - The decrease in other income taxes (which include general corporation, financial corporation, unincorporated business income, non-resident personal income taxes, and utility tax) is mostly attributable to decreases in the business taxes (general corporation, financial corporation, and unincorporated business taxes). These declines originate from declines in the financial sector and Wall Street profitability versus prior years.
 - For all other taxes, the increase in taxes associated with the conveyance of real property reflects a recovery in both the volume and average sale price for commercial transactions and an improvement in the average sale prices for residential properties. Also increasing were hotel occupancy taxes stemming from record levels of tourism reached in calendar year 2011 as well as increases in commercial rent tax which shows improvements in commercial office vacancy rates and asking rents in Manhattan.
- The increase in the general revenues includes a settlement reached by the United States Attorney on behalf of the City of New York for restitution associated with the CityTime project.

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

- General government expenses rose predominantly due to increased fringe benefits costs.
- Expenses for Public Safety and Judicial decreased largely because the Department of Juvenile Justice was merged with the Administration for Children's Services and as a result is now reflected in Social Services.
- Social Services expenses increased primarily due to the merger of the Department of Juvenile Justice with the Administration for Children's Services and the subsequent transfer of associated costs.
- Transportation services increased in part due to higher payments made to the Transit Authority in fiscal year 2012.

In fiscal year 2011, the government-wide revenues increased from fiscal year 2010 by approximately \$2.1 billion, and government-wide expenses decreased by approximately \$2.0 million.

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

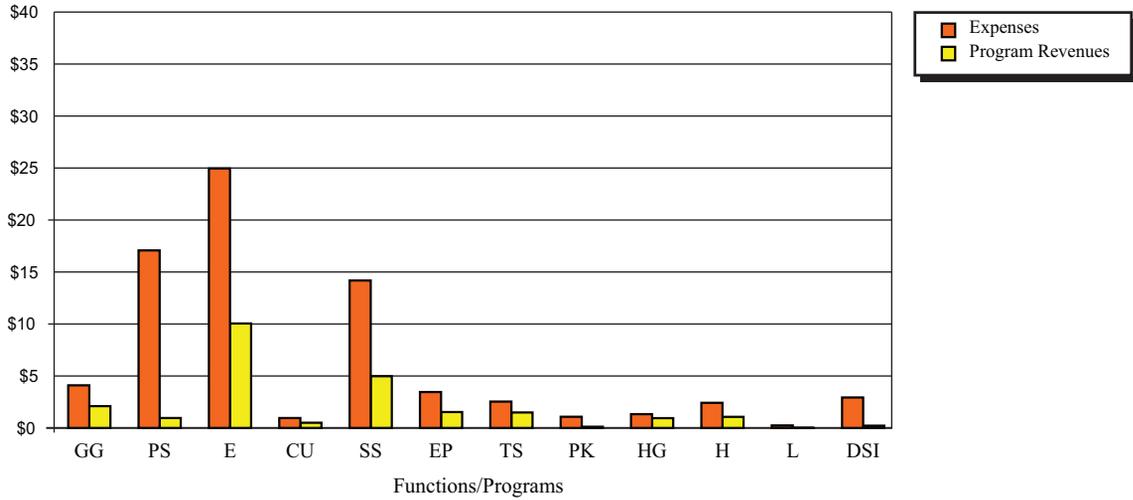
- Tax revenues, net of refunds, increased overall, as a result of the following:
 - The increase in real estate taxes results from growth in billable assessed value during the fiscal year.
 - The overall increase in sales and use taxes is driven primarily by a large increase in general sales tax which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

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

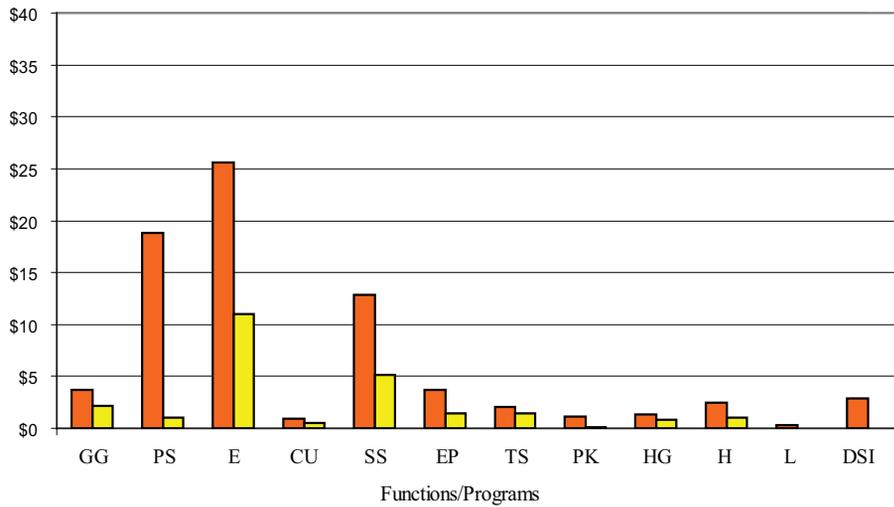
- Expenses for Public Safety and Judicial increased compared to the prior year because fiscal 2010 costs were partially offset by a write-off of previously estimated collective bargaining increases.
- Expenses for Education grew primarily due to further cost increases for special education and charter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

The following charts compare the amounts of expenses and program revenues for fiscal years 2012 and 2011:

**Expenses and Program Revenues — Governmental Activities⁽¹⁾
for the year ended June 30, 2012
(in billions)**



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

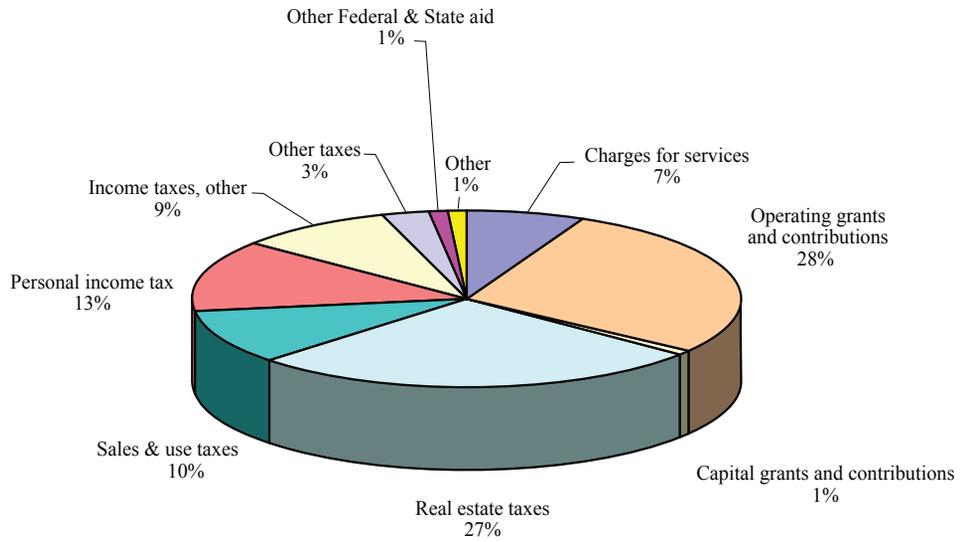


Functions/Programs	
GG	General government
PS	Public safety and judicial
E	Education
CU	City University
SS	Social services
EP	Environmental protection
TS	Transportation services
PK	Parks, recreation, and cultural activities
HG	Housing
H	Health, including payments to HHC
L	Libraries
DSI	Debt service interest

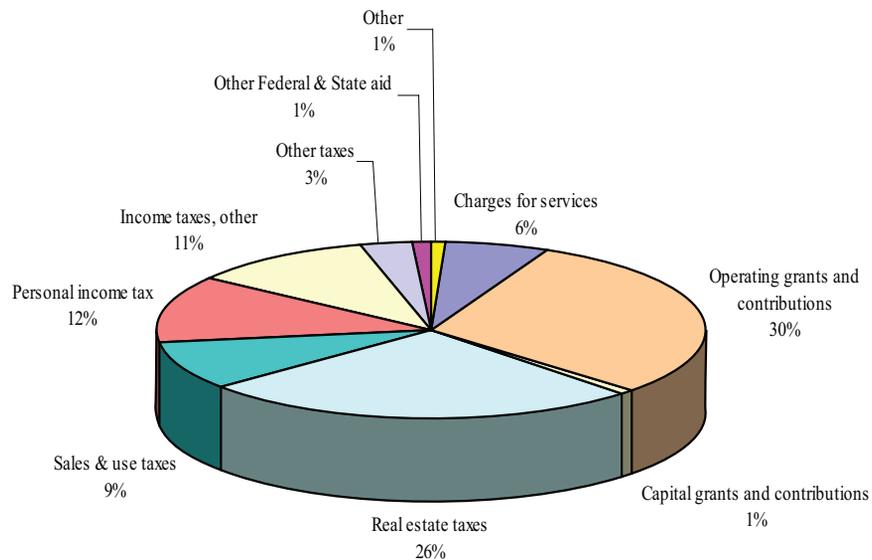
(1) Expenses include GASB45.

The following charts compare the amounts of program and general revenues for fiscal years 2012 and 2011:

**Revenues by Source — Governmental Activities
for the year ended June 30, 2012**



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



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 \$125.3 billion at the close of the most recent fiscal year, an increase in the excess of liabilities over assets of \$7.5 billion from June 30, 2011, which in turn compares with the net deficit increase of \$9.4 billion over the prior fiscal year 2010.

	Governmental Activities		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(in thousands)		
Current and other assets	\$ 33,666,004	\$ 32,035,997	\$ 31,358,012
Capital assets (net of depreciation/ amortization)	48,215,076	46,468,237	43,474,065
Total assets	<u>81,881,080</u>	<u>78,504,234</u>	<u>74,832,077</u>
Long-term liabilities	183,133,348	174,138,334	160,298,098
Other liabilities	24,095,306	22,220,919	22,962,386
Total liabilities	<u>207,228,654</u>	<u>196,359,253</u>	<u>183,260,484</u>
Net assets:			
Invested in capital assets, net of related debt	(10,207,250)	(9,996,793)	(6,899,623)
Restricted	6,635,670	6,657,505	6,883,624
Unrestricted (deficit)	(121,775,994)	(114,515,731)	(108,412,408)
Total net deficit	<u><u>\$(125,347,574)</u></u>	<u><u>\$(117,855,019)</u></u>	<u><u>\$(108,428,407)</u></u>

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest components of the net deficit are the result of the City having long-term debt with no corresponding capital assets and the City's OPEB liability. The following summarizes the main components of the net deficit as of June 30, 2012 and 2011:

<u>Components of Net Deficit</u>	<u>2012</u>	<u>2011</u>
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable/amortizable life used for financial reporting that is different from the period over which the related debt principal is being repaid. Schools and related education assets depreciate/amortize more quickly than their related debt is paid, and they comprise one of the largest components of this difference	\$ (10.2)	\$ (10.0)
Net Assets Restricted for:		
Debt Service	3.9	5.4
Capital Projects	<u>2.7</u>	<u>1.3</u>
Total net assets restricted	<u>6.6</u>	<u>6.7</u>
Unrestricted Net Assets		
TFA issued debt to finance costs related to the recovery from the September 11, 2001 World Trade Center disaster, which are operating expenses of the City	(1.4)	(1.5)
STAR issued debt related to the defeasance of the MAC issued debt	(2.1)	(2.1)
The City has issued debt for the acquisition and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority (TA), NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end.	(14.5)	(12.2)
Certain long-term obligations do not require current funding:		
OPEB liability	(88.2)	(83.9)
Judgments and claims	(6.3)	(6.1)
Vacation and sick leave	(4.2)	(3.9)
Pension liability	(0.6)	(0.6)
Landfill closure and postclosure costs	(1.5)	(1.6)
Other:	<u>(2.9)</u>	<u>(2.6)</u>
Total unrestricted (deficit) net assets	<u>(121.7)</u>	<u>(114.5)</u>
Total net deficit	<u>\$(125.3)</u>	<u>\$(117.8)</u>

**Financial Analysis of the
Governmental Funds**

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

	Governmental Funds					Total
	General Fund	Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	
	(in thousands)					
Fund balances (deficit), June 30, 2010	\$ 442,150	\$(3,144,344)	\$ 2,926,198	\$ 3,333,764	\$ —	\$ 3,557,768
Revenues	64,806,837	3,197,618	82,951	3,455,346	(2,882,579)	68,660,173
Expenditures	(59,788,636)	(9,098,807)	(3,684,423)	(4,527,139)	2,187,535	(74,911,470)
Other financing sources (uses)	<u>(5,013,079)</u>	<u>6,030,808</u>	<u>3,492,664</u>	<u>1,565,937</u>	<u>695,044</u>	<u>6,771,374</u>
Fund balances (deficit), June 30, 2011	447,272	(3,014,725)	2,817,390	3,827,908	—	4,077,845
Revenues	66,482,257	2,805,913	121,158	3,488,013	(2,726,100)	70,171,241
Expenditures	(62,649,080)	(8,430,996)	(3,841,129)	(6,733,015)	2,109,236	(79,544,984)
Other financing sources (uses)	<u>(3,828,165)</u>	<u>5,893,250</u>	<u>2,276,189</u>	<u>4,462,349</u>	<u>616,864</u>	<u>9,420,487</u>
Fund balances (deficit), June 30, 2012	<u>\$ 452,284</u>	<u>\$(2,746,558)</u>	<u>\$ 1,373,608</u>	<u>\$ 5,045,255</u>	<u>\$ —</u>	<u>\$ 4,124,589</u>

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies and other payments that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of \$2.467 billion and \$3.747 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2012 and 2011, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of \$5 million in both fiscal years 2012 and 2011, 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, 2012, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling \$1.363 billion in fiscal year 2012 for fiscal year 2013 debt service. Similar transfers in fiscal year 2011 of \$2.788 billion for fiscal year 2012 debt service also primarily account for the General Debt Service Fund balance at June 30, 2011.

The Capital Projects Fund accounts for the financing of the City's capital program. The primary resource is obtained from the issuance of City and TFA debt. Capital-related expenditures are first paid from the General Fund, which is reimbursed for these expenditures by the Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, and other revenues and financing sources, the Capital Projects Fund will have a deficit. The deficit fund balances at June 30, 2012 and 2011 represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

**General Fund
Budgetary Highlights**

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB49). In addition to requiring recognition of pollution remediation obligations, GASB49 generally precludes costs incurred for pollution remediation from being reported as capital expenditures. Thus, the City's fiscal year 2012 General Fund expenditures include approximately \$224.9 million of pollution remediation expenditures associated with projects which were originally included in the City's capital program. In June 2010, the state amended the Financial Emergency Act to permanently waive the budgetary impact of GASB49. Thus, \$201.9 million of City bond proceeds and \$23.0 million of other revenues (New York City Municipal Water

Finance Authority bond proceeds transferred to the City) supporting the \$224.9 million of pollution remediation expenditures are also reported in the General Fund for fiscal year 2012. In fiscal year 2011, \$267.8 million of City bond proceeds and \$18.9 million of other revenues (New York City Municipal Water Finance Authority bond proceeds transferred to the City) supported the \$286.7 million of pollution remediation expenditures reported in the General Fund. Although amounts were not established in the Adopted Budget, a modification to the budget was made to accommodate the pollution remediation expenditure charge in the General Fund. These pollution remediation expenditures were incurred by various agencies, as follows:

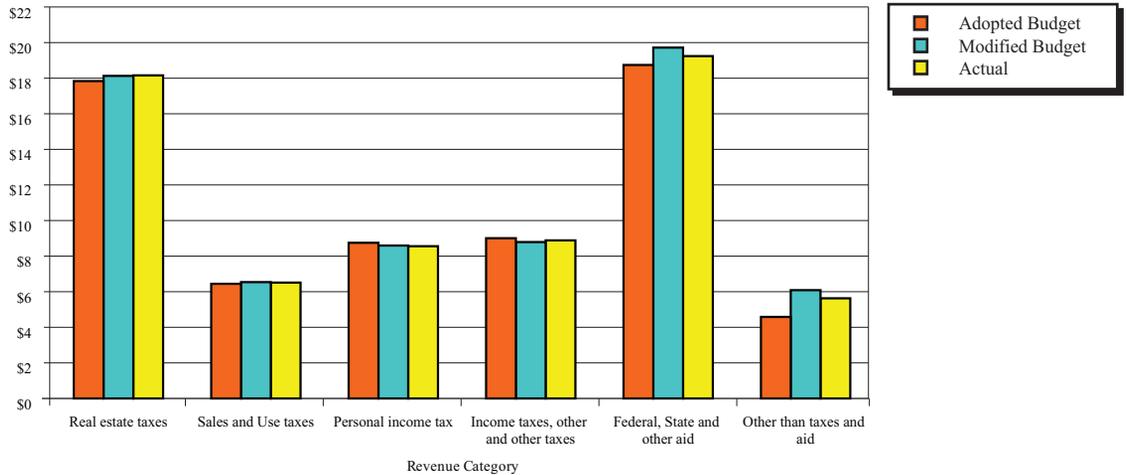
General Fund Pollution Remediation Expenditures Fiscal Year 2012		
	Modified Budget	Actual
(in thousands)		
General government	\$ 22,347	\$ 22,347
Public safety and judicial	1,865	1,865
Education	121,628	121,628
Social services	157	157
Environmental protection	25,007	25,007
Transportation services	50,339	50,339
Parks, recreation, and cultural activities	257	257
Housing	1,725	1,725
Health, including HHC	1,366	1,366
Libraries	172	172
Total expenditures	<u>\$224,863</u>	<u>\$224,863</u>

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

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

The following charts and tables summarize actual revenues by category for fiscal years 2012 and 2011 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

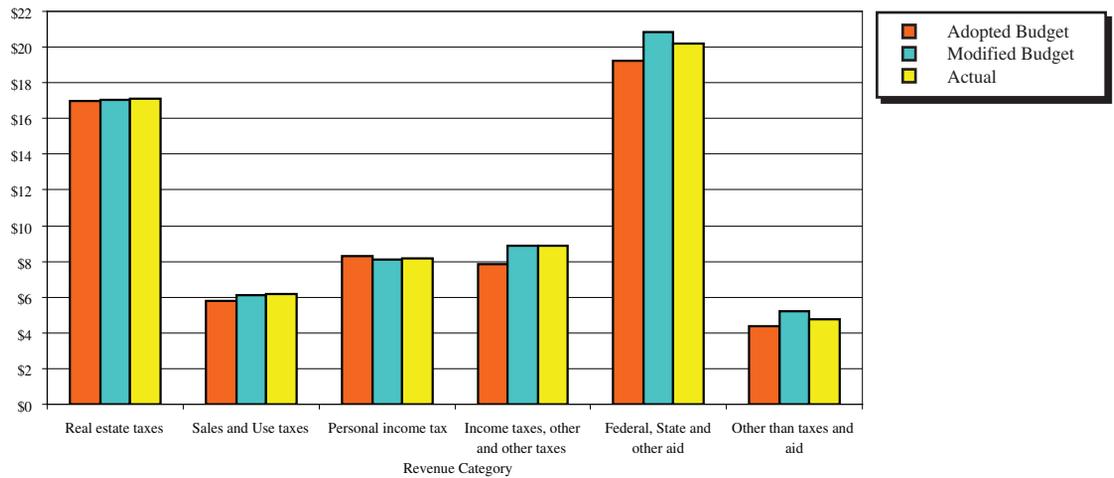
**General Fund Revenues
Fiscal Year 2012
(in billions)**



**General Fund Revenues
Fiscal Year 2012**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
	(in millions)		
Taxes (net of refunds):			
Real estate taxes	\$17,838	\$18,129	\$18,158
Sales and use taxes	6,444	6,539	6,512
Personal income tax	8,749	8,594	8,557
Income taxes, other	6,285	6,420	6,499
Other taxes	2,721	2,371	2,385
Taxes (net of refunds)	<u>42,037</u>	<u>42,053</u>	<u>42,111</u>
Federal, State and other aid:			
Categorical	18,705	19,694	19,216
Unrestricted	37	25	25
Federal, State and other aid	<u>18,742</u>	<u>19,719</u>	<u>19,241</u>
Other than taxes and aid:			
Charges for services	2,491	2,521	2,539
Other revenues	1,790	3,067	2,591
Bond proceeds	—	202	202
Transfer from Nonmajor Debt Service Fund	213	209	210
Transfer from General Debt Service Fund	88	88	88
Other than taxes and aid	<u>4,582</u>	<u>6,087</u>	<u>5,630</u>
Total revenues	<u>\$65,361</u>	<u>\$67,859</u>	<u>\$66,982</u>

General Fund Revenues
Fiscal Year 2011
(in billions)



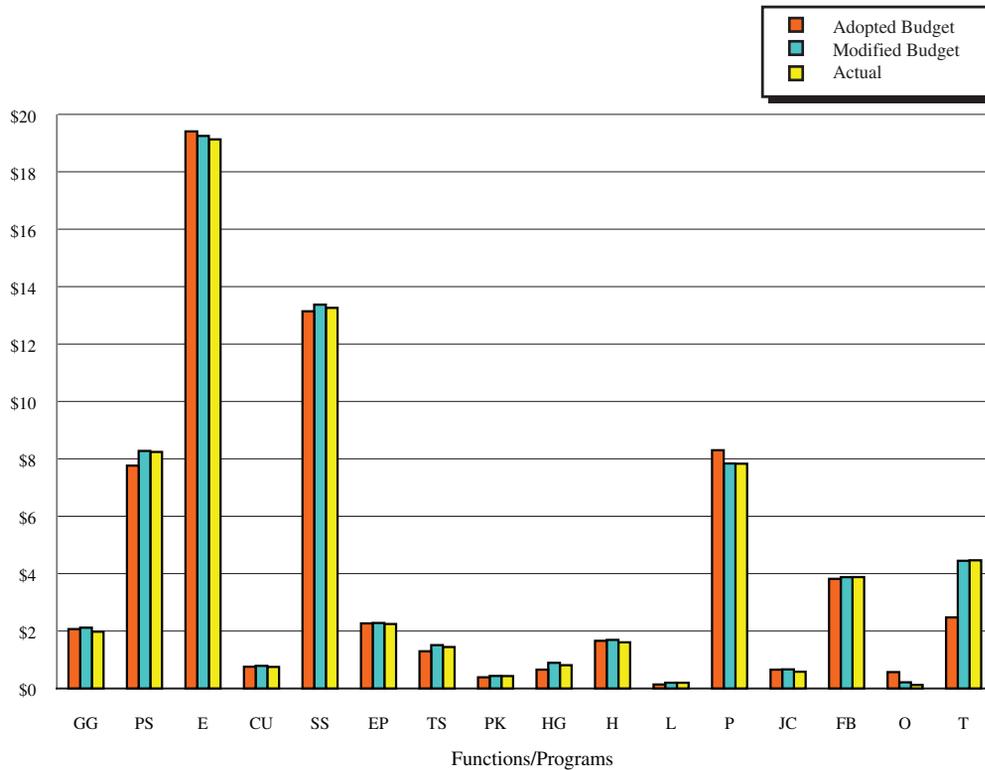
General Fund Revenues
Fiscal Year 2011

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

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2012 and 2011 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

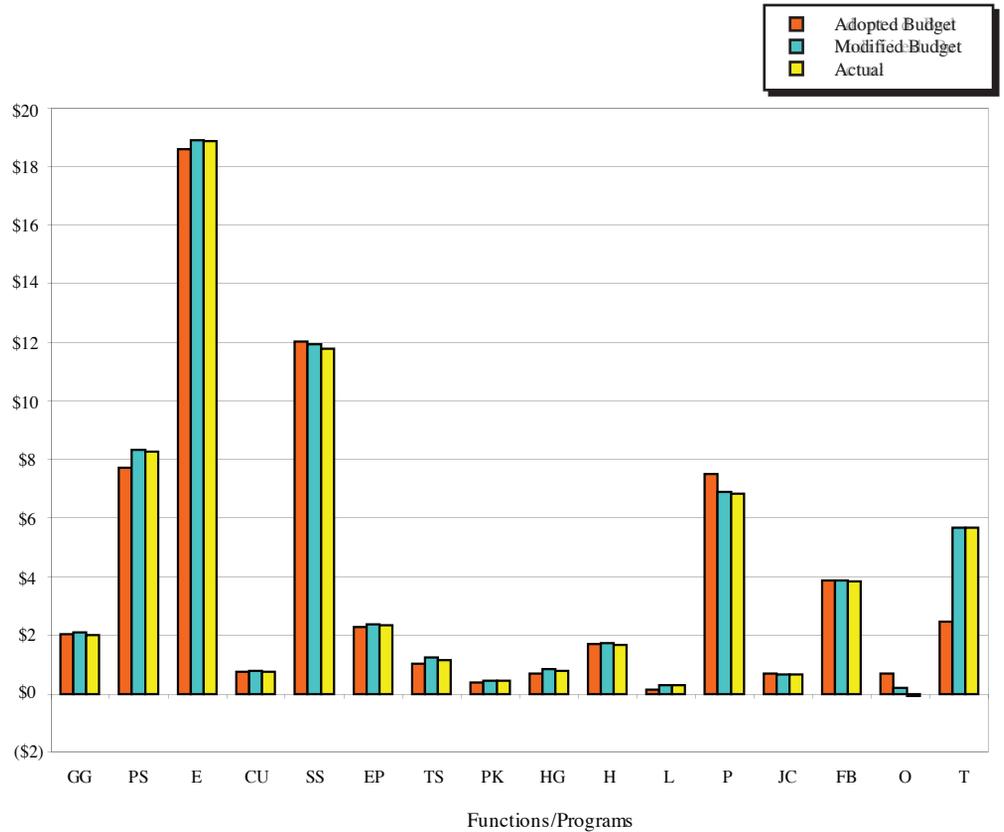
**General Fund Expenditures
Fiscal Year 2012
(in billions)**



**General Fund Expenditures
Fiscal Year 2012**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
		(in millions)	
General government (GG)	\$ 2,069	\$ 2,118	\$ 1,978
Public safety and judicial (PS)	7,763	8,275	8,240
Education (E)	19,407	19,249	19,129
City University (CU)	757	788	750
Social services (SS)	13,140	13,371	13,259
Environmental protection (EP)	2,266	2,282	2,246
Transportation services (TS)	1,296	1,510	1,444
Parks, recreation, and cultural activities (PK)	389	436	432
Housing (HG)	656	894	811
Health, including HHC (H)	1,660	1,692	1,608
Libraries (L)	139	200	199
Pensions (P)	8,300	7,838	7,830
Judgments and claims (JC)	655	665	583
Fringe benefits and other benefit payments (FB)	3,819	3,878	3,880
Other (O)	570	215	123
Transfers and other payments for debt service (T)	2,475	4,448	4,465
Total expenditures	<u>\$65,361</u>	<u>\$67,859</u>	<u>\$66,977</u>

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



**General Fund Expenditures
Fiscal Year 2011**

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

General Fund Surplus

The City had General Fund surpluses of \$2.467 billion, \$3.747 billion and \$3.651 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2012, 2011 and 2010, respectively. For the fiscal years 2012, 2011 and 2010, 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 2012, 2011 and 2010 budgets follow:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(in millions)	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	\$ 65	\$ 356	\$ 766
Discretionary transfers to the General Debt Service Fund	1,275	2,428	2,122
Net equity contribution in bond refunding that accrued to future years debt service savings	23	4	4
Grant to HYIC	156	—	—
Grant to TFA	879	790	371
Advance cash subsidies to the Public Library system	64	164	164
Advance cash subsidies to the TA and Metropolitan Transportation Authority (MTA)	—	—	219
Total expenditures and transfers (discretionary and other)	2,462	3,742	3,646
Reported surplus	<u>5</u>	<u>5</u>	<u>5</u>
Total surplus	<u>\$2,467</u>	<u>\$3,747</u>	<u>\$3,651</u>

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2012 Adopted Budget:

	<u>2012</u>
	(in millions)
Additional Resources:	
Federal Categorical Aid	\$ 505
CityTime settlement proceeds	469
Lower than expected pension expenditures	469
Lower than expected supplies and materials costs	406
Lower than expected all other general administrative OTPS expenditures	367
Greater than expected real estate tax collections	320
General Reserve	300
Lower than expected all other debt service costs	257
Higher than expected all other miscellaneous revenues	195
Lower than expected provisions for disallowance reserve	181
Higher than expected real property transfer tax collections	137
Lower than expected energy costs	133
Higher than expected all other tax collections	120
Greater than expected banking corporation tax collections	87
State categorical aid	84
Lower than expected health insurance costs	80
Lower than expected judgments and claims expenditures	74
Higher than expected revenues from licenses, permits and privileges	57
Greater than expected proceeds from asset sales	47
Higher than expected charges for services	47
Lower than expected public assistance spending	44
Higher than expected revenues from fines and forfeitures	44
Higher than expected mortgage tax collections	37
Higher than expected commercial rent tax collections	36
Lower than expected lease purchase debt service costs	35
Greater than expected sales tax collections	6
All other net underspending and revenues above budget	<u>2</u>
Total	<u>4,539</u>
Enabled the City to provide for:	
Additional prepayments for certain debt service costs and subsidies due in fiscal year 2013	2,439
Greater than expected overtime costs	432
Greater than expected contractual services costs	353
Lower than expected general corporation tax collections	272
Lower than expected personal income tax collections	228
Pollution remediation costs	225
Lower than expected unincorporated business tax collections	169
Greater than expected all other fixed and miscellaneous charges	136
Higher than expected Medicaid spending	77
Higher than expected property and equipment costs	66
Lower than expected non-governmental grants	53
Greater than expected payments to HHC	24
Greater than expected all other social services spending (excluding Medicaid and public assistance)	22
Lower than expected interest income	17
Lower than expected unrestricted Federal and State aid	12
Higher than expected all other personal services spending	<u>9</u>
Total	<u>4,534</u>
Reported Surplus	<u>\$ 5</u>

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

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

Capital Assets

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

	Governmental Activities		
	2012	2011	2010
		(in millions)	
Land*	\$ 1,634	\$ 1,569	\$ 1,240
Buildings	28,383	27,007	25,154
Equipment (including software)	2,410	2,153	1,979
Infrastructure**	11,351	10,842	10,284
Construction work-in-progress*	4,437	4,897	4,817
Total	<u>\$48,215</u>	<u>\$46,468</u>	<u>\$43,474</u>

* Not depreciable/amortizable

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

The net increase in the City's capital assets during fiscal year 2012 was \$1.747 billion, a 4% increase. Capital assets additions in fiscal year 2012 were \$8.001 billion, a decrease of \$514 million from fiscal year 2011.

The net increase in the City's capital assets during fiscal year 2011 was \$2.994 billion, a 7% increase. Capital assets additions in fiscal year 2011 were \$8.515 billion, a decrease of \$1.065 billion from fiscal year 2010.

Additional information on the City's capital assets can be found in Note D.2 of the Basic Financial Statements and in schedule CA1 thru CA3 of other supplementary information.

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 2012, 2011 and 2010.

	New York City and City-Related Debt		
	2012	2011	2010
		(in millions)	
General Obligation Bonds ^(a)	\$42,286	\$41,785	\$41,555
TFA Bonds	19,587	17,624	14,407
TFA Recovery Bonds	1,372	1,466	1,466
TFA BARBs	5,309	4,730	4,221
TSASC Bonds	1,253	1,260	1,265
IDA Bonds	95	98	99
STAR Bonds	2,054	2,117	2,178
FSC Bonds	270	282	294
HYIC Bonds	3,000	2,000	2,000
ECF Bonds	274	281	150
Total bonds and notes payable	<u>\$75,500</u>	<u>\$71,643</u>	<u>\$67,635</u>

(a) Does not include capital contract liabilities.

General Obligation

On July 1, 2012, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled \$52.7 billion (compared with \$52.03 and \$49.9 billion as of July 1, 2011 and 2010, respectively). The State Constitution provides that, with certain exceptions, the City may not contract indebtedness in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years. As of July 1, 2012, the City's 10% general limitation was \$76.9 billion (compared with \$76.1 and \$76.2 billion as of July 1, 2011 and 2010 respectively). The City's remaining debt incurring power as of July 1, 2012, after providing for capital contract liabilities, totaled \$24.17 billion.

As of June 30, 2012, the City's outstanding GO variable and fixed rate debt totaled \$7.67 billion and \$34.62 billion, respectively. Of the \$4.95 billion in GO bonds issued by the City in fiscal year 2012, a total of \$2.23 billion was issued to refund certain outstanding bonds at a lower interest rate and a total of \$2.72 billion was issued for new money capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. These refundings produce budgetary dissavings of \$9.44 million in fiscal year 2012, and budgetary savings of \$222.15 million and \$69.72 million in 2013 and 2014, respectively. The refundings will generate approximately \$277.06 million in net present value savings throughout the life of the bonds.

In fiscal year 2012, the City issued \$297.46 million of traditional taxable fixed rate bonds. The traditional taxable bonds were sold on a competitive basis.

In addition, the City converted \$145.56 million of bonds between different interest rate modes.

During fiscal year 2012, GO variable rate debt traded at the following average interest rates:

	<u>Tax-Exempt</u>	<u>Taxable</u>
Dailies	0.24%	—
Weeklies	0.18%	1.17%
Auction Rate Securities—7 Day	0.51%	—

During fiscal year 2012, Standard & Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) maintained the GO rating at AA. Moody's Investors Service (Moody's) continued to rate GO bonds at Aa2.

Short-term Financing

In fiscal year 2012, the City had no short-term borrowings.

Transitional Finance Authority

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

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

As of June 30, 2012, the TFA Future Tax Secured Bond total debt outstanding, including Recovery Bonds and Subordinate Lien Bonds, totaled approximately \$20.96 billion.

TFA issued \$3.5 billion TFA bonds in fiscal year 2012, a total of \$2.8 billion was issued for new money capital purposes and \$700 million was issued to refund certain outstanding bonds at lower interest rates.

The proceeds of the refunding issues were placed in irrevocable escrow accounts to pay, when due, principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produce budgetary dissavings of \$2 million in fiscal year 2012, and budgetary

savings of \$50.34 million and \$285.5 thousand in fiscal years 2013 and 2014, respectively. The refundings will generate approximately \$46.9 million in net present value savings throughout the life of the bonds. Of the \$2.80 billion new money issued in fiscal year 2012, \$300 million were Qualified School Construction Bonds (QSCBs).

As of June 30, 2012, the TFA's outstanding variable rate debt, which included \$1.37 billion of TFA Recovery Bonds, totaled \$3.3 billion. During fiscal year 2012, TFA's variable rate debt traded at the following average interest rates:

	<u>Tax-Exempt</u>	<u>Taxable</u>
Dailies	0.32%	—
Weeklies	0.29%	0.28%
Auction Rate Securities—7 Day	0.53%	—
Index Floaters	1.02%	—
2-Day Mode	0.18%	—

In fiscal year 2012, S&P and Fitch maintained their respective ratings on both Senior Lien and Subordinate Lien TFA Bonds at AAA. Moody's maintained its rating on Senior Lien Bonds at Aaa and Subordinate Lien Bonds at Aa1.

In fiscal year 2006, the New York State Legislature authorized the TFA to issue bonds and notes or other obligations in an amount outstanding of up to \$9.4 billion to finance a portion of the City's educational facilities capital plan. The legislation further authorized the City to assign to the TFA all or any portion of the state aid payable to the City or its school district pursuant to Section 3602.6 of the New York State Education Law (State Building Aid) as security for the obligations. Pursuant to this authority, the TFA Building Aid Revenue Bond (TFA BARBs) credit was created. The City assigned all the State Building Aid to the TFA.

In fiscal year 2012, the TFA issued \$650 million in new money TFA BARBs to finance a portion of the City's educational facilities capital plan. As of June 30, 2012, the TFA BARBs outstanding totaled \$5.31 billion. Of the \$650 million bonds the TFA issued in fiscal year 2012, \$100 million were issued as QSCBs that will receive 100% interest subsidy from the federal government.

During fiscal year 2012, S&P and Fitch maintained the TFA BARBs rating at AA- and Moody's maintained the TFA BARBs rating at Aa3.

TSASC, Inc.

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

TSASC had no financing activity in fiscal year 2012. As of June 30, 2012, TSASC had approximately \$1.25 billion of bonds outstanding.

TSASC bond ratings vary by maturity. As of June 30, 2012, S&P rated TSASC bonds maturing June 1, 2022, 2026, 2034 and 2042 BB+, B+, B and B- respectively. Fitch rated TSASC bonds maturing on June 1, 2022 and 2026 BBB+ and BBB- respectively. Fitch rated bonds maturing on June 1, 2034 and 2042 BB.

Sales Tax Asset Receivable Corporation

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

As of June 30, 2012, STAR had \$2.05 billion bonds outstanding. It had no financing activity in fiscal year 2012.

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

Fiscal Year 2005 Securitization Corporation

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

As of June 30, 2012, FSC had \$270.24 million bonds outstanding. It had no financing activity in fiscal year 2012.

As of June 30, 2012, the bonds were rated AA+ by S&P, Aaa by Moody's and AAA by Fitch.

Hudson Yards Infrastructure Corporation

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

During fiscal year 2012 HYIC issued \$1 billion in revenue bonds. As of June 30, 2012, HYIC had \$3 billion bonds outstanding.

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

New York City Educational Construction Fund

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

The ECF had no financing activity in fiscal year 2012.

As of June 30, 2012, ECF had \$274 million bonds outstanding.

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

New York City Tax Lien Trusts

The New York City Tax Lien Trusts (NYCTLTs) are Delaware statutory trusts which were created to acquire certain liens securing unpaid real estate taxes, water rents, sewer surcharges, and other payables to the City and the New York City Water Board in exchange for the proceeds from bonds issued by the NYCTLTs, net of reserves funded by the bond proceeds and bond issued cost. The City is the sole beneficiary to the NYCTLTs and is entitled to receive distributions from the NYCTLTs after payments to the bondholders and certain reserve requirements have been satisfied.

As of June 30, 2012, the NYCTLT 2011-A had \$36 million in bonds outstanding.

Interest Rate Exchange Agreements

To lower borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has from time to time entered into interest rate exchange agreements (swaps) and sold options to enter into swaps at future dates. The City received specific authorization to enter into such agreements under Section 54.90 of the New York State Local Finance Law. No new swaps were initiated in fiscal year 2012. As of June 30, 2012, the outstanding notional amount on the City's various swap agreements was \$2.04 billion.

The Water Authority has also from time to time entered into interest rate exchange agreements in order to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio. In fiscal year 2012, it initiated no new swaps. As of June 30, 2012, the outstanding notional amount on the Water Authority's various swap agreements was \$621 million.

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

Subsequent Events

Subsequent to June 30, 2012, the City and TFA completed the following long-term financings:

Long-term Financing

City Debt: On October 23, 2012, The City of New York sold its Fiscal 2013 Series A General Obligation bonds of \$850 million for capital purposes.

On October 23, 2012, The City of New York sold its Fiscal 2013 Series B and C General Obligation bonds of \$600 million for refunding purposes.

On October 23, 2012, The City of New York converted its Fiscal 1994 Series A5 General Obligation bonds of \$22.18 million from Daily Mode to Fixed Rate Mode and Fiscal 1994 Series H6 General Obligation bonds, Fiscal 1996 Series J2 General Obligation bonds and Fiscal 2003 Series G3 General Obligation bonds of \$36.33 million from Weekly Mode to Fixed Rate Mode.

TFA Debt: On July 19, 2012, TFA sold its Fiscal 2013 Series S-1 Building Aid Revenue Bonds of \$850 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series A1-3 Future Tax Secured Subordinate bonds of \$450 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series A4-7 Future Tax Secured Adjustable Rate bonds of \$350 million for capital purposes.

On August 28, 2012, TFA sold its Fiscal 2013 Series B Future Tax Secured Subordinate bonds of \$950 million for refunding purposes.

NYCTLT

2012-A Debt: On August 8, 2012, NYCTLT 2012-A issued Tax Lien Collateralized Bonds, Series 2012-A of \$66.75 million to fund the purchase of certain liens from the City.

Bond Ratings: On August 22, 2012, Fitch downgraded TSASC bonds maturing June 1, 2022 to BBB from BBB+, bonds maturing June 1, 2026 to BB- from BBB-, and bonds maturing June 1, 2034 and June 1, 2042 to B+ from BB.

Commitments

At June 30, 2012, the outstanding commitments relating to projects of the Capital Projects Fund amounted to approximately \$14.7 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates the Capital Projects Fund expenditures of \$54.1 billion over fiscal years 2012 through 2021. To help meet its capital spending program, the City and TFA borrowed \$6.18 billion in the public credit market in fiscal year 2012. The City and TFA plan to borrow \$5.10 billion in the public credit market in fiscal year 2013.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The City of New York, Office of the Comptroller, Bureau of Accountancy, 1 Centre Street, Room 200 South, New York, New York 10007-2341.