NYS FINANCIAL CONTROL BOARD
270 Broadway, Room 2114
New York, New York 10007
FAX: (212) 417-5055

FCB FAX MATERIAL

TO:  Quantum Spectra
FROM:  Arlen Proctor
DATE:  11-27-91

NUMBERS OF PAGES TO FOLLOW: 4

For your meeting with Board counsel Monday

If any of the pages are unclear, contact Arlen at (212) 417-5055.

Thank you.

cc:  

MEMORANDUM

TO: Allen J. Proctor
FROM: Cathy A. Bell
CC: Jeffrey Sommer
RE: Creating a Tax Stabilization Fund Under the FEA

The administration, the office of the Governor and the staff of the Financial Control Board are all supportive of the concept of creating a rainy day fund to set aside revenues during periods of economic boon for use in the event of a subsequent downturn in the economy. The issues surrounding the creation of such a fund are myriad including what should its purpose be, how will it be funded, and under what circumstances can withdrawals be made. The threshold issue that must be resolved, however, is how can such a fund be established given the constraints placed upon the City’s fiscal operations by the Financial Emergency Act (‘the Act’) which requires strict adherence to GAAP methods of accounting.

The Act requires that the City of New York prepare and balance its budget covering all expenditures other than for capital items so that the results thereof would not show a deficit when reported in accordance with GAAP. In the event that the City incurs a deficit in excess of $100 million during its fiscal year in the results of operations, the Financial Control Board (“FCB”) is required to reimpose a control period.

This language has been interpreted as requiring that accountants, in determining budget balance for the City, look to the excess or deficiency of revenues over expenditures in the results of City fiscal operations. While under most accounting standards, a positive general fund balance would be sufficient to establish solvency, a deficit would be found under the FEA whenever there exists a deficiency of revenues over expenditures, irrespective of whether the fund balance is positive or not. This is so
because the fund balance entry appears on the City's financial statements below the line upon which the excess or deficiency of revenues over expenditures is reflected and where the FEA draws the line for purposes of determining budget balance.

The concept of "above" or "below the line" is a fuzzy one to accountants, and appears to be completely attributable to the FEA. The practical effect of this language has been to prohibit the City from utilizing prior year surpluses to pay current operating expenses. Surplus funds, to the extent remaining after the City has engaged in various prepayments in an attempt to utilize as much of this excess revenue as possible in the current year, fall below the line of the City's financial statements and are reflected year after year in the fund balance entry except when utilized by the City for pay-as-you-go capital projects.

Further complicating the issue is the fact that, under GAAP accounting, transfers to and from the general fund into and out of the tax stabilization fund would not be reflected on the City's financial statements as revenues and expenditures unless the stabilization fund is created as an independent public authority. Transactions between a public authority and a government fund are considered under GAAP to be quasi-external transactions and are accounted for as fund revenues and expenditures.

On the other hand, if the tax stabilization fund is created as a sub account of the General Fund, transfers between the two would not be reflected as revenues or expenditures. Deposits from the General Fund into the stabilization fund would be reflected upon the City's financial statements as a restricted portion of the City's fund balance and withdrawals from the stabilization fund would be reflected as an unrestricted portion of the fund balance. Because the fund balance entry is below the line drawn by the FEA for determining balance, such funds would not be available to the City for appropriation to offset current expenditures nor to eliminate or reduce a deficit which would be calculated above the line in the absence of an amendment to the FEA permitting their use.

If, however, the tax stabilization fund is created as a separate fund to the General Fund, similar to the City's Debt Service Funds, such transactions would likely constitute operating transfers to be reported under GAAP in the "other sources and uses" section of the City's financial statements. The other sources and uses section is reflected on the City's financial statements above the excess or deficiency of revenues
over expenditures line and therefore, above the line as drawn by the Act as the defining point for purposes of determining budget balance.

Thus, it does appear that a tax stabilization fund can be established within GAAP accounting rules in such a way as to allow for the transfer to and application by the City of monies therein to offset current expenditures. Nonetheless, section 8.1(a) of the Act, which sets forth the GAAP preparation and balance requirement, should be amended to cure any real or perceived FEA constraints upon the use of such funds. Such an amendment should be made in order to clarify that withdrawals of stabilization funds will not by itself trigger a control period and that budget balance achieved through the application of such funds is consistent with the intent of the FEA.

This is so because the position has been expressed that the GAAP preparation and balance requirement was imposed with the legislative intent to force the City to confront its deficits by promptly and immediately making necessary taxing and spending decisions to maintain budget balance. The argument has been made that by permitting the City to forestall expenditure and other adjustments it would otherwise be forced to make in the wake of declining revenues through the application of withdrawals from the tax stabilization fund, the operation of such a fund would be in direct contravention of the intent and spirit of the Act.

Contrary to this position, the clear, unequivocal language of the Act, in providing for the issuance of deficit notes and for the repayment of any prior year deficit in the immediately succeeding fiscal year, makes allowance for, and indeed encourages, a measured, considered and planned inter-year response to revenue declines. Moreover, the Act clearly encourages the use of reserves. The setting aside of a minimum of $100 million in reserve funds at the beginning of each fiscal year is mandated by the Act. While the effective operation of any reserve fund may be to permit the City to maintain its current level of spending despite a declining revenue base, a tax stabilization fund would provide only short-term relief to allow time for deficit reductions to be orderly and consistent with budget priorities. This is in keeping with the intent of the FEA as expressed through the construct of the $100 million deficit trigger which was ostensibly set at an amount in excess of the general reserve requirement to allow for limited but graduated inter-year solutions, as opposed to abrupt and immediate solutions, to fiscal difficulties.
A related question is whether the amendment of the FEA in this fashion is prohibited under the bond covenants. It is my position that it is not. The state covenant with city and MAC bondholders, pursuant to the FEA, provides, in pertinent part, that the state will not take any action which will substantially impair the authority of the Control Board during a control period to approve, disapprove, or modify any financial plan or plan modification subject to the standards set forth in section 8.1(a) of the Act as in effect on the date of issuance of the Bonds or alter the definition of a control period set forth in section 2.12 of the Act, as in effect on the date of issuance of the Bonds, or substantially alter the authority of the FCB, as set forth in that section, to reimpose or terminate a control period.

This language would appear to prohibit any amendment to the standards set forth in section 8.1 except where such amendment results in an insubstantial modification. Amending section 8.1(a) to clarify that the application of stabilization funds to offset current expenditures is permissible under the Act would expand upon the GAAP preparation and balance requirement but would not alter the standard of review set forth in that subdivision. In other words, GAAP preparation and balance would still be required; the proposed amendment would merely add clarifying language which would prevent the subdivision from being interpreted as a prohibition on the use of stabilization funds for purposes of achieving balance.

In all events, the creation of a tax stabilization fund will enhance and strengthen bondholder protections by providing the City with additional resources in times of economic decline with which to meet its bills. While the City's debt service payments are quite secure, in both good economic times and bad, by virtue of the operation of the General Debt Service Fund which pays bondholders off the top from real estate tax collections, bondholders' security is also affected by the general state of the City's fiscal affairs. Indeed, rating agencies have downgraded the City or threatened to downgrade where it has appeared that the City's fiscal house has been out of order. These agencies have criticized the City for poor planning that has resulted in abrupt service reductions and layoff programs in the wake of unforeseen declines in revenue. A tax stabilization fund will moderate expansion (through deposits) and contraction (through withdrawals) and will provide the transitional funding to allow the City to restructure in an orderly fashion, thereby enhancing its fiscal integrity in a way that also enhances its credit.
NYS FINANCIAL CONTROL BOARD
270 Broadway, Room 2114
New York, New York 10007
FAX: (212) 417-5085

FCB
FAX MATERIAL

TO: Quentin Spector
FROM: Cathy Bell
DATE: 11/22/91

NUMBERS OF PAGES TO FOLLOW: 8 + cover
For your conversation with Allen Brotto

If any of the pages are unclear, contact Quentin at (212) 417-5086.

Thank you.

cc: ___________________________
    ___________________________
Tax Stabilization Fund

0 Its purpose is to stabilize tax revenues, not to preclude all sources of fiscal pressure.

- It will not respond to loss of non-tax funds.
- It will not respond to overspending problems.

0 Its purpose is to provide time for a measured response to fiscal problems during economic downturns.

- It will require spending growth to slow down during a prolonged recession.
- It will release monies only when the economy is poor AND tax revenues are slowing down.

0 Its accumulation of funds must not become a fiscal problem during normal economic periods.

- Mandatory deposits are limited to funds that are not usable for supporting recurring expenses.
- Voluntary deposits are allowed.
- The fund may not exceed 2.5 percent of the budget ($700 million currently).

0 In bad economic times, other revenues would fall short. What's to prohibit an increase in taxes? Nothing prohibits the increase in taxes but wouldn't be so much.

0 Why cap it. As a practical matter it can be used up quite quickly during a prolonged recession or a depression. To the point that you can't cut the budget anymore but you need to preserve essential City services.
Why Amendment to the FEA is the Best Method to Create a Stabilization Fund

**PROBLEM:**
Under current law, the city is required to balance its budget without the use of stabilization funds even if such funds are available.

Under current law, use of more than $100 million of stabilization funds would trigger a control period.

Bondholder protection must be maintained or enhanced.

The FEA speaks in terms of expenditures and results of operations in requiring GAAP balance and in defining a deficit in excess of $100 million as an occurrence that would result in reposition of a control period. This language has been interpreted as requiring that accountants look to revenues over expenditures in order to determine balance.

Under GAAP accounting, transfers to and from the general fund into and out of the tax stabilization fund would not be reflected as revenues and expenditures but as either other sources and uses (which likely would be considered above the line transactions for purposes of determining balance) or merely as interfund transfers reflected as part of the general fund balance (which in the absence of an amendment to the FEA, would be considered below the line).

**SOLUTION:**
Place the stabilization fund under the independent, third-party control of the state comptroller, analogous to the independent treatment of the debt service fund under the FEA.

Amend the FEA to make it clear that withdrawal of stabilization funds by statutory formula will not by itself trigger a control period.

Clarify the GAAP balance requirement to make it clear that balance achieved by withdrawal of stabilization funds is consistent with the intent of the FEA.

Preliminary research indicates that these amendments would not violate existing bond covenants but would actually strengthen bondholder protections under the Act by providing a second state-held escrow fund and by forcing the City to save instead of solely expanding services during robust times and by curtailing its reliance upon one-shot revenue to increase recurring spending.

At the same time, the creation and proposed operation of the tax stabilization fund would not reduce the city's current budgeting options or flexibility.
Deposits into the Tax Stabilization Fund

A. Mandatory Deposits
   - **Budget surplus sweep**
     - First payment on or before October 31, 1992
     - Definition: any excess of revenues over expenditures incurred by the City in the results of operations of any fiscal year.
   - **Share of non-recurring revenue**
     - Effective July 1, 1994
     - Definition: all revenues over $20 million received from the following sources:
       1. the sale of capital assets;
       2. the transfer of surplus revenues or reserve funds from any covered organization;
       3. savings from MAC debt refinancings;
       4. a mid-year reduction in the amount of real estate taxes appropriated in the city Tax Fixing Resolution resulting from the refinancing of city indebtedness; and,
       5. the release of excess revenues by any governmental agency, public authority, or public benefit corporation that is not a covered organization within the meaning of the Act or that has been exempted therefrom.

B. Voluntary Deposits
   - **Appropriations**
Withdrawals from the Tax Stabilization Fund

A. Two Trigger System

- An economic and a fiscal trigger must simultaneously turn on in order to release funds.

  1. Economic Trigger requires that employment growth falls below 0.5 percent.

  2. Fiscal Trigger requires that non-property tax revenue growth rate fall below its recent average growth rate or the inflation rate for the past year.

B. Size of Withdrawals

- Once triggered, the amount of funds released would be enough to keep tax growth at its recent average growth rate or enough to keep tax growth space with the prior year’s inflation, whichever releases more funds.

C. Timing of Withdrawals

- Trigger criteria are recalculated each quarter so as to respond promptly to a sudden deterioration in the city's fiscal and economic condition.

D. Information Used

- All calculations are based on the most currently available public information. No estimates or forecasts are used.
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Possible Phrases: over budgeting.
NYS FINANCIAL CONTROL BOARD
270 Broadway, Room 2114
New York, New York 10007
FAX: (212) 417-5059

FCB
FAX MATERIAL

TO: Lynette Kelly
FROM: Cathy Bell
DATE: 10/20

NUMBERS OF PAGES TO FOLLOW: 4

If any of the pages are unclear, contact ………. at (212) 417-5046.

Thank you.

cc: ........................................

........................................
AN ACT to amend chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, relating to the New York State Financial Emergency Act for The City of New York, in relation to the creation and operation of a Tax Stabilization Fund

The People of the State of New York, represented in the Senate and Assembly, do enact as follows:

1. Section 1. Paragraph (a) of subdivision one of section eight of chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, as amended by section twenty-one of chapter seven hundred seventy-seven of the laws of nineteen hundred seventy-eight is amended to read as follows:

2. a. For its fiscal years ending June thirtieth, nineteen hundred seventy-nine through June thirtieth, nineteen hundred eighty-one, the city’s budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with the accounting principles set forth in the state comptroller’s uniform system of accounts for municipalities, as the same may be modified by the comptroller, in consultation with the city comptroller, for application to the city; subject to the provision of subdivision four of section three thousand thirty-eight of the public authorities law with respect to contributions by the city or other public employer to any retirement system or pension fund and subject to the provision of paragraph (c) of subdivision five of section three thousand thirty-eight of the public authorities law with respect to expense items included in the capital budget of the city. For the fiscal year ending June thirtieth, nineteen hundred eighty-two, and for each fiscal year thereafter, the city’s budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with generally accepted accounting principles and that permit comparison of the budget with the report of actual financial results prepared in accordance with generally accepted accounting principles. Notwithstanding any provision of this section, the city shall have the authority, at the end of any fiscal year, to apply withdrawals from the tax stabilization fund, created pursuant to section 9-c herein, to reduce or offset any deficit incurred in the results of operations. Any remaining deficit, subsequent to the application of withdrawals from the tax stabilization fund, will be considered a deficit incurred by the city during the fiscal year.
year in the results of operations for the purposes of section 2.12(b). With respect to
financial plans that include the fiscal years ending June thirtieth, nineteen hundred
seventy-nine through June thirtieth, nineteen hundred eighty-one, the city’s budget
covering all expenditures other than capital items shall be prepared in accordance
with generally accepted accounting principles and there shall be substantial
progress in each such fiscal year towards achieving a city budget covering all
expenditures other than capital items the results of which would not show a deficit
when reported in accordance with generally accepted accounting principles. The
city shall eliminate expense items from its capital budget not later than the
commencement of the fiscal year ending June thirtieth, nineteen hundred eighty-
two. For the fiscal year ending June thirtieth, nineteen hundred eighty-nine, and for
each fiscal year thereafter, the budgets covering all expenditures other than capital
items of each of the covered organizations shall be prepared and balanced so that
the results thereof would not show a deficit when reported in accordance with
generally accepted accounting principles; and for each fiscal year prior thereto, there
shall be substantial progress towards such goal.

Section 2. Chapter eight hundred sixty-eight of the laws of nineteen hundred
seventy-five is amended to add a new section nine-c as follows:

Section 9-c. Establishment and application of a tax stabilization fund.

1. Commencing on the first day of the first full fiscal quarter subsequent to the
enactment of this section, the city shall establish a tax stabilization fund for the
purpose of minimizing disruption or diminution of essential services in the city
during periods when city revenues may be inadequate due to economic downturns.
All monies in the fund shall be held by the comptroller, who shall administer and
maintain the fund in accordance with the provisions of this section.

2. The city shall pay into such fund any and all of the following amounts hereby
accumulated by the city:

a. All expenses budget surpluses incurred by the city. As used in this section,
expenses budget surplus shall mean any excess of revenues over expenditures
incurred by the city in the results of operations in any fiscal year.

b. The city shall make payment of any expenses budget surplus into the tax
stabilization fund on or before October thirty-first, nineteen hundred
and ninety-two and on or before October thirty-first of each succeeding

DRAFT: 6:04 PM 10/23/91
Effective July 1, 1994, a minimum of fifty percent of all non-recurring revenues received by the city in any fiscal year. As used in this section, non-recurring revenue shall mean revenues in an amount of twenty million dollars or more, received as a result of the following actions:

(i) the sale of capital assets;
(ii) the transfer of surplus revenues or reserve funds from any covered organization;
(iii) debt refinancings of the Municipal Assistance Corporation of the City of New York;
(iv) an amendment to the city's Tax Fixing Resolution to reduce the amount of real estate taxes levied for the payment of debt service as a result of the refinancing of city indebtedness; and,
(v) the release of excess revenues by any governmental agency, public authority, or public benefit corporation that is not a covered organization within the meaning of this Act or that has been exempted from the provisions hereof. As used in this section, excess revenues shall mean such revenues as may be available from time to time after providing for the payment of principal, interest, and redemption of outstanding bonds and notes, operating expenses and commitments under existing agreements.

6. Such other and further amounts appropriated thereto, in accordance with the City Charter.

All payments to the city from the tax stabilization fund during periods of budgetary stress shall be made at such times and in such amounts as are determined in accordance with this section. As used in this section, budgetary stress shall exist when the city determines and certifies to the comptroller that as of the end of any fiscal quarter of the city, each of the following conditions exist:

a. The average non-agricultural employment figures for the city (as published by the Bureau of Labor Statistics of the United States Department of Labor) for such fiscal quarter and the first preceding fiscal quarter of the city exceeds by less than one-half of one percent the comparable average employment (as published by the same source) for the second and third preceding fiscal quarters of the city; and,
b. the average of collections of all taxes for such quarter and the first preceding fiscal quarter of the city, when divided by the average of collections of such taxes for the same two fiscal quarters of the preceding year, yields a percentage increase that is 100 less than average past revenue growth. As used in this section, all taxes shall mean...
101 all taxes imposed by the administrative code of the city excluding the real property tax. As used in this section, average past revenue growth as of the end of any fiscal quarter of the city shall be either a percentage computed as follows:

104 (i) determine the percentage by which collections of all taxes for the first prior fiscal year for which audited financial statements are published exceeds (or lags) collections of such taxes for the second prior fiscal year;
105 (ii) determine the percentage by which collections of all taxes for the second prior fiscal year;
106 (iii) determine the percentage by which collections of all taxes for the third prior fiscal year exceed (or lag) collections of such taxes for the fourth prior fiscal year;
108 (iv) add the three percentages determined pursuant to (i), (ii) and (iii) herein, and divide the result by three; or,
110 the percentage derived by dividing the New York-Northeastern New Jersey Consumer Price Index for all Urban Consumers (as published by the Bureau of Labor Statistics of the United States Department of Labor) for the first preceding June by the same index for the second preceding June, whichever is greater.
116 4. Upon a determination that the city is in a condition of budgetary stress, the comptroller shall determine the amount of additional revenue that would cause the percentage increase in current collections of all taxes (calculated in accordance with paragraph b of subdivision one of this section as of the end of the fiscal quarter for which such determination is made) to be equal to average past revenue growth.
122 Upon making such determination, the comptroller shall pay such amount to the city from the tax stabilization fund. In the event that the amount in the tax stabilization fund is insufficient to make the payment, the comptroller shall certify to the city the amount then on deposit in the tax stabilization fund, and shall pay such amount to the city.
128 5. On December first of each year, the comptroller shall determine whether the percent of the city’s total revenues for the fiscal year ending the preceding June thirteenth (based upon the city’s audited financial statements for such fiscal year) and shall thereupon pay the amount of any such excess to the city.
135 Section 3. This act shall take effect immediately.
Taxes Stabilization Fund

Any time you amend the Act you alter the ability of the TCB to impose a control period.

BT may want a control period

Challenge their interpretation of the FEH - can use surpluses

No violation of state covenant if don't alter the Act

Set up Fund outside of FEH (State Finance law maybe). Don't screw around with FEH.

Thurs. p.m. at 3:00.
NEW ISSUE

In the opinion of Bond Counsel, based on existing statutes, regulations, rulings, and court decisions, and assuming compliance with certain conditions described herein, interest on the Series A Bonds is included from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel is further of the opinion that interest on the Series A Bonds is not a specific preference item for purposes of the individual or corporate federal alternative minimum taxes. However, Bond Counsel observes that interest on the Series A Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series A Bonds is exempt from personal income taxes imposed under the laws of the State of New York or any political subdivision thereof (including The City of New York), and the Series A Bonds are exempt from all taxation directly imposed thereon by or under authority of said State, except for estate or gift taxes and taxes on transfers. (See "Part 16 — Tax Exemption and Tax Consequences").

$138,440,000
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
(A Public Benefit Corporation of the State of New York)
SERIES A BONDS
 Issued Pursuant to the 1991 General Bond Resolution
Dated: February 1, 1991
Due: July 1, as shown below
Principal of the Series A Bonds is payable at the corporate trust office of United States Trust Company of New York, Trustee, under the 1991 General Bond Resolution. Interest on the Series A Bonds is payable semi-annually on each January 1 and July 1, commencing July 1, 1991, by check or draft mailed to the registered owner. The Series A Bonds will be issued as fully registered bonds in the denomination of $5,000 or any integral multiple of $5,000.
The Series A Bonds maturing on or before July 1, 2001 are not subject to redemption prior to maturity. The Series A Bonds maturing after July 1, 2001 are subject to redemption at the option of the Corporation on or after July 1, 2001, as a whole or in part on any interest payment date or dates, at an initial redemption price of 102% of the principal amount thereof for the Series A Bonds maturing on July 1 in the years 2002 and 2003, and at a redemption price of 100% of the principal amount thereof for the Series A Bonds maturing on July 1, 2008, plus, in each case, accrued interest to the redemption date, all as more fully described herein. The Series A Bonds maturing on July 1, 2008 are also subject to redemption from mandatory sinking fund installments, on each July 1 commencing July 1, 2004, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date, all as more fully described herein.

Due | Amount | Interest Rate | Price or Yield | Due | Amount | Interest Rate | Yield |
--- | --- | --- | --- | --- | --- | --- | --- |
1992 | $1,230,000 | 5.30% | 100% | 1998 | $7,060,000 | 6.30% | 6.35% |
1993 | 1,295,000 | 5.125 | 100 | 1999 | 7,560,000 | 6.40 | 6.45 |
1994 | 5,390,000 | 5.80 | 100 | 2000 | 6,100,000 | 6.5 | 6.55 |
1995 | 5,750,000 | 6 | 100 | 2001 | 8,680,000 | 6.60 | 6.65 |
1996 | 6,155,000 | 6.10 | 100 | 2002 | 9,305,000 | 6% | 6.75 |
1997 | 6,590,000 | 6.20 | 6.25 | 2003 | 9,985,000 | 6% | 6.80 |

$61,340,000 6% Term Bonds due July 1, 2008 priced to yield 6.90%
(Plus accrued interest)

The Series A Bonds are issued pursuant to the 1991 General Bond Resolution and are payable from certain per capita State aid and revenues derived from certain sales and compensating use taxes imposed by the State of New York within the City of New York and, under certain conditions, the State stock transfer tax, subject to annual appropriation by the State Legislature and after satisfying debt service requirements, operating expenses and capital reserve funding requirements under the First and Second General Bond Resolutions. The State is not bound or obligated to continue to appropriate such per capita State aid or to continue the imposition of such taxes or to make the necessary payments of such per capita State aid or the necessary appropriations of the revenues derived from such taxes. The Corporation has no taxing power. The Series A Bonds do not constitute an enforceable obligation, or a debt, of either the State or the City, and neither the State nor the City shall be liable thereon. Neither the faith and credit nor the taxing power of the State or the City is pledged to the payment of principal of or interest on the Series A Bonds.
The Series A Bonds are offered when, as and if issued by the Corporation and received by the Underwriters and subject to approval of legality by Orrick, Herrington & Sutcliffe, New York, New York, bond Counsel to the Corporation. Certain legal matters will be represented for the Corporation by its General Counsel, Paul, Weiss, Rifkind, Wharton & Garrison, New York, New York. Certain legal matters will be passed on for the Underwriters by their counsel, White & Case, New York, New York. It is expected that the Series A Bonds in definitive form will be available for delivery at The Depository Trust Company, New York, New York on or about February 1, 1991.


The date of this Official Statement is February 6, 1991

Goldman, Sachs & Co.
No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, 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. 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 A Bonds or any other securities of the Municipal Assistance Corporation For The City of New York by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been provided by such Corporation and by other sources which are believed to be reliable by such Corporation, but it is not guaranteed as to its accuracy or completeness and is not to be construed as a representation by the Underwriters. The information herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of such Corporation or of the State of New York or of The City of New York since the date hereof. This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE SERIES A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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Lazard Frères & Co.—Financial Advisor
PART 1 — INTRODUCTION

Certain factors and additional information that may affect decisions to invest in the Series A Bonds are described throughout this Official Statement which should be read in its entirety. Certain terms used in this Official Statement are defined in the Appendix or in PART 13 herein.

The Corporation ........ The Municipal Assistance Corporation for The City of New York is a public benefit corporation of the State created for the purpose of providing financing assistance and fiscal oversight for the City of New York (the “City”).

The Bonds ................. The Series A Bonds will be issued pursuant to the Corporation’s 1991 General Bond Resolution to refund all outstanding Series 55 Bonds issued pursuant to the Second General Bond Resolution (the “Refunded Bonds”) and to fund the Bond Reserve Fund in an amount not less than the Bond Reserve Fund Requirement. Certain revenues of the Corporation described below are pledged to the payment of the Series A Bonds, which are general obligations of the Corporation and not obligations of either the State or the City.

Revenues Available to Pay Debt Service ........ The Corporation’s revenues pledged to the payment of 1991 Resolution Bonds are derived from moneys that are paid to United States Trust Company of New York, as trustee (the “Trustee”), subject to annual appropriation by the State Legislature, from Per Capita Aid, the Sales Tax and the Stock Transfer Tax (after satisfying debt service, operating expenses and capital reserve funding requirements under the Corporation’s First and Second General Bond Resolutions). “Per Capita Aid” consists of amounts that otherwise would have been payable to the City under the State law that provides for a general revenue sharing program, if any, applicable to localities throughout the State. The “Sales Tax” consists of a State sales tax imposed within the City, at the rate of 4%, on most retail and certain other sales. The “Stock Transfer Tax” consists of the State tax on the transfer of stocks and certain other securities.

The Corporation has no taxing power.

The authority of the State to impose and collect the Sales Tax and pay the Sales Tax and Stock Transfer Tax revenues to the Corporation has been affirmed by the State’s highest court; the United States Supreme Court dismissed the appeal of the State court’s decision for lack of a substantial federal question.

For further information with respect to the Corporation’s revenues and debt service, as well as estimated coverage ratios, see “PART 5 — PAYMENT OF THE BONDS” and “PART 6 — DEBT SERVICE PAYMENT REQUIREMENTS AND ESTIMATED COVERAGE RATION”.

Redemption ............... The Series A Bonds maturing on or before July 1, 2001 are not subject to redemption prior to maturity. The Series A Bonds maturing after July 1, 2001 are subject to redemption at the option of the Corporation on or after July 1, 2001, as a whole on any date, or in part on any Interest Payment Date or Dates, at a redemption price of 102% of the principal amount thereof for the Series A Bonds maturing on July 1 in the years 2002 and 2003 and 100% of the principal amount thereof for the Series A Bonds maturing on July 1, 2008, plus, in each case, accrued interest to the redemption date, all as more fully described herein. The Series A Bonds maturing on July 1, 2008 are also subject to redemption from mandatory Sinking Fund Installments on July 1 in each of the years 2004 through 2007, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date. See “PART 2 — BONDS BEING OFFERED”.

I
Limitations on Bond Issuance

The 1991 General Bond Resolution provides that the Corporation is not to issue additional 1991 Resolution Bonds unless Sales Tax revenues, after deducting the maximum aggregate annual debt service payment on the First Resolution Obligations and the Second Resolution Bonds and the current operating expenses of the Corporation, would cover maximum annual debt service payments on 1991 Resolution Bonds at least two times.

The Corporation has covenanted not to issue additional Second Resolution Bonds unless available revenues would cover estimated maximum annual debt service payments on Second Resolution Bonds at least two times.

The Corporation has covenanted not to issue additional First Resolution Obligations if the maximum annual debt service payments on all First Resolution Obligations would exceed $425 million. Maximum annual debt service on currently outstanding First Resolution Obligations is $344 million.

Appropriation of Revenues

The State Legislature has appropriated Per Capita Aid, the Sales Tax and the Stock Transfer Tax for the benefit of the Corporation for each of the State's fiscal years since the inception of the Corporation. Under the State Constitution, however, the State Legislature cannot be bound or obligated to appropriate such revenues for the benefit of the Corporation. The State Legislature is not bound or obligated to continue the appropriation of Per Capita Aid for the benefit of local governmental units.

The Corporation believes that any failure by the State to make annual appropriations for the benefit of the Corporation, as expected, would have a serious impact on the ability of the State and its agencies to raise funds in the public credit markets.

Outstanding Debt of the Corporation

After the issuance of the Series A Bonds and the refunding of the Refunded Bonds, the Corporation will have outstanding an aggregate of $6.705 billion of its bonds, $138 million issued under the 1991 General Bond Resolution, $5.572 billion issued under the Second General Bond Resolution and $995 million issued under the First General Bond Resolution.

Obligations issued under the Corporation's 1991, First and Second General Bond Resolutions have the benefit of separate reserve funds held by the respective trustees thereof. At December 31, 1990, such funds established under the First and Second General Bond Resolutions, valued in accordance with the Act, contained $341.2 million and $661 million, respectively. The Corporation will initially fund the Bond Reserve Fund established under the 1991 General Bond Resolution in an amount not less than the Bond Reserve Fund Requirement. No provision is made in the Act for certification by the Corporation to the State of any deficit in the Bond Reserve Fund to be funded by any appropriation from other than Per Capita Aid, the Sales Tax or the Stock Transfer Tax. See "Part 5 — Payment of the Bonds".

Certain Factors

Certain institutional investors, some of which are underwriters of this offering, hold substantial amounts of bonds of the Corporation. Such investors may, from time to time during and after the time when the Series A Bonds are being offered to the public, offer or sell bonds of the Corporation, which may have an adverse effect on the market for and the market price of the Series A Bonds.
The Corporation believes that the market for, the market price of, and the sources of payment of, the Series A Bonds may be affected by certain other factors described elsewhere in this Official Statement.

On January 31, 1991, the Governor released the Executive Budget for the State’s 1992 fiscal year and a revision to the State’s Financial Plan for fiscal 1991. In connection with such revision, the State announced plans to close a projected fiscal 1991 deficit of $905 million through the issuance of a like amount of tax and revenue anticipation notes. On January 16, 1991, the City released its second quarter modification to the current four-year financial plan, projecting a new gap of $500 million for its 1991 fiscal year and a gap of $2 billion for the fiscal year beginning July 1, 1991. For a more detailed description of the State’s 1992 Executive Budget and the State and City financial plans, see, in particular, “PART 7 — CERTAIN DEVELOPMENTS AFFECTING THE STATE” and “PART 8 — CERTAIN DEVELOPMENTS AFFECTING THE CITY — FISCAL YEARS 1991 and 1992”.

PART 2 — BONDS BEING OFFERED

General

The Series A Bonds will be issued pursuant to the 1991 General Bond Resolution and the Series A Resolution. The Series A Bonds will be dated and bear interest from February 1, 1991 to maturity or earlier date fixed for redemption. The Series A Bonds will be issued as fully registered bonds in the denomination of $5,000 or any integral multiple of $5,000. Principal of the Series A Bonds is payable at the corporate trust office of the Trustee. Interest on the Series A Bonds is payable semi-annually on each January 1 and July 1, commencing July 1, 1991, by check or draft mailed to the registered owners at their addresses, as the same appear on the books of the Corporation kept by the Trustee on the fifteenth day preceding an Interest Payment Date. The Series A Bonds will be transferable on the books of the Corporation at the corporate trust office of the Trustee.

For every exchange or transfer of the Series A Bonds, the Corporation or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The cost of preparing each new Series A Bond issued upon such exchange or transfer and any other expenses of the Corporation or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge) will be paid by the Corporation as operating expenses.

Pursuant to the Act, the Series A Bonds will include the 1978 State Covenant to the effect that the State will not take certain actions, including any action that will substantially impair the authority of the Control Board to act in specified respects with regard to the City. See “PART 9 — VARIOUS CONTROL PROGRAMS — Control Board” and “PART 10 — AGREEMENT OF THE STATE OF NEW YORK”.

United States Trust Company of New York is the Trustee under the 1991 General Bond Resolution. Its corporate trust office is located at 114 West 47th Street, New York, New York 10036. For further information concerning the Trustee, see “PART 14 — TRUSTEE”.

Optional Redemption

The Series A Bonds maturing on or before July 1, 2001 are not subject to redemption prior to maturity. The Series A Bonds maturing after July 1, 2001, other than the Series A Bonds maturing on July 1, 2008, are subject to redemption at the option of the Corporation on and after July 1, 2001, as a whole on any date
or in part by lot on any Interest Payment Date or Dates, at the following redemption prices (expressed as percentages of the principal amount), plus accrued interest to the date of redemption:

<table>
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<tr>
<th>Redemption Period (Dates Inclusive)</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 2001 to June 30, 2002</td>
<td>102%</td>
</tr>
<tr>
<td>July 1, 2002 to June 30, 2003</td>
<td>101</td>
</tr>
<tr>
<td>July 1, 2003 and thereafter</td>
<td>100</td>
</tr>
</tbody>
</table>

The Series A Bonds maturing July 1, 2008 shall be subject to redemption at the election of the Corporation, at any time on or after July 1, 2001, as a whole on any date, or in part by lot on any Interest Payment Date or Dates, at a redemption price of 100% of the principal amount thereof plus accrued interest, if any, to the date of redemption.

Mandatory Sinking Fund Redemption

The Series A Bonds maturing on July 1, 2008 are also subject to redemption, in part by lot, on July 1 in each of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on July 1 of each year, the principal amount of such Series A Bonds specified for each of the years shown below:

<table>
<thead>
<tr>
<th>Sinking Fund Installments</th>
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<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>2004</td>
</tr>
<tr>
<td>2005</td>
</tr>
<tr>
<td>2006</td>
</tr>
</tbody>
</table>

† Payment at maturity.

Giving effect to the Sinking Fund Installments set forth above, the average life of the Series A Bonds maturing on July 1, 2008 would be approximately 15.55 years calculated from February 1, 1991.

The Corporation may from time to time direct the Trustee to purchase, with moneys in the Bond Payment Fund, Series A Bonds at or below par plus unpaid interest accrued to the date of such purchase, and apply any Bonds so purchased as a credit, at par, against and in fulfillment of a required Sinking Fund Installment on the Bonds so purchased.

Additionally, the Corporation may purchase Series A Bonds for cancellation with any available moneys not held under the 1991 General Bond Resolution and direct the Trustee to credit such purchased and cancelled Series A Bonds against any Sinking Fund Installment applicable to such Series A Bonds and for which notice of such Sinking Fund Installment has not been given. See "Part 13 — Summary of Certain Provisions of the 1991 General Bond Resolution — Bond Payment Fund". To the extent the Corporation fulfills its obligations to make Sinking Fund Installments in a particular year through purchases of Series A Bonds, the likelihood of redemption by lot of any owner’s Series A Bonds of such maturity through the operation of Sinking Fund Installments will be reduced for such year. The Corporation has in the past made purchases with respect to certain of its First Resolution Obligations and its Second Resolution Bonds and may, but is not obligated to, do so with respect to the Series A Bonds.

Additional Bonds and Notes

Pursuant to the Act, through December 31, 1984, the Corporation was authorized to issue bonds and notes in an aggregate principal amount not exceeding $10 billion (exclusive of bonds and notes issued to refund outstanding bonds and notes, and notes issued to meet the City’s seasonal borrowing requirements). Under this authorization, the Corporation issued approximately $9.445 billion of bonds and notes.

In July 1990, the Act was amended to authorize the Corporation to issue up to an additional $1.5 billion in bonds and notes to fund a portion of the capital programs of the New York City Transit Authority and the New York City School Construction Authority, under the terms contained in an agreement dated July
19, 1990 among the Corporation, the State and the City. This legislation also provides for a reduction in the new issuance authority to the extent that the transit and schools capital programs are funded by the City. As of December 31, 1990, the City advised the Corporation that it has funded $220 million of these programs.

The Corporation continues to be authorized to issue bonds and notes to refund its outstanding bonds and notes, without limitation as to principal amount, under the First, Second or 1991 General Bond Resolution. The State Legislature may amend the Act to change the authorized amount of bonds or notes which may be issued and the purposes therefor.

Additional 1991 Resolution Bonds may be issued on a parity with the Series A Bonds, provided that (a) an amount equal to the lesser of (i) the most recent collections of the Sales Tax for 12 consecutive calendar months ended not more than two months prior to the date of such determination or (ii) the amount estimated by the State Commissioner of Taxation and Finance to be collected during the succeeding 12-month period from such sources, less (b) the maximum aggregate annual debt service on outstanding First Resolution Obligations and Second Resolution Bonds, less (c) estimated operating expenses of the Corporation for its then current fiscal year, is at least two times (d) the maximum annual debt service on Outstanding 1991 Resolution Bonds (including the particular series of such additional 1991 Resolution Bonds then proposed to be issued).

The 1991 General Bond Resolution permits 1991 Resolution Bonds to be issued with variable interest rates and containing various put and tender features. For purposes of all applicable additional debt incurrence tests and Bond Reserve Fund Requirement calculations relating to 1991 Resolution Bonds, each Variable Rate Bond shall be deemed to bear interest at such Bond's maximum permitted interest rate, and, unless specifically so provided in a series resolution, no payment as a result of any put or tender thereof shall have any effect on any such test or calculation.

Additional Second Resolution Bonds may be issued on a parity with outstanding Second Resolution Bonds, provided that (a) an amount equal to the lesser of (i) the most recent collections of the Sales Tax and Stock Transfer Tax for 12 consecutive calendar months ended not more than two months prior to the date of such determination or (ii) the amounts estimated by the State Commissioner of Taxation and Finance to be collected during the succeeding 12-month period from such sources, plus (b) the estimated or actual amount of Per Capita Aid to be or theretofore apportioned and paid to the Municipal Assistance State Aid Fund for the fiscal year of the State during which such additional Second Resolution Bonds are to be issued, less (c) the maximum annual debt service on outstanding First Resolution Obligations, less (d) estimated operating expenses of the Corporation for its then current fiscal year, is at least two times (e) the maximum annual debt service on outstanding Second Resolution Bonds (including the particular series of such additional Second Resolution Bonds then proposed to be issued).

Pursuant to certain resolutions of the Corporation, the Corporation may issue additional First Resolution Obligations only to the extent that the issuance thereof would not cause the maximum annual debt service on outstanding First Resolution Obligations to exceed $425 million. The 1991 General Bond Resolution contains further limitations upon the issuance by the Corporation of additional obligations under the First or Second General Bond Resolutions. See "PART 13 — SUMMARY OF CERTAIN PROVISIONS OF THE 1991 GENERAL BOND RESOLUTION — General".

PART 3 — USE OF PROCEEDS AND PLAN OF REFUNDING

The net proceeds of the sale of the Series A Bonds will be $131,363,425.87 (exclusive of accrued interest). Of such net proceeds, approximately $124 million, together with other available moneys of the Corporation, will be used to refund the Refunded Bonds (being all outstanding Series 55 Bonds). The remainder of such net proceeds, approximately $7.4 million, will be used to fund the Bond Reserve Fund, which amount is not less than the Bond Reserve Fund Requirement.

The Series 55 Bonds are currently outstanding in the aggregate principal amount of $125 million and consist of an aggregate of $63,290 million serial bonds due on July 1 in each of the years 1994 through 2003, $21,325 million term bonds due July 1, 2005 and $40,385 million term bonds due July 1, 2008. The Series 55
Bonds scheduled to mature on July 1, 1994 and July 1, 1995 will be paid at the maturity thereof. The remaining Series 55 Bonds will be redeemed on July 1, 1995 at a redemption price of 102% of the principal amount thereof, plus accrued interest to the redemption date.

To accomplish the refunding of the Refunded Bonds, approximately $124 million of the proceeds, together with approximately $13.8 million of other available moneys, will be used to purchase non-callable direct obligations of the United States of America (the “Government Obligations”), the principal of and interest on which, when due, will provide moneys sufficient to pay when due the redemption price of, together with interest on, the Refunded Bonds. At the time of issuance of the Series A Bonds, the Corporation will cause the Government Obligations to be deposited in a special trust fund to be held by United States Trust Company of New York, as the trustee under the Second General Bond Resolution. At such time, the Corporation will give such trustee irrevocable instructions to give notice of the refunding of the Refunded Bonds and to apply the special trust fund solely for the payment of the redemption price of, together with interest on, the Refunded Bonds.

Upon the giving of such instructions, the Refunded Bonds will no longer be outstanding for purposes of the Second General Bond Resolution. Accordingly, the redemption price, together with interest on, the Refunded Bonds will be payable solely from the special trust fund.

PART 4 — THE CORPORATION

Background, Purposes and Powers

The Corporation is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation. The Corporation was created by State legislation adopted in June 1975 (as amended to date, the “Act”), for the purpose of providing financing assistance and fiscal oversight for the City. To carry out such purpose, the Corporation was given the authority, among other things, to issue and sell bonds and notes, to pay or lend funds received from such sales to the City, to exchange the Corporation’s obligations for those of the City and to issue bonds to refund outstanding bonds. Between June 1975 and June 1978, the Corporation issued its obligations in accordance with this purpose and the City was provided with seasonal loans by the federal government and long-term financing by certain City pension funds and the Corporation. In September 1975, the Control Board was established to oversee the financial affairs of the City.

By June 1978, the City had brought its operating budget into balance in accordance with State law and accomplished other budgetary and accounting objectives. Despite this progress, it became clear that further actions would be necessary to enable the City to obtain its own financing. As a result, a four-year plan of financing (the “Four Year Plan”) was developed in November 1978 among the Corporation, the City, the State and the United States of America to provide long-term financing, including $1.65 billion of federally guaranteed City bonds, for the City over the four fiscal years ending June 1982, during which time the City was required to follow a plan to bring its operating budget into balance in accordance with generally accepted accounting principles (“GAAP”) and to enable it to regain access to the public credit markets. All debt issuances scheduled under the Four Year Plan were completed. To enable the Corporation to continue to assist in financing the City’s capital needs after its 1982 fiscal year, the State enacted legislation in June 1980 increasing the amount of obligations which the Corporation could issue to $10 billion (excluding refunding obligations and certain short-term notes) and extending through December 31, 1984 the period during which the Corporation could issue obligations to provide capital funds to the City. In July 1990, the Act was amended to authorize the Corporation to issue up to an additional $1.5 billion in bonds and notes (exclusive of refunding obligations) to fund a portion of the capital programs of the New York City Transit Authority and the New York City School Construction Authority, as described further under “PART 2 — BONDS BEING OFFERED — Additional Bonds and Notes”.

Outstanding Debt of the Corporation

From the period of the Corporation’s inception through December 31, 1984, the Corporation issued approximately $9.445 billion aggregate principal amount of bonds and notes for purposes of the $10 billion
statutory issuance limit (which limit excludes all refunding obligations). After issuance of the Series A Bonds and the refunding of the Refunded Bonds, the Corporation will have outstanding (excluding bonds that have been refunded) $128 million aggregate principal amount of bonds issued under the 1991 General Bond Resolution, $5.572 billion aggregate principal amount of bonds issued under the Second General Bond Resolution and $995 million aggregate principal amount of bonds issued under the First General Bond Resolution. The 1991 General Bond Resolution provides that all Outstanding 1991 Resolution Bonds will be on a parity with each other, regardless of the date of issuance.

First Resolution Obligations and Second Resolution Bonds have a claim prior to that of 1991 Resolution Bonds on all amounts available to the Corporation from the Sales Tax and the Stock Transfer Tax, and Second Resolution Bonds have a claim prior to that of 1991 Resolution Bonds on all amounts available to the Corporation from Per Capita Aid. The Corporation has covenanted not to issue additional First Resolution Obligations if the maximum annual debt service payments on all First Resolution Obligations would exceed $425 million. Additionally, the Second General Bond Resolution restricts the issuance of additional bonds thereunder. See “PART 2 — BONDS BEING OFFERED — Additional Bonds and Notes”.

For additional information concerning the financial condition of the Corporation, see the audited financial statements of the Corporation for the fiscal year ended June 30, 1990, and the unaudited financial statements of the Corporation for the six months ended December 31, 1990, annexed hereto as Exhibit A, and “PART 19 — FINANCIAL STATEMENTS”.

Additional Revenues

Approximately $1.075 billion in additional revenues of the Corporation were made available to the City during fiscal years 1984 through 1988 under an agreement with the State and the City. The City had agreed to use these funds for capital purposes, economic development and operating expenses.

In two subsequent agreements with the State and the City (the “1986 and 1989 Agreements”), an aggregate of approximately $2.350 billion in additional revenues were made available to the City. These revenues were to be used as follows: $925 million to the New York City Transit Authority for capital projects, $500 million to the New York City School Construction Authority for capital projects, $525 million for City operating purposes and $300 million for the early redemption of a portion of the Corporation’s outstanding debt.

On July 19, 1990, pursuant to the amended Act, the Corporation, the State and the City entered into a new agreement amending the 1986 and 1989 Agreements. Under the new agreement, the Corporation is to make available for City operations during fiscal years 1990 through 1997, inclusive, $1.465 billion of its excess revenues which previously had been committed to the capital programs of the New York City Transit Authority and the New York City School Construction Authority. The Act and the new agreement further provides that to the extent the City does not fund these capital programs in accordance with the schedules set forth in the 1986 and 1989 Agreements, they are to be funded by the Corporation’s debt issued under the 1991 General Bond Resolution. The Corporation has been advised, as of December 31, 1990, that the City has funded $220 million of these programs.

PART 5 — PAYMENT OF THE BONDS

General

The 1991 Resolution Bonds are general obligations of the Corporation payable out of certain pledged revenues as well as any other available revenues of the Corporation. The 1991 Resolution Bonds are entitled to a first lien, created by the pledge under the 1991 General Bond Resolution, on all moneys and securities paid or deposited into the Corporation’s Bond Payment Fund and Bond Reserve Fund under the 1991 General Bond Resolution, which are held by the Trustee. Such moneys and securities include the following:

1. amounts derived from Per Capita Aid, less certain prior statutory claims, none of which has been asserted since the inception of the Corporation, after satisfying annual funding requirements for the Corporation’s outstanding Second Resolution Bonds;
(ii) amounts derived from the Sales Tax and Stock Transfer Tax, after satisfying annual funding requirements for the Corporation’s outstanding First Resolution Obligations and Second Resolution Bonds and operating expenses of the Corporation; and

(iii) any interest or income earned on investments of amounts deposited into the Bond Payment Fund and Bond Reserve Fund.

The amounts described in (i) and (ii) above are paid to the Corporation from two special funds established by the Finance Law and held in the custody of the State Comptroller, the Municipal Assistance State Aid Fund (the “State Aid Fund”) and the Municipal Assistance Tax Fund, respectively. The Finance Law provides that the State Comptroller shall make payments from these special funds to the Corporation’s Bond Payment Fund and Bond Reserve Fund, in accordance with certificates of the Corporation setting forth the amount and timing of its cash requirements, on a quarterly basis in order to deposit these amounts in advance of interest and principal payment dates and bond reserve funding dates. (Although quarterly payments of Per Capita Aid are provided for by the Finance Law, substantially all of the Per Capita Aid payable to the Corporation is paid on an annual basis in June.) Payments of Per Capita Aid revenues are to be made to the Corporation to meet requirements under the 1991 General Bond Resolution only to the extent such revenues are not needed to meet requirements under the Second General Bond Resolution. Payments of Sales Tax and Stock Transfer Tax revenues are to be made to the Corporation to meet requirements under the 1991 General Bond Resolution only to the extent such revenues are not needed to meet requirements under the First and Second General Bond Resolutions.

Under existing law, after the Corporation’s certified requirements have been satisfied in full for a particular quarter, excess moneys in such special funds are to be paid to the City, except that Stock Transfer Tax revenues not required by the Corporation are paid to a fund established to provide rebates of such tax. Pursuant to the Finance Law, the State Comptroller may not disburse Sales Tax or Stock Transfer Tax revenues or Per Capita Aid held by the State Comptroller to the City or any other entity so long as an amount certified by the Corporation, as required to be paid by the date of disbursement to the City, remains unpaid.

Legislation was enacted in December 1989 authorizing a referendum by the residents of the borough of Staten Island to approve the establishment of a charter commission to facilitate a secession from the City. Subsequently, the City instituted a lawsuit in which it sought to prevent the referendum from being placed on the ballot in Staten Island. In September 1990, the New York State Court of Appeals ruled that such referendum could be on the ballot, but noted that it was giving no opinion as to the ultimate legality of a secession. Such referendum appeared on the November 1990 ballot and received a majority of affirmative votes. Pursuant to the December 1989 legislation, the charter commission now will draft a proposed charter for a city of Staten Island to be voted on by its residents. A subsequent amendment to the December 1989 legislation gives the State Legislature the power to approve any such secession, which cannot take place without such approval, after a charter has been approved by the Staten Island residents. The Corporation has proposed legislation that requires that in the event of a Staten Island secession and while any obligations of the Corporation remain outstanding, the portion of the Sales Tax attributable to Staten Island would continue to be imposed and collected for the benefit of the Corporation and Per Capita Aid otherwise payable to Staten Island would first be made available to the Corporation.

Payments to the Corporation by the State are required to be made by the State only if and to the extent that such amounts have been appropriated by the State Legislature or that revenues have otherwise been made available therefor by the State.

The owners of the 1991 Resolution Bonds do not have any lien on Per Capita Aid, Sales Tax or Stock Transfer Tax until the moneys derived therefrom are paid into the Corporation’s Bond Payment Fund and Bond Reserve Fund. The Act provides that any provision of the 1991 General Bond Resolution or the 1991
Resolution Bonds relating to payment by the State to the Corporation of Per Capita Aid, the Sales Tax or the Stock Transfer Tax is executory only to the extent of the moneys available from time to time from such Aid and Tax sources and held by the State, which moneys shall have been theretofore appropriated to the Corporation, and no liability on account thereof shall be incurred by the State beyond the moneys available from such sources.

The Corporation currently holds substantial amounts of bonds of the City. Such obligations held from time to time by the Corporation are not subject to the lien created by the pledge under the First, Second or 1991 General Bond Resolutions. In certifying its requirements, the Corporation may not take into account any amounts payable on such City obligations but not yet received by the Corporation. However, the requirements for any fund may be reduced to the extent that such moneys are received and deposited into such fund of the Corporation.
The following chart illustrates the flow of money as described above:

1. Subject to appropriation by the State Legislature.
2. Upon certification by the Corporation.
3. To the extent required by the Corporation; otherwise, for payment of rebates to the payors of the Stock Transfer Tax.
4. And operating expenses of the Corporation.
5. After deduction of the amounts needed for First Resolution debt service and capital reserve funding and operating expenses.
6. After deduction of the amounts needed for Second Resolution debt service and capital reserve funding and operating expenses.
7. After payment of all amounts certified by the Corporation. Amounts paid to the City are paid directly by the State.
The Corporation is a corporate governmental agency and instrumentality of the State and not of the City. The Corporation has no taxing power. The 1991 Resolution Bonds do not constitute an enforceable obligation, or a debt, of either the State or the City, and neither the State nor the City is liable thereon. Neither the faith and credit nor the taxing power of the State or the City is pledged to the payment of principal or interest on the 1991 Resolution Bonds.

If the Corporation were to be authorized by State law to file a petition under Chapter 9 of the Federal Bankruptcy Code, and if it were to meet other conditions specified in such Chapter, the Corporation could file a petition for relief under Chapter 9 pursuant to which the Corporation's securities could be adjusted or modified. The Corporation is not now authorized by the State to file a Chapter 9 petition and the Corporation does not anticipate that it will seek authorization or need the relief provided by Chapter 9.

**Appropriation by State Legislature**

The Finance Law provides that the State Legislature shall appropriate Per Capita Aid, the Sales Tax and the Stock Transfer Tax for the benefit of the Corporation, and the State Legislature has so appropriated Per Capita Aid, the Sales Tax and the Stock Transfer Tax for each of the State's fiscal years since the inception of the Corporation. Under the State Constitution, however, the State Legislature cannot be bound or obligated to appropriate such revenues for the benefit of the Corporation.

The Corporation believes that any failure by the State Legislature to make appropriations for the benefit of the Corporation as expected would have a serious impact on the ability of the State and its agencies to raise funds in the public credit markets. See "Part 7 — Certain Developments Affecting the State".

The State is not bound or obligated to continue payment of Per Capita Aid or to impose either the Sales Tax or the Stock Transfer Tax or to make any appropriations to the Corporation of the revenues received therefrom. The 1991 General Bond Resolution, however, provides that each of the following shall constitute an event of default with respect to the 1991 Resolution Bonds: (i) the failure of the State to apportion and pay, if appropriated, Per Capita Aid, the failure of the State to maintain the State Aid Fund and the Special Aid Account therein or a reduction by the State of the amount of Per Capita Aid attributable to the outstanding 1991 Resolution Bonds; (ii) the failure of the State to continue the imposition of either the Sales Tax or the Stock Transfer Tax, each imposed by the Tax Law, as such Law may be amended, or a reduction of the rates of such taxes to rates less than those in effect on July 2, 1975; or (iii) the failure of the State Comptroller to pay to the Corporation the amounts certified by the Corporation.

The Finance Law provides that in no event shall the State Comptroller pay over and distribute to the City or any other entity other than the Corporation any Sales Tax or Stock Transfer Tax revenues or Per Capita Aid held in the special funds (other than for State administrative charges), unless and until the aggregate of all cash required by the Corporation at the date of such distribution has been appropriated and has been paid to the Corporation.

Provisions of the State Constitution and the Finance Law require the setting aside of the first revenues received that are applicable to the State’s General Fund if the State Legislature fails to make an appropriation for the payment of State indebtedness. Although the Sales Tax and the Stock Transfer Tax are revenues of the State, they are applicable to special funds, rather than the State's General Fund. Consequently, under existing law, the provisions requiring moneys to be set aside to pay State obligations would not apply to the Sales Tax and Stock Transfer Tax. However, Per Capita Aid is apportioned and paid from the State's General Fund and may be subject to being set aside to pay State obligations in the event the State fails to pay such obligations.

**Per Capita Aid**

Per Capita Aid consists of revenues that would otherwise be paid to the City as the City’s share of the State general revenue sharing program for localities throughout the State. The State, although not obligated to do so, has appropriated moneys which have been apportioned among local governmental entities, including the City, in each year since 1946, and the State has provided some measure of assistance to local governments since 1900.
The apportionment of general revenue sharing among localities is based on a statutory formula which takes into account the distribution of the State's population, the total assessed valuation of real property taxable within the State, personal income and other factors. Both the determination of the amount of statewide general revenue sharing, if any, and the apportionment of such revenue sharing among localities are legislative acts and the State Legislature may amend or repeal the statutes relating to statewide general revenue sharing and the formulae which determine the amount of Per Capita Aid. Such amendments could result in the increase or decrease of the amount of Per Capita Aid available for the payment of debt service on 1991 Resolution Bonds. However, certain of such acts by the State Legislature would be events of default under the 1991 General Bond Resolution. See " Appropriation by State Legislature" in this PART 5. The financial condition of the State may affect the amount of Per Capita Aid, if any, appropriated by the State Legislature. The State Legislature is not bound or obligated to continue to appropriate Per Capita Aid from year to year.

In connection with the Executive Budget for the State's 1992 fiscal year, the Governor has proposed legislation which would require the City, in its 1992 fiscal year, to repay a portion of Per Capita Aid apportioned and paid to the City during the State's 1992 fiscal year in an amount not exceeding $191.8 million. The Governor's proposal provides that such portion of Per Capita Aid, together with all other Per Capita Aid apportioned to the City during the State's 1992 fiscal year, will continue to be made available to the Corporation at the usual times and in the usual manner for the payment of debt service on Second Resolution Bonds and 1991 Resolution Bonds.

The following table, which presents data obtained from the City Office of Management and Budget, the State Comptroller's office and the State Division of the Budget, indicates the aggregate payments of Per Capita Aid apportioned and paid to the City and payable to the Corporation for the last ten fiscal years of the City.

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Capita Aid (Dollars in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>$484,037</td>
</tr>
<tr>
<td>1982</td>
<td>484,037</td>
</tr>
<tr>
<td>1983</td>
<td>484,037</td>
</tr>
<tr>
<td>1984</td>
<td>484,024</td>
</tr>
<tr>
<td>1985</td>
<td>484,024</td>
</tr>
<tr>
<td>1986</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>$512,092</td>
</tr>
</tbody>
</table>

Sales Tax

The Sales Tax is imposed within the City at the rate of 4% on receipts from most retail sales of tangible personal property and certain services and at the rate of 6% on receipts from parking, garaging or storing motor vehicles in the City. The Sales Tax is in addition to the 4% sales and compensating use taxes levied statewide and the 1/4 of 1% sales and compensating use tax levied in the regions served by the Metropolitan Transportation Authority. The Sales Tax is subject to certain limited exceptions, exemptions and exclusions. Under the Finance Law, the Sales Tax is paid into a special fund held by the State Comptroller on a monthly basis.

The Sales Tax is imposed on substantially the same tax base as the sales and compensating use taxes previously imposed by the City and collected by the State. A tax on sales of certain tangible personal property and services had been imposed by the City since 1934.

Collections of the Sales Tax have increased in each of the last ten complete fiscal years. The level of Sales Tax receipts is necessarily dependent upon economic and demographic conditions in the City, and there can be no assurance that the historical data with respect to collections of such Sales Tax are necessarily indicative of future receipts. Sales Tax collections for the quarter ended December 31, 1990 declined approximately $28 million from the collections for the quarter ended December 31, 1989. Sales Tax collections for the year ended December 31, 1990 increased approximately $25 million from the collections
for the year ended December 31, 1989. The City has experienced adverse trends in certain economic and demographic factors which have contributed to a slowing of the growth rate of Sales Tax collections and receipts from certain economically sensitive taxes imposed within the City, including the Sales Tax, have not met recent projections. See "PART 8 — CERTAIN DEVELOPMENTS AFFECTING THE CITY — Fiscal Years 1991 and 1992".

The following table sets forth State collections of the sales and compensating use taxes imposed by the State since July 1, 1980, on a quarterly basis for the last ten fiscal years of the City, after deductions of the costs of administration, collection and distribution.

**QUARTERLY COLLECTIONS OF SALES AND COMPENSATING USE TAXES IN THE CITY(s)**

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30</th>
<th>Three Months Ended:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 30</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>1981</td>
<td>$293,581</td>
</tr>
<tr>
<td>1982</td>
<td>329,950</td>
</tr>
<tr>
<td>1983</td>
<td>338,727</td>
</tr>
<tr>
<td>1984</td>
<td>377,560</td>
</tr>
<tr>
<td>1985</td>
<td>414,663</td>
</tr>
<tr>
<td>1986</td>
<td>428,641</td>
</tr>
<tr>
<td>1987</td>
<td>474,644</td>
</tr>
<tr>
<td>1988</td>
<td>531,137</td>
</tr>
<tr>
<td>1989</td>
<td>530,211</td>
</tr>
<tr>
<td>1990</td>
<td>524,376</td>
</tr>
<tr>
<td>1991</td>
<td>560,921</td>
</tr>
</tbody>
</table>

**SOURCE:** State Department of Taxation and Finance.

(a) Quarterly distributions to localities are adjusted to compensate for overdistributions or underdistributions when data on actual collections by locality are available. Such adjustments are reflected in the table for the quarter in which the subsequent distributions are made. Since July 1980, adjustments have ranged from $41,255 to $19.3 million to reflect overdistributions for certain prior periods and from $116,971 to $24.5 million to reflect underdistributions for other prior periods. Periods subsequent to June 1990 remain subject to the ongoing process of adjustment.

**Stock Transfer Tax**

The Stock Transfer Tax is imposed at rates ranging from 1 1/4¢ to 5¢ (based on the selling price per share) on sales, agreements to sell, memoranda of sale and deliveries or transfers made within the State of shares or certificates of stock and certain other certificates. The imposition of the Stock Transfer Tax is subject to certain limited exceptions and is subject to a maximum tax of $350 on any taxable transaction which involves a sale on a single day of shares or certificates of the same class issued by the same issuer.

The level of Stock Transfer Tax revenues is related to the rate of tax imposed, the price of the shares traded and the volume of transactions on the securities exchanges located in the City. Such volume has fluctuated widely so that there can be no assurance that the historical data with respect to collections of such tax are necessarily indicative of future revenues. The Corporation believes that it is not possible to predict the effect of developments with respect to the City’s economic condition or other related economic developments in the City on Stock Transfer Tax collections.

The revenues derived from the Stock Transfer Tax, including amounts subject to rebate as discussed below, after deduction of the costs of administration, collection and distribution of such Stock Transfer Tax, are shown below for the last ten fiscal years of the City, based upon the various rates prevailing and types of transactions taxable during the periods shown:
<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30</th>
<th>Three Months Ended:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 30</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>$146,066</td>
</tr>
<tr>
<td>1982</td>
<td>131,039</td>
</tr>
<tr>
<td>1983</td>
<td>163,745</td>
</tr>
<tr>
<td>1984</td>
<td>247,247</td>
</tr>
<tr>
<td>1985</td>
<td>235,580</td>
</tr>
<tr>
<td>1986</td>
<td>274,239</td>
</tr>
<tr>
<td>1987</td>
<td>375,583</td>
</tr>
<tr>
<td>1988</td>
<td>480,436</td>
</tr>
<tr>
<td>1989</td>
<td>337,204</td>
</tr>
<tr>
<td>1990</td>
<td>403,781</td>
</tr>
<tr>
<td>1991</td>
<td>429,745</td>
</tr>
</tbody>
</table>

Source: State Department of Taxation and Finance.

In 1977, the State enacted a program of gradually increasing rebates for all Stock Transfer Tax payers. Rebates began October 1, 1977 with respect to transactions by non-residents subject to the Stock Transfer Tax and began October 1, 1979 with respect to transactions by residents. Rebates equal to 100% of the tax began on October 1, 1981. The legislation provides that taxpayers are to continue to pay the Stock Transfer Tax at the above-stated rates and that revenues are to continue to be paid into the Stock Transfer Tax Fund, although a substantial portion of such revenues (the rebatable portion of the tax) will be paid into the Stock Transfer Tax Fund only at the end of each calendar quarter. To the extent that the Corporation does not require the use of Stock Transfer Tax revenues for debt service on its outstanding obligations, such revenues are available on a quarterly basis for payment of rebates.

To date, the Corporation has not found it necessary to use the revenues derived from the Stock Transfer Tax to pay its debt service. Based on present projections, the Corporation does not anticipate that it will be necessary to utilize these revenues in the future, although no assurance can be given that they will not be so required. See "Part 6 — Debt Service Payment Requirements and Estimated Coverage Ration". If the Corporation were to require a substantial portion of the Stock Transfer Tax revenues otherwise subject to rebate, the resulting reduction in the amounts available for rebate could have an adverse effect upon the New York securities industry.

**Bond Reserve Fund**

The 1991 General Bond Resolution requires the Bond Reserve Fund to be at a level not less than the Bond Reserve Fund Requirement. The Bond Reserve Fund Requirement, as of any date of required determination, is an amount not less than one-half of the maximum debt service due in any calendar year on all 1991 Resolution Bonds Outstanding. The Bond Reserve Fund may be funded with bond or note proceeds or with the Corporation's revenues, but the Act makes no provision for certification by the Corporation of any deficit in such Fund to be funded by any appropriation from other than Per Capita Aid, the Sales Tax or the Stock Transfer Tax. The Corporation will cause the Bond Reserve Fund to be funded at an amount not less than the Bond Reserve Fund Requirement.

Moneys in the Bond Reserve Fund may not be withdrawn if such withdrawal would reduce the amount of such Fund to less than the Bond Reserve Fund Requirement, except for the purpose of paying debt service on the 1991 Resolution Bonds if other moneys of the Corporation are not available to make such payment. The Corporation has not found it necessary to use moneys in any of its reserve funds to pay debt service on any of its obligations.
PART 6 — DEBT SERVICE PAYMENT REQUIREMENTS AND ESTIMATED COVERAGE RATIOS

In order to estimate coverage ratios for the 1991 Resolution Bonds that will be outstanding, the Corporation has assumed certain amounts of Per Capita Aid and Sales Tax and Stock Transfer Tax collections. There is shown below the basis on which such amounts were calculated. The debt service payment requirements for the First, Second and 1991 Resolution Bonds as well as certain coverage ratios are also shown below.

Adjusted Per Capita Aid

The Corporation has estimated the amounts of the following potential claims and liabilities on Per Capita Aid that are payable prior to the payment of Per Capita Aid to the Corporation, although since the inception of the Corporation no such claims have been asserted.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (Dollars in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Capita Aid available to the Corporation during the Corporation's 1990 fiscal year</td>
<td>$535,023</td>
</tr>
<tr>
<td>Less annual potential claims:</td>
<td></td>
</tr>
<tr>
<td>(a) City University Construction Fund (&quot;CUCF&quot;).</td>
<td></td>
</tr>
<tr>
<td>Amounts equal to 50% of CUCF’s share of certain State Dormitory Authority debt service and other expenses would be a claim against Per Capita Aid if not paid by the City to CUCF. The Corporation has been informed by CUCF that such debt service and other expenses are approximately $99.9 million during its current fiscal year. State law permits a maximum claim of $65 million in any fiscal year of the City*</td>
<td>$49,931</td>
</tr>
<tr>
<td>(b) New York City Housing Development Corporation (&quot;HDC&quot;).</td>
<td></td>
</tr>
<tr>
<td>Amounts required to restore the HDC capital reserve funds to the amount required to be on deposit in such funds would be a claim against Per Capita Aid if not otherwise paid. The Corporation has been informed by HDC that the aggregate capital reserve fund requirements on all outstanding bonds of HDC as of this date is approximately $24.1 million. State law currently permits a maximum claim of $30 million in any fiscal year</td>
<td>$24,118</td>
</tr>
<tr>
<td>Less annual liabilities:</td>
<td></td>
</tr>
<tr>
<td>New York City Police Pension Fund.</td>
<td></td>
</tr>
<tr>
<td>Amounts due annually from Per Capita Aid to the Trustees of the City Police Pension Fund</td>
<td>$500 $ 74,549</td>
</tr>
<tr>
<td>Adjusted Per Capita Aid</td>
<td>$460,474</td>
</tr>
</tbody>
</table>

* Although State law purports to limit claims on Per Capita Aid, such limitation may not be effective in the event that the three outstanding bonds of the State Dormitory Authority for which Per Capita Aid may be claimed and issued to finance CUCF facilities are accelerated pursuant to the occurrence of an event of default under the related Dormitory Authority bond resolutions. In such event, all such outstanding bonds of the Dormitory Authority could be due and payable and could, to the extent of fifty percent of such principal amount, have a prior claim on Per Capita Aid. The Dormitory Authority has outstanding approximately $1.56 billion in such bonds. The State has, however, enacted legislation under which it commits, subject to annual appropriation, to pay 100% of CUCF’s share of the Dormitory Authority’s debt service with regard to senior college facilities.
**Aggregate Sales and Stock Transfer Taxes**

Assuming that the Sales Tax and Stock Transfer Tax collections (after deduction of costs of administration, collection and distribution) in each fiscal year remain at the levels for the 12 months ended December 31, 1990, see "PART 5 — PAYMENT OF THE BONDS — Sales Tax" and "—Stock Transfer Tax", and operating expenses of the Corporation are $12.2 million (the estimate for the 1991 fiscal year), the aggregate annual amount which would be available from the Sales Tax and the Stock Transfer Tax, if needed (the "Aggregate Sales and Stock Transfer Taxes"), to pay debt service of the Corporation is shown below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Dollars (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax collections for the 12 months ended</td>
<td>$2,256,339</td>
</tr>
<tr>
<td>December 31, 1990</td>
<td></td>
</tr>
<tr>
<td>Stock Transfer Tax collections for the 12 months</td>
<td>1,652,327</td>
</tr>
<tr>
<td>ended December 31, 1990</td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>$3,908,666</strong></td>
</tr>
<tr>
<td>Less: Operating expenses of Corporation</td>
<td>12,161</td>
</tr>
<tr>
<td><strong>Aggregate Sales and Stock Transfer Taxes</strong></td>
<td><strong>$3,996,505</strong></td>
</tr>
</tbody>
</table>

**Debt Service Requirements and Estimated Coverage Ratios**

As shown above, Adjusted Per Capita Aid is approximately $460 million and Aggregate Sales and Stock Transfer Taxes are approximately $3,997 million, for a total of $4,457 million.

The following table shows the aggregate annual debt service payment requirements on the First Resolution Obligations and Second Resolution Bonds which have a prior claim to that of the 1991 Resolution Bonds on the aggregate Sales and Stock Transfer Taxes and, with respect to Second Resolution Bonds, on Per Capita Aid. Certain resolutions of the Corporation include a covenant by the Corporation that it will not issue any obligations under the First General Bond Resolution if the aggregate annual debt service in any fiscal year on all obligations issued and outstanding under the First General Bond Resolution would exceed $425 million.

In addition, the table shows the annual principal payments, interest payments and the aggregate debt service payment requirements on all outstanding 1991 Resolution Bonds, of which the Series A Bonds are the only 1991 Resolution Bonds Outstanding. The table also shows the coverage of annual debt service on 1991 Resolution Bonds by all revenues (Adjusted Per Capita Aid plus Aggregate Sales and Stock Transfer Taxes) after deducting from such revenues the aggregate annual debt service requirements with respect to the First Resolution Obligations and Second Resolution Bonds and estimated operating expenses of the Corporation.

There is no assurance that Adjusted Per Capita Aid, Aggregate Sales and Stock Transfer Taxes or operating expenses will in fact remain at the levels referred to above in subsequent years. Furthermore, the Corporation reserves the right to issue additional obligations pursuant to the First, Second and 1991 General Bond Resolutions within the limitations contained in such General Bond Resolutions, the Series A Resolution, the Act and certain other resolutions of the Corporation.
## Debt Service Payment Requirements and Estimated Coverage Ratios

(see issuance of the Series A Bonds and giving effect to the refunding of the Refunded Bonds)

<table>
<thead>
<tr>
<th>12-Month Period Ended June 30</th>
<th>Total Debt Service Payment Requirement on First Resolution Obligations and Second Resolution Bonds (a)</th>
<th>Debt Service Payment Requirements on 1993 Resolution Bonds</th>
<th>Estimated Coverage Ratios on 1993 Resolution Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>$879,366</td>
<td>$57,851</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>876,165</td>
<td>8,532</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>843,338</td>
<td>8,464</td>
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<tr>
<td>1995</td>
<td>852,566</td>
<td>8,272</td>
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<tr>
<td>1996</td>
<td>510,655</td>
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<td>1997</td>
<td>499,328</td>
<td>7,583</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>560,908</td>
<td>7,191</td>
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<tr>
<td>1999</td>
<td>571,937</td>
<td>6,764</td>
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<tr>
<td>2000</td>
<td>589,630</td>
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<tr>
<td>2001</td>
<td>525,686</td>
<td>5,794</td>
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<tr>
<td>2002</td>
<td>525,322</td>
<td>5,245</td>
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<td>2003</td>
<td>524,893</td>
<td>4,650</td>
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<tr>
<td>2004</td>
<td>524,463</td>
<td>4,011</td>
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<td>2005</td>
<td>523,995</td>
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<td>2006</td>
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<td>2007</td>
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<tr>
<td>2008</td>
<td>522,700</td>
<td>1,228</td>
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<tr>
<td>2009</td>
<td>523,083</td>
<td>418</td>
<td></td>
</tr>
</tbody>
</table>

(a) Includes Sinking Fund Installments.

(b) These coverage ratios reflect payment of $12.2 million annual operating expenses of the Corporation.

All revenues (Adjusted Per Capita Aid plus Aggregate Sales and Stock Transfer Taxes) would cover the aggregate of the debt service on all First Resolution Obligations, Second Resolution Bonds and 1991 Resolution Bonds, shown in the table above for the fiscal years 1992 through 2009, ranging from a low of 5.0 times in 1992 and 1993 to a high of 8.7 times in 1997.

In addition to the aggregate debt service payments with respect to the First Resolution Obligations and Second Resolution Bonds shown in the above table, the Corporation is required to make deposits into the Capital Reserve Fund and Capital Reserve Aid Fund established pursuant to the First and Second General Bond Resolutions, which Funds are currently funded at not less than their required levels.
PART 7 — CERTAIN DEVELOPMENTS AFFECTING THE STATE

Although bonds of the Corporation are not obligations of the State, financial developments with respect to the State may affect the market or sources of payment for, or market prices of, the Corporation's obligations. As described under "PART 5 — PAYMENT OF THE BONDS", the revenues of the Corporation that are pledged to payment of debt service on the 1991 Resolution Bonds derive from Per Capita Aid and the Sales Tax and, in certain circumstances, the Stock Transfer Tax. The payment of these revenues to the Corporation is subject to annual appropriation by the State Legislature. The State Legislature has made appropriations to the Corporation for each of the State's fiscal years since the inception of the Corporation, including appropriations for the State's current fiscal year, but the Corporation has no assurance that the State Legislature will make such appropriations for subsequent fiscal years. It is possible that the willingness of the State Legislature to make such appropriations in the future may be affected by the financial condition of the State, which may in turn depend upon the financial condition of the City.

The factors affecting the State's financial condition are complex, and the following description constitutes only a brief summary. This PART 7 is based entirely on information supplied by the State.

Background

For decades, the State economy has grown more slowly than that of the nation as a whole, resulting in the gradual erosion of its relative economic affluence. The causes of this relative decline are varied and complex and in many cases involve national and international developments beyond the State's control. The long-term relative decline in the State's economy has been attributed, in part, to the combined State and local tax burden, which is among the highest in the nation. The existence of this tax burden limits the State's ability to impose higher taxes in the event of current or future financial difficulties.

The burden of State and local taxation, in combination with the many other causes of regional economic dislocation, may have contributed to the decisions of businesses and individuals to relocate outside, or not locate within, the State. Certain manufacturing facilities have relocated to other states. This trend has been partially offset, however, by the location of some new manufacturing facilities in the State and by expansion of existing facilities in the State. While the State's economy in most respects performed better than that of the nation during the early 1980's, since 1984 the State's rate of economic expansion has been somewhat slower than that of the nation. The State's unemployment rate has been generally lower than the national rate since the middle of calendar year 1981. Available data for 1989 and 1990, however, show an increase in the State unemployment rate and a substantial narrowing of the difference between the national and State rates of unemployment.

At the beginning of each fiscal year after legislative adoption of the Budget, the State Director of the Budget prepares a State financial plan which sets forth, on a cash basis, the State's projections of receipts and disbursements for that fiscal year (the "State Financial Plan"). Shortly thereafter the State Director of the Budget prepares a GAAP-based Financial Plan (the "GAAP-based Financial Plan") using the assumptions in the State Financial Plan. During the course of each fiscal year, the Governor is required to update periodically and revise the State Financial Plan and the GAAP-based Financial Plan and, in certain instances, to present the revised State Financial Plan to the State Legislature. The State Financial Plan is not the State budget as enacted by the State Legislature, but is the Governor's plan for administering State finances.

Projections and estimates of receipts from taxes have been subject to variance in recent fiscal years. The personal income tax and the corporation franchise tax have been particularly subject to overestimation as a result of several factors, the most recent of which include a significant slowdown in the national and regional economies and uncertainties in taxpayer behavior as a result of actual and proposed changes in federal tax laws.

Results of the State's 1990 Fiscal Year

The slowdown in the State and regional economies proved to be greater than anticipated in fiscal 1990, contributing to substantial reductions in actual tax receipts from amounts projected by the State in the 1990 State Financial Plan, as formulated in April 1989, and as subsequently revised during the 1990 fiscal year.
Overall, the 1990 State Financial Plan, as formulated in April 1989, overestimated actual tax receipts in the 1990 fiscal year by $1.6 billion. Approximately $418 million of the shortfall was attributable to an overestimate of personal income tax receipts, and approximately $630 million of the shortfall was attributable to an overestimate of business tax receipts.

During fiscal 1990, estimates and projections of the State's results were revised on several occasions to reflect changing economic and financial conditions, and those revisions were reflected in quarterly updates to the 1990 State Financial Plan.

In July 1989, the Governor submitted the first quarterly update to the 1990 State Financial Plan, indicating a potential $11 million surplus in the General Fund as a result of stronger-than-expected personal income tax collections during the first quarter, which were largely offset by reductions in projected receipts in other tax sources and increases in disbursements resulting principally from legislation enacted after the passage of the 1990 budget. The second quarterly update presented in November 1989 indicated a potential 1990 budgetary imbalance, prior to the application of $135 million in planned cost reductions, in the General Fund of $277 million, primarily as a result of lower collections of sales and use taxes, business taxes and real estate-related taxes and higher spending for Medicaid and foster care.

On January 16, 1990, the third quarterly update to the 1990 State Financial Plan was submitted to the State Legislature as part of the Governor's 1991 Executive Budget. That update indicated a 1990 potential budgetary imbalance of $700 million, before implementation of certain gap-closing measures. The increase in the potential imbalance was caused primarily by a reduction of $694 million in tax receipts, partially offset by spending reductions and an increase in miscellaneous receipts. The Governor revised the 1990 State Financial Plan on February 22, 1990. The revised 1990 State Financial Plan reduced the projection of personal income tax receipts for fiscal 1990 by $250 million and the projection of business tax receipts by $65 million. To finance this shortfall, the projected principal amount of tax and revenue anticipation notes ("TRANs") to be issued before the end of fiscal 1990 was increased by $315 million, from $350 million to $665 million.

Actual General Fund tax receipts for fiscal 1990 were $1,615 billion lower than amounts projected in April 1989. After more than $350 million in deficit reduction measures taken during the fiscal year, consisting of additional non-tax receipts and transfers described below, and increases in other receipts, total General Fund receipts were $1,159 billion below the April 1989 projections. The State also effected net spending reductions of $384 million, which together with the deficit reduction measures and increases in other receipts resulted in a cash-basis operating deficit in the General Fund of $772 million, which was financed through the issuance in March 1990 of TRANs. On June 12, 1990, the State issued $4.1 billion in TRANs to fund its day-to-day operations and certain local assistance payments to its municipalities and school districts.

The shortfall in receipts from the levels projected in the 1990 State Financial Plan, formulated in April 1989, occurred in virtually every major tax category. Personal income tax receipts totalled $15,252 billion, which were $369 million lower than projected levels, principally because of a significant overestimate of 1989 tax liability and of estimated payments against the liability. User taxes and fees were $306 million below the initial projection of $7,896 billion, due primarily to an overestimate of personal income and the growth in taxable spending relative to that income. The State received a total of $3,286 billion in business taxes during the 1990 fiscal year. Unanticipated year-to-year declines in corporation franchise and bank tax receipts, spurred by extraordinary growth in refunds, primarily account for the shortfall of $630 million from initially projected levels. Receipts from other activities totalled $1,163 billion, $261 million below the initial projection. This shortfall was primarily due to unanticipated year-to-year declines in the real property gains tax, the real estate transfer tax and the estate and gift tax.

To offset a portion of these shortfalls, the State took several nonrecurring actions during its 1990 fiscal year. These actions included the transfer of available balances from several State funds, including $230 million from the State Insurance Fund, $86 million from the Industry Fee Transfer Account of the Hazardous Waste Remedial Fund and $34 million from the Court Facilities Incentive Aid Fund.
General Fund disbursements, including transfers to other funds, totalled $29.229 billion in fiscal 1990, $384 million below the level projected in the 1990 State Financial Plan, as formulated in April 1989. This variance primarily reflects a reduction of $330 million in the payment to the Education Accumulation Revolving Account from the level initially projected in the 1990 State Financial Plan. This reduction was made in anticipation of a decrease in State payments in support of public elementary and secondary schools during the 1989-90 school year, that in turn was expected to be made possible by comparable reductions in the amount of employer contributions to the Teachers' Retirement System ("TRS"). Those reduced pension payments were anticipated to be achieved through, among other things, changes made by TRS in its actuarial assumptions. Such changes were made by the TRS on May 23, 1990. All other actual fiscal 1990 disbursements were a net of $54 million below the levels anticipated in the 1990 State Financial Plan, as formulated in April 1989, reflecting primarily the impact of actions the State took during fiscal 1990 to reduce disbursements to offset a portion of the shortfalls in receipts.

The State Comptroller reported the State's comprehensive (all funds) financial position as of March 31, 1990 and operating results for the State's 1990 fiscal year in accordance with GAAP on July 27, 1990, both of which were certified by an independent firm of certified public accountants. The State's governmental funds group had a net operating deficit of $1.173 billion for the fiscal 1990 year. This net operating deficit reflects operating deficits in the General Fund of $673 million, in the Special Revenue Funds of $333 million and in the Capital Projects Funds of $181 million. These operating deficits were offset, in part, by an operating surplus of $14 million in the Debt Service Funds.

The State's combined balance sheet at March 31, 1990, which was also audited by independent certified public accountants, reflects an accumulated deficit in the State's governmental funds in the amount of $3.140 billion. That deficit included accumulated deficits in the General Fund of $5.230 billion and in the Capital Projects Funds of $342 million and accumulated surpluses of $726 million and $1.706 billion in the Special Revenue Funds and Debt Service Funds, respectively.

Program for the State's 1991 Fiscal Year

Downward revisions of projected tax receipts have also occurred in the State's current fiscal year. The first quarterly update to the 1991 State Financial Plan, which was released on July 30, 1990, projected that receipts and disbursements would be balanced at $29.765 billion each; this reflected a reduction in both categories of $9 million from the levels projected when the budget was enacted in May. Since July 1990, economic conditions have deteriorated, leading to significant reductions in projected State revenues. On October 30, 1990, the Governor submitted to the State Legislature the second quarterly update to the 1991 State Financial Plan as required by the State Finance Law. Reflected in that update, and as adjusted on November 9, 1990 to reflect voter disapproval of the 21st Century Environmental Quality Bond Act (the "November Update"), were a new economic forecast, an analysis of six months of actual cash operating results as reported by the State Comptroller and an assessment of recent developments affecting both State receipts and State disbursements. The downward revisions to the economic forecast resulted in significant downward revisions to revenue estimates in the November Update. On January 31, 1991 the Governor released the third quarterly update to the 1991 State Financial Plan (the "Revised 1991 State Financial Plan") in conjunction with the Executive Budget for the 1992 State fiscal year (the "1992 Executive Budget").

The national economic outlook has been revised sharply downward by the Division of the Budget since July 1990. Two major developments contributed to the shift. First, in July 1990, the federal government published revised economic data showing that the national economy was far weaker in late 1989 and early 1990 than previously reported. Second, the Iraqi invasion of Kuwait has driven oil prices higher than in early 1990, weakening consumer confidence and injecting new uncertainties in the financial markets and the financial planning environment. Consumer confidence is believed to have been shaken by the
prolonged difficulties faced by the federal government in reaching timely agreement on a national deficit reduction plan.

In the wake of these developments, national economic forecasts have generally been revised downward. In August 1990, 92 percent of the economists comprising a widely followed survey of forecasters lowered their "consensus" forecast for 1990 national growth. Such drop was the second largest in the history of such survey. In September 1990, the consensus forecast dropped again. By October 1990, this survey predicted a national recession, beginning in the fourth calendar quarter of 1990. The last time the consensus forecast predicted a recession was in December 1981, just before the 1982 recession. The Division of the Budget now also forecasts a national recession, stretching from the fourth quarter of 1990 through the second quarter of 1991. In that forecast, growth in income and wages slows significantly and corporate profits decline. The forecasted recession is moderate, with a peak-to-trough decline in real gross national product of 0.6 percent.

In addition, the Federal Tax Reform Act of 1986 substantially altered definitions of income and deductions in the computation of taxable income and substantially lowered tax rates used in the computation of federal taxes. In 1987, the State enacted legislation that conformed State law to most of those definitional changes and also lowered tax rates. For personal income taxes, the net effect of the changes is to make estimates and forecasts of adjusted gross income less reliable than they had been in the past and to add substantial uncertainty to estimates of tax liability based on such estimates and forecasts. For the corporation franchise tax, these changes have altered the relationship between corporate profits and corporate tax liability, thus making forecasts of tax liability and tax collections more uncertain.

The November Update indicated a potential imbalance in the General Fund, after the State implements $250 million in planned gap-closing measures, of $644 million for the State's 1991 fiscal year. The aggregate amount of gap-closing actions projected to be required pursuant to the November Update was $894 million.

On November 17, 1990, the Governor presented an overall gap-closing plan to meet the potential 1991 deficit that included the $250 million in planned gap-closing measures mentioned above. More than one-half of the measures in the gap-closing plan required legislative approval. On December 14, 1990, the State Legislature passed legislation relating to the Governor's gap-closing plan. Key elements of the gap-closing plan, totaling $1.001 billion after such legislative action, include: (i) $190 million in reduced school aid payments; (ii) approximately $200 million in savings relating to the State payroll, primarily due to the implementation of a supplemental lump sum payment program under which the equivalent of five days' pay is withheld from State employees in the final quarter of the 1991 fiscal year and returned upon their separation from State service (see "Litigation" in this Part 7); (iii) $121 million in savings in social service programs and increased receipts associated with an assessment on hospital revenues and the use of other funding sources; (iv) approximately $100 million in increased settlements with the federal government and through the use of bond moneys and surplus balances; (v) $45 million in reduced Per Capita Aid to localities in the State, including the City; and (vi) the remainder from other actions including delays in purchases, contracts and capital projects relating to local assistance payments and State agency operations. In addition to the financial relief provided in 1991, the Division of the Budget expects that the gap-closing program will provide approximately $1.05 billion in increased receipts and disbursement savings in the State's 1992 fiscal year.

The impoundment of $775 million by the State Comptroller pursuant to State law of General Fund receipts to redeem a like amount of the TRANs issued in March 1990 is a nonrecurring item that reduces General Fund receipts by a like amount in the fiscal 1991.

The 1992 Executive Budget included the Revised 1991 State Financial Plan which indicates a potential $905 million General Fund deficit for the State's 1991 fiscal year. The Revised 1991 State Financial Plan reflects a reduction in receipts and transfers from other Funds of $700 million as compared to the November Update. Most categories of tax receipts show lower receipts, including a reduction of $560 million in personal income taxes and $72 million in user taxes and fees. Disbursements and transfers to other Funds show a net decrease of $369 million, reflecting implementation of the deficit reduction plan described above. The State plans to close the deficit through an issuance of TRANs prior to March 31, 1991.
There can be no assurance that, due to economic uncertainty and taxpayer behavior, receipts for the State's 1991 fiscal year will not decline further or that disbursements will not increase. Although many factors may affect the State's 1991 financial results, the Division of the Budget believes that the estimates of receipts and disbursements included in the Revised 1991 State Financial Plan are reasonable. If additional revenue shortfalls materialize, there can be no assurance that offsetting expenditure reduction actions will be taken or that the State will not be required to issue TRANs to finance such shortfall in an amount greater than the $905 million amount currently projected.

In 1989, three lawsuits were brought in State Supreme Court contesting the constitutionality of certain changes in the funding methods used by the State and Local Employees' Retirement System and the Police and Fire Retirement System, as mandated by Chapter 210 of the Laws of 1990. The impact on the State's Revised 1991 State Financial Plan, resulting from an adverse determination of these lawsuits, could be over $560 million. In addition, the State has projected substantial savings resulting from the changed funding methods for future years. An adverse determination of these lawsuits would also cause local governments and school districts to incur added net pension costs of approximately $290 million, which could result in requests being made of the State to provide additional aid to such localities to meet at least a portion of these added costs.

There can be no assurance that the State will not face substantial potential budget gaps in future years as result of, among other things, a significant disparity between projected tax revenues from a lower recurring receipts base and the spending required to maintain State programs at current levels. To address any potential budgetary imbalance, the State may need to take significant actions to align recurring receipts and disbursements in future fiscal years.

The volatility of employment and income since 1987 in the finance, insurance and real estate sectors of the City's economy and related effects on other sectors has increased the uncertainty involved in estimating personal income and business tax receipts and has contributed to errors in estimates of revenue from the sales tax and real estate-based taxes. The Revised 1991 State Financial Plan assumes, among other things, that a national recession has begun that will have adverse implications for the State and regional economies, and its projection of receipts is based in part upon that assumption. There can, however, be no assurance that the State and regional economies will not experience slower-than-predicted results in the 1991 fiscal year with corresponding material and adverse effects on the State's projections of receipts.

In June 1990, legislation was enacted creating the New York Local Government Assistance Corporation (the "LGAC"), a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments traditionally funded through the State's annual seasonal borrowing. Over a period of the next several years, the issuance of such long-term obligations, to be amortized over no more than 30 years, is expected to result in the elimination of the need for continuing short-term seasonal borrowing for those purposes because the timing of local assistance payments in future years is expected to correspond more closely with the State's available cash flow. The legislation also imposed a cap on the annual seasonal borrowing of the State at $4.7 billion, less the net proceeds of bonds issued by LGAC, except in cases where the Governor and the legislative leaders have certified both the need for additional borrowing and a schedule for reducing the resulting outstanding debt to the cap level. If such a borrowing above the cap is undertaken in any fiscal year, it is required by law to be reduced to the cap by the fourth fiscal year after the limit was first exceeded.

On March 26, 1990, Standard & Poor's Corporation ("S&P") downgraded the ratings assigned to long-term general obligation indebtedness of the State from "AA-" to "A" and assigned an "SP-1+" rating to the short-term general obligation tax and revenue anticipation notes of the State issued on June 12, 1990 (the "June 1990 TRANs"). On August 27, 1990, S&P affirmed the ratings without change. In addition, on June 6, 1990, Moody's Investors Service ("Moody's") lowered the ratings assigned to long-term general obligation indebtedness of and obligations fully guaranteed by the State from "A1" to "A" and assigned a "MIG 2"
rating to the June 1990 TRANs. Moody's in the same notice confirmed its ratings on outstanding limited-liability State lease and contractual obligations at "A". There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Ratings reflect the views of the respective rating agency and explanations of such ratings may be obtained from each of the individual rating agencies. Any action by a rating agency to lower the credit rating on any outstanding indebtedness of the State may have an adverse impact on the market prices of, or on the market for, the Corporation's bonds.

Recommended Program for the State's 1992 Fiscal Year

The 1992 Executive Budget contains projections for the 1992 State fiscal year which begins on April 1, 1991. At the time he released the 1992 Executive Budget, the Governor indicated that, for the 1992 fiscal year, the State faced a $6 billion budget gap. This reflects estimates of revenue based on the economic outlook, the existing tax structure and the requirement to repay the $905 million of TRANs to be issued to meet the 1991 deficit, and estimates of spending based on such factors as existing spending patterns, increased spending due to State statutes, federally mandated, debt and capital spending commitments and inflationary pressures. However, due to pressures on State tax and other revenue collections and use of nonrecurring revenues in 1991, the State could not afford the increased spending without massive tax increases. To meet the potential budget gap, the 1992 Executive Budget includes major actions. First, spending will be cut by $4.5 billion. Reductions are proposed in virtually every category of the State's operating budget, exclusive of debt service. Significant reductions are proposed against the level of spending that otherwise would be anticipated in revenue sharing, aid to education, Medicaid and other social service programs and State operations. Second, two new dedicated funds are proposed, one for highway programs and one for environmental programs, resulting in new dedicated funds of $800 million. Third, the 1992 Executive Budget includes $700 million in proposals to increase State revenues, the largest of which is a recommended freeze in the personal income tax reduction scheduled for 1991.

The 1992 Executive Budget is based on a State economic projection that assumes the State's economy will perform more poorly than the national economy as a whole. While the national economy is projected to rebound in the second half of calendar 1991, it is expected that the State's economy will take longer to rebound. Many uncertainties exist in forecasts of both the national and State economies, including the situation in the Persian Gulf, federal financial and monetary policies and the state of the world economy, any of which could have an adverse effect on the State.

Reflecting this economic outlook, and the measures to increase receipts and reduce disbursements cited above, the proposed 1992 State Financial Plan projects that General Fund receipts, including transfers from other Funds, will total $29.189 billion after provisions are made to repay $905 million of TRANs proposed to be issued in 1991 to close the remaining imbalance for the 1991 fiscal year. This level of projected receipts represents a decrease of $15 million from the level of receipts estimated for the 1991 fiscal year. General Fund disbursements, including transfers to other Funds, are projected to total $29.145 billion, a reduction of $59 million from the 1991 fiscal year. The excess of receipts over disbursements is dedicated to repay the State's Tax Stabilization Reserve Fund.

Composition of State Cash Receipts and Disbursements

Substantially all State non-pension financial operations are accounted for in the State's governmental funds group. Governmental funds include: the General Fund, which receives all income not required by law to be deposited in another fund, which for the State's 1991 fiscal year is projected to comprise 58% of total governmental funds receipts; Special Revenue Funds, which receive the preponderance of moneys received by the State from the federal government and other income the use of which is legally restricted to certain purposes, which are projected to account for 32% of total governmental funds receipts in fiscal 1991; Capital Projects Funds, used to finance the acquisition and construction of major capital facilities by the State and to
aid in certain capital projects conducted by local governments and public authorities, which are projected to account for 4% of total governmental funds receipts in fiscal 1991; and Debt Service Funds, which are used for the accumulation of moneys for the payment of principal of and interest on long-term debt and to meet lease-purchase and other contractual-obligation commitments, which are projected to comprise 6% of total governmental funds receipts in fiscal 1991. The fiscal 1991 breakdown among the governmental funds is changed from historic trends due, in part, to the reclassification of certain sales tax receipts as described in the next paragraph.

Pursuant to the legislation creating LGAC, the State Comptroller is required to credit the equivalent of one percentage point of the four percent sales and use tax collections to the Local Government Assistance Tax Fund (the “LGATF”), a debt service fund, for purposes of securing debt service on LGAC bonds and notes. To the extent that these moneys are not necessary for the payment of debt service, they are to be transferred from the LGATF to the General Fund and are to be reported in the General Fund as a transfer from other funds, rather than as sales tax receipts. Through December 1990, approximately $640 million in moneys that would have been reported as sales and use tax receipts were reported as transfers and, based on the sales and use tax collection estimates in the Revised 1991 State Financial Plan, approximately $1.117 billion will be credited to the LGATF by the end of the State’s 1991 fiscal year. In the State’s 1991 fiscal year, the amount transferred to the General Fund is expected to equal the amount credited to the LGATF because no debt service payments will be required by LGAC. In future years, the amount transferred to the General Fund from the LGATF should be less than the amount credited to the LGATF, to the extent of debt service on LGAC’s obligations.

Tax receipts generally have accounted for approximately 96% of total receipts in the General Fund. The State’s tax structure is comprised of a personal income tax (which is projected to account for approximately 55% of total General Fund tax receipts in fiscal 1991), user taxes and fees, including a general sales and use tax (which are projected to account for approximately 25% of total General Fund tax receipts in fiscal 1991, after reflecting the accounting change discussed in the preceding paragraph), business taxes (which are projected to account for approximately 15% of total General Fund tax receipts in fiscal 1991) and certain other taxes (which are projected to account for approximately 4% of total General Fund tax receipts in fiscal 1991). The State also receives various miscellaneous receipts and federal grants in the General Fund (which are projected to account for approximately 4% of total General Fund receipts in fiscal 1991). Operating transfers from other funds account for the balance of receipts in the General Fund.

The State classifies total General Fund disbursements, including operating transfers to other funds, into five categories. Grants to local governments (approximately 68% of total General Fund disbursements in fiscal 1991) comprise the largest category of General Fund disbursements. The balance of General Fund disbursements and their share of total General Fund disbursements include State operations (23%), general State charges (5%), short-term debt service (1%) and operating transfers to other funds, primarily for capital projects and debt service purposes (4%).

Total receipts in the State’s governmental funds in the Revised 1991 State Financial Plan are projected to total $47,850 billion for fiscal 1991, prior to repayment of $775 million of TRANs, and prior to the issuance of $905 million of TRANs to meet the State’s 1991 projected deficit, and to be comprised of $28,277 billion in taxes, $12,384 billion in federal grants and $7,189 billion in miscellaneous receipts. The State also anticipates the issuance of $734 million in general obligation bonds and bond anticipation notes to fund capital projects. Total governmental funds disbursements are projected at $49,177 billion and consist of $32,277 billion in grants to local governments, $12,730 billion in State operations and associated fringe benefits, $2,841 billion in capital construction and $1,329 billion in debt service, lease purchase and other similar purposes.

The Governor’s third quarterly update to the 1991 GAAP-based Financial Plan, which is based on the Revised 1991 State Financial Plan, was released on January 31, 1991. The update shows a General Fund deficit of $280 million. For all governmental funds the update reflects a net deficit of $529

24
million. This includes the General Fund deficit and deficits of $79 million in Special Revenue Funds, $88 million in Capital Projects Funds and $82 million in Debt Service Funds.

The proposed 1992 State Financial Plan reflects total governmental funds receipts of $51.400 billion, before repayment of $905 million of TRANs, to be comprised of $29.535 billion in taxes, $13.953 billion in federal grants and $7.912 billion in miscellaneous receipts. The proposed 1992 State Financial Plan also recommends the sale of $916 million in general obligation bonds and notes for capital purposes and total governmental funds disbursements of $51.916 billion to be comprised of $33.822 billion of grants to local governments, $13.012 billion in State operations and associated fringe benefits, $3.213 billion in capital construction and $1.869 billion in debt service, lease purchase and similar purposes.

The 1992 Executive Budget includes a projection of the 1992 GAAP-based Financial Plan. Such projection shows a General Fund surplus of $2.526 billion. For all governmental funds such projection reflects a surplus of $2.228 billion, including the General Fund surplus and a surplus in Debt Service Funds of $2 million, which is partially offset by deficits of $210 million in Special Revenue Funds and $90 million in Capital Project Funds.

Authorities

The fiscal stability of the State is related to the fiscal stability of its Authorities. There are several Authorities, with various responsibilities, including financing, constructing and operating revenue-producing public benefit facilities. Authorities are not subject to the constitutional restrictions on the incurrence of debt which apply to the State itself and may issue bonds and notes within the limits of, and as otherwise restricted by, their statutory authorization.

State law authorizes financing techniques for Authorities such as State: (i) guarantees of Authority obligations; (ii) lease-purchase and contractual-obligation financing arrangements; and (iii) statutory moral obligation provisions. The State's access to the public credit markets could be impaired if any of its Authorities, particularly those using the financing techniques specified above, were to default on their respective obligations. In addition, certain statutory arrangements provide for State local assistance payments, that otherwise would be payable to localities, to be made to certain Authorities under certain circumstances. The State has no obligation to provide additional assistance to localities whose local assistance payments have been paid to Authorities under these arrangements. However, in the event that such local assistance payments are so diverted, the affected localities could seek additional State funds.

As of September 30, 1990, there was outstanding $21.7 billion aggregate principal amount of bonds and notes issued by Authorities which were either guaranteed by the State or supported by the State through lease-purchase or contractual-obligation arrangements or moral obligation provisions. Debt service on outstanding obligations of an Authority is normally paid out of revenues generated by such Authority's projects or programs, but in recent years, including the 1991 fiscal year, the State has provided special financial assistance, in some cases of a recurring nature, to certain Authorities for operating and other expenses and for debt service pursuant to either its moral obligation indebtedness provisions or otherwise. Additional assistance of this nature is expected to be required in future State fiscal years.

The State's experience has been that if an Authority suffers serious financial difficulties, both the ability of the State and the Authorities to obtain financing in the public credit markets and the market price of the State's and Authorities' outstanding bonds and notes may be adversely affected. The New York State Housing Financing Agency and the New York State Urban Development Corporation have in the past required substantial amounts of assistance from the State to meet debt service costs or to pay operating expenses. Further assistance, possibly in increasing amounts, may be required for these Authorities in the future.

The Metropolitan Transportation Authority ("MTA") oversees the operation of the City's subway and bus lines by the City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority.
(collectively, the "Transit Authority" or "TA"). Through MTA's subsidiaries, the Long Island Rail Road Company (the "LIRR"), the Metro-North Commuter Railroad Company ("Metro-North") and the Metropolitan Suburban Bus Authority, the MTA operates certain commuter rail and bus lines in the New York City metropolitan area. In addition, the Staten Island Rapid Transit Operating Authority, an MTA subsidiary, operates a rapid transit line on Staten Island. Through its affiliated agency, the Triborough Bridge and Tunnel Authority (the "TBUA"), the MTA operates certain intrastate toll bridges and tunnels. Because fare revenues are not sufficient to finance the mass transit portion of these operations, the MTA has depended and will continue to depend for operating support upon a system of State, local government and TBUA support, and, to the extent available, federal operating assistance including loans, grants and subsidies.

The MTA completed its fiscal year ending December 31, 1989 with its budgets of approximately $4.9 billion balanced on a cash basis.

For the MTA's 1990 fiscal year ended December 31, 1990, the MTA achieved operating budgets balanced on a cash basis, reflecting substantial assistance from the State and a 15% fare increase that became effective January 1, 1990. Over the past several years the State has enacted several taxes—including a surcharge on the profits of banks, insurance corporations and general business corporations doing business in the 12-county region served by the MTA (the "Metropolitan Transportation Region") and a special one quarter of 1% regional sales and use tax—that have provided additional revenues for mass transit purposes, including assistance to the MTA.

The surcharge on profits, which expires in November 1992, is estimated to yield approximately $334 million in calendar year 1991. Of that amount, the MTA is entitled to receive approximately 90%, or approximately $301 million. In addition, legislation enacted in 1987 creates a further source of recurring revenues for the MTA. This legislation requires that the proceeds of a one-quarter of one percent mortgage recording tax paid on certain mortgages in the Metropolitan Transportation Region that theretofore had been paid to the State of New York Mortgage Agency be deposited in a special MTA fund. These tax proceeds may be used by the MTA for either operating or capital (including debt service) expenses. The 1987 legislation also requires the MTA to pay approximately $25 million annually from its existing recurring mortgage recording tax revenues, of which $20 million is to be paid to the State for highway purposes in the Metropolitan Transportation Region (other than the City) to the extent revenues are available therefor and the remaining $5 million of which is to be paid to certain counties in the Metropolitan Transportation Region.

In its 1991 financial plan for the years 1990-1992 released in December 1990, the MTA revised projections of certain dedicated tax revenues (mortgage recording tax and real property transfer tax revenues), farebox revenues and other budgetary items. It projects that its budgets for 1990 will be balanced on a cash basis, but now projects a budget gap for the Transit Authority of approximately $70 million for 1991, which it proposes be closed by governmental assistance, revenue enhancements, expense decreases and, to the extent these are insufficient to close the gap, a fare increase to take effect no later than mid-year 1991. For 1992, the financial plan projects a $375 million budget gap for the TA before giving effect to the recurring value of any actions taken to close the 1991 budget gap, but after giving effect to certain assumptions such as a settlement with labor for fiscal year 1992, increasing net wages by 1.5%. Should any of the assumptions used in arriving at the financial plan projections prove incorrect, the MTA could incur deficits and would, therefore, be required to seek additional State assistance, increase fares or take other actions.

The Office of the State Deputy Comptroller for New York City (the "OSDC") within the office of the State Comptroller released a report on January 23, 1991 reviewing the MTA Financial Plan as it relates to the TA. The report found that shortcomings in the gap closing program are likely to result in the imposition of a fare increase. It also noted that further deterioration in the regional economy may cause additional shortfalls.

A subway fire on December 28, 1990, which caused fatalities and many injuries, may give rise to substantial claims for damages against both the TA and the City.
In 1981, the State Legislature authorized procedures for the adoption, approval and amendment of a series of five-year plans for a capital program designed to upgrade the performance of the MTA's transportation systems and to supplement, replace and rehabilitate facilities and equipment. The State Legislature also granted certain additional bonding authorization for the capital program. As required by such law, the MTA submitted and has received approval from the MTA Capital Program Review Board (the "CPRB") of a 1987-91 Capital Program. As amended by the CPRB in March 1990, the 1987-91 Capital Program totals $8.423 billion. State legislation has identified the sources needed to fund completely the 1987-91 Capital Program. The TA portion of the MTA 1987-91 Capital Program totals $6.477 billion which includes as a funding source proceeds from the proposed sale of the New York Coliseum. However, lawsuits challenging the sale are pending. If the Coliseum site is not developed as planned, the TA and the commuter railroads may have to defer certain capital projects or seek other funding sources.

The MTA Capital Program assumes there will be no significant cut in federal capital assistance in the next year. The continuation of the same level of federal capital assistance must be viewed as uncertain until a federal fiscal year 1991 budget providing for such assistance is enacted and certain discretionary grants for federal fiscal years 1990 and 1991 are awarded. If the MTA Capital Program is delayed because of funding shortfalls, or other factors, ridership and fare revenues may decline. A loss of fare revenues could, among other things, impair the MTA's ability to meet its operating expenses without additional State assistance.

Localities

Municipalities and school districts have engaged in substantial short-term and long-term borrowings. In 1989, the total indebtedness of all localities in the State was approximately $23.5 billion, of which $11.5 billion was debt of the City; a small portion (approximately $56.6 million) of this indebtedness represents borrowing to finance budgetary deficits and was issued pursuant to enabling State legislation. State law requires the Comptroller to review and make recommendations concerning the budgets of those local government units other than the City authorized by State law to finance deficits. Fifteen localities had outstanding indebtedness for deficit financing at the close of their respective fiscal years ending in 1989. Certain proposed federal expenditure reductions would reduce, or in some cases eliminate, federal funding of some local programs and accordingly might impose substantially increased expenditure requirements on affected localities. If the State, the City or any of the Authorities were to suffer serious financial difficulties jeopardizing their respective access to the public credit markets, the marketability of notes and bonds issued by localities within the State could be adversely affected. Localities also face anticipated and potential problems resulting from certain pending litigation, judicial decisions and long-range economic trends. The longer-range problems of declining urban population, increasing expenditures and other economic trends could adversely affect localities and require increasing State assistance in the future.

Certain localities in addition to the City could have financial problems leading to requests for additional State assistance during the State's 1991 fiscal year and thereafter.

Litigation

Certain litigation pending against the State or its officers or employees could have a substantial or long-term adverse effect on State finances. Among the more significant of these cases are those that involve: (i) the validity of agreements and treaties by which various Indian tribes transferred title to the State of certain land in central New York; (ii) certain aspects of the State's Medicaid rates and regulations, including reimbursements to providers of mandatory and optional Medicaid services; (iii) the treatment provided at several State mental hygiene facilities; (iv) the care and housing provided for individuals released from State mental health facilities; (v) contamination in the Love Canal area of Niagara Falls; (vi) the use by the State of certain casualty insurance reserve funds; (vii) an action against State and City officials alleging that the present level of shelter allowance for public assistance recipients is inadequate under statutory standards to maintain proper housing; (viii) alleged employment discrimination by the State and its agencies; (ix) challenges to the practice of reimbursing certain Office of Mental Health patient care expenses from the
client’s Social Security benefits; (x) a challenge to the methods by which the State reimburses localities for the administrative costs of food stamp programs; (xi) a challenge to the State’s possession of certain funds taken pursuant to the State’s Abandoned Property Law; (xii) alleged responsibility of State officials to assist in remediating racial segregation in the City of Yonkers; (xiii) an action, in which the State is a third party defendant, for injunctive or other appropriate relief, concerning liability for the maintenance of stone groins constructed along certain areas of Long Island’s shoreline; (xiv) an action against State and City officials challenging the adequacy of care available for persons who abuse drugs; (xv) actions challenging the constitutionality of legislation enacted during the 1990 legislative session which changed the actuarial funding methods for determining contributions to State employee retirement systems; and (xvi) actions challenging legislation enacted in 1990 which requires the withholding of certain amounts of pay from State employees until their separation from State employment.

PART 8 — CERTAIN DEVELOPMENTS AFFECTING THE CITY

Although bonds of the Corporation are not obligations of the City, financial developments with respect to the City may affect the market for, or market prices of, the Corporation’s securities. The Corporation believes that its ability to repay the 1991 Resolution Bonds is not dependent upon the financial condition of the City. However, economic and demographic conditions in the City may affect the levels of Sales Tax receipts and Per Capita Aid. During the time the Series A Bonds are outstanding, financial developments and other matters concerning the City will be the subject of reviews and reports by, among others, the Corporation, the City Comptroller, OSDC and the staff of the Control Board. See “PART 9 — VARIOUS CONTROL PROGRAMS”.

This section discusses the City’s recent financial operations, results for the 1990 fiscal year, the budget for the City’s 1991 fiscal year, the four-year financial plan for the City and some of the financial difficulties the City faces. It provides only a brief summary of the complex factors affecting the City’s financial condition. This section is based in substantial part on information reported to the Corporation by the City, the staff of the Control Board and OSDC, or as presented in the City’s four-year financial plans or the official statements prepared by the City in connection with the issuance of its securities, or contained in other reports and statements referred to herein.

Fiscal Years 1975-1990

During 1975 the City became unable to market its securities and entered a period of extraordinary financial difficulties. In response to this crisis, the State created the Corporation and enacted the Emergency Act, which created the Control Board for the purposes of overseeing the City’s fiscal affairs and facilitating its return to the public credit markets. See “PART 9 — VARIOUS CONTROL PROGRAMS”.

In the first years of the fiscal crisis, the City took a number of steps which were intended to enable it to balance its budget, to reform its accounting procedures, and to regain access to the public credit markets. Subject to the oversight powers of the Control Board, the Corporation and OSDC, the City, among other things, reduced the size of its workforce, began charging tuition at the City University of New York and reached labor settlements consistent with newly-established guidelines. The City also received federal and State aid over and above previously existing levels. Because it became apparent in 1978 that the City’s fiscal difficulties would continue, additional measures were taken at such time, including an extension of the powers of the Control Board, an increase in the debt issuance authorization of the Corporation and the procurement of federal guarantees for $1.65 billion of City bonds. As a result of these efforts, as well as a strengthened local economy and the positive effects of inflation on economically sensitive taxes, the City was able to gradually eliminate annual operating deficits as calculated in accordance with GAAP, estimated to be approximately $1.87 billion for fiscal 1976, by the 1981 fiscal year, one year earlier than required by federal and State law.
Since fiscal 1978, as required by the Emergency Act, the City’s annual financial statements have been audited by independent certified public accountants. The City has reported a General Fund surplus calculated in accordance with GAAP for each of its 1981 through 1990 fiscal years. The City currently expects to meet its cash needs on an ongoing basis under the four-year financial plans prepared in accordance with provisions of State law, although, since the middle of fiscal 1990, the City has determined it necessary to reduce substantially its revenue expectations and compensate for such decreased collections through service reductions, increased tax rates or new taxes or other actions designed to bring expenditures in line with revenues.

The City released its audited operating results for the 1990 fiscal year on October 31, 1990, reporting revenues of $25.937 billion and expenditures of $25.932 billion, on a GAAP basis, as of June 30, 1990. This GAAP surplus was achieved despite a significant decline in revenues, chiefly non-property tax collections, during the fiscal year resulting from a downturn in local economic growth. The City compensated for these revenue shortfalls by implementing certain expenditure reduction measures.

Fiscal Years 1991 and 1992

The Mayor presented the Executive Budget for fiscal 1991 (the “1991 Executive Budget”) to the City Council and Borough Presidents on May 24, 1990. The 1991 Executive Budget provided for revenues and expenditures of $27.98 billion balanced according to GAAP, and enumerated spending reductions and revenue initiatives to achieve such GAAP balance in light of the City’s deteriorating economy. The 1991 Executive Budget called for productivity savings and service reductions of $300 million and $364 million, respectively, to be achieved over the balance of fiscal 1990 and fiscal 1991, while expanding certain social and health services and increasing the number of uniformed police officers. The 1991 Executive Budget also proposed an $859 million tax package, including, among others, real estate tax increases, a temporary personal income tax surcharge and the extension of the mortgage recording tax to cooperative apartments. All such tax proposals required the approval of the State Legislature except for the proposed real estate tax increase, which required City Council approval. The City obtained the necessary approval for approximately $820 million of the proposed tax program.

The City Council adopted a budget for the 1991 fiscal year on July 1, 1990 (the “1991 Adopted Budget”), with revenues and expenditures of $27.902 billion, balanced according to GAAP. On July 11, 1990, the City submitted to the Control Board a financial plan for the 1991 through 1994 fiscal years (the “July Plan”). The July Plan incorporated the terms of the 1991 Adopted Budget projecting a GAAP balanced budget for the 1991 fiscal year with $27.922 billion of revenues and expenses, and projected budget gaps of $970 million, $811 million and $872 million for the 1992 through 1994 fiscal years, respectively.

The City presented its first quarter modification to the July Plan on November 8, 1990 (the “November Plan”). Further significant revenue deterioration and increased mandated expenditures since the presentation of the July Plan required the City to close the then projected fiscal 1991 budget gap of $388 million with a variety of measures, notably expenditure reductions including a hiring freeze and the sale of certain real estate to the federal government. To further guard against the possibility of current fiscal year imbalance, the City augmented its general reserve to $150 million from $100 million. In addition, the City increased the size of the projected gap for fiscal 1992 to $1.6 billion, stating that a detailed gap-closing program for the 1992 fiscal year would be presented in conjunction with its second quarter modification in January 1991, and that such program would likely include layoffs.

economically sensitive taxes, losses in State aid receipts and increases in mandated expenditures. To close the fiscal 1991 projected $500 million gap, the City plans $199 million in service reductions (including full-time personnel reductions of approximately 7,200 employees to take place during the balance of fiscal 1991), consolidations and productivity improvements scheduled to total $32 million, $78 million of debt service cost reductions, $152 million of increased revenue projections and $22 million in federal aid. The 1991-1994 Financial Plan gap-closing program for fiscal 1992 includes City actions totalling $895 million, consisting of $587 million in service reductions and $253 million in productivity initiatives (both of which include personnel reductions begun during fiscal 1991 totalling 17,000), $175 million from audits and revenue enhancements, $90 million in federal aid and other revenues totalling $82 million. Also part of the $2 billion fiscal 1992 gap-closing program are a tax program totalling $580 million and including increases in property and personal income tax rates, an expansion of the Sales Tax base and an ad valorem tax on automobiles, debt service cost reductions totalling $60 million, and relief from State-mandated expenditures of $100 million. All tax proposals, except the proposed property tax rate, which requires the approval of the City Council, require the approval of the State Legislature.

The 1992 Executive Budget provides for reductions in State aid to localities. The precise cost to the City of the Governor's proposed reductions in aid to localities is not known at this time and is not reflected in the 1991-1994 Financial Plan. Based on informal discussions with City and State officials, the City's preliminary estimate of the aggregate proposed reduction in State aid to be received by the City during the State's 1992 fiscal year is between $400 million and $600 million. The City does not, however, anticipate that such proposed cuts would significantly adversely affect the City's ability to balance its fiscal 1991 budget. The Mayor's Executive Budget for the City's 1992 fiscal year, to be submitted after the scheduled adoption of the State's 1992 budget, will address the impact on the City's 1992 fiscal year of whatever local aid reductions may ultimately be implemented by the State.

The City presented its first ten-year capital strategy under the new City Charter on December 21, 1990 (the "1991 Capital Strategy"). The 1991 Capital Strategy reduces the City's capital commitments for the 1991 through 1994 fiscal years by an aggregate $2.3 billion, reducing projected capital expenditures for those years by $1.4 billion. Beginning with fiscal 1995, that portion of the 1991 Capital Strategy funded with City general obligation bonds is projected to grow at the rate of inflation. As a result of the planned fiscal 1991 through 1994 capital expenditure reductions, debt service as a percentage of total City revenues is projected to be approximately 11% in fiscal 1994, and approximately 12% by the end of the 1991 Capital Strategy in fiscal 2001. The City has issued $2.2 billion of its bonds to date in fiscal 1991 and intends to issue an additional $1.7 billion during the remainder of the fiscal year. The City plans to issue $9.2 billion of general obligation bonds during fiscal years 1992 through 1994 to finance capital projects and is considering the establishment of authorities to finance capital projects in the areas of waste disposal, hospitals, transportation, equipment and law enforcement. There can be no assurance that the City will be able to issue its obligations in the amounts or at the times currently contemplated.

Since the 1988 fiscal year, the City has experienced a downturn in economic growth that is both continuing and worsening. Significant private sector layoffs, particularly in financial services, insurance and real estate, since the October 1987 stock market crash, declining retail sales and a stagnant real estate market have all contributed to unexpectedly large reductions in the collection of economically sensitive taxes. While there are differences as to when an economic recovery may begin, there is agreement that the negative economic conditions will continue into the City's 1992 fiscal year. At the same time that the City's economy suffers, the demand for City services continues to grow. Mandated public assistance caseloads have increased, as has the need for health care associated with drug abuse and AIDS. Rising crime rates have prompted the City to propose its "Safe Streets, Safe City" program, which would, most significantly, increase the number of uniformed police officers by 3,500 and increase the utilization of an additional 3,000 existing police officers through redeployment and "civilization". Such program would cost $72 million in fiscal 1991, rising to $437 million in fiscal 1995. The City proposes to fund the program with an increase in the real estate tax, an extension of the personal income tax surcharge and proceeds from the sale of special City lottery tickets. The surcharge on the City's personal income tax and the institution of a lottery game require the approval of the State Legislature.
If the City incurs an operating budget deficit in excess of $100 million in any fiscal year or if the State and City Comptrollers cannot, on the basis of facts existing at the time such a certificate is due, jointly certify that the City is able to meet its financing requirements in the public credit markets, or if certain other conditions exist, a “Control Period” under the Emergency Act is required to be reimposed. During a Control Period, the Control Board must, among other things, review and approve the City’s four-year financial plans and each modification thereof. A Control Period was in effect from fiscal 1976 through fiscal 1986. See "Part 9 — Various Control Programs — Control Board".

Most collective bargaining agreements with City employees expired between June and September 1990. In October 1990, the City announced an agreement with the United Federation of Teachers ("UFT") providing for a one-year contract increasing wages and benefits 5.8%, at an estimated cost to the City of $161 million in fiscal 1991 and $212 million annually thereafter. On January 25, 1991, the City announced that the UFT had agreed to defer $39 million of the fiscal 1991 increase to fiscal years 1995 and 1996. The City expects to fund the cost of the settlement with funds previously allocated for collective bargaining increases totalling 1.5%, savings resulting from reductions in its contributions to the Teachers’ Retirement System which would be facilitated by an increase in the earnings assumption on such System’s assets and a reallocation of State aid within the Board of Education budget. On January 2, 1991, the City announced settlements with District Council 37 of the American Federation of State, County and Municipal Employees and Local 237 of the International Brotherhood of Teamsters, covering an aggregate of 150,000 City employees. The proposed 15-month contracts provide for total wage and benefit increases of 5%. The proposed contracts would cost the City $85 million in fiscal 1991, $148 million in fiscal 1992 and $157 million in each year thereafter. Funds for all costs above the 1.5% allocated in the 1991-1994 Financial Plan would be provided by reducing contributions to the New York City Employees’ Retirement System and the Board of Education Retirement System which would be facilitated by an increase in the earnings assumption on such Systems’ assets. Increasing the earnings assumptions on assets of all such City employees’ retirement systems required the approval of the State Legislature, which was obtained for the Teachers’ Retirement System and is pending for the others. The 1991-1994 Financial Plan provides no additional increases for employees covered by these proposed agreements and the UFT agreement. For all employees whose unions have not reached collective bargaining agreements with the City, the 1991-1994 Financial Plan contains funds for incremental 1.5% increases in fiscal 1991 and 1992 and no increases thereafter. On October 17, 1990, the Corporation issued a letter criticizing the use of pension fund savings to fund labor settlements, suggesting that any such savings should be applied to alleviate budget gaps and avoid layoffs.

As required by the City Charter, the City Comptroller issued a report on December 20, 1990 on the state of the City’s economy and finances. The report stated that the City’s economy is in a recession that began earlier, will be more severe and will last longer than the recession affecting the national economy and that what was assumed in the November Plan. The report noted that the City economy’s reliance on the financial services sector will keep the City from participating fully in the increase in manufacturing and trading activity projected to lead the nation out of its recession. The report also stated that problems in the City’s schools, the high tax burden in the City and a local rate of inflation higher than the national average are special disincentives to local business activity. The report concluded that the structural weaknesses in the City’s economy will affect tax collections adversely throughout the 1990s. The City Comptroller is expected to issue a report on the 1991-1994 Financial Plan in the near future.

The Corporation issued a report on the November Plan on November 26, 1990, renewing its objection to the use of any savings resulting from a reduction in pension contributions for labor settlements instead of general City purposes. Additionally, the Corporation stressed that the City could not rely on additional State and federal revenues to assist it in closing its budget gaps and cautioned that such amounts may actually be reduced. Finally, the Corporation suggested it would be prudent to identify and take actions now that would reduce the need for additional sacrifice later.

The staff of the Control Board issued its report on the November Plan on November 29, 1990. The report concluded that the City’s program to close the fiscal 1991 gap of $388 million was achievable, but cautioned against the potential for increased expenditures beyond the City’s contingency program for such fiscal year,
which primarily relate to yet-to-be-negotiated labor settlements and overtime. With respect to fiscal 1992, the Control Board staff noted that expenditures were projected to rise 7.9% while revenues were projected to grow by only 3.3%. The report warned that the projected expense increases, particularly debt service costs, would be difficult to reduce and that the projected fiscal 1992 gap of $1.3 billion could become larger if economically sensitive tax collections continue to decline. The report also warned against a fiscal 1992 gap-closing program that relies on increased State and federal aid and debt service savings, stating that all such actions were unlikely to materialize.

On November 29, 1990, OSDC issued its report on the November Plan, warning that lower revenues and higher expenses could aggregate to a $300 million gap for fiscal 1991 after implementation of the $388 million gap-closing program for such year in the November Plan. The report warned that an even greater fiscal 1991 gap would result from labor settlements in excess of the 1.5% increase contained in the November Plan. For fiscal years 1992 through 1994, the report projected budget gaps of $1.580 billion, $1.761 billion and $1.965 billion, respectively, or $293 million, $317 million, and $286 million more than the gaps projected by the City for each such fiscal year. The report warned of lower revenues for such years resulting from reductions in State aid and lower tax collections, offset to some extent by increased miscellaneous revenues, and higher expenditures resulting from additional overtime and social services expenses. Not included in OSDC’s gap projections are the risk of State aid receipts which are lower than the City’s projections and the impact of labor settlements in excess of the budgeted 1.5% increase. In its report, OSDC criticized the use of pension fund savings to fund labor settlements, questioned the wisdom of increasing the earnings assumption and noted that the education aid which the City stated would be used to fund a portion of the UFT settlement was already earmarked for other purposes.

On January 16, 1991 the State Comptroller issued a statement commenting on the 1991-1994 Financial Plan. The State Comptroller noted that the real reduction in the City's full-time work force under the Financial Plan is 3,000 employees below the number employed by the City at the start of the 1991 fiscal year and questioned, given the current economic recession and severe fiscal pressures at all levels of government, whether such reduction is sufficient, especially since the 1991-1994 Financial Plan also contemplates raising taxes by $580 million. The State Comptroller stated that such tax increase in addition to a $130 million tax increase already proposed for the City's crime-fighting program and an $800 million tax increase implemented during the 1991 fiscal year could severely impact the local economy. In addition, the State Comptroller stated that (i) while reducing previous assumptions of State aid, the 1991-1994 Financial Plan relies on higher amounts of State aid to the City than are likely to be available; (ii) the $1.1 billion of cuts in planned service levels and improvements in productivity contained in the 1991-1994 Financial Plan will require a massive management effort from the City to ensure that necessary savings are achieved and (iii) the debt service reductions included in the 1991-1994 Financial Plan, and others suggested as contingency measures, would impose significant additional costs on the City in future years. OSDC is expected to issue a report on the 1991-1994 Financial Plan by the end of February 1991.

Litigation

The notes to the City’s audited financial statements for the 1990 fiscal year report that the City is a defendant in a significant number of lawsuits pertaining to material matters including those claims asserted which are incidental to performing routine governmental and other functions. As of June 30, 1990, claims in excess of $306 billion were outstanding against the City for which the City estimated its potential future liability to be $2.2 billion. The 1991-1994 Financial Plan includes a provision for judgments and claims, other than the real estate tax certiorari proceedings described below, in the amounts of $185 million, $190 million, $197 million and $207 million for the 1991 through 1994 fiscal years, respectively.

Numerous real estate tax certiorari proceedings alleging overvaluation, inequality and illegality are presently pending against the City. In response to these actions, State legislation was enacted in December 1981 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 future liability for outstanding certiorari proceedings to be $200 million at June 30, 1990.
Certain litigations concerning the City or its officers or employees could have a substantial or long-term adverse effect on City finances. Among the more significant of these proceedings are those that involve: (i) real property tax assessments of utility-owned equipment in the City; (ii) designations of certain theaters in the City as landmarks; (iii) a challenge to the City’s denial of an application for a special permit to transfer development rights associated with Grand Central Terminal; (iv) claims against the City for damages arising out of an explosion of a Con Edison steam pipe which occurred in Gramercy Park on August 10, 1989; (v) a challenge to a determination of the New York City Commissioner of Finance denying a claimed refund of the City’s financial corporation tax on the grounds that such tax cannot be applied to income from federal obligations; (vi) the City’s compliance with certain air pollution standards established under the Clean Air Act; (vii) claims against the City for damages arising out of a water main break and electrical blackout that occurred on August 10, 1983; (viii) allegations by retired police officers that the City has improperly denied them various benefits; (ix) allegations by New York City Transit policemen that they were fraudulently led to believe by the City that the benefits available to them were equivalent to those benefits available to members of the New York City Police Department; (x) a challenge to the City’s Rent Control laws that prohibit a landlord from evicting a rent controlled tenant unless the landlord is unable to obtain a net annual return of 8% of the assessed value of the property; (xi) an action seeking the availability of immediate treatment for homeless drug abusers; (xii) claims that shelter allowances provided to those who receive welfare benefits through the AFDC program and the Home Relief program are inadequate; and (xiii) a claim by numerous sleep-in home attendants that they were improperly underpaid.

Federal Bankruptcy Law

The City expects to meet its cash needs on an ongoing basis under the four-year financial plans prepared in accordance with provisions of State law. However, if the City’s cash resources are insufficient to meet its obligations, federal and State statutes provide for certain remedies under Chapter 9 of the Federal Bankruptcy Code.

Chapter 9 permits any State political subdivision or agency to file a petition for relief under its provisions if the subdivision or agency is authorized to do so by State law. Both the City and the Control Board (on behalf of the City) are so authorized, and either could file such a petition if the City were (i) insolvent or unable to meet its obligations as they mature; (ii) desirous of effecting a plan to adjust its debts; and (iii) able to meet the other prerequisites for filing a Chapter 9 petition with respect to negotiations between the City and its creditors and other matters. Any plan to adjust the City’s debts would become effective only upon court approval, after the requisite approval by creditors of the City has been obtained.

Although the filing of such petition might have a general adverse effect on the economic health of the City, the Corporation believes that such a filing would not have a material adverse effect on the Corporation’s ability to repay its obligations including the Series A Bonds. The filing of such a petition, as with other financial developments with respect to the City, might affect the market for and market prices of the Corporation’s securities.

PART 9 – VARIOUS CONTROL PROGRAMS

This Part describes the powers of the Corporation to aid the City, the requirements imposed upon the City by the Act and the Emergency Act and the powers of the Corporation and the Control Board to review and take actions with respect to the City’s compliance with such requirements.

The Corporation

The Act authorizes the Corporation to purchase obligations of the City to finance portions of the City’s capital program. At the time the Corporation pays the City for City obligations, the City is required to agree to observe and perform a number of statutory conditions which the Corporation may modify from time to time, but may not waive. The Act provides that the statutory conditions, as modified by the Corporation and agreed to by the City, shall cease to apply when all bonds and notes of the Corporation have been repaid or such payment is provided for as specified in the Act.
The statutory conditions are designed to: (i) reform and unify the City's system of accounting; (ii) provide independent review of the City's expenditures; and (iii) establish limits and controls over the City's debt-incurring power. To date, the City has complied with these conditions, which may be briefly summarized as follows:

(a) The City has adopted as its method of accounting the accounting principles permitted by State law. The City's audited financial statements provided to the Corporation for the City's 1978 through 1990 fiscal years were prepared, and those to be prepared for each subsequent fiscal year are to be prepared, in accordance with GAAP, with the adjustments necessary to show results in accordance with the accounting principles permitted by State law for fiscal years through 1981.

(b) The Act requires the City to comply with provisions of the Emergency Act relating to balanced budgets, provisions for debt service and other financial requirements. The City is required to submit its proposed operating budgets (and any subsequent increases in expenditures therein) and operations reports for each fiscal year and each quarter to the Corporation for review to determine whether the City is adhering to an operating budget in which revenues equal or exceed expenditures under the accounting principles permitted by State law.

(c) The Act sets forth limitations for the issuance by the City of its short-term notes. The Corporation is required to enforce these limitations by making an advance determination as to whether a proposed issuance of short-term obligations by the City violates these limitations and by reporting any adverse determination to the City Comptroller, who is then prohibited from issuing such obligations. The Corporation believes that these limitations will not prevent the City from issuing any short-term obligations to meet its seasonal financing needs.

If the Board of Directors of the Corporation determines, after review of the City's books and records and consultation with the Mayor, that the City's operating budget will not be balanced in accordance with State law, or that any of the conditions summarized above have not been fulfilled or should be modified, the Corporation must notify the Governor, the Legislature, the Mayor and certain other State and City officials and must disclose such determinations to the public.

Control Board

The Control Board, created pursuant to the Emergency Act in 1975, is composed of the Governor and the Comptroller of the State, the Mayor and the Comptroller of the City and three appointees of the Governor. The two appointees to the Control Board are Heather L. Ruth and Stanley S. Shuman and there is one vacancy that currently exists. Allen J. Proctor is the Executive Director of the Control Board. OSDC assists the Control Board and the Corporation in carrying out their functions. Elinor B. Bachrach is the State Deputy Comptroller for New York City.

Certain powers of the Control Board are exercisable only during a Control Period, as defined in the Emergency Act. On June 30, 1986, the Control Period terminated upon the happening of certain specified events set forth in the Emergency Act. Those events were: (i) the termination of all federal guarantees of City bonded; (ii) the determination by the Control Board that the City had adopted and adhered to an operating budget balanced in accordance with GAAP for each of the three immediately preceding fiscal years; and (iii) the joint certification by the State and City Comptrollers that substantially all of the City's financing requirements had been, and for the next fiscal year were likely to be, met in the public credit markets.

During a Control Period, the four-year financial plans for the City and the Covered Organizations (as defined in the Emergency Act), including modifications thereof, are subject to review and approval by the Control Board. In addition, during a Control Period, the Control Board's responsibilities also include the review and approval of proposed contracts and certain obligations of the City and the Covered Organizations and, in coordination with the Corporation, the approval of long-term and short-term borrowings by the City and any Covered Organization.

Even though the Control Period has terminated, until the statutory expiration of the Emergency Act no later than July 1, 2008, the City is required to develop a four-year financial plan each year and to modify the plan as changing circumstances require. During this period, the powers of the Control Board include the power: (i) to review, but not to approve or disapprove, the City's four-year financial plan and the
modifications thereof; (ii) to review the quarterly reports from the City Comptroller setting forth the debt service requirements on all bonds and notes of the City and the Covered Organizations for the following quarter; and (iii) to review, but not to approve or disapprove, certain contracts and obligations of the City and the Covered Organizations in order to determine whether they comply with the requirements of the City’s financial plan. In addition, the Control Board maintains its authority to review the operations of the City and the Covered Organizations, audit their compliance with the financial plan and obtain information regarding their financial condition and needs. On June 27, 1986, a Memorandum of Understanding was entered into under which the City agreed to submit to the Control Board for review contracts of the City and the Covered Organizations, the City’s four-year financial plans and modifications thereof, and such other information as may be necessary or desirable to enable the Control Board to fulfill its obligations subsequent to the termination of a Control Period.

A Control Period must be reinstalled by the Control Board at such times and for such durations as are made necessary by the actual (or substantially likely and imminent) occurrence of any of the following events: (i) the failure of the City to pay principal or interest on any of its notes or bonds when due and payable; (ii) the incurrence by the City of an operating budget deficit in excess of $100 million; (iii) the issuance by the City of notes in violation of the limitations on short-term borrowings set forth in the Emergency Act; (iv) the violation by the City of any provision of the Emergency Act that substantially impairs the ability of the City to pay principal or interest on bonds or notes when due and payable or to adopt or adhere to a balanced budget; or (v) the issuance by the State and City Comptrollers of a joint certificate to the effect that they could not, on the basis of facts existing at the time of such certification, make the joint certification concerning the City’s ability to meet its financing requirements in the public markets required to terminate a Control Period.

When no Control Period is in effect, the Control Board is required to consider at least annually whether, in its judgment, any of the specified events has occurred. On July 19, 1990, the Control Board determined that none of the specified events had occurred during the 1990 fiscal year. No Control Period may extend beyond the earlier of July 1, 2008 or the date when no notes or bonds containing the 1978 State Covenant remain outstanding.

PART 10 — AGREEMENT OF THE STATE OF NEW YORK

In the legislation which established the Corporation in 1975, the State pledged to and agreed with the owners of the Corporation’s bonds that the State will not limit or alter the rights vested by the Act in the Corporation to fulfill the terms of any agreements made with owners of any such bonds, or in any way impair the rights and remedies of such owners, until any such bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of such owners, are fully met and discharged. The Corporation has included such pledge in the 1991 General Bond Resolution, as well as in the First and Second General Bond Resolutions.

In addition, pursuant to legislation enacted in 1978, the City is authorized and the Corporation is required to include the 1978 State Covenant in any agreement with owners or guarantors of their notes or bonds. By the terms of the 1978 State Covenant, the State agrees not to take any action that will (a) substantially impair the authority of the Control Board during a Control Period to approve, disapprove or modify any financial plan or modification, to approve or disapprove certain contracts of the City or Covered Organizations, to approve or disapprove proposed borrowings of the City or Covered Organizations, and to establish procedures for deposits to and disbursements from the bond fund of the Control Board; (b) substantially impair the authority of the Control Board to review financial plans and modifications, contracts and proposed borrowings of the City or Covered Organizations; (c) substantially impair the independent maintenance of a separate fund for the payment of debt service on bonds and notes of the City; (d) alter the Control Board so that a majority of the voting members are not elected State officials or appointees of the Governor; (e) terminate the existence of the Control Board before the earlier of July 1, 2008 or the date when
all notes or bonds containing the 1978 State Covenant are no longer outstanding and there is no longer effective or outstanding any federal guarantee; (1) substantially modify the requirement that the City's financial statements be independently audited; or (2) alter the definition of Control Period or substantially alter the authority of the Control Board to re-impose or terminate a Control Period. The Emergency Act provides that the pledge and agreement of the State shall cease to be effective when notes and bonds subject to the pledge are no longer outstanding or when sufficient moneys have been set aside for their payment.

In the opinion of Bond Counsel, while the matter is not free from doubt, the 1978 State Covenant is enforceable, provided a court would hold that the pledge is an “important security provision” of the bonds, “subject at all times to the proper exercise of the State’s reserved police power.” The enforceability of the 1978 State Covenant is subject to various factual requirements and legal uncertainties and there can be no assurance that any purchaser seeking to enforce the 1978 State Covenant will be able to meet such factual requirements or that such legal uncertainties will be resolved in favor of such enforcement.

PART 11 — MANAGEMENT

Under the Act, the Corporation is administered by a Board of Directors (the “Board”), consisting of nine directors. All of the directors are appointed by the Governor with the advice and consent of the State Senate; four of the directors are appointed upon written recommendation of the Mayor. The Act also provides for the appointment of representatives to the Board (the “Representatives”) by certain State or City officials. The Representatives are entitled to receive notice of and to attend all meetings of the Board but are not entitled to vote. In addition, the State Comptroller or his representative is entitled to attend and participate in the meetings of the Board but is not entitled to vote.

The Act provides that no director and no Representative may be an officer or employee of the federal government or of the State or of any political subdivision thereof.

The present members of the Board and the Representatives of the Corporation, and the expiration dates of their respective terms or office are as follows:

<table>
<thead>
<tr>
<th>Directors</th>
<th>Expiration of Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Felix G. Rohatyn, Chairman(1)(2)</td>
<td>December 31, 1987</td>
</tr>
<tr>
<td>Kenneth J. Biaikin(1)(3)</td>
<td>December 31, 1990</td>
</tr>
<tr>
<td>George M. Brooker(1)(3)</td>
<td>December 31, 1989</td>
</tr>
<tr>
<td>John P. Campbell</td>
<td>December 31, 1993</td>
</tr>
<tr>
<td>Gedale B. Horowitz(3)</td>
<td>December 31, 1991</td>
</tr>
<tr>
<td>Eugene J. Keilin(1)</td>
<td>December 31, 1990</td>
</tr>
<tr>
<td>Dick Netzer</td>
<td>December 31, 1991</td>
</tr>
<tr>
<td>Andrew P. Steffan(1)(3)(4)</td>
<td>December 31, 1984</td>
</tr>
<tr>
<td>Robert C. Weaver(1)</td>
<td>December 31, 1988</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Representatives(5)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerome Belson</td>
<td>Appointed by the Vice-Chairman of the City Council</td>
</tr>
<tr>
<td>Leonard Nadel</td>
<td>Appointed by the Speaker of the State Assembly</td>
</tr>
<tr>
<td>Carl H. Pforzheimer III</td>
<td>Designated representative of the State Comptroller</td>
</tr>
<tr>
<td>Robert W. Seavey</td>
<td>Appointed by the Minority Leader of the State Senate</td>
</tr>
<tr>
<td>Joel B. Mounty</td>
<td>Appointed by the Minority Leader of the State Assembly</td>
</tr>
</tbody>
</table>

(1) Continuing to serve until reappointed or until successor appointed and qualified.
(2) In October 1990, Mr. Rohatyn announced his intention to resign, but he has since agreed to remain as Chairman indefinitely.
(3) Appointed upon the written recommendation of the Mayor.
(4) Smith Barney, Harris Upham & Co. Incorporated, with which Mr. Steffan is affiliated as described in his biography, may act as underwriters in connection with the sale of the Series A Bonds.
(5) Each representative serves at the pleasure of the appointing official or body, is eligible for reappointment and holds office until his successor has been appointed. The position of the representative appointed by the President Pro-Tem of the State Senate is currently vacant.
FELIX G. ROHATYN, Chairman. Mr. Rohatyn is a General Partner of Lazard Freres & Co., investment bankers. He is a former Governor of the New York Stock Exchange, Inc., and is a director of Pfizer Inc., MCA Corporation, Pechiney, Howmet Inc. and Carnegie Hall. Mr. Rohatyn is a resident of New York City.

KENNETH J. BIALKIN. Mr. Bialkin is a member of the law firm of Skadden, Arps, Slate, Meagher & Flom, New York, New York, and from 1967 to 1987 was an Adjunct Professor of Law at New York University School of Law. He is a past Chairman of the Section of Corporation, Banking and Business Law of the American Bar Association, and is a former Chairman of the Committee on Federal Regulation of Securities of that Section. He is a past President of the New York County Lawyers' Association and a former Chairman of the Committee on Securities and Exchanges of that Association. He is President of the Jewish Community Relations Council of New York. He is a director of Oshap Technologies Ltd. and Primerica Corporation. Mr. Bialkin is a resident of New York City.

GEORGE M. BROOKER. Mr. Brooker is a principal stockholder and President of Webb & Brooker, Inc., a real estate management and brokerage firm. He is past President of the New York Chapter of the Institute of Real Estate Management. He is a governor of the Real Estate Board of New York and the Realty Advisory Board of New York. He is a trustee of the Educational Broadcasting Corp. (WNED/Channel 13). He is a director of the National Center Housing Management of Washington, D.C. and director of the Realty Foundation of New York. Mr. Brooker is a resident of New Rochelle, New York.

JOHN P. CAMPBELL. Mr. Campbell is a member of the law firm of Curtis, Mallet-Prevost, Colt & Mosle, New York, New York. He is a director of White Securities Corporation, Clinton Holdings, Inc. and A.C. Israel Enterprises, Inc. Mr. Campbell is a resident of Cold Spring Harbor, New York.

GEDALE B. HORETZ. Mr. Horowitz is Senior Executive Director of Salomon Brothers Inc and Executive Vice President and a director of Salomon Inc. He is Chairman of the New York Local Government Assistance Corporation and of the Securities Industry Association and a past Chairman of the Public Securities Association. He previously served as Chairman of the Municipal Securities Rulemaking Board and the Municipal Bond Club of New York. He is Treasurer of the Board of Trustees of Barnard College, Trustee of Long Island Jewish-Hillside Medical Center and a member of Columbia University Advisory Committee on Athletics. Mr. Horowitz is a resident of Great Neck, New York.

EUGENE J. KEILIN. Mr. Keilin, Chairman of the Corporation's Finance Committee, is a General Partner of Keilin and Bloom, investment bankers. Previously, he was a General Partner of Lazard Freres & Co, and was Executive Director of the Corporation from October 1976 to January 1979. From 1973 to 1975, he served as General Counsel of the City's Office of Management and Budget and, from 1975 to October 1976, he was counsel to the City's first Deputy Mayor for Finance. Prior to his employment by the City, Mr. Keilin was associated with the New York law firm of Sage, Gray, Todd & Sims. He is a Trustee of the Citizens Budget Commission and a member of the New York State Industrial Cooperation Council. Mr. Keilin is a resident of New York City.

DICK NETZER. Dr. Netzer, Chairman of the Corporation's City Budget Committee, is Senior Fellow at New York University's Urban Research Center; he was Director of the Center from 1981 to 1986 and was Dean of the University's Graduate School of Public Administration from 1969 through 1982. He is a former member of the Municipal Securities Rulemaking Board. He is a nationally recognized expert in the areas of state and local government finance and urban economics and he has published extensively in each of those areas. He is a member of numerous editorial and research advisory boards. Dr. Netzer is a resident of New York City.

ANDREW P. STEFFALL. Mr. Steffall, Chairman of the Corporation's Audit Committee, is a Managing Director of Smith Barney, Harris Upham & Co. Incorporated. From 1972 until 1976, he was on the staff of the Securities and Exchange Commission and became the Commission's first Director of Economic and Policy Research. Mr. Steffall is a resident of New York City.
ROBERT C. WEAVER. Dr. Weaver, Chairman of the Corporation's Administration Committee, was Distinguished Professor of Urban Affairs at Hunter College from 1971 to 1978. He is now Distinguished Professor Emeritus. From 1966 through 1968, he was Secretary of the United States Department of Housing and Urban Development and, from 1968 through 1970, was President of Bernard M. Baruch College. He is a former member of the Board of Trustees of the Metropolitan Life Insurance Co. and the Bowery Savings Bank, and is a former Chairman of the National Association for the Advancement of Colored People. Dr. Weaver is a resident of New York City.

JEROME BELSON, Representative. Mr. Belson is Chairman of the Board and Chief Executive Officer of Jerome Belson Associates, Inc., a real estate management firm. He is Chairman Emeritus of the Board of Waterhouse Securities, Inc. He is President of Associated Builders and Owners of Greater New York, Inc. He serves as a Trustee of St. John's University. Mr. Belson is a resident of New York City.

JOEL B. MOUNTY, Representative. Mr. Mounty is President of Mountco Construction and Development Corp., a full service company which is actively engaged in the development, construction and management of residential, commercial and hotel properties. He is a Board Member of New York Medical College, Secretary of the Jewish National Fund, Vice Chairman of Food Patch (a hunger relief organization), and former Vice Chairman of the Westchester Lighthouse. Mr. Mounty is a resident of New Rochelle, New York.

LEONARD NADEL, Representative. Mr. Nadel, who was Senior Vice President of Abraham & Straus, a division of Federated Department Stores, Inc. until March 1978, established his own management consulting firm, Leonard Nadel Associates Inc., in New York City in April 1978 where he is currently employed. Previously, Mr. Nadel served as an Executive Vice President of Beldoch Industries Corporation, an apparel manufacturer. He is former Chairman of the Board of Trustee of Adelphi University, a current Trustee of Long Island Jewish Medical Center and an advisory board member of the North Side Savings Bank. He is a past president of the Brooklyn Chamber of Commerce. Mr. Nadel is a resident of East Hills, New York where he is currently serving his first four-year term as mayor.

CARL H. PFORZHEIMER III, Representative. Mr. Pforzheimer is Managing Partner of Carl H. Pforzheimer & Co., an investment banking firm. He is a director and President of the Visiting Nurse Service of New York, former Chairman and honorary member of the Board of Trustees of Horace Mann-Barnard School, past President of the Scarsdale Union Free School District, Chairman of the Board of Trustees of Pace University and a member of the Board of the Hoff-Barthelson Music School. He is also a member of the New York Zoological Society. Mr. Pforzheimer is a resident of Scarsdale, New York.

ROBERT W. SEAVEY, Representative. Mr. Seavey is counsel to the law firm of Blutrich, Falcone & Miller, New York, New York, Chairman of the Citizens Housing & Planning Council of New York and a Trustee of Brooklyn Law School. He is a former Chairman of the Battery Park City Authority and a past Member of the Committee of Housing and Urban Development of the Association of the Bar of the City of New York. Mr. Seavey is a resident of New York City.

PART 12 — LITIGATION

The Corporation is not party to any litigation. Various actions between 1975 and 1979 challenging the constitutionality of the imposition and appropriation of the Sales Tax and Stock Transfer Tax to the Corporation have all been dismissed with the State's highest court affirming the constitutionality of the Sales Tax and Stock Transfer Tax as security and sources of payment for the Corporation's obligations. The United States Supreme Court dismissed an appeal from the State court ruling for lack of a substantial Federal question.
PART 13 — SUMMARY OF CERTAIN PROVISIONS OF THE 1991
GENERAL BOND RESOLUTION

The following is a summary of certain provisions of the 1991 General Bond Resolution. The summary is not comprehensive or definitive and is subject to all of the terms and provisions of the Resolution, to which reference is hereby made and copies of which are available from the Corporation. Section references, unless otherwise indicated, are to the Resolution.

Certain Defined Terms

The following terms defined in the 1991 General Bond Resolution shall have the following meanings when used in this Official Statement:

"Accreted Amount" means with respect to any Discount Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Discount Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Amount on the 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 Amount accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Accreted Amounts for such Valuations Dates.

"Bond" or "Bonds" means any Bond or the issue of Bonds, as the case may be, established and created by the Resolution and issued pursuant to a Series Resolution.

"Bond Payment Fund" means the fund by that name established by Section 602 of the Resolution.

"Bond Reserve Fund" means the fund by that name established by Section 602 of the Resolution.

"Bond Reserve Fund Requirement" means, as of any date of calculation, an amount not less than one-half of the maximum debt service due in any calendar year on all Outstanding Bonds; provided, however, if any such Bonds shall be Variable Rate Bonds, the amount of interest to be payable with respect to such Bonds shall be calculated at the maximum rate permissible with respect to such Bonds for such period as determined with respect to the applicable Series Resolution; provided, further however, that such Bond Reserve Fund Requirement shall not be such as would subject interest on any Bonds intended, or previously determined, to be exempt from taxation for federal income tax purposes, to taxation for federal income tax purposes.

"Bondowners" or "Owner of Bonds" or "Owner" (when used with reference to Bonds) or any similar term, means any person or party who is the registered owner of any Outstanding Bond or Bonds, subject to the provisions of Section 310 of the Resolution.

"Business Day" means any day which is not a Saturday, Sunday or a legal holiday in the State or a day on which banking institutions chartered by the State or the United States of America are legally authorized to close in the City.

"City" means the City of New York.

"Discount Bond" means any Bond so designated in a Series Resolution.

"First General Bond Resolution" means the General Bond Resolution adopted by the Corporation on July 2, 1975, as heretofore and hereafter supplemented in accordance with the terms thereof.

"Interest Payment Date" means the date on which interest is (or, with respect to Discount Bonds, Accreted Amounts are) to be paid with respect to the Bonds as provided in Section 301 of the Resolution.
"Maturity Amount" with respect to any Discount Bond means the stated Accreted Amount of such Bond at the maturity date thereof.

"Operating Expenses" means the Corporation's expenses of carrying out and administering its powers, duties and functions, as authorized by the Act, as then in effect, and includes administrative expenses, legal, accounting and consultants' services and expenses, payments to pension, retirement, health and hospitalization funds, amounts owed the United States government and not otherwise provided for, amounts due to any credit or liquidity facility provider with respect to the Bonds and any other expenses required or permitted to be paid by the Corporation under the provisions of the Act, as then in effect, or the Resolution or, to the extent not otherwise provided for, the First General Bond Resolution, the Second General Bond Resolution or otherwise.

"Operating Fund" means the fund by the name established by Section 602 of the First General Bond Resolution.

"Outstanding", when used with reference to Bonds, other than Bonds held by or for the account of the Corporation, means, as of any date, Bonds theretofore or then being delivered under the provisions of the Resolution, except: (i) any Bonds cancelled by the Trustee at or prior to such date, (ii) any Bonds for the payment or redemption of which moneys equal to the principal amount, the Accreted Amount or the Redemption Price thereof, as the case may be, with interest to the date of maturity or Redemption Date, shall be held by the Trustee in trust (whether at or prior to the maturity or Redemption Date), (iii) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Section 406 or Section 1106, and (iv) Bonds deemed to have been defeased.

"Per Capita Aid" means the amounts of per capita aid, if any, payable to the City pursuant to Section 54 of the State Finance Law, as the same may be amended from time to time.

"Rebate Fund" means the fund by that name established by Section 602 of the Resolution.

"Redemption Price" means, with respect to any Bond, other than a Discount Bond, the principal amount thereof, plus the applicable premium, if any, and with respect to any Discount Bond, the Accreted Amount thereof, plus the applicable premium, if any, in each case payable upon redemption thereof pursuant to the Resolution and the Series Resolution pursuant to which the same was issued.

"Resolution" means the 1991 General Bond Resolution as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions thereof.

"Revenues" means all payments to the Corporation pursuant to Sections 3036, 3036-a and 3036-b of the Act except any payments to the Corporation for credit to the Operating Fund or the Rebate Fund.

"Second General Bond Resolution" means the Second General Bond Resolution adopted by the Corporation on November 25, 1975, as heretofore and hereafter supplemented and amended in accordance with the terms thereof.

"Serial Bonds" means the Bonds so designated in a Series Resolution.

"Series of Bonds" or "Bonds of a Series" or words of similar meaning means the Series of Bonds authorized by a Series Resolution.

"Series Resolution" means a resolution of the Corporation authorizing the issuance of a Series of Bonds in accordance with the terms and provisions thereof adopted by the Corporation in accordance with Article X of the Resolution.

"Sinking Fund Installment" means as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, the amount of money required by the relevant Series
Resolution, to be paid at all events by the Corporation on a single future January 1 or July 1 or such other date or dates as specified in a Series Resolution, for the retirement of any Outstanding Bonds of that Series which mature after such January 1 or July 1 or such other date or dates as specified in a Series Resolution, but does not include any amount payable by the Corporation by reason only of the maturity of a Bond.

"Special Aid Account" means the special account created for the Corporation in the State Aid Fund.

"State" means the State of New York.

"State Aid Fund" means the Municipal Assistance State Aid Fund established pursuant to Section 92-e of the State Finance Law.

"Stock Transfer Tax" means the tax on the sale or transfer of stock or other certificates imposed by Article 12 of the Tax Law of the State.

"Supplemental Resolution" means a resolution supplemental to or amendatory of the Resolution, adopted by the Corporation in accordance with Article X of the Resolution.

"Term Bonds" means the Bonds so designated in a Series Resolution and payable from Sinking Fund Installments.

"Trustee" means United States Trust Company of New York, and its successor or successors and any other bank or trust company at any time substituted in its place pursuant to the Resolution.

"Valuation Date" means, with respect to any Discount Bond, the date or dates set forth in the Series Resolution authorizing such Bond on which specific Accreted Amounts are assigned to such Discount Bond.

"Variable Rate Bonds" means Bonds designated as such in a Series Resolution.

The Pledge Effectected by the Resolution

The proceeds of the sale of the Bonds, the Revenues and all Funds established by the Resolution (except for the Operating Fund or the Rebate Fund) are pledged to the payment of the principal or Accreted Amount of and interest on the Bonds (other than as may be required to be paid pursuant to any tender, put or similar arrangement except to the extent specifically required in the Series Resolution pursuant to which Bonds subject to such tender, put or similar arrangement are authorized). The pledge created by the Resolution is subordinate to the pledge of the revenues, moneys and securities and funds pledged under the First General Bond Resolution and the Second General Bond Resolution.
(Resolution, Section 601)

Establishment of Funds

The Resolution establishes the Rebate Fund, the Bond Payment Fund and Bond Reserve Fund, all of which are held by the Trustee.
(Resolution, Section 602)

Application of Payments

The payments received by the Corporation in accordance with the Act shall be applied to the Rebate Fund, the Bond Reserve Fund, the Bond Payment Fund and the Operating Fund. If the amount of any payment received is less than the amount certified by the Chairman of the Corporation, such amount shall be applied first to the Bond Payment Fund, second to the Rebate Fund, third to the Bond Reserve Fund, and last to the Operating Fund on the basis of the respective amounts certified.
(Resolution, Section 603)
Operating Fund

The Corporation shall pay out of the Operating Fund the amounts required for the payment of Operating Expenses.

(Resolution, Section 604)

Bond Payment Fund

1. On or before the Business Day preceding each Interest Payment Date, the Trustee shall pay, from the Bond Payment Fund, to itself, the amount required for such payment.

2. If the amount in the Bond Payment Fund shall be less than the amounts required to be paid pursuant to paragraph 1 above, the Trustee shall withdraw from the Bond Reserve Fund such amount as will be sufficient to make such payment.

3. As soon as practicable after the 45th day preceding the date of any Sinking Fund Installment, the Trustee shall call for redemption the specified amount of Term Bonds to be retired by such Sinking Fund Installment.

4. The Corporation may, at any time during the twelve-month period prior to a date on which a Sinking Fund Installment is to be made, but not less than 45 days prior to the date on which a Sinking Fund Installment is due if such purchase is to be credited against the next succeeding Sinking Fund Installment, direct the Trustee to purchase, with monies in the Bond Payment Fund, at a price not in excess of par, plus unpaid interest accrued to the date of such purchase, or, where applicable, the Accreted Amount, Term Bonds payable from such Sinking Fund Installment. Term Bonds so purchased shall be credited against a Sinking Fund Installment to be made within such twelve-month period. Notwithstanding the foregoing, nothing contained in the Resolution shall be construed to prohibit the Corporation from purchasing Bonds for cancellation with other available monies not held under the Resolution at any price and from directing the Trustee to credit such purchased and cancelled Bonds against any Sinking Fund Installment applicable to such Bonds and for which notice of such Sinking Fund Installment has not been given.

(Resolution, Section 605)

Bond Reserve Fund

1. The Corporation shall deposit into the Bond Reserve Fund (i) such portion of the proceeds of sale of Bonds as shall be prescribed by a Series Resolution; and (ii) any other moneys which may be made available to the Corporation for such purposes from any other source or sources.

2. Moneys and securities in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement, upon direction of the Corporation, may be deposited to the credit of the Rebate Fund, to the extent of any deficiency therein, and otherwise to the Bond Payment Fund.

3. Moneys and securities held in the Bond Reserve Fund may, and at the direction of the Corporation shall, be withdrawn therefrom by the Trustee and deposited in the Bond Payment Fund for the purchase or redemption of Bonds at any time; provided that subsequent to such withdrawal, the amount in the Bond Reserve Fund will not be less than the Bond Reserve Fund Requirement.

(Resolution, Section 606)

Rebate Fund

The Corporation shall deposit into the Rebate Fund all amounts required to be so deposited in order for the Corporation to comply with its covenants contained in the Resolution and any Series Resolution. Amounts in the Rebate Fund in excess of amounts required for the Corporation to comply with such covenants may be transferred from the Rebate Fund as the Corporation directs.

(Resolution, Section 607)
Certification to the State Comptroller and to the Mayor of the City of New York

In order to assure the maintenance of the Operating Fund, the Bond Payment Fund and the Bond Reserve Fund, not less than 120 days before the beginning of each Fiscal Year (but prior to February 12 in each calendar year), the Chairman of the Corporation shall certify to the State Comptroller and to the Mayor, with a copy of such certificate to the Trustee, a schedule setting forth the cash requirements of the Corporation for such Fiscal Year and the time or times when such cash is required, which certification shall be revised from time to time as required. The total amount so certified by such Chairman for such Fiscal Year shall be equal to: (i) the amounts which are required to maintain the Bond Reserve Fund at the Bond Reserve Fund Requirement; (ii) the amounts required to be deposited in the Bond Payment Fund to pay all interest on and all payments of principal, Accrued Amounts, Sinking Fund Installments, if any, and Redemption Price, if any, of Bonds maturing or otherwise coming due during such Fiscal Year; and (iii) the amounts required to be deposited in the Operating Fund as determined by the Corporation, to meet the Operating Expenses of the Corporation during such Fiscal Year (including amounts required to be deposited into the Rebate Fund to the extent not otherwise provided). In order further to secure the obligations of the Corporation, including the Bonds, each quarterly payment (to be made on or before April 12, June 25, October 12 and January 12) by the State Comptroller to the Corporation in accordance with such certification, shall be an amount, after taking into account moneys then in the Bond Payment Fund and available for purposes of the Bond Payment Fund during such Fiscal Year, not less than the sum of (A) 50% of the interest on all Outstanding Bonds payable within six months after the end of the quarterly period for which such payment is made plus (B) 25% of the principal, Accrued Amounts and premium, if any, on all Bonds and Sinking Fund Installments of the Corporation payable within one year after the end of the quarterly period for which such payment is made and such amount, if any, as may be required to be paid into the Bond Reserve Fund during the Fiscal Year of which such quarterly period is a part. Notwithstanding the foregoing, the Corporation covenants to make the certifications referred to above at such times and in such amounts as shall be necessary to coincide with the State procedures for payment of Per Capita Aid or other sources of revenues and as shall be necessary to make the deposits required herein and to make principal and Accrued Amounts of, Redemption Price, if any, and interest payments on the Bonds when due. If any increase shall occur in the cash requirements specified above, or if payments are required at a time or times earlier than previously certified, or if the City shall for any reason fail to make timely payment of the principal and accrued interest due on any obligation issued by the City to the Corporation and maturing within the same Fiscal Year, the Chairman shall certify a revised schedule of cash requirements for such Fiscal Year to the State Comptroller and to the Mayor. The schedule accompanying each certification (or revision thereof) shall provide for such payment dates as the Corporation deems appropriate to assure that sufficient funds will be available to meet the obligations of the Corporation as they become due. The Chairman shall exclude from consideration in making any such certification with respect to the funds required by the Corporation for payment of principal or Accrued Amount of or interest on the Bonds, any amounts due to be received as payment of principal of or interest on obligations of the City held by the Corporation.

(Resolution, Section 608)

Creation of Liens

The Corporation shall not issue any indebtedness, other than the Bonds, secured by the Bond Reserve Fund, and shall not create any lien prior to the Bonds on the Bond Payment Fund, provided, however, that nothing shall prevent the Corporation from issuing (i) indebtedness under a separate resolution if the lien created by such resolution is prior or equal to the charge or lien created by the 1991 General Bond Resolution, (ii) obligations issued in accordance with the applicable provisions of the First General Bond Resolution and the Second General Bond Resolution except as limited by Section 909 of the Resolution and (iii) obligations issued in lieu of or in substitution for other obligations pursuant to applicable provisions of the First General Bond Resolution or the Second General Bond Resolution.

(Resolution, Section 907)

General

The Corporation shall not amend the First General Bond Resolution or the Second General Bond Resolution in any manner which would have a material adverse effect on the owners of bonds issued
thereunder, provided, however, that nothing shall prevent the issuance of obligations upon the terms as provided in the First General Bond Resolution or the Second General Bond Resolution. The Corporation has covenanted not to issue additional First Resolution Obligations or Second Resolution Bonds unless, after giving effect to the issuance of such obligations, available Sales Tax revenues, after deducting maximum annual debt service payments on the First Resolution Obligations and the Second Resolution Bonds and the current operating expenses of the Corporation, would cover maximum annual debt service payments on the First Resolution Obligations, the Second Resolution Bonds and the Bonds by at least two times.

(Resolution, Section 909)

Additional Obligations

The Corporation reserves the right to issue its obligations under a separate resolution so long as the same are not entitled to a prior or equal lien with respect to the moneys pledged under the Resolution or with respect to proceeds from the Per Capita Aid, the Sales Tax or the Stock Transfer Tax.

(Resolution, Section 204)

Events of Default

The Resolution provides that it shall constitute an “event of default” if:

(a) the Corporation shall default in the payment of the principal, Accreted Amount, Sinking Fund Installments, if any, or Redemption Price of any Bond when due; or

(b) the Corporation shall default in the payment of interest on any of the Bonds and such default shall continue for a period of 30 days; or

(c) the Corporation shall fail or refuse to comply with the provisions of the Act relating to the certification of its quarterly requirements, or the State Comptroller shall fail to pay to the Corporation any amount or amounts as shall be certified by the Chairman of the Corporation pursuant to such provisions of the Act, or the Corporation shall fail or refuse to deposit in the Bond Reserve Fund, the Rebate Fund or the Bond Payment Fund the amount or amounts received by the Corporation for deposit in such funds, respectively; or

(d) the Corporation shall fail or refuse to comply with the provisions of the Act, other than as provided in (c) above, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Resolution, any Series Resolution, any Supplemental Resolution, or in the Bonds, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by the owners of not less than 5% in the aggregate principal amount and Accreted Amount of the Outstanding Bonds; or

(e) the State shall for any reason fail or refuse to continue the imposition of either the Sales Tax imposed by the Tax Law as the same may be from time to time amended or the Stock Transfer Tax imposed by the Tax Law as the same may be from time to time amended or if the rates of such taxes shall be reduced to rates less than those in effect on July 2, 1975; or

(f) the State shall fail to maintain the existence of either the special account in the Municipal Assistance Tax Fund or the Stock Transfer Tax Fund; or

(g) the State shall for any reason fail or refuse to apportion and pay Per Capita Aid or shall fail to maintain the State Aid Fund and the Special Aid Account therein or shall reduce the amount of Per Capita Aid payable during the current Fiscal Year to an amount less than the maximum amount of principal of and interest maturing or otherwise coming due on the Outstanding Bonds in the current or any future Fiscal Year.

(Resolution, Section 1202)
Remedies

The Resolution vests the Trustee with all rights, powers and duties of a trustee appointed by Bondowners pursuant to the Act.

(Resolution, Section 1201)

Upon the happening and continuance of any event of default specified in paragraph (a) or (b) of Section 1202 of the Resolution, the Trustee shall proceed, or upon the happening and continuance of any event of default specified in paragraph (c), (d), (e), (f) or (g), of said Section, the Trustee may proceed, and upon the written request of the Owners of not less than 25% in aggregate principal amount and Acrued Amount of the Outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondowners, and to require the Corporation to carry out any other covenant or agreement with Bondowners and to perform its duties under the Act;

(b) by bringing suit upon the Bonds;

(c) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the Owners of the Bonds;

(d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; or

(e) in accordance with the provisions of the Act to declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than 25% in aggregate principal amount and Acrued Amount of the Outstanding Bonds, to annul such declaration and its consequences.

In the enforcement of any remedy under the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due under any provision of the Resolution or a Series Resolution or of the Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgement or decree against the Corporation for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect any monies available for such purpose, in any manner provided by law, the monies adjudged or decreed to be payable.

(Resolution, Section 1203)

Series Resolutions and Supplemental Resolutions

The Corporation may adopt (without the consent of any Bondowners) a Series Resolution or Supplemental Resolution to provide for the issuance of a Series of Bonds and specify the terms thereof; to add additional covenants and agreements for the purpose of further securing the payment of the Bonds; to prescribe further limitations and restrictions on the issuance of Bonds or the incurring of indebtedness by the Corporation; to surrender any right, power, or privilege reserved to the Corporation by the terms of the Resolution; to confirm as further assurance any pledge under and the subject to any lien, claim or pledge created or to be created by the provisions of the Resolution, of the Revenues or any other monies, securities or funds; to modify any of the provisions of the Resolution or any previously adopted Series Resolution in any other respects, provided that such modifications shall not be effective until all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Series Resolution or Supplemental Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions; and, with the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert provisions clarifying matters or
questions arising under the Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect.

(Resolution, Section 1001)

Any of the provisions of the Resolution may be amended by a Supplemental Resolution with the written consent of the owners of at least two thirds in the aggregate principal amount and Accreted Amount in each case of (a) all Bonds then Outstanding, and (b) if less than all the Series of Bonds then Outstanding are affected, the Bonds then Outstanding of each affected Series; excluding, in each case, from such consent, and from the Outstanding Bonds, the Bonds of any specific Series and maturity, if such amendment by its terms will not take effect so long as any such Bonds remain Outstanding; provided that any such amendment shall not permit a change in the terms of redemption or maturity of the principal or Accreted Amount of any Outstanding Bond or any installment of interest on any such Bond or make any reduction in principal amount, the Accreted Amount or Redemption Price, or interest without the consent of the Owner of such Bond, or reduce the percentages of consents or otherwise affect the classes of Bonds required for a further amendment.

(Resolution, Section 1101)

Amendments may be made in any respect with the written consent of the Owners of all of the Bonds then Outstanding.

(Resolution, Section 1103)

Investment of Funds

The Corporation may direct the Trustee to invest moneys in the Bond Payment Fund and the Bond Reserve Fund in (a) direct obligations of the United States of America, direct obligations of the State or obligations the principal and interest of which are guaranteed by the United States of America or the State, (b) any obligation issued by certain federal agencies, (c) if permitted by law, any obligation issued by the Federal National Mortgage Association to the extent such obligations are guaranteed by the Government National Mortgage Association, (d) any other obligation of the United States of America or any federal agencies which may then be purchased with funds belonging to the State of New York or held in the State Treasury, (e) interest bearing time deposits, (f) other similar investment arrangements, including, but not limited to, repurchase agreements covering obligations of issuers enumerated as aforesaid and (g) to the extent permitted by law, any obligation the interest on which is not included in gross income for federal income tax purposes and which is payable as to both principal and interest, from the principal of and interest paid on obligations of the United States of America.

The Trustee shall not be liable or responsible for the making of any authorized investment made in the manner provided in the Resolution or for any loss resulting therefrom.

(Resolution, Sections 702 and 703)

Defeasance

1. If the Corporation shall pay or cause to be paid to the Owners of all Bonds then Outstanding, the principal and interest, Accreted Amount, and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Resolution (other than as may be required pursuant to any tender, put or similar arrangement except to the extent specifically required in the Series Resolution pursuant to which Bonds subject to such tender, put or similar arrangement are authorized), then, at the option of the Corporation, the covenants, agreements and other obligations of the Corporation to the Bondowners shall be discharged and satisfied; provided that, in addition to certain other covenants, any covenants made with respect to maintaining the exclusion of interest on the Bonds from gross income for federal income tax purposes shall survive.

2. Bonds, any principal portion thereof or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Corporation
of funds 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 1 above. All Outstanding Bonds of any 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 such paragraph 1 above if (a) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or direct obligations of the United States of America the principal of and the interest on which, when due, will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay, when due, the principal, Accreted Amount, 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, (b) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Corporation shall have given the Trustee in form satisfactory to it irrevocable instructions to publish a notice of redemption in accordance with the procedures provided in the Resolution and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, the Corporation shall have given the Trustee in form satisfactory to it irrevocable instructions to mail notice to the Owners of such Bonds, that the deposit required by (a) above has been made with Trustee and that such Bonds are deemed to be paid in accordance with the Resolution and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal, Accreted Amount or Redemption Price, if applicable, on such Bonds. Neither direct obligations of the United States of America or moneys deposited with the Trustee pursuant to Section 1401 of the Resolution nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Accreted Amount or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payment on such direct obligations of the United States of America deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in direct obligations of the United States of America maturing at times and amounts sufficient to pay when due the principal, Accreted Amount or Redemption Price, if applicable, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestment, to the extent not required to be deposited in the Rebate Fund, shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge.

(Resolution, Section 1401)

PART 14 — TRUSTEE

United States Trust Company of New York is the Trustee under the 1991 General Bond Resolution. Its principal offices are located at 114 West 47th Street, New York, New York 10036. The Trustee has accepted the duties and responsibilities imposed upon it by the 1991 General Bond Resolution and is vested with all of the rights, powers and duties of a trustee appointed by owners of 1991 Resolution Bonds pursuant to the Act. Upon the happening of an “event of default” as defined in the 1991 General Bond Resolution, the Trustee may, and in certain circumstances is required to, proceed to protect and enforce its rights and the rights of the Bondowners. See “PART 13 — SUMMARY OF CERTAIN PROVISIONS OF THE 1991 GENERAL BOND RESOLUTION”. In the performance of its duties, the Trustee is entitled to indemnification for any act which would involve it in expense or liability and will not be liable as a result of any action taken in connection with the performance of its duties except for its own negligence or default. The Trustee is protected in acting upon any direction or document believed by it to be genuine and to be signed by the proper party or parties or upon the opinion or advice of counsel. The Trustee may resign at any time upon 60 days' written notice to the Corporation and upon mailing notice thereof to the Bondowners. Any such resignation shall take effect on the date specified in the notice, but in the event that a successor has been appointed, the resignation shall take effect immediately. The Trustee may be removed by the Corporation for actions or events arising from the Trustee’s negligence, default or willful misconduct. The Trustee also serves as trustee under the First General Bond Resolution and the Second General Bond Resolution.

As of the date hereof, the Trustee owns $4.193 million of First Resolution Obligations and $3.670 million of Second Resolution Bonds for its own account. The Trustee has performed, and may in the future perform, certain banking services for the Corporation.
PART 15 — LEGAL INVESTMENT

The 1991 Resolution Bonds are legal investments, under present provisions of State law, for all public officers and bodies of the State and political subdivisions of the State and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of the State. Pursuant to the Act, the 1991 Resolution Bonds may be deposited with, and may be received by, all public officers and bodies of the State and all political subdivisions thereof and public corporations for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

PART 16 — TAX EXEMPTION AND TAX CONSEQUENCES

In the opinion of Orrick, Herrington & Sutcliffe, Bond Counsel, based on existing statutes, regulations, rulings and court decisions, and assuming compliance with certain covenants described herein, interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is further of the opinion that interest on the Series A Bonds is not a specific preference item for purposes of the individual or corporate federal alternative minimum taxes. However, Bond Counsel observes that interest on the Series A Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series A Bonds is exempt from personal income taxes imposed under the law of the State of New York or any political subdivision thereof (including the City), and the Series A Bonds are exempt from all taxation directly imposed thereon by or under the authority of said State, except for estate or gift taxes and taxes on transfers. A complete copy of the opinion of Bond Counsel is set forth in Appendix B hereto.

The Code imposes various restrictions, conditions and requirements that must be met subsequent to the issuance and delivery of the Series A Bonds in order that interest on the Series A Bonds be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. The Corporation has covenanted in certain documents relating to the Series A Bonds to comply with certain guidelines designed to assure that interest on the Series A Bonds will not become includable in gross income for federal tax purposes. Failure to comply with these covenants may result in interest on the Series A Bonds being included in federal gross income of the Bondowners, possibly from the date of issuance of the Series A Bonds. The opinion of Bond Counsel assumes compliance with such covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series A Bonds may affect the tax status of interest on the Series A Bonds.

Certain requirements and procedures contained or referred to in the documents relating to the Series A Bonds may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, in connection with which the advice or approving opinion of nationally recognized bond counsel would be required. Orrick, Herrington & Sutcliffe expresses no opinion with respect to federal tax matters if any such change occurs or action is taken or omitted without such advice or approval or upon the advice or approval of bond counsel other than themselves.

Bond Counsel is further of the opinion, based on existing statutes, regulations, rulings and judicial decisions, that the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Series A Bonds maturing on July 1, 1997 through July 1, 2003, inclusive, and July 1, 2008 (collectively, the “OID Bonds”) are sold and the amount payable at maturity thereof constitutes “original issue discount” for purposes of federal income taxes. Such discount is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner.
thereof. The original issue discount accrues over the term to maturity of each OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of the OID Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of the OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of OID Bonds who purchase OID Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase OID Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such OID Bonds. All owners of OID Bonds should consult their own tax advisors with respect to the allowance of a deduction or any loss on a sale or other disposition to the extent that such loss is attributable to accrued original issue discount.

Although Bond Counsel has rendered an opinion that interest on the Series A Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Series A Bonds may otherwise affect a Bondowner's federal tax liability. The nature and extent of these other tax consequences will depend upon the Bondowner's particular tax status and the Bondowner's other items of income or deduction. Bondowners should consult their tax advisors concerning any such tax consequences. Bond Counsel expresses no opinion regarding any such consequences.

PART 17 — LEGAL OPINIONS

All legal matters incident to the authorizations, issuance, sale and delivery of the Series A Bonds are subject to the approval of Orrick, Herrington & Sutcliffe, New York, New York, Bond Counsel to the Corporation. The approving opinion of Bond Counsel with respect to the Series A Bonds will be in substantially the form attached to this Official Statement as Exhibit B. The opinion of the Bond Counsel with respect to the payment of the Refunded Bonds will be in substantially the form attached to this Official Statement as Exhibit C. Certain legal matters, including the accuracy and completeness of this Official Statement, will be passed on for the Corporation by its General Counsel, Paul, Weiss, Rifkind, Wharton & Garrison, New York, New York. Carter, Ledyard & Milburn, New York, New York, have acted as counsel for the Trustee.

Certain matters will be passed upon for the Underwriters by their counsel, White & Case, New York, New York.

PART 18 — UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series A Bonds from the Corporation at a discount from the initial public offering prices equal to 0.8447% of the principal amount of the Series A Bonds. The Underwriters may offer to sell such Series A Bonds to certain dealers and others at prices lower than the initial public offering prices and the public offering prices may be changed from time to time by the Underwriters. The Corporation has agreed to indemnify the Underwriters against certain liabilities.

Certain institutional investors, some of which are Underwriters, hold substantial amounts of bonds of the Corporation and the City, and such investors may, from time to time during and after the time when the Series A Bonds are being offered to the public, purchase and sell bonds of the Corporation and the City for their own respective accounts or for the accounts of others.
PART 19 — FINANCIAL STATEMENTS

The audited financial statements of the Corporation for the year ended June 30, 1990 and the accompanying report thereon by Price Waterhouse, the Corporation's independent accountants, and the unaudited financial statements of the Corporation for the six months ended December 31, 1990 are annexed hereto as Exhibit A. Subsequent to December 31, 1990, the following events took place and are not included in the December 31, 1990 unaudited financial statements: the receipt on January 11, 1991 of $23.5 million of Sales Tax revenues for First Resolution Obligation purposes and $76.5 million for Second Resolution Bond purposes and the payment on February 1, 1991 of $255.2 million for First Resolution Obligation purposes.

*             *

Lazard Freres & Co. is acting without compensation as financial advisor to the Corporation. Felix G. Rohatyn, Chairman of the Corporation, is a General Partner of such firm.

The references herein to the Act, the Emergency Act, the Tax Law, the Finance Law, the various agreements, and the First, Second and 1991 General Bond Resolutions and series resolutions promulgated thereunder are summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to such Acts, Laws, various agreements, General Bond Resolutions and series resolutions for full and complete statements of such provisions. Copies of such Acts, Laws, agreements, General Bond Resolutions and series resolutions are available at the office of the Corporation.

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

MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

By

QUENTIN B. SPECTOR
Executive Director
APPENDIX

Definitions

The following are definitions of certain of the terms used in this Official Statement.

Act—New York State Municipal Assistance Corporation Act and the Municipal Assistance Corporation for the City of New York Act, each as amended to date (Sections 3001 through 3040 of the State Public Authorities Law).

Board—Board of Directors of the Corporation.

Bond Payment Fund—the bond payment fund established under the 1991 General Bond Resolution and held by the Trustee.

Bond Service Fund—the bond service fund established under the Second General Bond Resolution and held by the trustee thereunder.

Capital Reserve Aid Fund—the capital reserve fund established under the Second General Bond Resolution and held by the trustee thereunder.

Capital Reserve Fund—the capital reserve fund established under the First General Bond Resolution and held by the trustee thereunder.

Control Board—New York State Financial Control Board which was created in September 1975 pursuant to the Emergency Act.

Corporation—Municipal Assistance Corporation for the City of New York.

Debt Service Fund—the debt service fund established under the First General Bond Resolution and held by the trustee thereunder.

Emergency Act—the New York State Financial Emergency Act for the City of New York, as amended to date.


First Resolution Obligations—Bonds, Notes or Other Obligations (each as defined in the First General Bond Resolution) that are or may be issued pursuant to the First General Bond Resolution.

Fiscal Year—for the Corporation and the City, the 12 months ended June 30; for the State, the 12 months ended March 31.

Municipal Assistance State Aid Fund—a fund established for the Corporation pursuant to the Finance Law and in the custody of the State Comptroller into which Per Capita Aid is paid.

Municipal Assistance Tax Fund—a fund established for the Corporation pursuant to the Finance Law and in the custody of the State Comptroller into which Sales Tax and, if necessary, Stock Transfer Tax is paid.


1991 Resolution Bonds—bonds that are or may be issued pursuant to the 1991 General Bond Resolution.

1978 State Covenant—a covenant of the State that it will not take certain actions with respect to the Control Board.
*Per Capita Aid*—amounts of revenue, if any, available to the Corporation (that otherwise would have been payable to the City) from the General Fund of the State as per capital State aid pursuant to Section 54 of the Finance Law.

*Sales Tax*—collections of the State sales and compensating use taxes formerly imposed by the City, and now imposed by the State within the City.

*Second Resolution Bonds*—bonds that are or may be issued pursuant to the Second General Bond Resolution.

*Series A Bonds*—the Bonds described in this Official Statement authorized to be issued pursuant to the Series A Resolution.

*Series A Resolution*—the Series Resolution of the Corporation authorizing the Series A Bonds.

*Stock Transfer Tax Fund*—the fund established for the Corporation pursuant to the Finance Law in the Custody of the Commissioner of Taxation and Finance into which the Stock Transfer Tax is paid.

*Tax Law*—the State Tax Law of New York.
REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Municipal Assistance Corporation
For The City of New York

In our opinion, the accompanying Statement of Financial Position, Summary of Changes in Funding Requirement and the related Debt Service and Capital Reserve Funds and Operating Fund Statements of Transactions and of Cash Flows present fairly, in all material respects, the financial position of Municipal Assistance Corporation For The City of New York at June 30, 1990, and the Debt Service Fund, Capital Reserve Funds and Operating Fund transactions, and its cash flows for the year then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE

153 East 53rd Street
New York, New York 10022
August 15, 1990
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

STATEMENT OF FINANCIAL POSITION

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**ASSETS:**

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<tr>
<td>Investments in marketable securities</td>
<td>611,590,090</td>
<td>606,000,731</td>
</tr>
<tr>
<td>Accrued interest on marketable securities</td>
<td>11,131,840</td>
<td>20,261,876</td>
</tr>
<tr>
<td>City of New York obligations</td>
<td>1,508,824,000</td>
<td>1,635,263,000</td>
</tr>
<tr>
<td>Accrued interest on City of New York obligations</td>
<td>45,405,316</td>
<td>48,332,464</td>
</tr>
<tr>
<td><strong>Total Debt Service Fund</strong></td>
<td>2,176,953,565</td>
<td>2,309,865,132</td>
</tr>
</tbody>
</table>

First Capital Reserve Fund:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in marketable securities</td>
<td>333,460,023</td>
<td>326,753,953</td>
</tr>
<tr>
<td>Accrued interest on marketable securities</td>
<td>7,786,907</td>
<td>5,886,143</td>
</tr>
<tr>
<td><strong>Total First Capital Reserve Fund</strong></td>
<td>341,246,930</td>
<td>332,640,096</td>
</tr>
</tbody>
</table>

Second Capital Reserve Fund:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>4,478</td>
<td>1,955</td>
</tr>
<tr>
<td>Investments in marketable securities</td>
<td>652,673,758</td>
<td>642,095,271</td>
</tr>
<tr>
<td>Accrued interest on marketable securities</td>
<td>8,294,796</td>
<td>7,215,114</td>
</tr>
<tr>
<td><strong>Total Second Capital Reserve Fund</strong></td>
<td>660,973,032</td>
<td>649,312,340</td>
</tr>
</tbody>
</table>

Operating Fund:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3,688,101</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>3,182,861,628</td>
<td>3,293,691,765</td>
</tr>
<tr>
<td>Funding requirement</td>
<td>3,767,224,184</td>
<td>3,667,128,728</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
## MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
### DEBT SERVICE AND CAPITAL RESERVE FUNDS
#### STATEMENT OF TRANSACTIONS

<table>
<thead>
<tr>
<th>Fund</th>
<th>For the six months ended December 31, 1990</th>
<th>For the fiscal year ended June 30, 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(unaudited)</td>
<td></td>
</tr>
<tr>
<td><strong>RECEIPTS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service Fund:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State sales tax revenues</td>
<td>$0</td>
<td>$522,000,000</td>
</tr>
<tr>
<td>Income from investments</td>
<td>29,969,599</td>
<td>59,015,894</td>
</tr>
<tr>
<td>Income from City of New York obligations</td>
<td>79,416,442</td>
<td>167,390,247</td>
</tr>
<tr>
<td>Transfers from First Capital Reserve Fund</td>
<td>4,172,764</td>
<td>25,825,160</td>
</tr>
<tr>
<td>Transfers from Second Capital Reserve Fund</td>
<td>15,228,551</td>
<td>72,173,453</td>
</tr>
<tr>
<td>Transfers to Operating Fund</td>
<td>(6,122,913)</td>
<td>(4,433,319)</td>
</tr>
<tr>
<td>Total</td>
<td>122,664,443</td>
<td>841,971,435</td>
</tr>
<tr>
<td>First Capital Reserve Fund:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from investments</td>
<td>12,835,238</td>
<td>25,748,531</td>
</tr>
<tr>
<td>Transfers to Debt Service Fund</td>
<td>(4,172,764)</td>
<td>(25,825,160)</td>
</tr>
<tr>
<td>Total</td>
<td>8,662,474</td>
<td>(76,629)</td>
</tr>
<tr>
<td>Second Capital Reserve Fund:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from investments</td>
<td>26,889,243</td>
<td>53,179,410</td>
</tr>
<tr>
<td>Transfers to Debt Service Fund</td>
<td>(15,228,551)</td>
<td>(72,173,453)</td>
</tr>
<tr>
<td>Total</td>
<td>11,660,692</td>
<td>(18,994,043)</td>
</tr>
<tr>
<td>Total receipts</td>
<td>142,987,609</td>
<td>822,900,763</td>
</tr>
<tr>
<td><strong>EXPENDITURES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on First General Resolution Bonds</td>
<td>45,177,674</td>
<td>98,449,100</td>
</tr>
<tr>
<td>Interest on Second General Resolution Bonds</td>
<td>200,349,959</td>
<td>416,278,191</td>
</tr>
<tr>
<td>Principal repayment of First General Resolution Bonds</td>
<td>-0-</td>
<td>185,000,000</td>
</tr>
<tr>
<td>Principal repayment of Second General Resolution Bonds</td>
<td>-0-</td>
<td>220,300,000</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>245,527,633</td>
<td>920,027,291</td>
</tr>
<tr>
<td>Excess (deficiency) of receipts over expenditures for the period</td>
<td>$(102,540,024)</td>
<td>$(97,126,528)</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
OPERATING FUND

STATEMENT OF TRANSACTIONS

<table>
<thead>
<tr>
<th></th>
<th>For the six months ended December 31, 1990</th>
<th>For the fiscal year ended June 30, 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(unaudited)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>RECEIPTS:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from investments</td>
<td>$ 71,607</td>
<td>$ 366,607</td>
</tr>
<tr>
<td>Transfers from Debt Service Fund</td>
<td>6,122,913</td>
<td>4,433,319</td>
</tr>
<tr>
<td></td>
<td>Total receipts</td>
<td>6,194,520</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,799,926</td>
</tr>
<tr>
<td>EXPENDITURES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt administration</td>
<td>501,229</td>
<td>1,485,964</td>
</tr>
<tr>
<td>General administration</td>
<td>768,568</td>
<td>1,634,442</td>
</tr>
<tr>
<td>State Cost Recovery Assessment</td>
<td>1,492,965</td>
<td>3,218,116</td>
</tr>
<tr>
<td>Oversight function:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Control Board</td>
<td>987,190</td>
<td>1,806,232</td>
</tr>
<tr>
<td></td>
<td>Total expenditures</td>
<td>3,749,952</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8,144,754</td>
</tr>
<tr>
<td>Excess (deficiency) of receipts over expenditures for the period</td>
<td>$2,444,568</td>
<td>($3,344,828)</td>
</tr>
</tbody>
</table>

SUMMARY OF CHANGES IN FUNDING REQUIREMENT

<table>
<thead>
<tr>
<th></th>
<th>For the six months ended December 31, 1990</th>
<th>For the fiscal year ended June 30, 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(unaudited)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>Funding requirement at beginning of period</td>
<td>$3,667,128,728</td>
<td>$3,971,957,372</td>
</tr>
<tr>
<td>Changes during the period:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt outstanding</td>
<td>-0-</td>
<td>(405,300,000)</td>
</tr>
<tr>
<td>Debt Service and Capital Reserve Funds</td>
<td>102,540,024</td>
<td>97,126,528</td>
</tr>
<tr>
<td>Operating Fund</td>
<td>(2,444,568)</td>
<td>3,344,828</td>
</tr>
<tr>
<td>Funding requirement at end of period</td>
<td>$3,767,224,184</td>
<td>$3,667,128,728</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK  
DEBT SERVICE AND CAPITAL RESERVE FUNDS  
STATEMENT OF CASH FLOWS

<table>
<thead>
<tr>
<th>Description</th>
<th>For the six months ended December 31, 1990</th>
<th>For the fiscal year ended June 30, 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(unaudited)</td>
<td></td>
</tr>
<tr>
<td>CASH FLOWS FROM OPERATING ACTIVITIES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal and interest paid on bonds</td>
<td>$(245,527,633)</td>
<td>$(925,808,541)</td>
</tr>
<tr>
<td>New York City obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal repayment</td>
<td>126,439,000</td>
<td>137,004,000</td>
</tr>
<tr>
<td>Interest received</td>
<td>82,343,590</td>
<td>171,231,441</td>
</tr>
<tr>
<td>State sales tax revenues</td>
<td>-0-</td>
<td>522,000,000</td>
</tr>
<tr>
<td>Transfers to Operating Fund</td>
<td>(6,122,913)</td>
<td>(4,433,319)</td>
</tr>
<tr>
<td>Net cash used for operating activities</td>
<td>$(42,867,956)</td>
<td>$(100,006,419)</td>
</tr>
</tbody>
</table>

CASH FLOWS FROM INVESTING ACTIVITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>For the six months ended December 31, 1990</th>
<th>For the fiscal year ended June 30, 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and redemptions of marketable securities</td>
<td>1,194,807,084</td>
<td>3,908,461,549</td>
</tr>
<tr>
<td>Purchases of marketable securities</td>
<td>(1,214,321,342)</td>
<td>(3,910,336,311)</td>
</tr>
<tr>
<td>Interest received on marketable securities</td>
<td>81,405,300</td>
<td>147,932,928</td>
</tr>
<tr>
<td>Purchased interest on marketable securities</td>
<td>(19,025,305)</td>
<td>(46,165,909)</td>
</tr>
<tr>
<td>Net cash provided by investing activities</td>
<td>42,865,737</td>
<td>99,892,257</td>
</tr>
</tbody>
</table>

Net increase (decrease) in cash               | (2,219)                                 | (114,162)                             |

Cash at beginning of period                   | 9,016                                   | 123,178                               |

Cash at end of period                         | $ 6,797                                 | $ 9,016                               |

Excess (deficiency) of receipts over expenditures for the period | $(102,540,024)                         | $(97,126,528)                          |

Adjustments to reconcile excess (deficiency) of receipts over expenditures to net cash provided by (used for) operating activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>For the six months ended December 31, 1990</th>
<th>For the fiscal year ended June 30, 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization of premiums/discounts on marketable securities</td>
<td>(14,012,720)</td>
<td>(33,775,664)</td>
</tr>
<tr>
<td>(Increase) decrease in accrued interest on marketable securities</td>
<td>6,149,590</td>
<td>(7,034,892)</td>
</tr>
<tr>
<td>Gains on sales of marketable securities</td>
<td>(206,226)</td>
<td>(877,196)</td>
</tr>
<tr>
<td>Decrease in accrued interest on bonds payable</td>
<td>-0-</td>
<td>(5,781,250)</td>
</tr>
<tr>
<td>Increase in Federal rebate requirement</td>
<td>1,133,183</td>
<td>4,668,183</td>
</tr>
<tr>
<td>Decrease in interest receivable on New York City obligations</td>
<td>2,927,148</td>
<td>3,841,194</td>
</tr>
<tr>
<td>Principal repayment of New York City obligations</td>
<td>126,439,000</td>
<td>137,004,000</td>
</tr>
<tr>
<td>Increase (decrease) in provision for unrealized loss on marketable securities</td>
<td>(373,834)</td>
<td>838,681</td>
</tr>
<tr>
<td>(Increase) decrease in accrued interest on unsettled trades</td>
<td>(4,078)</td>
<td>4,072</td>
</tr>
<tr>
<td>Noneoperating items</td>
<td>(62,379,995)</td>
<td>(101,767,019)</td>
</tr>
<tr>
<td>Total Adjustments</td>
<td>59,672,068</td>
<td>(2,879,891)</td>
</tr>
</tbody>
</table>

Net cash used for operating activities         | $(42,867,956)                           | $(100,006,419)                        |

See accompanying notes to the financial statements.
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
OPERATING FUND
STATEMENT OF CASH FLOWS

<table>
<thead>
<tr>
<th></th>
<th>For the six months ended December 31, 1990</th>
<th>For the fiscal year ended June 30, 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(unaudited)</td>
<td></td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments to vendors</td>
<td>$ (5,127,093)</td>
<td>$ (8,835,177)</td>
</tr>
<tr>
<td>Transfers from Debt Service Fund</td>
<td>6,122,913</td>
<td>4,433,319</td>
</tr>
<tr>
<td>Net Cash provided by (used for) operating activities</td>
<td>995,820</td>
<td>(4,401,858)</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and redemptions of marketable securities</td>
<td>220,354,000</td>
<td>546,641,414</td>
</tr>
<tr>
<td>Purchases of marketable securities</td>
<td>(221,420,000)</td>
<td>(542,779,674)</td>
</tr>
<tr>
<td>Interest received on marketable securities</td>
<td>71,810</td>
<td>803,870</td>
</tr>
<tr>
<td>Purchased interest on marketable securities</td>
<td>0</td>
<td>(265,670)</td>
</tr>
<tr>
<td>Net cash provided by (used for) investing activities</td>
<td>(994,190)</td>
<td>4,399,940</td>
</tr>
<tr>
<td>Net increase (decrease) in cash</td>
<td>1,630</td>
<td>(1,918)</td>
</tr>
<tr>
<td>Cash at beginning of period</td>
<td>3,360</td>
<td>5,278</td>
</tr>
<tr>
<td>Cash at end of period</td>
<td>$ 4,990</td>
<td>$ 3,360</td>
</tr>
<tr>
<td>Excess (deficiency) of receipts over expenditures for the period</td>
<td>$ 2,444,568</td>
<td>$ (3,344,828)</td>
</tr>
<tr>
<td>Adjustments to reconcile excess (deficiency) of receipts over expenditures to net cash provided by (used for) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in accrued interest on marketable securities</td>
<td>201</td>
<td>179,692</td>
</tr>
<tr>
<td>Decrease in accrued expenses</td>
<td>(630,663)</td>
<td>(690,423)</td>
</tr>
<tr>
<td>Increase in prepaid expense</td>
<td>(746,476)</td>
<td>0</td>
</tr>
<tr>
<td>Nonoperating items</td>
<td>(71,810)</td>
<td>(538,200)</td>
</tr>
<tr>
<td>Gains on sales of marketable securities</td>
<td>0</td>
<td>(8,099)</td>
</tr>
<tr>
<td>Total Adjustments</td>
<td>(1,448,748)</td>
<td>(1,057,030)</td>
</tr>
<tr>
<td>Net cash provided by (used for) operating activities</td>
<td>$ 995,820</td>
<td>$ (4,401,858)</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

NOTES TO FINANCIAL STATEMENTS

(All data relating to December 31, 1990 and the six-month period then ended are unaudited)

NOTE 1—Organization and Functions of the Corporation:

Municipal Assistance Corporation For The City of New York (the "Corporation") is a corporate governmental agency and instrumentality of the State of New York (the "State") constituting a public benefit corporation. The Corporation was created by State legislation adopted in June 1975 (as amended to date, the "Act") for purposes of providing financing assistance and fiscal oversight for The City of New York (the "City"). To carry out such purposes, the Corporation was authorized to sell bonds and notes for the purpose of paying or loaning the proceeds of such sales to the City and to exchange the Corporation's obligations for those of the City.

NOTE 2—Summary of Significant Accounting Policies:

The Debt Service Fund follows the modified accrual basis of accounting. Receipts from tax allocations are recorded as received. Interest income from investments and interest expense on the Corporation's debt are recorded on the accrual basis. Income from investments includes realized gains and losses from sales of investments. With respect to the Debt Service and Capital Reserve Funds, income from investments is net of an accrued rebate to the United States of certain excess earnings (see Note 8). With respect to the Debt Service Fund, income from investments also includes provision for unrealized losses or reversals of prior provisions for unrealized losses on such investments. The Corporation's debt is recorded at the principal amount of the obligations outstanding. Original issue discounts are charged to the Debt Service Fund as incurred and become part of the funding requirement. Amounts required for the payment of debt service due on July 1 and January 1 are accounted for as if paid on the immediately preceding June 30 and December 31, respectively, by which date such amounts are segregated for that purpose by the Trustee under the bond resolutions. The funding requirement of the Corporation reported in the Statement of Financial Position does not include future interest requirements.

Debt service funds paid to the Corporation in advance of disbursement to bondholders are temporarily invested pursuant to the terms of the bond resolutions and the income therefrom is credited to the Debt Service Fund.

Investments in marketable securities held in the Capital Reserve Funds are carried at amortized cost and investments in marketable securities in the Debt Service Fund are carried at the lower of cost or market value, inclusive of accrued interest, in accordance with the bond resolutions pursuant to which they were established. Investments in marketable securities held in the Operating Fund are carried at the lower of cost or market value, inclusive of accrued interest. Investments may consist of direct obligations of, or obligations guaranteed by, the State or the United States of America, repurchase agreements pursuant to master agreements with certain authorized financial institutions and certain obligations of U.S. government agencies. Investments are held by the Trustee in the name of the Corporation. City of New York obligations are carried at cost.

NOTE 3—Bonds of the Corporation: Authorization, Funding, Payment and Refunded Bonds:

Debt Authorization—

The Corporation was authorized by the Act to issue, until January 1, 1985, obligations in an aggregate principal amount of $10 billion, of which the Corporation issued approximately $9.445 billion, exclusive of obligations issued to refund outstanding obligations of the Corporation and of notes issued to enable the City to fulfill its seasonal borrowing requirements. In July 1990, State legislation was enacted which, among other things, authorized the Corporation to issue up to an additional $1.5 billion of bonds and notes to fund a
portion of the capital programs of the New York City Transit Authority and the New York City School Construction Authority, under the terms contained in a memorandum of agreement dated July 19, 1990, among the Corporation, the State and City. This legislation also provides for a reduction in the July 1990 issuance authority to the extent that the transit and schools capital programs are funded by the City. The Corporation has been advised, as of December 31, 1990, that the City has funded $220 million of these programs.

The Corporation continues to be authorized to issue obligations to renew or refund outstanding obligations, without limitation as to amount. No obligations of the Corporation may mature later than July 1, 2008. The Corporation may issue such new obligations provided their issuance would not cause certain debt service limitations and debt service coverage ratios to be exceeded. See Exhibits I, II and III, which are an integral part of the Corporation's financial statements.

Funding Methods—

The Corporation funds its debt service requirements and operating expenses from the State's collection of sales tax imposed by the State within the City at the rates formerly imposed by the City, the stock transfer tax and certain per capita aid, subject in each case to appropriation by the State Legislature. Net collections of such taxes and per capita aid not required by the Corporation are available to the City.

All outstanding bonds are general obligations of the Corporation. The Corporation has no taxing power. The bonds are entitled to liens, created by pledges under the respective resolutions, on moneys paid into the Debt Service and Capital Reserve Funds.

Debt service for obligations issued under the First General Bond Resolution is payable from funds paid into the Debt Service Fund from the State's Municipal Assistance Tax Fund, which is funded from revenues collected, less the State's charges for collection and administration, from the sales tax and, if necessary, the stock transfer tax. In 1977, the State enacted a program of gradually increasing rebates for all stock transfer taxpayers. Rebates equal to 100% of the tax began on October 1, 1981. The legislation provides that taxpayers are to continue to pay the stock transfer tax at the present rate but will be entitled to a 100% rebate should the Corporation not require the funds. To date, the Corporation has not found it necessary to use the revenues derived from the stock transfer tax to pay its debt service.

The Corporation was advised that net revenues from such sales and stock transfer taxes collected by the State during the year ended June 30, 1990 amounted to $3,976.4 million. The Corporation was advised that net revenues from such sales and stock transfer taxes collected by the State during the three- and twelve-month periods ended December 31, 1990 amounted to $991.8 million and $4,008.6 million, respectively, as shown below:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Twelve Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12/31/90</td>
<td>12/31/89</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>$ 577.3</td>
<td>$ 605.2</td>
</tr>
<tr>
<td>Stock Transfer Tax</td>
<td>414.5</td>
<td>406.7</td>
</tr>
<tr>
<td>Total</td>
<td>$ 991.8</td>
<td>$1,011.9</td>
</tr>
</tbody>
</table>
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
NOTES TO FINANCIAL STATEMENTS—(Continued)
(All data relating to December 31, 1990 and the six-month period then ended are unaudited)

Payments made to the Corporation from the Municipal Assistance Tax Fund are to be made quarterly and at such other times as the Corporation requests.

Debt service for obligations issued under the Second General Bond Resolution is payable from two sources: funds paid annually into the Debt Service Fund from the Municipal Assistance State Aid Fund, which is funded from per capita aid otherwise payable by the State to the City, and funds paid quarterly from the Municipal Assistance Tax Fund, after satisfying the debt service requirements for obligations issued under the First General Bond Resolution as described above. Per capita aid is subject to prior claims asserted by certain other State or City entities; however, the Corporation has been advised that no such claims have been asserted since the inception of the Corporation. Also, the Corporation was advised that total per capita aid paid into the Municipal Assistance State Aid Fund during each of the twelve-month periods ended June 30, 1990 and December 31, 1990 amounted to $535.0 million.

The Corporation certified to and was paid on January 11, 1991, from the Municipal Assistance Tax Fund sales tax revenues of $23.5 million for First General Bond Resolution purposes and $76.5 million for Second General Bond Resolution purposes.

To the extent that funds are available from investment income, receipt of principal and interest payments on obligations of the City and other sources, they may be used to reduce the Corporation’s funding requirement.

Payment Dates—
Principal payments at maturity or mandatory sinking fund calls are made February 1 and interest is paid semiannually on February 1 and August 1 for bonds outstanding under the First General Bond Resolution. Principal payments at maturity or mandatory sinking fund calls are made July 1 and interest is paid semiannually on July 1 and January 1 for bonds outstanding under the Second General Bond Resolution. The Corporation may from time to time purchase at a price equal to or less than par certain of its securities to satisfy its sinking fund requirements.

Refunded Bonds—
The Corporation’s bonds may be refunded in advance of their maturity in accordance with provisions of the First and Second General Bond Resolutions by placing in trust with the Trustee sufficient moneys or certain securities which together with investment income therefrom will be sufficient to pay principal and interest when due on the bonds which have been refunded. Although they remain valid debt instruments with regard to principal and interest payable thereon from the moneys or securities placed in trust, advance refunded bonds are defeased and deemed to have been paid within the meaning of the First and Second General Bond Resolutions and are therefore no longer presented as liabilities of the Corporation. At December 31, 1990, $2,395.5 million of the Corporation’s bonds which have been advance refunded remain valid debt instruments.

The advance refunding program of the Corporation has reduced the level of debt service payments in certain early years, where scheduled payments were disproportionately high, and increased scheduled debt service payments in later years while also providing present value savings to the Corporation.

NOTE 4—Capital Reserve Funds:
Capital Reserve Funds have been established under each of the Corporation’s general bond resolutions, in conformance with the requirements of the Act, to provide security for payment of interest on and principal of the bonds issued under each of the respective resolutions. The amount required to be on deposit in each of the Capital Reserve Funds is 100% of the principal (including sinking fund installments) and interest
maturing or otherwise due or becoming due during the succeeding calendar year on outstanding bonds issued under the respective resolutions.

At June 30, 1990, the First General Bond Resolution Capital Reserve Fund balance was $332.6 million which is net of securities purchased payable of $56.0 thousand, and the Second General Bond Resolution Capital Reserve Fund balance was $649.3 million. At December 31, 1990, the First General Bond Resolution Capital Reserve Fund balance was $341.2 million and the Second General Bond Resolution Capital Reserve Fund balance was $661.0 million. Such levels equalled or exceeded the required funding levels.

NOTE 5—Operating Fund:

The Operating Fund provides for the expenses of carrying out the Corporation's duties and functions and is funded from the Municipal Assistance Tax Fund. The Operating Fund accounts have been prepared on the accrual basis of accounting. The Corporation's administrative expenses are charged to the Operating Fund as incurred. The assets of the Operating Fund at June 30, 1990 and December 31, 1990 included approximately $1,870,000 and $2,936,000 of securities purchased under an agreement to resell, respectively.

NOTE 6—City of New York Obligations Held by the Corporation:

Since October 1980, the Corporation has acquired bonds of the City, as part of a program to provide for a significant portion of the City's capital financing requirements, by using the net proceeds of certain of the Corporation's debt issuances to purchase City bonds with similar maturities. Prior to October 1980, the Corporation had acquired bonds of the City in connection with certain other transactions. City bonds owned by the Corporation may not be sold without the consent of the City and accordingly are carried at cost.

At June 30, 1990 and December 31, 1990, the Corporation held $1,635.3 million and $1,508.8 million, respectively, principal amount of City bonds. The City obligations held at December 31, 1990 bear interest at rates ranging from 6.75% to 13.6% and will mature on September 15 in each year as shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount Maturating (In Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>$115,300</td>
</tr>
<tr>
<td>1992</td>
<td>114,609</td>
</tr>
<tr>
<td>1993</td>
<td>112,876</td>
</tr>
<tr>
<td>1994</td>
<td>122,983</td>
</tr>
<tr>
<td>1985</td>
<td>121,381</td>
</tr>
<tr>
<td>1996-2000</td>
<td>513,303</td>
</tr>
<tr>
<td>2001-2005</td>
<td>297,357</td>
</tr>
<tr>
<td>2006-2007</td>
<td>111,015</td>
</tr>
<tr>
<td></td>
<td>$1,508,824</td>
</tr>
</tbody>
</table>

The Corporation, in making its certification for funds to the State, is required to exclude from consideration any amounts it expects to receive as payment on City obligations until such amounts are received.
NOTE 7—Investments in Marketable Securities:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1990</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Market</td>
<td>Cost</td>
</tr>
<tr>
<td>Debt Service Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations Maturing in Less than One Year</td>
<td>$476,504</td>
<td>$475,469</td>
<td>$476,238</td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One to Five Years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>135,430</td>
<td>136,121</td>
<td>135,817</td>
</tr>
<tr>
<td>Total</td>
<td>$611,934</td>
<td>$611,590</td>
<td>612,055</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized Loss</td>
<td></td>
<td>(465)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Capital Reserve Fund</td>
<td>$158,764</td>
<td>$160,346</td>
<td>$159,994</td>
</tr>
<tr>
<td>Obligations Maturing in Less than One Year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One to Five Years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>177,997</td>
<td>173,810</td>
<td>173,466</td>
</tr>
<tr>
<td>Total</td>
<td>$336,761</td>
<td>$334,156</td>
<td>$333,460</td>
</tr>
<tr>
<td>Second Capital Reserve Fund</td>
<td>$120,786</td>
<td>$121,378</td>
<td>$120,905</td>
</tr>
<tr>
<td>Obligations Maturing in Less than One Year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One to Five Years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>369,692</td>
<td>370,687</td>
<td>367,509</td>
</tr>
<tr>
<td>Over Five Years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>290,793</td>
<td>154,638</td>
<td>164,260</td>
</tr>
<tr>
<td>Total</td>
<td>$781,271</td>
<td>$646,703</td>
<td>$652,674</td>
</tr>
</tbody>
</table>

* At June 30, 1990 the First Capital Reserve Fund and the Second Capital Reserve Fund had unrealized losses on a market value basis of $2.1 million and $12.0 million, respectively.
NOTE 8—Commitments:

On April 2, 1986, the Corporation entered into an agreement with the State and the City to make available $1.6 billion of additional revenues to the City of New York during the 1987 through 1995 fiscal years. Revenues made available pursuant to this agreement are determinable at the close of the Corporation's fiscal year. As of June 30, 1990, the Corporation made available $761 million of these revenues, including $70 million made available during fiscal 1990 for City operations which had previously been earmarked for the New York City Transit Authority capital program.

On May 16, 1989, the Corporation entered into an agreement with the State and City to make available $750 million of additional revenues to the City of New York during the 1990 through 1997 fiscal years. These revenues are in addition to those to be provided by the April 1986 agreement. Revenues made available pursuant to this agreement are determinable at the close of the Corporation's fiscal year. As of June 30, 1990, the Corporation made available $175 million of these revenues, including $75 million made available during fiscal 1990 for City operations which had previously been earmarked for the New York City School Construction Authority capital program.

On July 19, 1990, the Corporation, the State and the City entered into a memorandum of agreement amending the agreements executed on April 2, 1986 and May 16, 1989. Under this agreement, the Corporation will make available for City operations over the 1990 through 1997 fiscal years $1.465 billion of its excess revenues which previously had been committed to the capital programs of the New York City Transit Authority and the New York City School Construction Authority. The new agreement further provides that these capital programs will be funded in accordance with the schedules set forth in the 1986 and 1989 agreements with proceeds of the City's or the Corporation's debt. As of June 30, 1990 and December 31, 1990, the Corporation has been advised that the City had funded $145 million and $220 million, respectively, of these programs.

The Corporation is required to reimburse the State of New York for an allocable share of costs attributable to the provision of central governmental services pursuant to legislation initially enacted in 1989. Costs allocable to the Corporation are based on its pro-rata share of the lesser of the total amount of expenses incurred during the State's fiscal year in the provision of these services or $17.5 million. The Corporation's pro-rata share is determined based upon the proportion of its outstanding bonds to the total outstanding debt, consisting of bonds, notes and other obligations, of all public benefit corporations covered by the legislation. The Corporation's estimated allocable share of cost for the State's 1991 fiscal year is $3.0 million.

Under the Internal Revenue Code of 1986 (the "Code"), the Corporation, generally, is required to pay to the United States any excess earnings from the investment of the proceeds of the bonds issued after August 31, 1986 over the yield on each such issue. Under the Code and temporary and proposed regulations issued by the Department of the Treasury on May 12, 1989 (the "Regulations") the Corporation will be required to pay any such excess earnings within 60 days of the end of the fifth year following issuance and each succeeding fifth year for each affected issue, with a final payment required to be made within 60 days of retirement of each such issue. The Corporation's federal rebate requirement as of June 30, 1990 and December 31, 1990 was approximately $8.6 million and $9.7 million, respectively.

The Corporation agreed in 1976 to reimburse the Financial Control Board for a portion of the cost of providing certain oversight services of the City's financial affairs. The Corporation expects to reimburse the Financial Control Board an estimated $2.0 million in fiscal year 1991.
EXHIBIT I

MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

SUMMARY OF ANNUAL PRINCIPAL PAYMENTS BY FISCAL YEAR

June 30, 1990

(In Thousands)

<table>
<thead>
<tr>
<th></th>
<th>First General Bond Resolution Total Principal*</th>
<th>Second General Bond Resolution Total Principal*</th>
<th>Total Principal*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 210,000</td>
<td>$ -0-</td>
<td>$ 210,000</td>
</tr>
<tr>
<td>1991</td>
<td>190,000</td>
<td>233,455</td>
<td>423,455</td>
</tr>
<tr>
<td>1992</td>
<td>195,000</td>
<td>257,140</td>
<td>452,140</td>
</tr>
<tr>
<td>1993</td>
<td>290,000</td>
<td>158,335</td>
<td>448,335</td>
</tr>
<tr>
<td>1994</td>
<td>319,738</td>
<td>174,425</td>
<td>494,163</td>
</tr>
<tr>
<td></td>
<td>188,600</td>
<td>188,600</td>
<td></td>
</tr>
<tr>
<td></td>
<td>190,340</td>
<td>190,340</td>
<td></td>
</tr>
<tr>
<td></td>
<td>267,470</td>
<td>267,470</td>
<td></td>
</tr>
<tr>
<td></td>
<td>297,700</td>
<td>297,700</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>337,425</td>
<td>337,425</td>
<td></td>
</tr>
<tr>
<td></td>
<td>295,755</td>
<td>295,755</td>
<td></td>
</tr>
<tr>
<td></td>
<td>317,195</td>
<td>317,195</td>
<td></td>
</tr>
<tr>
<td></td>
<td>340,340</td>
<td>340,340</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>365,370</td>
<td>365,370</td>
<td></td>
</tr>
<tr>
<td></td>
<td>392,340</td>
<td>392,340</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>421,325</td>
<td>421,325</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>452,440</td>
<td>452,440</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>485,910</td>
<td>485,910</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>521,005</td>
<td>521,005</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$1,204,738</td>
<td>$5,696,570</td>
</tr>
</tbody>
</table>

* Excludes refunded bonds.
### MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

**SUMMARY OF ANNUAL DEBT SERVICE FUNDING REQUIREMENTS**

**June 30, 1990**

(In Thousands)

<table>
<thead>
<tr>
<th>FY ending 6/30</th>
<th>First General Bond Resolution Total Principal and Interest*</th>
<th>Second General Bond Resolution Total Principal and Interest*</th>
<th>Total Principal and Interest*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>$282,480</td>
<td>$629,969</td>
<td>$912,449</td>
</tr>
<tr>
<td>1992</td>
<td>259,980</td>
<td>636,467</td>
<td>896,447</td>
</tr>
<tr>
<td>1993</td>
<td>295,543</td>
<td>521,196</td>
<td>816,739</td>
</tr>
<tr>
<td>1994</td>
<td>339,724</td>
<td>526,658</td>
<td>866,382</td>
</tr>
<tr>
<td>1995</td>
<td>171,859</td>
<td>528,799</td>
<td>700,658</td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td>517,556</td>
<td>517,556</td>
</tr>
<tr>
<td>1997</td>
<td></td>
<td>580,374</td>
<td>580,374</td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td>592,065</td>
<td>592,065</td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td>610,578</td>
<td>610,578</td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td>545,992</td>
<td>545,992</td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td>546,080</td>
<td>546,080</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>546,126</td>
<td>546,126</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td>546,208</td>
<td>546,208</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td>546,284</td>
<td>546,284</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>546,309</td>
<td>546,309</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>546,317</td>
<td>546,317</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>546,599</td>
<td>546,599</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td>547,176</td>
<td>547,176</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,349,586</strong></td>
<td><strong>$10,060,753</strong></td>
<td><strong>$11,410,339</strong></td>
</tr>
</tbody>
</table>

* Excludes refunded bonds.
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

SUMMARY OF ANNUAL DEBT SERVICE PAYMENT REQUIREMENTS

June 30, 1990

(In Thousands)

<table>
<thead>
<tr>
<th>FY ending 6/30</th>
<th>First General Bond Resolution*</th>
<th>Second General Bond Resolution*</th>
<th>Total Debt Service on Bonds Outstanding*</th>
<th>Estimated Coverage Ratios†</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>$300,355</td>
<td>$628,788**</td>
<td>$929,143</td>
<td>First Resolution Bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13.20</td>
</tr>
<tr>
<td>1992</td>
<td>264,605</td>
<td>625,785</td>
<td>890,390</td>
<td>14.98</td>
</tr>
<tr>
<td>1993</td>
<td>255,355</td>
<td>631,833</td>
<td>887,188</td>
<td>15.52</td>
</tr>
<tr>
<td>1994</td>
<td>335,730</td>
<td>518,631</td>
<td>854,361</td>
<td>11.81</td>
</tr>
<tr>
<td>1995</td>
<td>343,718</td>
<td>523,725</td>
<td>867,443</td>
<td>11.53</td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td>525,564</td>
<td>525,564</td>
<td>8.34</td>
</tr>
<tr>
<td>1997</td>
<td></td>
<td>514,278</td>
<td>514,278</td>
<td>8.52</td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td>575,896</td>
<td>575,896</td>
<td>7.61</td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td>586,960</td>
<td>586,960</td>
<td>7.47</td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td>604,683</td>
<td>604,683</td>
<td>7.25</td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td>540,761</td>
<td>540,761</td>
<td>8.10</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>540,419</td>
<td>540,419</td>
<td>8.11</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td>540,008</td>
<td>540,008</td>
<td>8.11</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td>539,613</td>
<td>539,613</td>
<td>8.12</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>539,176</td>
<td>539,176</td>
<td>8.13</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>538,672</td>
<td>538,672</td>
<td>8.14</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>538,120</td>
<td>538,120</td>
<td>8.14</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td>538,001</td>
<td>538,001</td>
<td>8.15</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>538,452</td>
<td>538,452</td>
<td>8.14</td>
</tr>
<tr>
<td>Total</td>
<td>$1,499,763</td>
<td>$10,589,365</td>
<td>$12,089,128</td>
<td></td>
</tr>
</tbody>
</table>

† Estimated coverage ratios on First Resolution Bonds are based upon New York State Sales and Stock Transfer Tax Revenues for the twelve months ended June 30, 1990, reduced by Operating Expenses of $12.2 million, divided by debt service on First Resolution Bonds. Estimated coverage ratios on Second Resolution Bonds are based upon all revenues, reduced by debt service on First Resolution Bonds and Operating Expenses, divided by debt service on Second Resolution Bonds. All revenues for the twelve months ended June 30, 1990, include $3,976.4 million combined New York State Sales and Stock Transfer Tax and $417.9 million (exclusive of $117.1 million of potential prior claims) in Per Capita Aid.

* Excludes refunded bonds.

** Includes $428.3 million, which was paid on July 1, 1990 as debt service payment on Second Resolution Bonds.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK
NEW YORK, NEW YORK

Dear Sirs:

We have examined a record of proceedings relating to the issuance of $138,440,000 aggregate principal amount of Series A Bonds (the “Series A Bonds”) of the Municipal Assistance Corporation For The City of New York (the “Corporation”), a corporate governmental agency and instrumentality of the State of New York (the “State”) constituting a public benefit corporation, created and existing under and pursuant to the Constitution and statutes of the State, including the New York State Municipal Assistance Corporation Act, as amended by the Municipal Assistance Corporation for the city of New York Act, being Titles I, II and III of Article 10 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State, as amended to the date hereof (the “Act”).

The Series A Bonds are authorized and issued under and pursuant to the Act and the 1991 General Bond Resolution of the Corporation, adopted February 6, 1991, as amended and supplemented to the date hereof (the “1991 General Bond Resolution”), and the Series A Resolution, adopted February 6, 1991 (the “Series Resolution”). The 1991 General Bond Resolution and the Series Resolution are herein collectively called the “Resolutions”.

The 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 1991 General Bond Resolution and is authorized to issue from time to time for the corporate purposes of the Corporation authorized by the Act, as then in effect and without limitation as to amount except as provided in the Resolutions and certain agreements of the Corporation or as may be limited by law. The Series A Bonds are the first Series of Bonds issued under the 1991 General Bond Resolution. The Corporation has covenanted with the holders of certain bonds of the Corporation to limit the issuance of additional bonds. The Series A Bonds are being issued for the purposes set forth in the Series Resolution.

The Corporation is authorized to issue Bonds, in addition to the Series A Bonds, only upon the terms and conditions set forth in the 1991 General Bond Resolution and such Bonds, when issued, shall, with the Series A Bonds and with all other such Bonds theretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the 1991 General Bond Resolution.

The Series A Bonds are dated February 1, 1991 except as otherwise provided in the Resolutions with respect to Series A Bonds delivered on or after the first interest payment date, will mature on July 1 in
each of the years and will bear interest payable semiannually on January 1 and July 1 of each year, commencing July 1, 1991 at the respective rates per annum shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Rate</th>
<th>Year</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>$1,230,000</td>
<td>5.30%</td>
<td>1999</td>
<td>$7,560,000</td>
<td>6.40%</td>
</tr>
<tr>
<td>1993</td>
<td>1,295,000</td>
<td>5.50</td>
<td>2000</td>
<td>8,100,000</td>
<td>6.50</td>
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<tr>
<td>1994</td>
<td>5,390,000</td>
<td>5.80</td>
<td>2001</td>
<td>8,680,000</td>
<td>6.60</td>
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<tr>
<td>1995</td>
<td>5,750,000</td>
<td>6</td>
<td>2002</td>
<td>9,305,000</td>
<td>6%</td>
</tr>
<tr>
<td>1996</td>
<td>6,155,000</td>
<td>6.10</td>
<td>2003</td>
<td>9,985,000</td>
<td>6%</td>
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<tr>
<td>1997</td>
<td>6,590,000</td>
<td>6.20</td>
<td>2008</td>
<td>61,340,000</td>
<td>6%</td>
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<tr>
<td>1998</td>
<td>7,060,000</td>
<td>6.30</td>
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</tr>
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</table>

The Series A Bonds are issued only in fully registered form in the denomination of $5,000 or any integral multiple thereof. Series A Bonds are lettered and numbered AR—followed by the last two digits of the year of maturity and the number of the Series A Bond. Series A Bonds are numbered consecutively from one upward in order of issuance.

The Series A Bonds maturing after July 1, 2001 are subject to redemption at the election of the Corporation on and after July 1, 2001, as a whole on any date or in part, by lot, on any interest payment date, at the redemption prices (expressed as percentages of the principal amount), plus accrued interest, if any, to the date of redemption, as set forth in the Series Resolution.

The Series A Bonds maturing on July 1, 2008 are subject to redemption, commencing July 1, 2004 and each July 1 thereafter prior to maturity, in part, as provided in the Resolutions, by operation of the Bond Payment Fund through application of the Sinking Fund Installments as defined in the 1991 General Bond Resolution in the amounts set forth in the Series Resolution, at the redemption price of 100% of the principal amount of each Series A Bond or portion thereof to be redeemed, plus accrued interest, if any, to the date of redemption.

Chapters 168, 169, 868 and 870 of the Laws of 1975, as amended to the date hereof, each enacted by the People of the State, represented in Senate and Assembly of the State and signed into law by the Governor of the State (the "Enabling Legislation") provide for, among other things, the insertion of the Act in the Public Authorities Law, creating the Corporation as aforesaid, adding a new section 92-e to Article 6 of the State Finance Law, constituting Chapter 56 of such Consolidated Laws, establishing a municipal assistance aid fund (the "Aid Assistance Fund") and a special account for the Corporation within the Aid Assistance Fund (the "Special Aid Account"), amending section 34 of the State Finance Law to provide for the apportionment and payment into the Special Aid Account of amounts of per capita aid appropriated by the Legislature of the State and otherwise payable out of the General Fund of the State to The City of New York, New York ("The City") thereunder subject to payments being made as follows: (i) any amounts required to be paid to the City University Construction Fund pursuant to the City University Construction Fund Act, Article 125-B of the Education Law, constituting Chapter 16 of such Consolidated Laws; (ii) any amounts required to be paid to the New York City Housing Development Corporation pursuant to the New York City Housing Development Corporation Act, Article XII of the Private Housing Finance Law, constituting Chapter 41 of such Consolidated Laws; (iii) any amounts required to be paid by the City to the New York City Transit Authority pursuant to the provisions of chapter seven of the laws of the State of nineteen hundred seventy-two; (iv) any amounts required to be paid by the City to the State to repay an advance made in 1974 to subsidize the fare of the New York City Transit Authority; and (v) five hundred thousand dollars to the chief fiscal officer of the City for payment to the trustees of the police pension fund of such City pursuant to the provisions of paragraph e of subdivision 7 of such section 54 of the State Finance Law, suspending the power of The City to adopt local laws for the imposition of certain sales and compensating use taxes pursuant to sections 1210 and 1212-A of Article 29 of the Tax Law, constituting Chapter 60 of such Consolidated Laws, and the taxes imposed pursuant to said sections, until all notes and bonds of the Corporation, including the Series A Bonds, and interest thereon have been fully paid and discharged, adding a new section 92-d to Article
6 of the State Finance Law establishing a municipal assistance tax fund (the "Tax Assistance Fund") and a special account for the Corporation within the Tax Assistance Fund (the "Special Tax Account"), and adding a new section 1107 to Article 28 of said Tax Law imposing sales and compensating use taxes in The City at a rate of four percent (4%) on certain items therein described and at a rate of six percent (6%) on the sale of certain parking services (the "Sales Tax"), the revenues derived from which, less such amounts as the Commissioner of Taxation and Finance determines to be necessary for reasonable costs in administering, collecting and distributing such taxes, are required to be paid into the Special Tax Account, together with, after deducting such costs, such amounts, as may be required under the Enabling Legislation to be transferred from the Stock Transfer Tax Fund established by section 92-b of Article 6 of said State Finance Law, into which the revenues derived from a tax imposed by Article 12 of the Tax Law (the "Stock Transfer Tax") are deposited.

Certain requirements and procedures contained or referred to in the documents relating to the Series A Bonds may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, in connection with which the advice or approving opinion of nationally recognized bond counsel would be required. Orrick, Herrington & Sutcliffe expresses no opinion with respect to federal tax matters if any such change occurs or action is taken or omitted without such advice or approval or upon the advice or approval of bond counsel other than themselves.

The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met subsequent to the issuance and delivery of the Series A Bonds in order that interest on the Series A Bonds be and remain excludable from gross income pursuant to Section 103 of the Code. We have assumed compliance with all covenants and agreements contained in the Arbitrage and Use of Proceeds Certificate including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series A Bonds to be included in gross income for federal income tax purposes. Noncompliance by the Corporation with such agreements and covenants procedure may require inclusion in gross income of interest on the Bonds retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs. In examining the documents and matters referred to above, we have not undertaken to independently verify the accuracy of the factual matters represented, warranted or certified therein.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings and court decisions and cover matters not directly addressed by such authorities.

We are of the opinion that:

1. The Corporation is duly created and validly exists as a corporate governmental agency and instrumentality of the State constituting a public benefit corporation under the laws of the State, including the Constitution of the State and the Act, with the good right and lawful authority and power to adopt the Resolutions, to issue the Bonds including the Series A Bonds thereunder and to perform the obligations and covenants contained in the Resolutions and the Series A Bonds. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Enabling Legislation, including the Act, is valid with respect to all provisions thereof material to the subject matters of this opinion letter.

2. The Series Resolution has been duly and lawfully adopted in accordance with the provisions of the 1991 General Bond Resolution and is authorized and permitted by the 1991 General Bond Resolution. The Resolutions have been duly and lawfully adopted by the Corporation and both are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms, except for the covenant on behalf of the State required to be set forth in each Series A Bond pursuant to Chapter 201 of the Laws of New York of 1978 (the "State Covenant") as to which a separate opinion has been rendered on the date hereof, and no other authorization for the Resolutions is required. The Resolutions create the valid pledge and lien which they purport to create of the revenues, moneys, securities and funds held or set aside under the Resolutions, subject only to the application thereof to the purposes and on the conditions permitted by the Resolutions. The lien created by the Resolutions on such revenues, moneys, securities and funds in the Bond Payment Fund and the Bond Reserve Fund is and will be prior to all other liens thereon. All revenues,
moneys and securities, as and when received, in the Bond Payment Fund and the Bond Reserve Fund in accordance with the Resolutions, will be validly subject to the pledge and lien created by the Resolutions.

3. The Series A Bonds have been duly and validly authorized and issued by the Corporation in accordance with the laws of the State, including the Constitution of the State and the Act, and in accordance with the Resolutions. The Series A Bonds are valid and binding general obligations of the Corporation payable as provided in the Resolutions, are enforceable in accordance with their terms, respectively, and the terms of the Resolutions, except as the enforceability thereof may be limited by bankruptcy, insolvency or similar laws validly enacted affecting creditors' rights or remedies generally, and, except as otherwise set forth with respect to the State Covenant as to which a separate opinion has been rendered as aforesaid, are entitled, together with additional Bonds issued under the 1991 General Bond Resolution, to the equal benefit, protection and security of the provisions, covenants and obligations of the 1991 General Bond Resolution and of the Act.

4. Pursuant to the Act and the 1991 General Bond Resolution, the Corporation has validly covenanted that the Chairman of the Corporation shall certify to the State Comptroller and the Mayor of The City, the amounts required, pursuant to subdivision 1 of Section 3036, of Section 3036-a and of Section 3036-b of the Act, for deposit in the funds established by the 1991 General Bond Resolution at the time or times and in the manner provided therein, including the amounts required for deposit in the Bond Payment Fund to pay all interest and all principal and redemption premium, if any, on bonds maturing or otherwise coming due and for deposit in the Bond Reserve Fund to maintain such funds at their requirements. Such subdivisions provide for the State Comptroller to pay such amounts to the Corporation for deposit as aforesaid, the source of such payments being the Aid Assistance Fund into which is paid such per capita aid, subject to certain prior claims as described above, and, to the extent required, subject to the prior claim of the holders of obligations of the Corporation issued or to be issued pursuant to the First General Bond Resolution (as such term is defined in the Second General Bond Resolution), the Tax Assistance Fund into which is paid the Sales Tax, and to the extent required, out of the Stock Transfer Tax Fund, the Stock Transfer Tax. The amount of such per capita aid payable to The City and available for apportionment and payment from the General Fund of the State treasury and of such payments out of the Aid and Tax Assistance Funds to the Corporation are subject to annual appropriation for such purposes by the Legislature of the State which is empowered, but is not bound or obligated, to appropriate any such amounts so certified by the Chairman, as aforesaid.

5. The Series A Bonds do not constitute a debt either of the State or of The City, and neither the State nor The City shall be liable thereon, nor shall the Series A Bonds be payable out of any funds other than those of the Corporation.

6. The State has the good right and lawful authority:

(a) to provide for the appropriation of, and at least annually to appropriate out of the General Fund of the State, amounts for the purpose of per capita aid and to provide, with respect to certain amounts of such per capita aid payable to The City in accordance with the provisions of section 54 of the State Finance Law, for the apportionment and payment into the Special Aid Account of amounts sufficient to enable the Corporation to fulfill the terms of the Resolutions and to carry out its corporate purposes, but the State is not bound or obligated to make any, or maintain any level of, such appropriation of per capita aid or to continue such procedure for apportionment and payment of such aid;

(b) to provide for the appropriation of, and at least annually to appropriate to the Corporation, from the Special Tax Account and from the Stock Transfer Tax Fund, amounts sufficient to enable the Corporation to fulfill the terms of the Resolutions and to carry out its corporate purposes, but the State is not bound or obligated to make such appropriations;

(c) to suspend the power of The City to adopt local laws for the imposition of certain sales and compensating use taxes and the taxes levied thereunder, in accordance with the Enabling Legislation;

(d) to impose and to increase or decrease the Sales Tax and the Stock Transfer Tax, but the State is not bound or obligated to continue the imposition of said taxes; and

(e) to establish the Aid Assistance Fund and the Special Aid Account within the Aid Assistance Fund, the Stock Transfer Tax Fund, the Tax Assistance Fund and the Special Tax Account within the
Tax Assistance Fund, but the State is not bound or obligated to maintain the existence of said funds or accounts.

7. The Corporation, the owners of the Bonds, owners of any evidence of indebtedness of the Corporation or the holders of bonds or notes of The City do not have nor will they have a lien on the per capita aid referred to hereinbefore or the Stock Transfer Tax or the Stock Transfer Tax Fund, the Sales Tax, or the Special Accounts for the Corporation in the Aid and Tax Assistance Funds. We are further of the opinion that, in any suit, action or other proceeding (whether under Chapter 9 of the Federal Bankruptcy Code or otherwise) wherein a creditor of The City or The City seeks to assert a right to any such Taxes, such Stock Transfer Tax Fund or such Special Accounts superior or equal to the rights of owners of Bonds issued under the 1991 General Bond Resolution, neither The City nor such creditor will prevail in the court of final jurisdiction.

8. Under existing law, upon any failure of the State Legislature to make required appropriations for State debt obligations or upon the establishment of a note repayment account pursuant to Section 55 of the State Finance Law, moneys on deposit in the Stock Transfer Tax Fund and the Tax Assistance Fund, including the Special Tax Account therein (each such account or fund as presently constituted being a special fund of the State), would not constitute revenues applicable to the General Fund of the State and hence neither Article 7, Section 16 of the State Constitution nor said Section 55 authorizes or mandates such moneys to be set apart by the State Comptroller either for the payment of State obligations or for deposit into such note repayment account. We are further of the opinion that, under existing law, collections of the Sales Tax and the Stock Transfer Tax which are to be deposited into the Special Tax Account and the Stock Transfer Tax Fund, do not constitute revenues applicable to the General Fund of the State and hence such collections would likewise not be authorized or mandated to be set apart or applied by the State Comptroller either for the payment of the State obligations or for deposit into such note repayment account. Per capita aid is, under existing law, derived from the General Fund of the State and hence, in the event of a failure to appropriate as above described, revenues of the State, otherwise applicable to the General Fund and therefore available for appropriation as per capita aid, will be subject to being set apart or applied as aforesaid.

9. Interest on the Series A Bonds is not included in the gross income of the recipients thereof for federal income tax purposes pursuant to Section 103 of the Code. In addition, such interest will not be treated as a preference item in calculating the alternative minimum tax that may be imposed under the Code with respect to individuals and corporations, although we observe that interest on the Series A Bonds will be included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other federal tax consequences related to the accrual or receipt of interest on the Series A Bonds. Interest on the Series A Bonds also is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), and the Series A Bonds are exempt from all taxation directly imposed thereon by or under authority of said State, except for estate or gift taxes and taxes on transfers.

10. No registration with, consent of, or approval by any governmental agency or commission is necessary for the execution and delivery and the issuance of the Series A Bonds.

11. The adoption and performance of, and compliance with, all of the terms and conditions of the Resolutions and the Series A Bonds, and the execution and delivery of the Series A Bonds, will not result in a violation of or be in conflict with any term or provision of any existing law.

We have examined an executed Series A Bond and, in our opinion, the form of said Bond and its execution are regular and proper.

Very truly yours,

B-5
February 1991

MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK
NEW YORK, NEW YORK

Dear Sirs:

The Corporation now has outstanding an aggregate principal amount of $125,000,000 Series 55 Bonds issued pursuant to the Second General Bond Resolution of the Corporation adopted on November 25, 1975, as amended and supplemented to the date hereof (the "Second General Bond Resolution") and a Series Resolution (the "Refunded Bonds"). In accordance with the provisions of Section 203 and Article XVI of the Second General Bond Resolution, respectively, direct obligations of the United States of America have been placed in trust with United States Trust Company of New York (the "Trustee", as such term is defined in the Second General Bond Resolution), the principal of and interest on which, when due, together with other available moneys deposited with the Trustee will provide moneys sufficient to pay, when due, the Redemption Price of, and interest until the redemption date on, the Refunded Bonds.

The Corporation has directed the Trustee to redeem or otherwise pay the principal amount of the Refunded Bonds, as follows: (i) the Series 55 Bonds maturing on July 1, 1994 and July 1, 1995 in the aggregate principal amount of $8,440,000 at the maturity thereof; and (ii) the Series 55 Bonds maturing on July 1 in the years 1996 through 2003, on July 1, 2005 and on July 1, 2008 in the aggregate principal amount of $116,360 at a redemption price (expressed as a percentage of the principal amount) of 102% on July 1, 1995.

Based on the foregoing, we are of the opinion that the Corporation has duly provided for the payment of the Refunded Bonds in accordance with the provisions of such Section 203 and Article XIV of the Second General Bond Resolution.

Very truly yours,
NYS FINANCIAL CONTROL BOARD
270 Broadway, Room 2114
New York, New York 10007
FAX: (212) 417-5055

FCB
FAX MATERIAL

TO: Lynette Kelly
FROM: Cathy Bell
DATE: 10/02/91

NUMBERS OF PAGES TO FOLLOW: 4

If any of the pages are unclear, contact at (212) 417-5046.

Thank you.

cc: ____________________
    ____________________
    ____________________
AN ACT to amend chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, relating to the New York State Financial Emergency Act for The City of New York, in relation to the creation and operation of a Tax Stabilization Fund

The People of the State of New York, represented in the Senate and Assembly, do enact as follows:

1 Section 1. Paragraph (a) of subdivision one of section eight of chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, as amended by section twenty-one of chapter seven hundred seventy-seven of the laws of nineteen hundred seventy-eight is amended to read as follows:

2 a. For its fiscal years ending June thirtieth, nineteen hundred seventy-nine through June thirtieth, nineteen hundred eighty-one, the city’s budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with the accounting principles set forth in the state comptroller’s uniform system of accounts for municipalities, as the same may be modified by the comptroller, in consultation with the city comptroller, for application to the city; subject to the provision of subdivision four of section three thousand thirty-eight of the public authorities law with respect to contributions by the city or other public employer to any retirement system or pension fund and subject to the provision of paragraph (c) of subdivision five of section three thousand thirty-eight of the public authorities law with respect to expense items included in the capital budget of the city. For the fiscal year ending June thirtieth, nineteen hundred eighty-two, and for each fiscal year thereafter, the city’s budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with generally accepted accounting principles and that permit comparison of the budget with the report of actual financial results prepared in accordance with generally accepted accounting principles. Notwithstanding any provision of this section, the city shall have the authority, at the end of any fiscal year, to apply withdrawals from the tax stabilization fund, created pursuant to section 9-c hereof, to reduce or offset any deficit incurred in the results of operations. Any remaining deficit, subsequent to the application of withdrawals from the tax stabilization fund, will be considered a deficit incurred by the city during the fiscal
29 year in the results of operations for the purposes of section 2.12(ii). With respect to
30 financial plans that include the fiscal years ending June thirty-first, nineteen hundred
31 seventy-nine through June thirty-first, nineteen hundred eighty-one, the city's budget
32 covering all expenditures other than capital items shall be prepared in accordance
33 with generally accepted accounting principles and there shall be substantial
34 progress in such fiscal year towards achieving a city budget covering all
35 expenditures other than capital items the results of which would not show a deficit
36 when reported in accordance with generally accepted accounting principles. The
37 city shall eliminate expense items from its capital budget not later than the
38 commencement of the fiscal year ending June thirty-first, nineteen hundred eighty-
39 two. For the fiscal year ending June thirty-first, nineteen hundred eighty-nine, and for
40 each fiscal year thereafter, the budgets covering all expenditures other than capital
41 items of each of the covered organizations shall be prepared and balanced so that
42 the results thereof would not show a deficit when reported in accordance with
43 generally accepted accounting principles, and for each fiscal year prior thereto, there
44 shall be substantial progress towards such goal.
45
46 Section 2. Chapter eight hundred sixty-eight of the laws of nineteen hundred
47 seventy-five is amended to add a new section nine-c as follows:
48
49 Section 9-c. Establishment and application of a tax stabilization fund.
50
51 1. Commencing on the first day of the first full fiscal quarter subsequent to the
52 enactment of this section, the city shall establish a tax stabilization fund for the
53 purpose of minimizing disruption or diminution of essential services in the city
54 during periods when city revenues may be inadequate due to economic downturns.
55 All monies in the fund shall be held by the comptroller, who shall administer and
56 maintain the fund in accordance with the provisions of this section.
57 2. The city shall pay into such fund any and all of the following amounts hereafter
58 accumulated by the city:
59 a. All expense budget surpluses incurred by the city. As used in this section,
60 expense budget surplus shall mean any excess of revenues over expenditures
61 incurred by the city in the results of operations in any fiscal year.
62 The city shall make payment of any expense budget surplus into the tax
63 stabilization fund on or before October thirty-first, nineteen
64 hundred and ninety-two and on or before October thirty-first of each succeeding
65 year.
66 b. A minimum of fifty percent of all non-recurring revenue that becomes available
67 to the city through any source, of twenty million dollars or more. As used in this
68 section, non-recurring revenue shall mean all non-tax based revenue received by the
69 city from whatever source, the payment of which is limited to a period spanning no
70 more than two consecutive fiscal years, including but not limited to proceeds
71 realized from the sale of capital assets; transfers of surplus revenues or reserve
72 funds from any covered organization, excess revenues released by the Municipal
73 Assistance Corporation; and excess revenues released by the Battery Park City
74 Authority. As used in this section, excess revenues shall mean such revenues of the
75 Municipal Assistance Corporation and Battery Park City Authority as may be
76 available from time to time after providing for the payment of principal, interest,
77 and redemption on their respective outstanding bonds and notes, operating
78 expenses and commitments under existing agreements.
79 c. Such other and further amounts appropriated thereto, in accordance with the City
80 Charter.

81 3. All payments to the city from the tax stabilization fund during periods of
82 budgetary stress shall be made at such times and in such amounts as are determined
83 in accordance with this section. As used in this section, budgetary stress shall exist
84 when the city determines and certifies to the comptroller that as of the end of any
85 fiscal quarter of the city, each of the following conditions exist:
86 a. The average non-agricultural employment figures for the city (as published by
87 the Bureau of Labor Statistics of the United States Department of Labor) for such
88 fiscal quarter and the first preceding fiscal quarter of the city exceeds by less than
89 one-half of one percent the comparable average employment (as published by the
90 same source) for the second and third preceding fiscal quarters of the city; and,
91 b. the average of collections of economically sensitive taxes for such quarter and the
92 first preceding fiscal quarter of the city, when divided by the average of collections
93 of such taxes for the same two fiscal quarters of the preceding year, yields a
94 percentage increase that is less than average past revenue growth. As used in this
95 section, economically sensitive taxes shall only include the personal income tax, the
96 sales tax, the general corporation tax, the unincorporated business income tax, the
97 financial corporation tax, the mortgage recording tax, the real property transfer tax,
98 the utility tax and the commercial rent or occupying tax, as such is imposed by the
99 administrative code of the city. As used in this section, average past revenue
growth as of the end of any fiscal quarter of the city shall be a percentage
computed as follows:

(i) determine the percentage by which collections of economically sensitive taxes
for the first prior fiscal year for which audited financial statements are published
exceeds (or lags) collections of such taxes for the second prior fiscal year;

(ii) determine the percentage by which collections of economically sensitive taxes
for the second prior fiscal year exceeds (or lags) collections of such taxes for the
third prior fiscal year;

(iii) add the two percentages determined pursuant to (i) and (ii) herein, and
divide the result by two.

4. Upon a determination that the city is in a condition of budgetary stress, the
comptroller shall determine the amount of additional revenue that would cause the
percentage increase in current collections of economically sensitive taxes (calculated
in accordance with paragraph b of subdivision one of this section as of the end of
the fiscal quarter for which such determination is made) to be equal to average past
revenue growth. Upon making such determination, the comptroller shall pay such
amount to the city from the tax stabilization fund. In the event that the amount in
the tax stabilization fund is insufficient to make the payment, the comptroller shall
certify to the city the amount then on deposit in the tax stabilization fund, and shall
pay such amount to the city.

5. On December first of each year, the comptroller shall determine whether the
amount then on deposit in the tax stabilization fund exceeds two and one-half
percent of the city's total revenues for the fiscal year ending the preceding June;
(based upon the city's audited financial statements for such fiscal year) and
shall thereupon pay the amount of any such excess to the city.

Section 3. This act shall take effect immediately.
MEMORANDUM

TO: Lynette Kelly
   Counsel to the Municipal Assistance Corporation
FROM: Cathy A. Bell  
   General Counsel
RE:  FCB Departmental Proposal
DATE: October 10, 1991

As per our recent discussion, this memorandum sets forth details concerning a piece of legislation that the Financial Control Board will submit for inclusion in the Governor's 1992 legislative program. A copy of the draft legislation is attached. We are proposing to amend our enabling legislation, the Financial Emergency Act ("FEA" or the "Act") to create a Tax Stabilization Fund for the City of New York in an effort to avoid a future control period by enhancing the city's fiscal stability. Given the significant impact that this measure will have upon the fiscal affairs of the City and in view of the Governor's role as Chairman of the Financial Control Board, we are recommending this proposal for inclusion as a Program bill. While the City's position on the specifics of this proposal has not been formally solicited, the Mayor, in his remarks at the October Financial Control Board meeting, stated that the administration is also working to establish a rainy day fund. Although we have not been apprised of any details concerning the City's efforts in this regard, we will attempt to collaborate with the City on the drafting of mutually acceptable legislation.

Tax Stabilization Fund - This bill would amend the FEA to create a tax stabilization fund for the purpose of minimizing disruption or diminution of essential services in the city during periods when city revenues may be inadequate due to periods of economic downturn. The Fund would be set up as a sub-account within the city's General Fund and be maintained by the State Comptroller in a manner similar to the administration of the General Debt Service Fund, established pursuant to section 9-b of the Act.

The Tax Stabilization Fund would be funded from three sources; all "expense budget surpluses" incurred by the City, a minimum of one half of all "non-recurring revenue" that becomes available to the City through any source in excess of $20 million and such other amounts as appropriated to the Fund in accordance with the City Charter. Expense budget surplus is defined as any excess of revenues over expenditures in any fiscal year above five million dollars. The bill will also define non-recurring revenue; we are contemplating language to the effect of all non-tax based revenue received by the City, the payment of which is limited to a period spanning no more than two fiscal years, including but not limited to proceeds from the sale of capital assets, transfers of surplus revenues or reserve funds from any covered organization, surplus revenues released by MAC and surplus revenues released by Battery Park City Authority.
Funds on deposit in the Tax Stabilization Fund would become available to the City only upon the meeting of two conditions, one which measures employment decline by comparing a rolling six month average for the City and the other which takes into account actual tax collections as compared with the average growth rate over the three previously audited tax years. Upon the meeting of both conditions, withdrawals from the Fund would be permitted only in an amount necessary to restore current revenue growth to the preceding three year average.

The bill would effectuate a further amendment to the FEA to permit withdrawals from the Fund to be applied to reduce or eliminate any deficit incurred by the City in the results of operations prior to application of the $100 million trigger set forth in section 2.12 of the Act for purposes of reinstatement of a control period. We believe that this statutory authorization is necessary in view of the requirement set forth in FEA, section 8.1(a) that the City’s budget covering expenditures other than for capital items be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with GAAP. Accounting rules dictate that transfers to and from the General Fund into and out of the Tax Stabilization Fund be reflected as fund balance entries on the City’s financial statements. The use of the word “expenditure”, however, in section 8.1(a) has been interpreted by the City’s accountants as requiring that the bottom line in determining balance be the excess, if any, of revenues (and other financing sources) over expenditures (and other financing uses), exclusive of any fund balance or deficit. By authorizing application of Fund withdrawals to reduce any operating deficit, we are seeking to enable the City to include monies which would ordinarily be reflected below the defining line for determining balance pursuant to section 8.1(a), as well as whether a deficit in excess of $100 million has been incurred, into the accounting equation for such purposes.

We plan to submit draft legislation to this effect on or before November 1st to the Governor’s office. Please feel free to contact me before that date with any comments or questions you might have.

Attachment
AN ACT to amend chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, relating to the New York State Financial Emergency Act for The City of New York, in relation to the creation and operation of a Tax Stabilization Fund.

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1. Section 1. Paragraph (a) of subdivision one of section eight of chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, as amended by section twenty-one of chapter seven hundred seventy-seven of the laws of nineteen hundred seventy-eight is amended to read as follows:

2. a. For its fiscal years ending June thirtieth, nineteen hundred seventy-nine through June thirtieth, nineteen hundred eighty-one, the city's budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with the accounting principles set forth in the state comptroller's uniform system of accounts for municipalities, as the same may be modified by the comptroller, in consultation with the city comptroller, for application to the city; subject to the provision of subdivision four of section three thousand thirty-eight of the public authorities law with respect to contributions by the city or other public employer to any retirement system or pension fund and subject to the provision of paragraph (c) of subdivision five of section three thousand thirty-eight of the public authorities law with respect to expense items included in the capital budget of the city. For the fiscal year ending June thirtieth, nineteen hundred eighty-two, and for each fiscal year thereafter, the city's budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with generally accepted accounting principles and that permit comparison of the budget with the report of actual financial results prepared in accordance with generally accepted accounting principles. Notwithstanding any provision of this section, the city shall have the authority, at the end of any fiscal year, to apply withdrawals from the tax stabilization fund, created pursuant to section 9-c herein, to reduce or offset any deficit incurred in the results of operations. Any remaining deficit, subsequent to the application of withdrawals from the tax stabilization fund, will be considered a deficit incurred by the city during the fiscal
29 in the results of operations for the purposes of section 2.12(a). With respect to
30 financial plans that include the fiscal years ending June thirtieth, nineteen hundred
31 seventy-nine through June thirtieth, nineteen hundred eighty-one, the city's budget
32 covering all expenditures other than capital items shall be prepared in accordance
33 with generally accepted accounting principles and there shall be substantial
34 progress in each such fiscal year towards achieving a city budget covering all
35 expenditures other than capital items the results of which would not show a deficit
36 when reported in accordance with generally accepted accounting principles. The
37 city shall eliminate expense items from its capital budget not later than the
38 commencement of the fiscal year ending June thirtieth, nineteen hundred eighty-
39 two. For the fiscal year ending June thirtieth, nineteen hundred eighty-nine, and for
40 each fiscal year thereafter, the budgets covering all expenditures other than capital
41 items of each of the covered organizations shall be prepared and balanced so that
42 the results thereof would not show a deficit when reported in accordance with
43 generally accepted accounting principles; and for each fiscal year prior thereto, there
44 shall be substantial progress towards such goal.

46 Section 2. Chapter eight hundred sixty-eight of the laws of nineteen hundred
47 seventy-five is amended to add a new section nine c as follows:

49 Section 9-c. Establishment and application of a tax stabilization fund.

51 1. Commencing on the first day of the first full fiscal quarter subsequent to the
52 enactment of this section, the city shall establish a tax stabilization fund for the
53 purpose of minimizing disruption or diminution of essential services in the city
54 during periods when city revenues may be inadequate due to economic downturns.
55 All monies in the fund shall be held by the comptroller, who shall administer and
56 maintain the fund in accordance with the provisions of this section.
57 2. The city shall pay into such fund any and all of the following amounts hereafter
58 accumulated by the city:

59 a. All expense budget surpluses incurred by the city. As used in this section,
60 expense budget surplus shall mean the amount by which any excess of revenues
61 (and transfers) over expenditures (and transfers) for a fiscal year of the city would
62 exceed five million dollars. The city shall make payment of any expense budget
63 surplus into the tax stabilization fund on or before October thirty-first, nineteen
64 hundred and ninety-two and on or before October thirty-first of each succeeding
65 year:
66 b. A minimum of fifty percent of all non-recurring revenue that becomes available
to the city through any source, or twenty million dollars or more. As used in this
section, non-recurring revenue shall mean all non-tax based revenue received by the
city from whatever source, the payment of which is limited to a period spanning no
more than two fiscal years, including but not limited to: proceeds realized from the
sale of capital assets; transfers of surplus revenue or reserve funds from any
covered organization, excess revenue released by the Municipal Assistance
Corporation and, excess revenues released by the Battery Park City Authority.
67 c. Such other and further amounts appropriated thereto, in accordance with the City
Charter.

3. All payments to the city from the tax stabilization fund during periods of
budgetary stress shall be made at such times and in such amounts as are determined
in accordance with this section. As used in this section, budgetary stress shall exist
when the city determines and certifies to the comptroller that as of the end of any
fiscal quarter of the city, each of the following conditions exist:

a. The average non-agricultural employment figures for the city (as published by
the Bureau of Labor Statistics of the United States Department of Labor) for such
fiscal quarter and the first preceding fiscal quarter of the city exceeds by less than
one percent the comparable average employment (as published by the same source)
for the second and third preceding fiscal quarters of the city; and,

b. the sum of collections of economically sensitive taxes for such quarter and the
first preceding fiscal quarter of the city, when divided by the sum of collections of
such taxes for the same two fiscal quarters of the preceding year, yields a percentage
increase that is less than average past revenue growth. As used in this section,
economically sensitive taxes shall only include the personal income tax, the sales tax,
the general corporation tax, the unincorporated business income tax, the utility tax
and the commercial rent or occupying tax, as each is imposed by the administrative
code of the city. As used in this section, average past revenue growth as of the end
of any fiscal quarter of the city shall be a percentage computed as follows:

(i) determine the percentage by which collections of economically sensitive taxes
for the first prior fiscal year for which audited financial statements are published
exceeds (or lags) collections of such taxes for the second prior fiscal year;

(ii) determine the percentage by which collections of economically sensitive taxes
for the second prior fiscal year exceeds (or lags) collections of such taxes for the third
prior fiscal year;
(iii) add the two percentages determined pursuant to (i) and (ii) herein, and divide the result by two.

4. Upon a determination that the city is in a condition of budgetary stress, the comptroller shall determine the amount of additional revenue that would cause the percentage increase in current collections of economically sensitive taxes calculated in accordance with paragraph b of subdivision one of this section as of the end of the fiscal quarter for which such determination is made to be equal to average past revenue growth. Upon making such determination, the comptroller shall pay such amount to the city from the tax stabilization fund. In the event that the amount in the tax stabilization fund is insufficient to make the payment, the comptroller shall certify to the city the amount then on deposit in the tax stabilization fund, and shall pay such amount to the city.

5. On December first of each year, the comptroller shall determine whether the amount then on deposit in the tax stabilization fund exceeds two and one-half percent of the city's total revenues for the fiscal year ending the preceding June thirtieth (based upon the city's audited financial statements for such fiscal year) and shall thereupon pay the amount of any such excess to the city.

Section 3. This act shall take effect immediately.
NYS FINANCIAL CONTROL BOARD
270 Broadway, Room 2114
New York, New York 10007
FAX: (212) 417-5055

FCB
FAX MATERIAL

TO: Lynette Kelley - MAC
FROM: Cathy Bell - FCB

NUMBERS OF PAGES TO FOLLOW: 7

If any of the pages are unclear, contact Frank at (212) 417-5055.

Thank you.

cc: ____________________________

MAC III - FCB looking to get this money
MEMORANDUM

TO: Lynette Kelly
Counsel to the Municipal Assistance Corporation

FROM: Cathy A. Bell
General Counsel

RE: FCB Departmental Proposal

DATE: October 10, 1991

As per our recent discussion, this memorandum sets forth details concerning a piece of legislation that the Financial Control Board will submit for inclusion in the Governor's 1992 legislative program. A copy of the draft legislation is attached. We are proposing to amend our enabling legislation, the Financial Emergency Act ("FEA" or the "Act") to create a Tax Stabilization Fund for the City of New York in an effort to avoid a future control period by enhancing the city's fiscal stability. Given the significant impact that this measure will have upon the fiscal affairs of the City and in view of the Governor's role as Chairman of the Financial Control Board, we are recommending this proposal for inclusion as a Program bill. While the City's position on the specifics of this proposal has not been formally solicited, the Mayor, in his remarks at the October Financial Control Board meeting, stated that the administration is also working to establish a rainy day fund. Although we have not been apprised of any details concerning the City's efforts in this regard, we will attempt to collaborate with the City on the drafting of mutually acceptable legislation.

Tax Stabilization Fund - This bill would amend the FEA to create a tax stabilization fund for the purpose of minimizing disruption or diminution of essential services in the city during periods when city revenues may be inadequate due to periods of economic downturn. The Fund would be set up as a sub-account within the city's General Fund and be maintained by the State Comptroller in a manner similar to the administration of the General Debt Service Fund, established pursuant to section 9-b of the Act.

The Tax Stabilization Fund would be funded from three sources: all "expense budget surpluses" incurred by the City, a minimum of one half of all "non-recurring revenue" that becomes available to the City through any source in excess of $20 million and such other amounts as appropriated to the Fund in accordance with the City Charter. Expense budget surplus is defined as any excess of revenues over expenditures in any fiscal year above five million dollars. The bill will also define non-recurring revenue; we are contemplating language to the effect of all non-tax based revenue received by the City, the payment of which is limited to a period spanning no more than two fiscal years, including but not limited to proceeds from the sale of capital assets, transfers of surplus revenues or reserve funds from any covered organization, surplus revenues released by MAC and surplus revenues released by Battery Park City Authority.
Funds on deposit in the Tax Stabilization Fund would become available to the City only upon the meeting of two conditions, one which measures employment decline by comparing a rolling six month average for the City and the other which takes into account actual tax collections as compared with the average growth rate over the three previously audited tax years. Upon the meeting of both conditions, withdrawals from the Fund would be permitted only in an amount necessary to restore current revenue growth to the preceding three year average.

The bill would effectuate a further amendment to the FEA to permit withdrawals from the Fund to be applied to reduce or eliminate any deficit incurred by the City in the results of operations prior to application of the $100 million trigger set forth in section 2.12 of the Act for purposes of reposition of a control period. We believe that this statutory authorization is necessary in view of the requirement set forth in FEA, section 8.1(a) that the city's budget covering expenditures other than for capital items be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with GAAP. Accounting rules dictate that transfers to and from the General Fund into and out of the Tax Stabilization Fund be reflected as fund balance entries on the City's financial statements. The use of the word "expenditures", however, in section 8.1(a) has been interpreted by the City's accountants as requiring that the bottom line in determining balance be the excess, if any, of revenues (and other financing sources) over expenditures (and other financing uses), exclusive of any fund balance or deficit. By authorizing application of Fund withdrawals to reduce any operating deficit, we are seeking to enable the City to include monies which would ordinarily be reflected below the defining line for determining balance pursuant to section 8.1(a), as well as whether a deficit in excess of $100 million has been incurred, into the accounting equation for such purposes.

We plan to submit draft legislation to this effect on or before November 1st to the Governor's office. Please feel free to contact me before that date with any comments or questions you might have.

Attachment:
AN ACT to amend chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, relating to the New York State Financial Emergency Act for the City of New York, in relation to the creation and operation of a Tax Stabilization Fund

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. Paragraph (a) of subdivision one of section eight of chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, as amended by section twenty-one of chapter seven hundred seventy-seven of the laws of nineteen hundred seventy-eight is amended to read as follows:

2 a. For its fiscal years ending June thirtieth, nineteen hundred seventy-nine through June thirtieth, nineteen hundred eighty-one, the city's budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with the accounting principles set forth in the state comptroller's uniform system of accounts for municipalities, as the same may be modified by the comptroller, in consultation with the city comptroller, for application to the city, subject to the provision of subdivision four of section three thousand thirty-eight of the public authorities law with respect to contributions by the city or other public employer to any retirement system or pension fund and subject to the provision of paragraph (c) of subdivision five of section three thousand thirty-eight of the public authorities law with respect to expenses items included in the capital budget of the city. For the fiscal year ending June thirtieth, nineteen hundred eighty-two, and for each fiscal year thereafter, the city's budget covering all expenditures other than capital items shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with generally accepted accounting principles and that permit comparison of the budget with the report of actual financial results prepared in accordance with generally accepted accounting principles. Notwithstanding any provision of this section, the city shall have the authority, at the end of any fiscal year, to apply withdrawals from the tax stabilization fund, created pursuant to section 9-c. herein, to reduce or offset any deficit incurred in the results of operations. Any remaining deficit subsequent to the application of withdrawals from the tax stabilization fund, will be considered a deficit incurred by the city during the fiscal
year in the results of operations for the purposes of section 2.126(d). With respect to financial plans that include the fiscal years ending June thirtieth, nineteen hundred seventy-nine through June thirtieth, nineteen hundred eighty-one, the city's budget covering all expenditures other than capital items shall be prepared in accordance with generally accepted accounting principles and there shall be substantial progress in each such fiscal year towards achieving a city budget covering all expenditures other than capital items the results of which would not show a deficit when reported in accordance with generally accepted accounting principles. The city shall eliminate expense items from its capital budget not later than the commencement of the fiscal year ending June thirtieth, nineteen hundred eighty-two. For the fiscal year ending June thirtieth, nineteen hundred eighty-nine, and for each fiscal year thereafter, the budgets covering all expenditures other than capital items of each of the covered organizations shall be prepared and balanced so that the results thereof would not show a deficit when reported in accordance with generally accepted accounting principles; and for each fiscal year prior thereto, there shall be substantial progress towards such goal.

Section 2. Chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five is amended to add a new section nine c as follows:

Section 9-c. Establishment and application of a tax stabilization fund.

1. Commencing on the first day of the first full fiscal quarter subsequent to the enactment of this section, the city shall establish a tax stabilization fund for the purpose of minimizing disruption or diminution of essential services in the city during periods when city revenues may be inadequate due to economic downturns. All monies in the fund shall be held by the comptroller, who shall administer and maintain the fund in accordance with the provisions of this section. The city shall pay into such fund any and all of the following amounts hereafter accumulated by the city:

a. All expense budget surpluses incurred by the city. As used in this section, expense budget surplus shall mean the amount by which any excess of revenues (and transfers) over expenditures (and transfers) for a fiscal year of the city would exceed five million dollars. The city shall make payment of any expense budget surplus into the tax stabilization fund on or before October thirty-first, nineteen hundred and ninety-two and on or before October thirty-first of each succeeding year.
66. A minimum of fifty percent of all non-recurring revenue that becomes available to the city through any source, except bond proceeds of less than $100,000, shall be used to retire debt.

67. Non-recurring revenue shall mean non-tax-based revenue received by the city from whatever source, the payment of which is limited to a period spanning no more than two fiscal years, including but not limited to proceeds realized from the sale of capital assets, transfers of surplus revenue or reserve funds from any covered organization, or gross revenues released by the Municipal Assistance Corporation and excess revenues released by the Battery Park City Authority.

68. Such other and further amounts as the comptroller determines, in accordance with the City Charter.

69. All payments to the city from the tax abatement fund during periods of budgetary stress shall be made at such times and in such amounts as are determined in accordance with this section. As used in this section, budgetary stress shall exist when the city determines and certifies to the comptroller that as of the end of any fiscal quarter of the city, each of the following conditions exist:

70. The average non-agricultural employment figures for the city (as published by the Bureau of Labor Statistics of the United States Department of Labor) for each fiscal quarter and the first preceding fiscal quarter of the city exceeded by less than one percent the comparable average employment (as published by the same source) for the second and third preceding fiscal quarters of the city and,

71. The sum of collections of economically sensitive taxes for each quarter and the first preceding fiscal quarter of the city, when divided by the sum of collections of such taxes for the same two fiscal quarters of the preceding year, yields a percentage increase that is less than average past revenue growth. As used in this section, economically sensitive taxes shall only include the personal income tax, the sales tax, the general corporation tax, the unincorporated business income tax, the utility tax, and the commercial rent or occupying tax, as each is imposed by the administrative code of the city. As used in this section, average past revenue growth as of the end of any fiscal quarter of the city shall be a percentage computed as follows:

72. In determining the percentage by which collections of economically sensitive taxes for the first prior fiscal year for which audited financial statements are published exceed (or fail to exceed) collections of such taxes for the second prior fiscal year,

73. In determining the percentage by which collections of economically sensitive taxes for the second prior fiscal year exceed (or fail to exceed) collections of such taxes for the third prior fiscal year,
(ii) add the two percentages determined pursuant to (i) and (ii) herein, and divide the result by two.

4. Upon a determination that the city is in a condition of budgetary stress, the comptroller shall determine the amount of additional revenue that would cause the percentage increase in current collections of economically sensitive taxes (calculated in accordance with paragraph b of subdivision one of this section as of the end of the fiscal quarter for which such determination is made) to be equal in average past revenue growth. Upon making such determination, the comptroller shall pay such amount to the city from the tax stabilization fund. In the event that the amount in the tax stabilization fund is insufficient to make the payment, the comptroller shall certify to the city the amount then on deposit in the tax stabilization fund, and shall pay such amount to the city.

5. On December first of each year, the comptroller shall determine whether the amount then on deposit in the tax stabilization fund exceeds two and one-half percent of the city's total revenues for the fiscal year ending the preceding June thirtieth (based upon the city's audited financial statements for such fiscal year) and shall thereupon pay the amount of any such excess to the city.

Section 3. This act shall take effect immediately.
August 15, 1991

Lynette Kelly, Esq.
Municipal Assistance Corporation
One World Trade Center Suite 8901
New York, New York 10048

RE: Rainy Day Fund

Dear Lynette,

Enclosed please find several memos I've retained in my files regarding the creation of a rainy day fund. As I mentioned during our most recent telephone conversation, I will be spending the next several weeks attempting to devise a structure for such a fund and to draft proposed legislation as a talking point around its utility and creation.

Please give me a call once you have had an opportunity to review the material enclosed. I would love to sit down with you and kick around a few ideas on how this thing might work!

Thanks for your assistance in this regard.

Sincerely,

[Signature]

Cathy A. Bell

Enclosure
February 21, 1991

Municipal Assistance Corporation
For The City of New York
New York, New York

Gentlemen:

You have requested our opinion as to (i) the validity of the New York State Financial Emergency Act For The City of New York (Chapter 868 of the Laws of New York of 1975) as amended to the date hereof (the "Act") and (ii) the enforceability by a holder of obligations of the Municipal Assistance Corporation For The City of New York (the "Corporation") of the covenant of the State of New York (the "State") authorized and required to be included in certain of such obligations pursuant to Section 10-a of the Act (the "State Covenant"), assuming the State Covenant is included in such obligations.

Although the matter is not free from doubt, we are of the opinion that a court of final jurisdiction would hold:

1. That the Act has been duly enacted, and under the Constitution and laws of the State, is valid; provided, however, that we express no opinion with respect to those portions of the Act relating to collective bargaining.

2. That the State Covenant is enforceable against the State by any holder of an obligation of the Corporation reciting the State Covenant, provided that the court in which enforcement is sought holds that its inclusion in such obligation constitutes an important security provision of such obligation.

The foregoing is limited to the extent that the enforceability of the Act or any part thereof is subject at all times to the proper exercise of the State's reserve police power.

Very truly yours,

[Signature]
GAAP - transfers in and out of Tax Stab Fund would or would not be considered "expenditures" and "revenues" under GAAP. If not, would be "transfers in" and "transfers out" as such are legal segregations of the General Fund balance. (b/c the activity takes the form of a separate fund thus should be reported as a separate fund)
November 1988

Maxine H. Gillman

Steven Markbreiter

Proposals to eliminate or alter the GAAP-balanced budget requirements in the Emergency Act

Question Presented

Would proposed amendments to the balanced budget requirements in the Emergency Act violate the State Covenant?

Introduction

The New York State Financial Emergency Act for The City of New York (Title 16, Chapter 1 of the Unconsolidated Laws of the State of New York) (the "Emergency Act") requires that governmental agencies, public authorities or public benefit corporations which receive or may receive moneys directly, indirectly or contingently from the City of New York (the "Covered Organizations") shall, beginning with the current fiscal year which ends on June 30, 1989, prepare and balance their operating budgets so that the results will not show a deficit when reported in accordance with generally accepted accounting principles ("GAAP"). Because this standard may not be attainable for certain Covered Organizations, including the New York City Transit Authority, the City of New York (the "City") and the New York State Financial Control Board (the "Control Board") have proposed various amendments to the Emergency Act which are intended to
relax the requirement. The proposed amendments would (1) eliminate the balanced budget requirement as it applies to the Covered Organizations, (2) eliminate the balanced budget requirement as it applies to the City, or (3) allow the Control Board to suspend compliance with the requirement if such compliance would result in a material adverse impact to the City.

For purposes of this memorandum, the question presented is whether each proposed amendment would violate the covenant of the State of New York authorized and required to be included in obligations of the Municipal Assistance Corporation for the City of New York (the "State Covenant"). This memorandum will conclude that none of the proposed amendments would result in a violation of the State Covenant.

The Proposed Amendments

(1) The first proposal, suggested by the City, would amend subsection 5410(1)(a) of the Emergency Act, which currently requires that the results of all Covered Organization operating budgets be balanced in accordance with GAAP for the fiscal year ending June 30, 1989, and for each fiscal year thereafter. The proposed amendment to subsection 5410(1)(a) would instead require the Covered Organizations simply to prepare and report operating budget results in
accordance with GAAP and would not require them to balance current revenues and expenditures within each fiscal year.

(2) The City has offered an alternative amendment to subsection 5410(1)(a) of the Emergency Act with respect to the City's current statutory obligation to report balanced operating results for each fiscal year. This second proposal would allow the City simply to prepare and report operating budgets in accordance with GAAP, but would not require such budgetary results to be balanced for each fiscal year.

(3) The Control Board has proposed an amendment to subsection 5410(2-a) of the Emergency Act which would allow the Control Board, upon the request of the City, to determine whether compliance with the standards of subsection 5410(1)(a) "would result in a material adverse impact upon the delivery of essential services." The amendment provides that, upon such determination, the Control Board "may suspend compliance with such standard for such time period as the board deems appropriate by a written order specifying the standard suspended, the reason therefor, and the period of such suspension." This power of the Control Board would exist at all times except during a Control Period. The Control Period, which began upon the effective date of the Emergency Act, terminated on June 30, 1986.
Discussion
The State Covenant, which is authorized pursuant to Section 5415 of the Emergency Act, constitutes a pledge and agreement by the State of New York (the "State") that it will not take certain actions with respect to the Control Board and provisions of the Emergency Act. Section 5415 requires that the State Covenant be included in any obligations issued by the Municipal Assistance Corporation for the City of New York (the "Corporation") and makes such covenant enforceable by any holder of the Corporation's bonds.

The State Covenant does not include a pledge that the City and/or the Covered Organizations will achieve balanced budgetary results for each fiscal year, and therefore, the proposed amendments do not appear to violate the State Covenant. It is necessary to examine, however, whether enactment of any of the proposed amendments would trigger an action which would be a violation of the State Covenant. A brief description of each of the proscribed actions follows, as well as a discussion as to whether such action would exist in the event of enactment of the proposed amendments.

Pursuant to Section 5415 of the Emergency Act, the State covenants not to take any action which will:
(a) Substantially impair the authority of the Control Board during a Control Period (i) to approve, disapprove, or modify any financial plan or financial plan modification of the City subject to the standards set forth in subdivision 5410(1) of the Emergency Act, (ii) to disapprove a contract of the City or a Covered Organization if the performance of such contract would be inconsistent with the financial plan or to approve or disapprove proposed short-term or long-term borrowings of the City or the Covered Organizations, or (iii) to establish and adopt procedures with respect to the deposit in and the disbursement from the board fund, established pursuant to Section 5411 of the Emergency Act, of City revenues.

Neither of the proposed amendments eliminating the balanced budget standard would impair the Control Board's authority during a Control Period. Although the third proposal would alter the responsibility of the Control Board, it would not impair any of the above powers, including the power to approve, disapprove, or modify any financial plan or modification thereof. Moreover, the provisions of such amendment are inapplicable during a Control Period.

(b) Substantially impair the authority of the Control Board to review the four-year financial plans, financial plan modifications, and contracts and proposed borrowings of the City or the Covered Organizations.
None of the proposed amendments would impair such authority. The third proposal would not impair the Control Board's authority and in fact would provide it more discretion than it currently possesses, allowing it to suspend compliance with the balanced budget standard. In addition, the proposal does not affect the Control Board's authority to review the City's four-year financial plans and modifications.

(c) Substantially impair the independent maintenance of a separate fund for the payment of debt service on bonds and notes of the City.

None of the amendments would affect the maintenance of such debt service fund.

(d) Alter the composition of the Control Board so that the majority of its voting members are not officials of the State of New York elected in a state-wide election or appointees of the Governor.

None of the proposed amendments would alter or affect the composition of the Control Board.

(e) Terminate the existence of the Control Board prior to the time the Emergency Act is terminated.
None of the proposals would have any effect on the existence of the Control Board.

(f) Substantially modify the requirement of Section 5409 of the Emergency Act that the City's financial statements be audited by a nationally recognized independent certified public accounting firm or consortium of firms and that a report on such audit be furnished to the Control Board.

Although the first two proposals would relax standards relating to GAAP-balanced budgets, neither they nor the third proposal would modify the auditing requirement imposed by Section 5409.

(g) Alter the definition of a Control Period, set forth in subsection 5402(12), or substantially alter the authority of the Control Board, as set forth in said subdivision, to reimpose or terminate a Control Period.

The two proposals relating to the balanced budget standards would not amend subsection 5402(12) and would not affect either the definition of a Control Period or the above authority to reimpose or terminate a Control Period. The third proposal would not alter the definition of a Control Period, and, while it would modify the authority of the Control Board, such proposal would not impair its authority to reimpose or terminate a Control Period.
The first City proposal and the Control Board proposal each includes a rider which states that such amendment "shall not be construed to alter substantially the authority of the board to reimpose a control period," as set forth in subsection 5402(12). For the purposes of this memorandum, however, it has been assumed that such riders will not be included in any amendment that is eventually enacted. Notwithstanding such assumption, it still appears that the proposals will not adversely affect the State Covenant.

Conclusions

The proposed amendments would alter the procedures relating to the preparation of operating budgets of either the City or the Covered Organizations or, alternatively, would modify the authority of the Control Board by allowing it to suspend compliance with such procedures. Such proposals could result in operating budgets for the City or the Covered Organizations that are not balanced in accordance with GAAP. The State Covenant does not include as a pledge and agreement that the City or the Covered Organizations will achieve balanced operating results for each fiscal year, nor does the State Covenant proscribe the authority of the Control Board to suspend compliance with the balanced budget standards. Furthermore, none of the actions which constitute a violation of the State Covenant would appear to take place if any of the amendments were enacted. For these
reasons, it is concluded that the proposed amendments would not violate the State Covenant.
MEMORANDUM

TO: Paul Dickstein, Director
FROM: Robert Wilson, Counsel
DATE: June 3, 1988
RE: NEW YORK CITY (the "City") AND COVERED ORGANIZATION (the "covereds") ADHERENCE TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) AND THE BALANCED BUDGET STANDARD/PROPOSED AMENDMENTS TO THE FINANCIAL EMERGENCY ACT (the "FEA" or the "Act")

This memorandum is divided into two (2) parts.

Part I will deal specifically with the covered organizations and the issues surrounding their legislative obligation, as of July 1, 1988, under the Act, to balance their budgets in accordance with GAAP.

Part II will deal with the related and more complex topic of the City's own obligation to adhere to the statutory balanced budget standard, and how the City can prepare for accounting changes proposed by the Governmental Accounting Standards Board (GASB).

*Valuable assistance was rendered in the preparation of this memorandum by the following people: from OMB, Mark Page, Bernard Rosen, Allen Proctor, Charles Budenbender and Lisa Osorio, and from Brown & Wood, Homer Schaaf.
in accessing capital markets) and its ability over the long-term to deliver essential services.

Solution #5: The Rainy Day Fund (the "RDF")

Background

The concept of a Rainy Day Fund is a response to a dilemma that all governments face: tax revenues rise and fall with the economy but the City's spending needs do not. These funds, often called Tax Stabilization Reserves, are used to collect money (from a city) when taxes rise above current spending plans and to dispense money (to a city) when taxes fall below spending plans. If the City can prepare its spending plans to accommodate slowdowns in the economy, it would be prudent to do so in its budget. It is, however, not likely that the City will be able to accurately predict such a slowdown and will be forced thereby to make mid-year adjustments. The City's ability at mid-year to adjust spending is very limited and the compromises that must be made cannot reflect the same balance among conflicting needs that the regular Executive Budget process allows. A Rainy Day Fund would assist the City in maintaining needed spending when expenditure or revenue surprises occur. In order to establish such a fund under the unique accounting and budgeting principles that apply to the City, the City's auditors suggested the establishment of the fund as a public benefit corporation. The corporation would be established as an "independent"
organization whose management would be responsible to demand funds from or release funds to the City based on specific triggering circumstances. Discretion to receive or disburse funds would not be available to management or to the board of directors.

Since the City is prohibited by law from completing a fiscal year with a reported deficit the practical consequences are that it must have a surplus. Unlike the majority of other municipalities, the City applies GAAP accounting standards to its budgeting process and is prohibited by the FEA from appropriating its surplus. Virtually all city governments use prior year accumulated surpluses for budget balancing purposes in the next year. Currently, under the FEA, such surpluses, albeit usually small, become virtually useless to the City as a resource in the following year and, therefore, represent an unnecessary tax revenue that cannot be used to provide services or reduce taxes. The RDF would attempt to capture these surplus funds, as well as those appropriated through the normal budgeting process.

Problems with the RDF

The RDF is not the ideal solution to the statutory requirement that the City not show a deficit because (i) the GASB is not at all sure that the RDF as a State authority solves GAAP restrictions regarding transfers in and out of the City's
General Fund; and because (ii) the RDF concept would not help solve the problems posed by the GASB changes scheduled for implementation in 1991 or soon thereafter.

In response to (i), the RDF proposal would record a General Fund "expenditure" when the City generated a surplus from operations and had it transferred to the RDF, and a General Fund "revenue" when the City ran a deficit in its results from operations and then requested a "drawdown" from the RDF. The problem is that under current GASB guidelines these transfers can probably not be classified as "expenditures" and "revenues." At best they are transfers in and transfers out, which means that essentially they are simply legal segregations of the General Fund balance. True?

A suggested alternative might be legislation that changed the Act to allow for accumulated surpluses in one year to be used as a resource for budget balancing purposes in the next. The accounting effect of this would be to report a surplus in year #1, and a deficit in year #2 -- over a two year period there would be budgetary equilibrium. This would not solve the problem of a year #2 deficit which was greater than a year #1 surplus. To address that case elimination of the statutory balance requirement would have to take place.

In response to (ii) above, the RDF does not address the GASB changes proposed for 1991, because even with a definition of
accumulated surplus (as opposed to annual surplus) in the Act, the anticipated cumulative deficit of $6.8 billion would draw any one year accumulated surplus or multiple year accumulated surplus in the City's results from operations. One solution in the face of the proposed GASB changes, would be to amend the Act to maintain the account known as "total fund equity (deficit)," so that whatever surplus exists, despite the collapse of the $6.8 billion into one accumulated deficit account, that surplus would continue to apply and be applied to the deficit (if any) for that given fiscal year that was generated from operations.

RECOMMENDATIONS based on Part II:

1. THE CITY'S PROPOSED AMENDMENT TO ELIMINATE THE ACT'S BALANCED BUDGET STANDARD SHOULD BE TIMED FOR CONSTITUTIONAL REASONS RELATED TO THE STATE COVENANTS IN CITY BONDS, TO BE AS CLOSE AS POSSIBLE TO THE PROPOSED GASB CHANGES SCHEDULED FOR IMPLEMENTATION IN 1991 OR SOON THEREAFTER.

2. ADDITIONAL LEGISLATION DEALING SPECIFICALLY WITH THE $6.8 BILLION "DEFICIT DUE TO ACCOUNTING CHANGES" WOULD HAVE TO BE DRAFTED SHOULD THE LEGISLATION IN POINT #1 ABOVE APPEAR UNLIKELY TO PASS OR PROVE TO BE CONSTITUTIONALLY UNTENABLE AFTER FURTHER RESEARCH. SUCH LEGISLATION WOULD ALLOW THE SEGREGATION OF ACCUMULATED SURPLUSES TO BE APPLIED TO SEGREGATED CURRENT YEAR DEFICITS, IF ANY.
DEPARTMENT OF AUDIT AND CONTROL
INTER-OFFICE MEMORANDUM

To: Mr. John Bender  
From: Mr. Sidney Schwartz  

Date: July 19, 1978  
Subject: Definition of a Balanced Budget

We have reviewed the proposed definition of a balanced budget which you have submitted to us for review. We present the following comments:

1. They refer only to a general fund. Reference should also be made to any other funds that may be incorporated in the City's expense budget.

2. Transfers are not defined. Currently, the meaning of this term is undergoing change in GAAP literature. The AICPA audit guide defines "quasi-external interfund transactions" as transfers. Such transactions do not constitute transfers in the proposed GAAP restatement. In addition, GAAP defines "residual equity transfers" as transfers. However, these transfers affect the statement of changes in fund balances only and not the statement of revenues and expenditures and should not be related to a balanced budget definition.

3. Although GAAP states that an existing fund balance is available for budgetary financing (if there is a fund balance as defined by GAAP) the proposed definition does not spell out whether or how any such fund balance would be available for current year budgeting.

Some more general comments are:

1. The terms which are intended to be used in the legislatively-defined balanced budget should be specifically explained since they are subject to change over time and may not be interpreted as they are now.
2. The comments we present above are our best judgment. However, it is important to note that it does not represent the result of any extensive research into this matter, but is based upon the collective experience of our staff.

As you know, there are a number of other larger organizations and groups charged with the oversight of the City's financial plan which do have a significant accounting research capability. Some, or indeed, all of these groups, may have done already extensive research in this area as a result of their responsibilities in connection with New York City's financial emergency or as a result of other work which they have done.

These groups include:

Office of City Comptroller
U.S. Treasury
U.S. General Accounting Office

Peat, Marwick, Mitchell & Company - They are retained by the City as their independent public accountants who will certify the City's FY 1978 financial statements.

Arthur Andersen & Company - They have been retained by the U.S. Treasury as their accounting and financial consultants in evaluating the City's financial progress and their financial statements.

In addition, the Divisions of Audits and Accounts and Municipal Affairs in the State Comptroller's Office have done research in this area, and may make additional contributions. A copy of this memo will be furnished to them.
We would welcome your making our comments available to these groups and such other groups as you believe may have the appropriate expertise so that the EFCB may have the benefit of whatever research might have been done, and other informed opinions in this matter.

An expression of opinion from the AICPA and the MFOA which have provided GAAP for state and local governments might also be sought. However, in the case of these two agencies, my experience when I sought their advice on a particular issue, was that they would not provide any official comment for many months, if at all.

SS/me

Enclosure
Definition of Transfers

Generally Accepted Accounting Principles (GAAP) require that governmental accounting systems be organized and operated on a "fund basis". A fund is defined under GAAP "as a self-balancing set of accounts recording assets and related liabilities which are segregated for the purpose of carrying on specific activities". A typical governmental unit will use a number of funds to record its activities, e.g., a general fund, a debt service fund, a capital project fund and various enterprise funds as needed. On occasion, governmental operations require transactions between funds. GAAP provides for three distinct accounting treatments for such transactions.

1) Interfund transactions which would be treated as revenues or expenditures had they been conducted with outsiders (quasi-external transactions), or which represent reimbursements of expenditures made by one fund for another, are to be recognized as revenues and expenditures in the financial statement. Such transactions might include billings to the general fund from an intergovernmental service fund or reimbursements to the general fund for expenditures initially made by that fund but properly chargeable to a special revenue fund.

2) Interfund transactions except for loans and advances and those described under one above are defined as Transfers. Typical transfers might include transfers from the general fund to a debt service fund for annual debt service obligations or to an enterprise fund as an operating subsidy for that fund. GAAP provides that transfers be recorded in the Statement of Revenues and Expenditures but should be described as "Other Sources or Uses" in such statements.

(1) These definitions are consistent with the definitions contained in the Exposure Draft on the GAAP Restatement—Principles issued in February, 1978.
3) In addition, transactions involving "residual equity transfers" e.g., transfers of residual balances of discontinued funds to the General Fund are defined as transfers in GAAP literature. However, such transfers are to be recorded in the statement analyzing changes in fund balance and not in the Statement of Revenues and Expenditures.
Budgetary Appropriations of Fund Balance According to GAAP

Fund Balance is defined in GAAP literature as "the excess of the assets of a fund over its liabilities and reserves". (1)

The GAAFR, in a section on the proper accounting for the budget, states the following:

"if revenues estimated for the current fiscal year are less than appropriations, the difference will be financed from existing fund reserves and will be reflected by a debit to fund balance". (2)

A similar statement is contained in the AICPA Audit Guide which provides that

"the unappropriated portion of fund balance is available for future budget financing." (3)

It is clear from these statements that a fund balance may be made available for future budgetary appropriations pursuant to GAAP. As noted, however, fund balance denotes an aggregate 'surplus' condition as defined by GAAP and only such a GAAP surplus is available for future budgetary appropriations.

(1) Governmental Accounting, Auditing and Financial Reporting; Appendix A p. 161

(2) Ibid; p. 16

(3) AICPA Industry Audit Guide, Audits of State and Local Governmental Units p. 63
§____. Subdivision one of section eight of such law is hereby amended to read as follows:

1. Pursuant to the procedures contained in subdivision three of this section, each year the city shall develop, and may from time to time modify, with the approval of the board during an emergency period, a four year financial plan covering the city and the covered organizations.

Each such financial plan and financial plan modification shall comply with the requirements of subdivision four of this section and shall, except as otherwise provided pursuant to subdivision two-a of this section, conform to the following standards:

a. For the fiscal year ending June thirtieth, nineteen hundred eighty-two, and for each fiscal year thereafter, the city's expense budget shall be prepared and balanced in accordance with [principles which are consistent with]

This would be applicable in the preparation of the report of actual financial results generally accepted accounting principles [and that permit comparison of the budget with the report of actual financial results prepared in accordance with generally accepted accounting principles]. With respect to financial plans that include the fiscal years ending June thirtieth, nineteen hundred seventy-nine through June thirtieth, nineteen hundred eighty-one, the city's expense budget shall be prepared in accordance with generally accepted accounting principles and there shall be substantial progress in each such fiscal year
TO:      ALLEN PROCTOR
FROM:    IRA SOCKOWITZ
RE:      AMENDING THE FINANCIAL EMERGENCY ACT
DATE:    JANUARY 14, 1988

Attached please find a draft of both a bill and an introducer's memorandum to amend the Financial Emergency Act, pursuant to our discussions of the necessity for doing so in order to implement the Rainy Day Fund.

As per our discussions, certain assumptions have been made for the purposes of this bill draft. First, and all pervasive, is the assumption that the legislation creating the Rainy Day Fund will be passed. If this is not so, then the language in this bill is unnecessary. In addition, it is important to note that the effective date of this bill is tied directly to the effective date of the bill creating the Rainy Day Fund, and not a chapter law. This distinction is important. If the Rainy Day Fund legislation has already been signed into law when this bill is being considered, the effective date (section 2 of the bill) must be amended to reflect the chapter number and to delete references to legislative bill numbers.

Second, the amendment to section (1)(a) to remove the word "deficit" (page 2, line 8) presumes the placement of the transfers to and from the Rainy Day Fund will be reported under "Excess of revenue and other sources over (under) Expenditures and other uses" on the balance sheet. In fact, if this were not so, this change would be unnecessary.

Absent the change mentioned in the second paragraph regarding the effective date, if the language in the draft meets with your approval, the draft should be in final form for submission to the Bill Drafting Commission in Albany. I have double checked with one of my friendly
bill drafters as to the propriety of certain language and references I employ, and they check out correctly insofar as Bill Drafting is concerned.

Attachments
AN ACT to amend chapter eight hundred sixty-eight of the laws of
nineteen hundred seventy-five, relating to the New York state
financial emergency act for the city of New York, in relation
to transfers of money to and from the revenue stabilization
fund of the Revenue Stabilization Corporation

The People of the State of New York, represented in Senate and Assembly,
do enact as follows:

1 Section 1. Paragraph (a) of subdivision one and subdivision four of
2 section eight of section two of chapter eight hundred sixty-eight of the
3 laws of nineteen hundred seventy-five, paragraph (a) of subdivision one
4 as separately amended by chapters two hundred one and seven hundred
5 seventy-seven of the laws of nineteen hundred seventy-eight, subdivision
6 four as separately amended by chapter eight hundred eighty-eight of the
7 laws of nineteen hundred seventy-five and chapter two hundred one of the
8 laws of nineteen hundred seventy-eight, are amended to read as follows:

a. For its fiscal years ending June thirtieth, nineteen hundred
seven-nine through June thirtieth, nineteen hundred eighty-one, the
city's budget covering all expenditures other than capital items shall
be prepared and balanced so that the results thereof would not show a
deficit when reported in accordance with the accounting principles set
forth in the state comptroller's uniform system of accounts for
municipalities, as the same may be modified by the comptroller, in
consultation with the city comptroller, for application to the city;
subject to the provision of subdivision four of section three thousand
thirty-eight of the public authorities law with respect to contributions
by the city or other public employer to any retirement system or pension
fund and subject to the provision of paragraph (c) of subdivision five
of section three thousand thirty-eight of the public authorities law
with respect to expense items included in the capital budget of the
city. For the fiscal year ending June thirtieth, nineteen hundred
eighty-two, and for each fiscal year thereafter, the city's budget
covering all expenditures other than capital items shall be prepared and
balanced so that the results thereof would not show [a deficit] an_
excess of revenue and other sources under expenditures and other uses
when reported in accordance with generally accepted accounting
principles and that permit comparison of the budget with the report
accounting principles. With respect to financial plans that include the
fiscal years ending June thirtieth, nineteen hundred seventy-nine
through June thirtieth, nineteen hundred eighty-one, the city's budget
covering all expenditures other than capital items shall be prepared in
accordance with generally accepted accounting principles and there shall
be substantial progress in each such fiscal year towards achieving a
city budget covering all expenditures other than capital items the
results of which would not show a deficit when reported in accordance
with generally accepted accounting principles. The city shall eliminate
expense items from its capital budget not later than the commencement of
the fiscal year ending June thirtieth nineteen hundred eighty-two. For
the fiscal year ending June thirtieth, nineteen hundred eighty-nine, and
for each fiscal year thereafter, the budgets covering all expenditures
other than capital items of each of the covered organizations shall be
prepared and balanced so that the results thereof would not show a
deficit when reported in accordance with generally accepted accounting
principles; and for each fiscal year prior thereto, there shall be
substantial progress towards such goal.
4. Each financial plan shall be in such form and shall contain such information for each year during which the financial plan is in effect as the board may specify, and shall, in such detail as the board may from time to time prescribe, include projections of all revenues, expenditures and cash flows (including but not limited to projected capital expenditures, [and] debt issuances, and expenditures to be made to, or revenues to be received from, the revenue stabilization fund of the Revenue Stabilization Corporation, pursuant to sections twenty-five hundred thirty-six and twenty-five hundred thirty-seven of the public authorities law) and a schedule of projected capital commitments of the city and except in such instances as the board may deem appropriate each of the covered organizations. In addition, each financial plan and financial plan modification shall include a statement of the significant assumptions and methods of estimation used in arriving at the projections contained therein, set forth in such form and in such detail as the board may from time to time prescribe.

2. This act shall take effect on the same day as a chapter of the laws of nineteen hundred eighty-eight, relating to amending the public authorities law, in relation to the establishment of a revenue stabilization fund for the city of New York, as proposed in legislative bill number Assembly XXX and Senate XXX, takes effect.
MEMORANDUM IN SUPPORT

Member of Assembly ______________________________ A.

Senator _________________________________ S.

Introduced at the Request of The City of New York

Title: AN ACT to amend chapter eight hundred sixty-eight of the laws of nineteen hundred seventy-five, relating to the New York state financial emergency act for the City of New York, in relation to transfers of money to and from the revenue stabilization fund of the Revenue Stabilization Corporation

Purpose of Bill: To provide for economic stability during periods in which decreased revenues to the City may result from recessionary or other economic events, monies have been set aside in a "revenue stabilization fund." This bill amends the Financial Emergency Act so that transfers both to and from this fund will be recognized as included within the budgets and financial plans prepared by the City according to Generally Accepted Accounting Principles" (GAAP), as required by the Act.

Specific Provisions: Where section 5410(8)(1)(a) of the Unconsolidated Laws (section 3 of the Financial Emergency Act) requires the City's budget to be balanced so as to not show a deficit, the bill changes the reference from "deficit" to "excess of revenue and other sources under expenditures and other uses" to more accurately reflect standardized accounting and reporting language.

The bill also amends subdivision (4) of section 5410 to include within the City's financial plan projections the transfer of money either to or from the revenue stabilization fund, thereby accurately reflecting the strength of the City's financial position.

Justification: The creation of the revenue stabilization fund was to ensure sound financial management practices by the City, especially during recessionary periods. When tax revenues are inadequate to meet appropriate levels of City services, use of the monies held in the fund will prevent the disruption of services. The amendments to the Financial Emergency Act proposed by this bill serve to encompass the payments to, or revenues from, the revenue stabilization fund, thus ensuring that the reporting of the City's financial position is made more accurately. Moreover, the inclusion of these funds is more easily monitored. In doing so, sound financial planning by the City is enhanced.

Fiscal Impact: None

Effective Date: This act shall take effect on the same day as a chapter of the laws of nineteen hundred eighty-eight, relating to amending the public authorities law, in relation to the establishment of a revenue stabilization fund for the City of New York takes effect, as proposed in legislative bill number Assembly XXX and Senate XXX, takes effect.
Encompassed within this memo are citations to, and the major concepts of, each of the areas and matters regarding the Rainy Day Fund that you have had me research.

I. First and foremost is the ability to alter the MAC bond covenant without the consent of the bondholders. As we discussed on Monday (8/17), the plausibility of unilaterally altering the covenant looks brighter than during our initial discussion of late last week.

Within Article X of the Second General Bond Resolution (dealing with covenant alterations w/o bondholder consent), section 1001(2) allows for additional covenants and agreements to be made for the purpose of further securing payment of the bonds, provided that the later resolutions or agreements are not inconsistent with the original.

Correspondingly, section 904, as one of the covenants made to the bondholders, allows MAC to execute further resolutions as may be necessary or desirable for the better assuring of revenues to be pledged by MAC.

Taken together, these two sections may be construed to allow for an additional resolution altering the covenants to encompass funds received from the Rainy Day Fund, so long as these funds are interpreted as further securing the revenues to be pledged to the bondholders. In fact, it should be noted that section 1003 specifically mentions that the provisions of Article X are not to be construed to limit MAC from doing anything under section 904 which would further assure the bondholders.
In light of this possibility, I have read the rest of the Bond Resolution looking for any provisions that could be construed as inconsistent with a resolution regarding the Rainy Day Fund. To this end, I have concentrated on Article IX of the Resolution, as it contains the express covenants of the corporation. In my reading of this article, I have not come across anything to which a resolution regarding the Rainy Day Fund would be contrary. In fact, perhaps the opposite is true. Further within section 904, it is additionally covenants that the MAC Chairman will make and deliver certificates in accordance with sections 808 and 807. Important here is section 607, which calls for the chairman to certify to the State Comptroller and the Mayor a schedule of what the cash requirements of the corporation are. As such, the Rainy Day Fund may be construed as an instrument through which this schedule may be met. While this is not news to you, I thought that it might provide yet another leg to stand on should the argument be built around bondholder assurances.

II. The second area we looked at was the balanced budget requirement for the City. Moreover, the question of whether this was required in every fiscal year arose. Quite simply, the answer is that the City is required to have a balanced budget according to GAAP in each fiscal year. Set forth below are the citations to the sections that enumerate that requirement.

Section 3015 of the legislation creating MAC (McKinney's Public Authorities Law section 3015) contains an agreement with the state, under which the state pledges not to alter or limit the rights vested in the corporation to fulfill the terms of any agreements with the bondholders until the bonds any interest are repaid. This pledge has been incorporated into both the General Bond Resolution and the Second General Bond Resolution issued by MAC (found at section 906 in the Second Resolution). In addition, legislation
enacted in 1978 created a "State Covenant" (codified at section 5415 of McKinney's Unconsolidated Laws) stating that the City may and MAC must incorporate this new covenant within bondholder agreements. The terms of this new covenant are detailed, but essentially provide that the state will not take any actions that will impair the independence or authority of the Financial Control Board to oversee the City's finances during a control period. This is obviously of great enough importance to be included within the OS (at Part 10), in which it is expressed as the opinion of Bond Counsel that "while the matter is not free from doubt, the State Covenant is enforceable, provided a court would hold that the pledge is an 'important security provision' of the bond."

Section 3038 of the Public Authorities Law details the conditions upon which the extension of the benefits of MAC will be granted to the City. At subdivision 2(b) it is stated that for the fiscal year ending June 30, 1979 and for each fiscal year thereafter, the City's expense budget must be prepared in accordance with section 8 of the Financial Emergency Act.

Section 8(a) of the Financial Emergency Act (codified at section 5410 of McKinney's Unconsolidated Laws) calls for the budget covering all expenditures other than capital items to be prepared and balanced so that it will not show a deficit when reported in accordance with GAAP, beginning in the fiscal year ending June 30, 1989 and for each fiscal year thereafter.
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

SECOND GENERAL BOND RESOLUTION

Adopted November 25, 1975
As Amended Through September 1, 1983
MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK

SECOND GENERAL BOND RESOLUTION

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SECOND GENERAL BOND RESOLUTION

Be it RESOLVED by the Board of Directors of the Municipal Assistance Corporation For The City of New York as follows:

ARTICLE I
DEFINITIONS AND STATUTORY AUTHORITY

101. Definitions. The following terms shall, for all-purposes of this Resolution, except as otherwise defined, have the following meanings:

“Act” shall mean the New York State Municipal Assistance Corporation Act, as amended by the Municipal Assistance Corporation for the city of New York Act, and as further amended by Chapters 868 and 870 of the Laws of 1975, said Acts being Titles I, II and III of Article 10 of the Public Authorities Law, both as amended to the date of adoption of this Second General Bond Resolution.

“Authorized Newspaper” shall mean a newspaper customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language and of general circulation in the Borough of Manhattan, City and State of New York.

“Authorized Officer” shall mean any member of the Corporation, its Treasurer, Secretary, any Assistant Secretary, its Executive Director, and any other person authorized by resolution of the Corporation to perform the act or sign the document in question.

“Board” shall mean the Board of Directors of the Corporation, the members of which are appointed and qualified pursuant to the Act.

“Bond” or “Bonds” shall mean any Bond or the issue of Bonds, as the case may be, established and created by this Resolution and issued pursuant to a Series Resolution.

“Bond Service Fund” means the fund by that name established by Section 602.

“Bondholders” or “Holder of Bonds” or “Holder” (when used with reference to Bonds) or any similar term, shall mean any person or party who shall be the bearer of any Outstanding Bond or Bonds registered to
bearer or not registered or the registered owner of any Outstanding Bond or Bonds which shall at the time be registered other than to bearer and "Holder" (when used with reference to coupons) shall mean any person who shall be the bearer of such coupons.

"Capital Reserve Fund" means the fund by that name established by Section 602.

"Capital Reserve Fund Requirement" shall mean, as of any date of calculation, the amount referred to as the capital reserve fund requirement in subdivision 4 of Section 3036-a of the Act, including, as provided in Section 901 hereof, for such purposes any unpaid and matured amounts of principal and interest on the Bonds, or such larger amount as may hereafter be authorized pursuant to the Act as amended from time to time.

"Chairman" shall mean the Chairman of the Board of the Corporation.

"City" shall mean The City of New York.

"Corporation" shall mean the Municipal Assistance Corporation For The City of New York, a corporate governmental agency and instrumentality of the State of New York constituting a public benefit corporation created by the Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the rights, powers, duties and functions of the Corporation.

"Counsel's Opinion" shall mean an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the Corporation (who may be counsel to the Corporation); provided, however, that for the purposes of Article II of this Resolution such term shall mean an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds (who may be counsel to the Corporation) selected by the Corporation.

"Fiduciary" or "Fiduciaries" shall mean the Trustee, any Paying Agent, or any or all of them, as may be appropriate.

"First General Bond Resolution" shall mean the General Bond Resolution adopted by the Corporation on July 2, 1975 as heretofore and hereafter supplemented in accordance with the terms thereof.
"Fiscal Year" shall mean any twelve (12) consecutive calendar months commencing with the first day of July and ending on the last day of the following June.

"Governor" shall mean the Governor of the State.

"Mayor" shall mean the Mayor of the City.

"Operating Expenses" shall mean the Corporation's expenses of carrying out and administering its powers, duties and functions, as authorized by the Act, as then in effect, and shall include, without limiting the generality of the foregoing: administrative expenses, legal, accounting and consultant's services and expenses, payments to pension, retirement, health and hospitalization funds, and any other expenses required or permitted to be paid by the Corporation under the provisions of the Act, as then in effect, or this Resolution or the First General Bond Resolution or otherwise.

"Operating Fund" shall mean the fund by that name established by Section 602 of the First General Bond Resolution.

"Outstanding," when used with reference to Bonds, other than Bonds referred to in Section 1105 hereof, shall mean, as of any date, Bonds theretofore or then being delivered under the provisions of this Resolution, except: (i) any Bonds cancelled by the Trustee at or prior to such date, (ii) any Bonds for the payment or redemption of which monies equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Section 406 or Section 1106, and (iv) Bonds deemed to have been paid as provided in subsection 2 of Section 1401.

"Outstanding Note Resolutions" shall mean the note resolutions adopted by the Corporation on September 15, 1975 and November 17, 1975.

"Outstanding Notes" means the notes issued by the Corporation pursuant to the Outstanding Note Resolutions.
“Paying Agent” for the Bonds of any Series shall mean the bank or trust company and its successor or successors, appointed pursuant to the provisions of this Resolution and a Series Resolution or any other resolution 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.

“Per Capita Aid” shall mean the amounts of per capita aid payable to the City pursuant to Section 54 of the State Finance Law as the same may be amended from time to time.

“Redemption Price” shall mean, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to this Resolution and the Series Resolution pursuant to which the same was issued.

“Refunding Bonds” shall mean all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance pursuant to Section 203.

“Resolution” shall mean this Second General Bond Resolution as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions hereof. The Resolution is sometimes referred to hereinafter as “this Resolution” or “the Resolution”.

“Revenues” shall mean all payments to the Corporation pursuant to Sections 3036 and 3036-a of the Act except any payments to the Corporation for credit to the Operating Fund.

“Sales Tax” shall mean the sales and compensating use taxes imposed by Section 1107 of Article 28 of the Tax Law of the State.

“Serial Bonds” shall mean the bonds so designated in a Series Resolution.

“Series of Bonds” or “Bonds of a Series” or words of similar meaning shall mean the Series of Bonds authorized by a Series Resolution.

“Series Resolution” shall mean a resolution of the Corporation authorizing the issuance of a Series of Bonds in accordance with the terms and provisions hereof adopted by the Corporation in accordance with Article X.
“Sinking Fund Installment” shall mean as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are outstanding, the amount of money required by a Series Resolution, pursuant to which such Bonds were issued, to be paid at all events by the Corporation on a single future July 1 for the retirement of any outstanding Bonds of said Series which mature after said future July 1, but does not include any amount payable by the Corporation by reason only of the maturity of a Bond, and said future July 1 is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said outstanding Bonds are deemed to be the Bonds entitled to such Sinking Fund Installment.

“Special Aid Account” shall mean the special account created for the Corporation in the State Aid Fund.

“State” shall mean the State of New York.

“State Aid Fund” shall mean the Municipal Assistance State Aid Fund established pursuant to Section 92-e of the State Finance Law.

“Stock Transfer Tax” shall mean the tax on the sale or transfer of stock or other certificates imposed by Article 12 of the Tax Law of the State.

“Supplemental Resolution” shall mean a resolution supplemental to or amendatory of this Resolution, adopted by the Corporation in accordance with Article X.

“Term Bonds” shall mean the bonds so designated in a Series Resolution and payable from Sinking Fund Installments.

“Trustee” shall mean the bank or trust company appointed pursuant to Section 801 to act as trustee hereunder, and its successor or successors and any other bank or trust company at any time substituted in its place pursuant to this Resolution.

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.
The terms "hereby," "hereof," "hereto," "herein," "hereunder," and any similar terms, as used in this Resolution, refer to this Resolution.

102. Authority for this Resolution. This Second General Bond Resolution is adopted pursuant to the provisions of the Act.

103. Resolution to Constitute Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the Corporation and the Holders from time to time of the Bonds and coupons; and the pledge made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the Corporation shall be for the equal benefit, protection and security of the Holders of any and all of the Bonds and coupons, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds or coupons over any other thereof except as expressly provided in or permitted by this Resolution.

The Corporation covenants that it will issue no obligations pursuant to the Resolution the payment of which is guaranteed pursuant to the New York City Loan Guarantee Act of 1978, P.L. 95-339 (the "Guarantee Act"). The Corporation further covenants that it will issue no obligations pursuant to any other resolution the payment of which is guaranteed pursuant to the Guarantee Act unless, prior to the issuance of such guaranteed obligations, the Secretary of the Treasury of the United States has waived as to all obligations of the Corporation pursuant to Section 105(e) of the Guarantee Act any priority granted to the United States of America to payment on any debt owed to it by Section 3466 of the Revised Statutes of the United States of America.

ARTICLE II
Authorization and Issuance of Bonds

201. Authorization of Bonds. There is hereby established and created an issue of Bonds of the Corporation to be known and designated as "Bonds," which Bonds may be issued as hereinafter provided without limitation as to amount except as provided in this Resolution or as may be limited by law. There is hereby created by this Resolution, in the manner and to the extent provided herein, a continuing pledge and lien to secure the full and final payment of the principal, Sinking Fund In-
stallments, if any, and Redemption Price of and interest on all of the
Bonds issued pursuant to this Resolution. The Bonds shall be general
obligations of the Corporation and are secured by the pledge effected
pursuant to Section 601 hereof.

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

Any provision hereof relating to the Stock Transfer Tax, the Sales
Tax, or Per Capita Aid, or the funds created by Sections 92-b, 92-d or
92-e of the State Finance Law shall be deemed executory only to the
extent of the moneys available to the State in such funds from time to
time and no liability on account thereof shall be incurred by the State
beyond moneys available in such funds.

202. Provisions for Issuance of Bonds. 1. The issuance of the
Bonds shall be authorized by a Series Resolution or Series Resolutions
of the Corporation adopted subsequent hereto and the Bonds may be
issued in one or more Series. The Bonds of each Series, including Ref-
funding Bonds, shall contain an appropriate Series designation.

Each Series Resolution authorizing the issuance of a Series of
Bonds shall also specify:

(1) The authorized principal amount of said Series of Bonds;

(2) The purposes for which such Series of Bonds are being
issued, which shall be purposes authorized by the Act, as then in
effect;

(3) The date or dates of issue, maturity date or dates and
amounts of each maturity of the Bonds of said Series;

(4) The interest rate or rates, or the manner of determining
such rate or rates of the Bonds of said Series, and the interest
payment dates therefor;

(5) The denomination or denominations of, and the manner of
numbering and lettering, the Bonds of such Series, provided that
each Bond shall be of the denomination of $5,000 (or such lesser
amount as shall be specified in the Series Resolution) or a multiple
thereof not exceeding the aggregate principal amount of the Bonds
of such Series maturing in the year of maturity of the Bond for which the denomination is to be specified;

(6) The Paying Agent or Paying Agents and, subject to the provisions of Section 802, the place or places of payment of the principal, Sinking Fund Installments, if any, and Redemption Price, if any, of and interest on the Bonds of such Series; provided, however, that such Paying Agent or Paying Agents may be appointed by resolution of the Corporation adopted prior to authentication and delivery of such Series of Bonds in accordance with the provision of Section 802;

(7) The Redemption Price or Redemption Prices, if any, and, subject to Article IV, the redemption terms, if any, for the Bonds of such Series;

(8) If so determined by the Corporation, provisions for the sale or exchange of the Bonds of such Series and for the delivery thereof;

(9) The form or forms of the Bonds of such Series and the coupons to be attached to the coupon Bonds, if any, of such Series and of the Trustee's certificate of authentication;

(10) The officer or employee of the Corporation directed to attest by manual or facsimile signature, the seal (or a facsimile thereof) to be affixed, imprinted, engraved or otherwise reproduced on the Bonds of such Series; and

(11) Any other provisions deemed advisable by the Corporation, not in conflict with the provisions of this Resolution.

2. All of the Bonds of such Series shall be executed by the Corporation for issuance under the Resolution and delivered to the Trustee and thereupon shall from time to time and in such amounts as directed by the Corporation be authenticated by the Trustee and by it delivered to the Corporation or upon its order, but only upon the receipt by the Trustee of:

(1) A Counsel's Opinion dated as of the date of such delivery by the Trustee to the effect that (i) the Corporation has the right and power under the Act as amended to the date of such Opinion to adopt the Resolution (with such approvals as may be required by the Act as so amended), and the Resolution has been duly and lawfully adopted by the Corporation and such approvals given, is in full force and effect and is valid and binding upon the Corporation and enforceable in accordance with its terms, and no other authorization
for the Resolution is required; (ii) the Resolution creates the valid pledge which it purports to create of the Revenues, moneys, securities and funds held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution; and (iii) the Bonds of such Series are valid and binding obligations of the Corporation as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Resolution and of the Act as amended to the date of such Opinion, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Act as amended to the date of such Opinion, and in accordance with the Resolution;

(2) A written order as to the delivery of such Bonds, signed by an Authorized Officer of the Corporation;

(3) A copy of the Series Resolution authorizing such Bonds, certified by an Authorized Officer of the Corporation;

(4) Except in the case of Refunding Bonds, a certificate of an Authorized Officer of the Corporation stating that the Corporation is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Resolution or in the First General Bond Resolution; and

(5) Such further documents, moneys and securities as are required by the provisions of this Section 202, and Section 203, or Article X or any Supplemental Resolution adopted pursuant to Article X.

3. No Series of Bonds, other than any Series of Bonds authorized by one or more Series Resolutions adopted prior to November 30, 1975, issued under the Resolution shall be authenticated and delivered by the Trustee except upon receipt by the Trustee of:

(1) A certificate by the New York State Commissioner of Taxation and Finance setting forth the most recent collections for the 12 consecutive calendar months ended not more than two months prior to the date of such certificate, of the Sales Tax and Stock Transfer Tax, and such other taxes, which as of the date of issuance of any such Series of Bonds are levied and collected by the State and are payable into the special account in the Municipal Assistance Tax Fund established for the Corporation.

Where the amount for such 12 consecutive calendar months is greater than the revenue expected by said Commissioner for the
next succeeding 12 months from such Sales Tax, Stock Transfer Tax and such other taxes, the certificate shall set forth the estimated amount which is expected to be levied and collected in such next succeeding 12 months and paid into such special account. Any distortion for any such prior 12 consecutive month period occasioned by a change in payment dates, prepayments, and late payments of such Sales Tax, Stock Transfer Tax or such other taxes shall be taken into account in such certification by increasing or decreasing the estimated amount of Sales Tax, Stock Transfer Tax or such other taxes to be levied and collected. In the event the Sales Tax or such other taxes have not been in effect for 12 calendar months said Commissioner shall use, respectively, collections of the sales and compensating use taxes previously imposed by the City or collections of the tax similarly based to the other taxes referred to above if such tax was previously imposed by the City, as the amount to be certified in lieu of actual collections of the Sales Tax or other taxes, for those months the Sales Tax or other taxes were not in effect;

(2) A certificate of the State Comptroller or the State Director of the Budget setting forth the estimated amount of Per Capita Aid available to be apportioned and paid (or to the extent previously apportioned and paid, the actual amount so apportioned and paid and the estimated amount, if any, available to be apportioned and paid) into the Special Aid Account for the fiscal year of the State during which such Series of Bonds are issued, provided, however, that for the fiscal year of the State ending March 31, 1976, such certificate shall set forth the amount actually apportioned and paid to the City;

(3) A certificate by an Authorized Officer setting forth (a) the maximum amount of principal and interest maturing or otherwise coming due in the current or any succeeding Fiscal Year on any outstanding obligations issued pursuant to the First General Bond Resolution and the Outstanding Note Resolutions (b) the aggregate amount of the principal on Serial Bonds, the Sinking Fund Installments, maturities of Term Bonds not required to be paid from Sinking Fund Installments and interest on all Outstanding Bonds, including such Series, for each Fiscal Year and (c) the aggregate amount of Operating Expenses as estimated by an Authorized Officer for the current Fiscal Year; and

(4) A certificate by an Authorized Officer stating that the aggregate of the amounts set forth pursuant to paragraphs (1) and (2) above after deducting the amount set forth pursuant to para-
graph (3)(a) above and the Operating Expenses set forth pursuant to paragraph (3)(c) above, will be at least 1.2 times such aggregate amount set forth in (3)(b) above for each Fiscal Year set forth pursuant to paragraph (3)(b) above.

203. **Provisions for Refunding Bonds.** (1) All or any part of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds or any part of one or more Series of Outstanding Bonds. No part of a Series of Bonds may be refunded if the Bonds being refunded bear interest at a rate lower than the Bonds of such Series not being refunded. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Act, this Section and of the Series Resolution authorizing said Series of Refunding Bonds.

(2) A Series of Refunding Bonds may be authenticated and delivered only upon receipt by the Trustee (in addition to the receipt by it of the documents required by Section 202) of:

   (a) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on the redemption date specified in such instructions;

   (b) Irrevocable instructions to the Trustee, satisfactory to it, to make due publication of the notice provided for in Section 1401 to the Holders of the Bonds and coupons being refunded;

   (c) Either (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) direct obligations of the United States of America in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of subsection 2 of Section 1401 and any moneys required pursuant to said subsection 2, which direct obligations of the United States of America and moneys shall be held in trust and used only as provided in said subsection 2; and

   (d) A certificate of an Authorized Officer containing such additional statements as may be reasonably necessary to show compli-
ance with the requirements of subsection 1 and this subsection 2 of this Section 203.

204. Additional Obligations. The Corporation reserves the right to issue bonds, notes or any other obligations, under another and separate resolution so long as the same are not entitled to a charge or lien or right prior or equal to the charge or lien created by, or prior or equal to the rights of the Corporation and Holders of the Bonds provided by, this Resolution and the Act, or with respect to the monies pledged under the Resolution or with respect to proceeds from the Per Capita Aid, the Sales Tax or the Stock Transfer Tax or the sources set forth in the Act, provided however, that, except as otherwise provided in Section 909 hereof the foregoing shall not limit any right, including the right to issue additional obligations, which the Corporation has on the date of adoption of this Resolution under the First General Bond Resolution.

ARTICLE III
GENERAL TERMS AND PROVISIONS OF BONDS

301. Medium of Payment; Form and Date. The Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

The Bonds of each Series shall be issued in the form of coupon Bonds, registrable as to principal only, or in the form of fully registered Bonds without coupons, or in both such forms.

Coupon Bonds of each Series shall be dated as of the date specified in the Series Resolution authorizing the issuance thereof. Coupon Bonds of each Series shall bear interest from the date specified in the Series Resolution authorizing the issuance thereof, payable in accordance with, and upon surrender of, the appurtenant interest coupons as they severally mature. Registered Bonds of each Series issued prior to the first interest payment date thereof shall be dated as of the date specified in the Series Resolution authorizing the issuance thereof. Registered Bonds issued on or subsequent to the first interest payment date thereof shall be dated as of the date six months preceding the interest payment date next following the date of delivery thereof, unless such date of delivery shall be an interest payment date, in which case they shall be dated as of such date of delivery; provided, however, that if, as shown by the records of the Trustee, interest on the Bonds of any Series shall
be in default, the registered Bonds of such Series issued in lieu of Bonds surrendered for transfer or exchange may be dated as of the date to which interest has been paid in full on the Bonds surrendered. Registered Bonds of each Series shall bear interest from their date except as may be otherwise provided in a Series Resolution.

For all purposes of the Act relating to or dealing with the date of the Bonds, registered Bonds of any Series shall be deemed to be dated as of the date specified for the Bonds of such Series in the Series Resolution authorizing the issuance thereof.

All Bonds of each Series shall mature on July 1 of each year in which a maturity is fixed by a Series Resolution. Interest on all Bonds of each Series, except the first installment of interest due on the Bonds of a Series, shall be payable semi-annually on July 1 and January 1 of each year in which an installment of interest becomes due as fixed by a Series Resolution. The first installment of interest due on the Bonds of a Series may be for such period as the Corporation shall fix by Series Resolution provided that the due date thereof shall be January 1 or July 1.

302. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise, as may be determined by the Corporation prior to the delivery thereof.

303. Execution and Authentication. (1) The Bonds shall be executed in the name of the Corporation by the manual or facsimile signature of its Chairman or other Authorized Officer and its corporate seal (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced, and attested by the manual or a facsimile signature of such officer or employee of the Corporation as shall be authorized and directed pursuant to the Series Resolution authorizing the issuance thereof, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices or be so employed. Any Bond of a Series may be signed and sealed on behalf of the Corporation by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the
proper office in or employment by the Corporation, although at the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(2) The coupons to be attached to the coupon Bonds of each Series shall be signed by the facsimile signature of the present or any future Chairman of the Corporation, or in such other manner as may be required by law, and the Corporation may adopt and use for that purpose the facsimile signature of any person or persons who shall have been Chairman of the Corporation at any time on or after the date of the Bonds of such Series, notwithstanding that he may not have been such Chairman at the date of any such Bond or may have ceased to be such Chairman at the time when any such Bond shall be actually authenticated and delivered.

(3) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Series Resolution authorizing such Bonds, executed manually by the Trustee unless the Series Resolution shall authorize execution by the Trustee by facsimile signature. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under the Resolution and no Bond and no coupon thereunto appertaining shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the Corporation shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Holder thereof is entitled to the benefits of the Resolution.

(4) Except as otherwise provided in Section 309, the Trustee, before authenticating and delivering any coupon Bonds, shall cut off, cancel and destroy all matured coupons thereto attached, except matured coupons for which payment in full has not been provided; provided, however, that when coupon Bonds are issued in exchange for registered Bonds of any Series upon which interest is in default, as shown by the records of the Trustee, such coupon Bonds shall have attached thereto all coupons maturing after the date to which interest has been paid in full, as shown by the records of the Trustee, and in case any interest installments shall have been paid in part, appropriate notation shall be made on the coupons to evidence such fact.

304. Interchangeability of Bonds. Coupon Bonds, upon surrender thereof at the corporate trust office of the Trustee with all unma-
tured coupons attached, may, at the option of the Holder thereof, be exchanged for an equal aggregate principal amount of registered Bonds of the same Series and maturity of any of the authorized denominations.

Registered Bonds, upon surrender thereof at the corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his attorney duly authorized in writing, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount ofcoupon Bonds of the same Series and maturity with appropriate coupons attached, or of registered Bonds of the same Series and maturity of any other authorized denominations.

305. Negotiability, Transfer and Registry. All the Bonds issued under this Resolution shall be negotiable as provided in the Act, subject to the provisions for registration and transfer contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, the Corporation shall maintain and keep, at the corporate trust office of the Trustee, books for the registration and transfer of Bonds; and, upon presentation thereof for such purpose at said office, the Corporation shall register or cause to be registered therein, and permit to be transferred therein, under such reasonable regulations as it or the Trustee may prescribe, any Bond entitled to registration or transfer. So long as any of the Bonds remain Outstanding, the Corporation shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

306. Transfer and Registration of Coupon Bonds. All coupon Bonds shall pass by delivery, unless registered as to principal other than to bearer in the manner provided in this Section 306. Any coupon Bond may be registered as to principal on the books of the Corporation at the corporate trust office of the Trustee, upon presentation thereof at said office and the payment of a charge sufficient to reimburse the Corporation or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such registration, and such registration shall be noted on such Bond. After said registration no transfer thereof shall be valid unless made on said books by the registered owner in person or by his attorney duly authorized in writing, and similarly noted on such Bond; but such Bond may be discharged from registration by being in like manner transferred to bearer, after which it shall again become transferable by delivery. Thereafter such Bond may again, from time to time, be registered or discharged from registration in the same
manner. Registration of any coupon Bond as to principal, however, shall not affect the negotiability by delivery of the coupons appertaining to such Bond, but every such coupon shall continue to pass by delivery and shall remain payable to bearer.

As to any coupon Bond registered as to principal other than to bearer the person in whose name the same shall be registered upon the books of the Corporation may be deemed and treated as the absolute owner thereof, whether such Bond shall be overdue or not, for all purposes, except for the purpose of receiving payment of coupons; and payment of, or on account of, the principal or Redemption Price, if any, of such Bond shall be made only to, or upon the order of, such registered owner thereof, but such registration may be changed as above provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid. The Corporation, the Trustee and any Paying Agent may deem and treat the bearer of any coupon as the absolute owner thereof, whether such coupon shall be overdue or not, for the purpose of receiving payment thereof and for all other purposes whatsoever, and may deem and treat the bearer of any coupon Bond which shall not at the time be registered as to principal other than to bearer, or the person in whose name any coupon Bond for the time being shall be registered upon the books of the Corporation, as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of the principal or Redemption Price thereof and for all other purposes whatsoever except for the purpose of receiving payment of coupons, and neither the Corporation, nor the Trustee nor any Paying Agent shall be affected by any notice to the contrary. The Corporation agrees to indemnify and save the Trustee and each Paying Agent harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence hereunder, in so treating such bearer or registered owner.

307. Transfer of Registered Bonds. Each registered Bond shall be transferable only upon the books of the Corporation, which shall be kept for the purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such registered Bond, the Corporation shall issue in the name of the transferee a new registered Bond or Bonds or, at the option of the transferee,
coupon Bonds, with appropriate coupons attached, of the same aggregate principal amount and Series and maturity as the surrendered Bond.

The Corporation and the Trustee may deem and treat the person in whose name any Outstanding registered Bond shall be registered upon the books of the Corporation as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes whatsoever, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Corporation nor the Trustee shall be affected by any notice to the contrary. The Corporation agrees to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence hereunder, in so treating such registered owner.

308. Regulations with Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging Bonds or transferring registered Bonds is exercised, the Corporation shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. All Bonds and coupons surrendered in any such exchanges or transfers shall forthwith be cancelled by the Trustee, provided however, the Trustee is authorized to retain any coupon Bond so surrendered and to re-issue any Bond so retained with unmatured coupons representing interest to become due attached thereto in exchange for a registered Bond or Bonds in accordance with the provisions of Section 304 hereof (any Bond or coupons so retained by the Trustee shall not be deemed Outstanding while so retained). For every such exchange or transfer of Bonds, whether temporary or definitive, the Corporation or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Notwithstanding any other provision of this Resolution, the cost of preparing each new coupon Bond or registered Bond upon each exchange or transfer, and any other expenses of the Corporation or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge) shall be paid by the Corporation as an Operating Expense. The Corporation shall not be obliged to make any
such exchange or transfer of Bonds of any Series during the ten (10) days next preceding an interest payment date on the Bonds of such Series or, in the case of any proposed redemption of Bonds of such Series, next preceding the date of the selection of Bonds to be redeemed.

309. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Corporation shall execute and the Trustee shall authenticate and deliver a new Bond (with appropriate coupons attached in the case of coupon Bonds) of like Series, maturity and principal amount as the Bond and attached coupons, if any, so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond and attached coupons, if any, or in lieu of and substitution for the Bond and coupons, if any, destroyed, stolen or lost, upon filing with Corporation evidence satisfactory to the Corporation and the Trustee that such Bond and attached coupons, if any, have been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Corporation and the Trustee with indemnity satisfactory to them and complying with such other reasonable regulations as the Corporation and the Trustee may prescribe and paying such expenses as the Corporation and the Trustee may incur in connection therewith. All Bonds and coupons so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to the Corporation.

310. Preparation of Definitive Bonds; Temporary Bonds. The definitive Bonds of each Series shall be lithographed or printed on steel engraved borders. Until the definitive Bonds of any Series are prepared, the Corporation may execute, in the same manner as is provided in Section 308, and upon the request of the Corporation, the Trustee shall authenticate and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive coupon Bonds, except as to the denominations thereof and as to exchangeability for registered Bonds, one or more temporary Bonds (which may be registrable as to principal and interest), substantially of the tenor of the definitive coupon Bonds in lieu of which such temporary Bond or Bonds are issued, but with or without coupons, in authorized denominations or any whole multiples thereof authorized by the Corporation, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The installments of interest payable on such temporary Bonds in bearer form shall be payable only upon the presentation and surrender of the coupons therefor attached thereto or, if no coupons for such interest are attached thereto, then only upon presentation of such
temporary Bonds for notation thereon of the payment of such interest. The Corporation at its own expense shall prepare and execute and, upon the surrender at the corporate trust office of the Trustee of such temporary Bonds, with all unmatured coupons, if any, and all matured coupons, if any, for which no payment or only partial payment has been provided, attached, for exchange and the cancellation of such surrendered temporary Bonds and coupons, the Trustee shall authenticate and, without charge to the Holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive coupon Bonds, with appropriate coupons attached, or, at the option of the Holder, definitive registered Bonds, of the same aggregate principal amount and Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds authenticated and issued pursuant to this Resolution.

All temporary Bonds surrendered in exchange for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

ARTICLE IV
REDEMPTION OF BONDS

401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to the provisions of a Series Resolution shall be redeemable, upon published notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms as may be specified in the Series Resolution authorizing such Series.

402. Redemption at the Election or Direction of the Corporation. In the case of any redemption of Bonds other than as provided in Section 403, the Corporation shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Series, maturities and principal amounts thereof to be redeemed shall be determined by the Corporation in its sole discretion, subject to any limitations with respect thereto contained in the Act or this Resolution and any Series Resolution) and of the monies to be applied to the payment of the Redemption Price. Such notice shall be given at least sixty (60) days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the
event notice of redemption shall have been given as in Section 405 provided, the Trustee, if it holds the monies to be applied to the payment of the Redemption Price, or otherwise the Corporation, shall, prior to the redemption date, pay to the Trustee and the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other monies, if any, available therefore held by the Trustee and such Paying Agent or Paying Agents, will be sufficient to redeem, on the redemption date at the Redemption Price thereof, together with interest accrued to the redemption date, all of the Bonds to be redeemed. The Corporation shall promptly notify the Trustee in writing of all such payments made by the Corporation to a Paying Agent.

403. Redemption Other Than at Corporation's Election or Direction. Whenever by the terms of this Resolution the Trustee is required to redeem Bonds other than at the election or direction of the Corporation, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price thereof, together with interest accrued to the redemption date, to itself and the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, the provisions of Section 605.

404. Selection of Bonds to Be Redeemed by Lot. In the event of redemption of less than all of the Outstanding Bonds of like Series and maturity, the Trustee shall assign to each such Outstanding registered Bond of the Series and maturity to be redeemed a distinctive number for each unit of the principal amount of such Bond equal to the lowest denomination of the coupon Bonds of such Series and shall select by lot, using such method of selection as it shall deem proper in its discretion, from the numbers of all such coupon Bonds then Outstanding and the numbers assigned to such registered Bonds as many numbers as, at such unit amount equal to the lowest denomination of coupon Bonds of such Series 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 (a) individually or (b) 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 of the coupon Bonds of such Series, by the numbers assigned thereto as in this Section 404 provided) 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 coupon Bonds bearing the numbers so selected and the registered Bonds to which were assigned numbers so selected, provided, however, that only so much of the principal amount of each such registered Bond of a denomination of more than the lowest denomination of the coupon Bonds of such Series shall be redeemed as shall equal the lowest denomination of the coupon Bonds of such Series for each number assigned to it and so selected.

405. Notice of Redemption. When the Trustee shall receive notice from the Corporation of its election or direction to redeem Bonds pursuant to Section 402, and when redemption of Bonds is required by this Resolution pursuant to Section 403, the Trustee shall give notice, in the name of the Corporation, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of registered Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by publication once a week for at least two (2) successive weeks in an Authorized Newspaper, the first such publication to be not less than thirty (30) days nor more than sixty (60) days prior to the redemption date. In case, by reason of the temporary or permanent suspension of publication of any newspaper, or by reason of any other cause, it shall be impossible to make publication of any required notice as herein provided, then such publication or other notice in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice, provided that such publication or other notice shall, so far as may be possible, approximate the terms and conditions of the publication in lieu of which it is given. The Trustee shall also mail a copy of such notice, postage prepaid, not less than thirty (30) days before the redemption date, to the registered owners of any Bonds or portions of
Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but such mailing shall not be a condition precedent to such redemption and failure so to mail any such notice shall not affect the validity of the proceedings for the redemption of Bonds.

406. Payment of Redeemed Bonds. Notice having been given by publication in the manner provided in Section 405, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the offices specified in such notice, together with, in the case of Bonds registered other than to bearer presented by other than the registered owner, a written instrument of transfer duly executed by the registered owner or his duly authorized attorney, and, in the case of coupon Bonds, all appurtenant coupons maturing subsequent to the redemption date, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest accrued and unpaid to the redemption date not represented by coupons for matured interest installments. All interest installments represented by coupons which shall have matured on or prior to the redemption date shall continue to be payable to the bearers of such coupons. If there shall be drawn for redemption less than all of a registered Bond, the Corporation shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the registered Bond so surrendered, at the option of the owner thereof, either coupon Bonds or registered Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, monies for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Trustee and Paying Agents so as to be available therefor on said date and if notice of redemption shall have been published as aforesaid, then, from and after the redemption date, interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue, and the coupons for interest appertaining thereto maturing subsequent to the redemption date shall be void. If said monies shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.
ARTICLE V
CUSTODY AND APPLICATION OF CERTAIN PROCEEDS OF BONDS

501. Application of Certain Proceeds. (1) The Corporation shall apply the amount of the proceeds derived from the sale of each Series of Bonds as shall be specified in the Series Resolution authorizing such Series.

(2) Accrued interest, if any, received upon the delivery of such Series of Bonds shall be deposited in the Bond Service Fund unless such amount is to be otherwise applied as provided in the Series Resolution authorizing such Series. The amount received as a premium over the principal amount of such Series of Bonds, if any, upon the delivery of such Series shall be applied as provided in the Series Resolution authorizing such Series.

ARTICLE VI
ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

601. The Pledge Effected by the Resolution. The proceeds of sale of the Bonds, the Revenues, and all funds established by the Resolution, and other monies and securities referred to herein (other than monies and securities in the Operating Fund) are hereby pledged for the payment of the principal and interest on the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. The pledge created by this Resolution, insofar as it relates to revenues, monies and securities and funds pledged either under the First General Bond Resolution or the Outstanding Note Resolutions is, and is hereby expressly declared to be, subordinate in all respects to the pledge of such revenues, monies and securities and funds created by the First General Bond Resolution or the Outstanding Note Resolutions. This pledge shall be valid and binding from and after the time of adoption of this Resolution, and the proceeds of sale of the Bonds, the Revenues as received by the Corporation, all funds and other monies and securities herein pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation irrespective of whether such parties have notice thereof.
602. *Establishment of Funds.* The following funds are hereby established:

(1) Bond Service Fund, to be held by the Trustee,
(2) Capital Reserve Fund, to be held by the Trustee.

603. *Application of Payments.* The payments received in accordance with subdivision 1 of Section 3036-a of the Act shall be applied to the Operating Fund, the Bond Service Fund and to the Capital Reserve Fund in accordance with certificates of the Chairman pursuant to which the payment is made, provided, however, that if the amount of the payment is less than the amount certified, the payment shall be applied pro rata to the respective Funds on the basis of the respective amounts certified. No Revenues received as such payments shall be deposited in the Operating Fund.

604. *Operating Fund.* The Corporation shall pay out of the Operating Fund the amounts required for the payment of Operating Expenses.

605. *Bond Service Fund.*

1. The Trustee shall on or before the business day preceding each interest payment date for any of the Bonds pay, out of the amounts then held in the Bond Service Fund, to itself and the Paying Agents, the amounts respectively required for the payment of principal, Sinking Fund Installments, if any, and Redemption Price of, if any, and interest on any Bonds due and payable on such date, and such amounts so paid out shall be irrevocably pledged to and applied to such payments.

2. In the event that on the business day preceding any interest payment date, the amount in the Bond Service Fund shall be less than the amounts respectively required for payment of interest on the Outstanding Bonds and for the payment of the principal and Sinking Fund Installments of the Outstanding Bonds of any Series due and payable on such interest payment date, the Trustee shall withdraw from the Capital Reserve Fund and deposit into the Bond Service Fund such amounts as will increase the amount in the Bond Service Fund to an amount sufficient to make such payment or payments.

3. As soon as practicable after the 45th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, pursuant to Section 408 hereof on such due date, Term Bonds of the Series and maturity for which such Sinking Fund Install-
ment was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such Sinking Fund Installment of the Term Bonds of such Series and maturity. The Trustee shall so call such Term Bonds for redemption whether or not it then has monies in the Bond Service Fund sufficient to pay the applicable principal amount thereof, together with interest thereon to the redemption date. The Trustee shall pay out of the Bond Service Fund to the appropriate Paying Agents, on the day preceding each such redemption date, the amount required for the redemption of the Term Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

4. The Corporation may, at any time subsequent to the second day of July of any year but in no event less than forty-five (45) days prior to the succeeding first day of July on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with monies in the Bond Service Fund, at a price not in excess of par, plus unpaid interest accrued to the date of such purchase, Term Bonds payable from such Sinking Fund Installment and any Term Bonds so purchased prior to the first day of July shall be cancelled by the Trustee and evidence of such cancellation shall be given to the Corporation and the aggregate principal amount of the Term Bonds so purchased shall be credited against the Sinking Fund Installment due on such first day of July.

606. Capital Reserve Fund.

1. The Corporation shall deposit into the Capital Reserve Fund (i) all monies paid to the Corporation pursuant to subdivisions 1, 2 and 3 of Section 3036-a of the Act for the purpose of maintaining or restoring the amount in the Capital Reserve Fund to the amount of the Capital Reserve Fund Requirement; (ii) such portion of the proceeds of sale of Bonds, if any, as shall be prescribed by Series Resolution; and (iii) any other monies which may be made available to the Corporation for the purposes of the Capital Reserve Fund from any other source or sources.

2. Monies and securities held for the credit of the Capital Reserve Fund shall be withdrawn by the Trustee and deposited to the credit of the Bond Service Fund at the times and in the amounts required to comply with the provisions of paragraph 2 of Section 605. At any time after December 31, 1980, monies and securities in the Capital Reserve Fund in excess of the Capital Reserve Fund Requirement, upon direction of the Corporation, may be withdrawn by the Trustee and deposited to the credit of the Bond Service Fund.
3. In order further to assure the maintenance of the Capital Reserve Fund in an amount equal to the Capital Reserve Fund Requirement and in compliance with the requirements of subdivision 3 of Section 3036-a of the Act, the Chairman shall annually, on or before December 1, make and deliver to the Governor and Director of the Budget of the State (with a copy to the Trustee) his certificate stating the sum, if any, required to restore the Capital Reserve Fund to an amount equal to the Capital Reserve Fund Requirement. All monies received by the Corporation from the State pursuant to any such certification, in accordance with the provisions of subdivision 3 of Section 3036-a of the Act, as amended, shall be deposited in the Capital Reserve Fund, as required by paragraph 1 of this Section 606.

4. Monies and securities held for the credit of the Capital Reserve Fund may, and at the direction of the Corporation shall, be withdrawn from the Capital Reserve Fund by the Trustee and deposited in the Bond Service Fund for the purchase or redemption of Bonds at any time provided that subsequent to such purchase or redemption the amount in the Capital Reserve Fund will not be less than the Capital Reserve Fund Requirement.

607. Certificate to the State Comptroller and to the Mayor of The City of New York. In order to assure the maintenance of the Operating Fund, the Bond Service Fund and the Capital Reserve Fund, not less than one hundred and twenty days before the beginning of each Fiscal Year (but prior to February 12 in each calendar year) (but not later than March 1, 1976 for the Fiscal Year ending June 30, 1976), the Chairman shall certify to the State Comptroller and to the Mayor (with a copy to the Trustee) a schedule setting forth the cash requirements of the Corporation for such Fiscal Year and the time or times when such cash is required, which certification shall be revised from time to time as required. The total amount so certified by such Chairman for such Fiscal Year shall be equal to: (i) the amounts which are required to be deposited in the Capital Reserve Fund during such Fiscal Year in order to maintain the Capital Reserve Fund at the Capital Reserve Fund Requirement; (ii) the amounts required to be deposited in the Bond Service Fund to pay all interest on and all payments of principal, Sinking Fund Installments, if any, and Redemption Price, if any, of Bonds maturing or otherwise coming due during such Fiscal Year; and (iii) the amounts required to be deposited in the Operating Fund as determined by the Corporation, to meet the Operating Expenses of the Corporation during such Fiscal Year. In order further to secure the obligations of the Corpo-
ration, including the Bonds, each quarterly payment (to be made on or before April 12, June 25, October 12 and January 12) by the State Comptroller to the Corporation in accordance with such certification, shall be an amount, after taking into account monies then in the Bond Service Fund and available for the purposes of such Fund during such Fiscal Year, not less than the sum of (A) 50% of the interest on all outstanding Bonds the interest on which is payable from the Bond Service Fund of the Corporation payable within six months after the end of the quarterly period for which such payment is made plus (B) 25% of the principal and premium, if any, on all Bonds and Sinking Fund Installments of the Corporation payable within one year after the end of the quarterly period for which such payment is made and of such amount, if any, as may be required to be paid into the Capital Reserve Fund during the Fiscal Year of which such quarterly period is a part. Notwithstanding the foregoing, the Corporation hereby covenants to make the certifications referred to in this Section at such times and in such amounts as shall be necessary to coincide with the State procedures for payment of Per Capita Aid or other sources of revenues and as shall be necessary to make the deposits required herein and to pay the principal of, Redemption Price, if any, and interest on the Bonds when due. If any increase shall occur in the cash requirements specified above, or if payments are required at a time or times earlier than previously certified or if the City shall for any reason fail to make timely payment of the principal and accrued interest due on any obligation issued by the City to the Corporation and maturing within the same Fiscal Year, the Chairman shall certify a revised schedule of cash requirements for such Fiscal Year to the State Comptroller and to the Mayor (with a copy to the Trustee). The schedule accompanying each certification (or revision thereof) shall provide for such payment dates as the Corporation deems appropriate to assure that sufficient funds will be available to meet the obligations of the Corporation as they become due. The Chairman shall exclude from consideration in making any such certification with respect to the funds required by the Corporation for payment of principal of or interest on the Bonds any amounts due to be received as payment of principal of or interest on obligations of the City held by the Corporation.

ARTICLE VII
SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

701. Security for Deposits. All monies held hereunder by the Trustee shall be continuously and fully secured, for the benefit of the
Corporation and the Holders of the Bonds by direct obligations of the State or of the United States of America or obligations the principal and interest of which are guaranteed by the State or the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such monies is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any monies with them held in trust for the payment of the principal or Redemption Price of or interest on any Bonds, or for the Trustee to give security for any monies which shall be represented by obligations purchased under the provisions of this Resolution as an investment of such monies.

702. Investment of Funds and Accounts Held by the Trustee.

(1) Monies in the Bond Service Fund and the Capital Reserve Fund shall, as nearly as may be practicable, be invested by the Trustee upon direction of the Corporation in writing, signed by an Authorized Officer (which direction shall specify the amount thereof to be so invested and the Corporation in issuing such direction shall take into consideration the dates and times when monies in such Fund will be required for the purposes of this Resolution) in (a) direct obligations of the United States of America, direct obligations of the State or obligations the principal and interest of which are guaranteed by the United States of America or the State, (b) any bond, debenture, note, participation or other similar obligation issued by any of the following Federal agencies: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, Farmers' Home Administration and Export-Import Bank, (c) if permitted by law, any bond, debenture, note, participation or other similar obligation issued by the Federal National Mortgage Association to the extent such obligations are guaranteed by the Government National Mortgage Association, and (d) any other obligation of the United States of America or any Federal agencies which may then be purchased with funds belonging to the State of New York or held in the State treasury. The maturity or redemption date at the option of the holder of any such investment shall coincide as nearly as practicable with but in no event later than the times at which
monies in the Bond Service Fund and Capital Reserve Fund will be required for the purposes in this Resolution provided.

(2) Obligations purchased as an investment of monies in any fund or account held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund or account.

(3) In computing the amount in any fund or account held by the Trustee under the provisions of this Resolution, excepting the Capital Reserve Fund, obligations purchased as an investment of monies therein shall be valued at the cost or market price thereof, whichever is lower, inclusive of accrued interest. In computing the amount of the Capital Reserve Fund, obligations purchased as an investment of monies therein shall be valued at par if purchased at par or at Amortized Value if purchased at other than par. Amortized Value, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given date obtained by dividing the total amount of the premium or discount at which such obligation was purchased by the number of days remaining to maturity on such obligation at the time of such purchase and by multiplying the amount so calculated by the number of days having passed since the date of such purchase; and in the case of an obligation purchased at a premium, by deducting the product thus obtained from the purchase price, and in the case of an obligation purchased at a discount, by adding the product thus obtained to the purchase price. Valuation on any particular date shall include the amount of interest then earned or accrued to such date on any monies or investments in the Capital Reserve Fund.

(4) Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any obligation purchased by it as an investment pursuant to this Resolution whenever it shall be necessary in order to provide monies to meet any payment or transfer from the fund or account for which such investment was made. The Trustee shall advise the Corporation in writing, on or before the twentieth day of each calendar month, of the details of all investments held for the credit of each fund and account in its custody under the provisions of this Resolution as of the end of the preceding month.
(5) In lieu of the investments of monies in obligations authorized in paragraph (1) above, the Trustee shall, to the extent permitted by the Act then in effect, upon direction of the Corporation in writing, signed by an Authorized Officer, deposit monies from any fund or account held by the Trustee under the terms of this Resolution, in interest-bearing time deposits, or shall make other similar investment arrangements, including, but not limited to, repurchase agreements covering obligations of issuers enumerated as authorized for investments pursuant to the provisions of paragraph (1) above, with itself or a member bank or banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation or securities dealers approved by an Authorized Officer; provided, that each such interest-bearing time deposit or other similar investment arrangement shall permit the monies so placed to be available for use at the times provided with respect to the investment or reinvestment of such monies; and provided further, that all monies in each such interest-bearing time deposit or other similar investment arrangement shall be continuously and fully secured by obligations of issuers enumerated as authorized for investments pursuant to the provisions of paragraph (1) above, of a market value equal at all times to the amount of the deposit or of the other similar investment arrangement.

(6) No part of the proceeds of any Series of Bonds or any other funds of the Corporation shall be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in subsection (d)(2) of section 103 of the Internal Revenue Code of 1954 [Title 26 of the United States Code] as then in effect and to be subject to treatment under subsection (d)(1) of said section as an obligation not described in subsection (a) of said section.

703. Liability of Trustee for Investments. The Trustee shall not be liable or responsible for the making of any investment authorized by the provisions of this Article, in the manner provided in this Article, or for any loss resulting from any such investment so made.

ARTICLE VIII
THE TRUSTEE AND THE PAYING AGENTS

801. Appointment and Acceptance of Duties of Trustee. United States Trust Company of New York, in the City, County and State of
New York, is hereby appointed as Trustee. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by written instrument of acceptance deposited with the Corporation.

802. Appointment and Acceptance of Duties of Paying Agents. The Corporation shall appoint one or more Paying Agents for the Bonds of any Series in the Series Resolution authorizing such Bonds or shall appoint such Paying Agent or Paying Agents by resolution of the Corporation adopted prior to the authentication and delivery of such Bonds, and may at any time or from time to time appoint one or more other Paying Agents in the manner and subject to the conditions set forth in Section 812 for the appointment of a successor Paying Agent. The Trustee may be appointed to act as Paying Agent notwithstanding that it may then be acting in the capacity of Trustee.

Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by written instrument of acceptance deposited with the Corporation and the Trustee.

The corporate trust offices of the Paying Agents are hereby designated as the respective agencies of the Corporation for the payment of the interest on and principal or Redemption Price of the Bonds, except that interest on all registered Bonds and the principal and Redemption Price of all registered Bonds and of all coupon Bonds registered as to principal shall be payable at the corporate trust office of the Trustee.

803. Responsibilities of Trustee and Paying Agents. The recitals of fact herein and in the Bonds contained shall be taken as the statements of the Corporation and neither the Trustee nor any Paying Agent assumes any responsibility for the correctness of the same. Neither the Trustee nor any Paying Agent shall be deemed to make any representations as to the validity or sufficiency of this Resolution or of any Bonds or coupons issued hereunder or in respect of the security afforded by this Resolution, and neither the Trustee nor any Paying Agent shall incur any responsibility in respect thereof. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any monies paid to the Corporation. Neither the Trustee nor any Paying Agent shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own monies, unless properly indemnified. Neither the Trustee nor any
Paying Agent shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any monies paid to any one of the others.

804. Evidence on Which Fiduciaries May Act. The Trustee and any Paying Agent shall be protected in acting upon any notice, direction, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee and any Paying Agent may consult with counsel, who may or may not be of counsel to the Corporation, and the opinion or advice of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under this Resolution in good faith and in accordance therewith.

Whenever the Trustee or any Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Resolution, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its discretion the Trustee or any Paying Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable.

Except as otherwise expressly provided in this Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the Corporation to the Trustee or any Paying Agent shall be sufficiently executed if executed in the name of the Corporation by an Authorized Officer.

805. Compensation. The Corporation shall pay to the Trustee and to each Paying Agent from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution, and the Trustee and each Paying Agent shall have a lien therefor on any and all monies in the Operating Fund. The Corporation further agrees to indem-
nify and save the Trustee and each Paying Agent harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

806. Permitted Acts and Functions. The Trustee and any Paying Agent may become the owner of any Bonds and coupons, with the same rights it would have if it were not such Trustee or Paying Agent. The Trustee and any Paying Agent may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

807. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty (60) days' written notice to the Corporation and publishing notice thereof, specifying the date when such resignation shall take effect, once in an Authorized Newspaper, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 809, in which event such resignation shall take effect immediately on the appointment of such successor.

808. Removal of Trustee. The Trustee shall be removed by the Corporation if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Corporation, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Corporation.

809. Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Corporation covenants and agrees that it will thereupon appoint a successor Trustee. The Corporation shall publish notice of any such appointment made by it in an Authorized Newspaper, such publication to be made within twenty (20) days after such appointment.
If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five (45) days after the Trustee shall have given to the Corporation written notice, as provided in Section 807, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed under the provisions of this Section 809 in succession to the Trustee shall be a bank or trust company organized under the laws of the State of New York, or a national banking association doing business and having its principal office in such State, and having a capital and surplus aggregating at least Fifty Million Dollars ($50,000,000) if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Resolution.

810. **Transfer of Rights and Property to Successor Trustee.** Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to the Corporation, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all monies, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee; but the Trustee ceasing to act shall nevertheless, on the written request of the Corporation, or of the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from the Corporation be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the Corpora-
tion. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

811. Merger, Conversion or Consolidation. Any company into which the Trustee or any Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee or any Paying Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to such Trustee or Paying Agent without the execution or filing of any paper or the performance of any further act, provided with respect to the Trustee that such company shall be a bank or trust company organized under the laws of any states of the United States or the District of Columbia or a national banking association and shall have an office for the transaction of its business in any of such states or the District of Columbia and shall be authorized by law to perform all the duties imposed upon it by this Resolution.

812. Resignation or Removal of the Paying Agents and Appointment of Successors. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty (60) days' written notice to the Corporation and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized Officer of the Corporation. Any successor Paying Agent shall be appointed by the Corporation and (subject to the requirements of Section 903) shall be a bank or trust company organized under the laws of any state of the United States of America or a national banking association, having a capital and surplus aggregating at least Three Million Dollars ($3,000,000), and willing and able to accept the office of Paying Agent on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Resolution.

In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any monies held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.
ARTICLE IX
COVENANTS OF THE CORPORATION

The Corporation covenants and agrees with the Holders of the Bonds and coupons as follows:

901. Payment of Bonds. The Corporation shall duly and punctually pay or cause to be paid the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds and in the coupons thereto appertaining, according to the true intent and meaning thereof, and shall duly and punctually pay or cause to be paid all Sinking Fund Installments, if any, becoming payable with respect to any Series of Bonds. All such payments, to the extent not paid when due and payable, shall continue to be due and payable and, accordingly, shall be deemed to be becoming due until the same shall be paid.

902. Extension of Payment of Bonds and Coupons. The Corporation shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the coupons or claims for interest by the purchase or funding of such Bonds, coupons or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such coupons or claims for interest shall be extended, such Bonds, coupons or claims for interest shall not be entitled in case of any default under this Resolution to the benefit of this Resolution or to any payment out of any assets of the Corporation or the funds (except funds held in trust for the payment of particular Bonds, coupons or claims for interest pursuant to this Resolution) held by the Trustee or any Paying Agent, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended coupons or claims for interest. Nothing herein shall be deemed to limit the right of the Corporation to issue Refunding Bonds as provided in Section 203 and such issuance shall not be deemed to constitute an extension of maturity of Bonds or the time of payment of any of the coupons or claims for interest.

903. Offices for Payment and Registration of Bonds and Coupons. The Corporation shall at all times maintain an office or agency in the Borough of Manhattan, City and State of New York where Bonds and coupons may be presented for payment. The Corporation may pur-
suant to a Series Resolution or pursuant to resolution adopted in accordance with Section 802 designate an additional Paying Agent or Paying Agents where Bonds and coupons 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 Borough of Manhattan, City and State of New York, where Bonds may be presented for registration, transfer or exchange and the Trustee is hereby appointed as its agent to maintain such office or agency for the registration, transfer or exchange of Bonds.

904. Further Assurances. At any and all times the Corporation shall, so far as it may be authorized or permitted by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning, confirming and effecting all and singular the rights, Revenues and other monies, securities and funds hereby pledged or assigned, or intended so to be, or which the Corporation may hereafter become bound to pledge or assign. The Corporation further covenants that it shall cause the Chairman to make and deliver the certificates referred to in sub-section 3 of Section 606 and Section 607 hereof at the times required therein and shall cause the amounts received to be deposited in the appropriate Funds, respectively.

905. Power to Issue Bonds and Make Pledges. The Corporation is duly authorized pursuant to law to create and issue the Bonds and to adopt this Resolution and to pledge the Revenues and other monies, securities and funds purported to be pledged by this Resolution in the manner and to the extent provided in this Resolution. Except to the extent otherwise provided in Section 601, the Revenues and other monies, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by this Resolution, and all corporate action on the part of the Corporation to that end has been duly and validly taken. The Bonds and the provisions of this Resolution are and will be the valid and legally enforceable obligations of the Corporation in accordance with their terms and the terms of this Resolution. The Corporation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other monies, securities and funds pledged under this Resolution and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.
906. *Agreement of the State.* In accordance with the provisions of Section 3015 of the Act, the Corporation hereby includes in this Resolution the pledge of and agreement with the Holders of the Bonds that the State will not limit or alter the rights vested pursuant to the Act in the Corporation to fulfill the terms of any agreements made with Bondholders, or in any way impair the rights and remedies of such Holders until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged.

907. *Creation of Liens.* The Corporation shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of the revenues, monies and securities in the Capital Reserve Fund, and shall not create or cause to be created any lien or charge prior to the Bonds on revenues, monies and securities in the Bond Service Fund; provided, however, that nothing contained in this Resolution shall prevent the Corporation from issuing (i) bonds, notes, or any other obligations under another and separate resolution so long as the charge or lien created by such resolution is not prior or equal to the charge or lien created by the Resolution, (ii) obligations issued in accordance with Article II of the First General Bond Resolution except as limited in Section 909 hereof and (iii) obligations issued in lieu of or in substitution for other obligations pursuant to Sections 304 and 306 through 310 or Sections 406 or 1106 of the First General Bond Resolution.

908. *Accounts and Reports.* The Corporation shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made for its transactions relating to all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Holders of an aggregate of not less than five per cent (5%) of the principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

909. *General.* The Corporation shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Corporation under the provisions of the Act as then in effect and the Resolution in accordance with the terms of such provisions.

Upon the date of issuance of any of the Bonds, all conditions, acts and things required by the Constitution and statutes of the State of
New York and the Resolution to exist, to have happened and to have been performed precedent to and in the issuance of such Bonds, shall exist, have happened and have been performed and the issue of such Bonds, together with all other indebtedness of the Corporation, shall be within every debt and other limit prescribed by the laws of said State.

If the Corporation shall exercise its power to limit the implementation of the conditions set forth in Section 3038 of the Act or thereafter to permit such conditions to be further limited, any such action shall be taken by resolution of the Board. When so acting the Board shall make a determination that any such limitation is not so substantial as effectively to constitute a waiver of any of the conditions in Section 3038, or shall make a determination that the conditions shall impose a further condition on the City which determination shall be conclusive and binding upon the holders of the Bonds and the Trustee. A copy of such resolution shall promptly be delivered to the Trustee and to the Governor, the State Legislature, the State Comptroller, the Mayor, the Board of Estimate, the City Council and the City Comptroller and promptly be published by the Corporation.

Subject to the rights of holders of obligations issued pursuant to the First General Bond Resolution, the Corporation shall not modify or amend the First General Bond Resolution in any manner which would have a material adverse effect on the Bondholders, provided, however, that nothing herein shall prevent the Corporation from amending or supplementing the First General Bond Resolution to provide for the issuance of Bonds, Notes or Other Obligations (as such terms are defined in the First General Bond Resolution) as provided in the First General Bond Resolution. No such Bonds, Notes or Other Obligations shall be issued in accordance with Article II of the First General Bond Resolution if such issuance would cause the amounts stated in paragraph (1) and (2) of Subsection 3 of Section 202 after making the deductions provided in subparagraphs 3(a) and 3(e) to be less than 1.2 times such aggregate amount set forth in paragraph 3(b) of subsection 3 of Section 202 for each Fiscal Year set forth pursuant to said paragraph 3(b) if such certifications required to be made pursuant to such Subsection 3 had been made at the time of, and gave effect to, the issuance of such Bonds, Notes or Other Obligations.

The Corporation hereby covenants and agrees with all who may be Holders of the Bonds that it shall not issue and the Corporation represents hereby that there are presently not outstanding any Bonds, Notes,
or Other Obligations (as such terms are defined in the First General Bond Resolution), or any bonds, notes or other obligations pursuant to any resolution, including the Outstanding Note Resolutions, of the Corporation, the holders of which would have a right to payment from the State Aid Fund prior or equal to the right of the Holders of the Bonds to payment from such Fund.

ARTICLE X

SERIES RESOLUTIONS AND SUPPLEMENTAL RESOLUTIONS

1001. Modification and Amendment Without Consent. Notwithstanding any other provisions of this Article X, or Article XI, the Corporation may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolution or Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer:

(1) To provide for the issuance of a Series of Bonds pursuant to the provisions of this Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(2) 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 this Resolution;

(3) 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;

(4) To surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of this Resolution, 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 this Resolution;

(5) To confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of this Resolution, of the Revenues or of any other monies, securities or funds;
(6) To modify any of the provisions of this Resolution or any previously adopted Series Resolution 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 date of adoption of such Series Resolution or Supplemental Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(7) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in this Resolution or to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with this Resolution as theretofore in effect.

1002. Supplemental Resolutions Effective With Consent of Bondholders. The provisions of this Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders in accordance with and subject to the provisions of Article XI hereof, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer.

1003. General Provisions Relating to Series Resolutions and Supplemental Resolutions. This Resolution shall not be modified or amended in any respect except in accordance with and subject to the provisions of this Article X and Article XI. Nothing contained in this Article X or Article XI shall affect or limit the rights or obligations of the Corporation to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provisions of Section 904 or the right or obligation of the Corporation to execute and deliver to the Trustee or any Paying Agent any instrument elsewhere in this Resolution provided or permitted to be delivered to the Trustee or any Paying Agent.

A copy of every Series Resolution and Supplemental Resolution adopted by the Corporation when filed with the Trustee shall be accompanied by a Counsel’s Opinion stating that such Series Resolution or Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution and is valid and binding upon the Corporation and enforceable in accordance with its terms.
The Trustee is hereby authorized to accept delivery of a certified copy of any Series Resolution or Supplemental Resolution permitted or authorized pursuant to the provisions of this Resolution 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 Counsel's Opinion that such Series Resolution or Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

No Series Resolution or Supplemental Resolution changing, amending or modifying any of the rights or obligations of the Trustee or of any Paying Agent may be adopted by the Corporation without the written consent of the Trustee or Paying Agent affected thereby.

ARTICLE XI
AMENDMENTS OF RESOLUTIONS

1101. Powers of Amendment. Any modification or amendment of this Resolution and of the rights and obligations of the Corporation and of the Holders of the Bonds and coupons hereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as hereinafter provided in Section 1102, (a) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, or (b) 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 two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (c) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least two-thirds in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; 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 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. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the
percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds and coupons of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular Series or maturity would be affected by any modification or amendment of this Resolution and any such determination shall be binding and conclusive on the Corporation and all Holders of Bonds. The Trustee may receive an opinion of counsel, including Counsel’s Opinion, as conclusive evidence as to whether Bonds of any particular Series or maturity would be so affected by any such modification or amendment of this Resolution.

1102. Consent of Bondholders. The Corporation may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 1101 to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall promptly after adoption be mailed by the Corporation to Bondholders and be published at least once a week for two (2) successive weeks (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (a) there shall have been filed with the Trustee (i) the written consents of Holders of the percentages of Outstanding Bonds specified in Section 1101 and (ii) a Counsel’s Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Corporation in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon the Corporation and enforceable in accordance with its terms, and (b) a notice shall have been published as hereinafter in this Section 1102 provided. Each such consent shall be effective only if accompanied by proof of the holding 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 Section 1301. 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 Section 1301 shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trust-
ee. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in Section 1301 to the contrary notwithstanding, upon any subsequent Holder of such Bonds 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 Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section 1102 provided for is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 1301. 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 Resolution, the Trustee shall make and file with the Corporation and the Trustee a written statement that the 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 Resolution (which may be referred to as a Supplemental Resolution 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 1102, shall be given to Bondholders by the Corporation by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 1102 provided) and by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinafore provided for is filed. The Corporation shall file with the Trustee proof of the publication of such notice, and, if the same shall have been mailed to Bondholders, of the mailing thereof. A transcript, consisting of the papers required or permitted by this Section 1102 to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Corporation, the Trustee, each Paying Agent and the Holders of all Bonds and coupons at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction
tion setting aside such Supplemental Resolution in a legal action or equita-
table proceeding for such purpose commenced within such thirty (30) 
day period; provided, however, that the Corporation, the Trustee and 
any Paying Agent during such thirty (30) day period and any such 
further period during which any such action or proceeding may be pend-
ing shall be entitled in their reasonable discretion to take such action, or 
to refrain from taking such action, with respect to such Supplemental 
Resolution as they may deem expedient.

1103. Modifications by Unanimous Consent. The terms and 
provisions of this Resolution and the rights and obligations of the Corpo-
rations and of the Holders of the Bonds and coupons thereunder may be 
modified or amended in any respect upon the adoption and filing with the 
Trustee by the Corporation of a copy of a Supplemental Resolution certi-

cified by an Authorized Officer and the consent of the Holders of all of the 
Bonds then Outstanding, such consent to be given as provided in Section 
1102, except that no notice to Bondholders either by mailing or publica-
tion shall be required.

1104. Mailing and Publication. (1) Any provision in this Arti-
cle for the mailing of a notice or other document to Bondholders shall be 
fully complied with if it is mailed postage prepaid only (i) to each regis-
tered owner of Bonds then Outstanding at his address, if any, appearing 
upon the registry books of the Corporation, (ii) to each Holder of any 
Bond payable to bearer who shall have filed with the Trustee within two 
(2) years preceding such mailing an address for notices, and (iii) to the 
Trustee.

(2) Any provision in this Article for publication of a notice or other 
matter shall require the publication thereof only in an Authorized New-
spaper.

1105. Exclusion of Bonds. Bonds owned or held by or for the 
account of the Corporation shall not be deemed Outstanding for the 
purpose of consent or other action or any calculation of Outstanding 
Bonds provided for in this Resolution, and the Corporation shall not be 
entitled with respect to such Bonds to give any consent or take any 
other action provided for in this Resolution. At the time of any consent 
or other action taken under this Resolution, the Corporation shall fur-
nish the Trustee a certificate of an Authorized Officer, upon which the 
Trustee may rely, describing all Bonds so to be excluded.
1106. *Notation on Bonds.* Bonds delivered after the effective date of any action taken as in Article X or this Article XI provided may, and if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the Corporation and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and upon presentation of his Bond for such purpose at the corporate trust office of the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the Corporation or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Corporation to conform to such action shall be prepared and delivered, and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds with all unpaid coupons, if any, appertaining thereto.

**ARTICLE XII**

**Defaults and Remedies**

1201. *Trustee to Exercise Powers of Statutory Trustee.* The Trustee shall be and hereby is vested with all of the rights, powers and duties of a trustee appointed by Bondholders pursuant to Section 3017 of the Act and the right of Bondholders to appoint a trustee pursuant to Section 3017 of the Act is hereby abrogated in accordance with the provision of subdivision 2(g) of Section 3012 of the Act.

1202. *Events of Default.* Each of the following events is hereby declared an “event of default,” that is to say, if

(a) the Corporation shall default in the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or

(b) the Corporation shall default in the payment of interest on any of the Bonds and such default shall continue for a period of thirty (30) days; or

(c) the Corporation shall fail or refuse to comply with the provisions of subdivision 1 of Section 3036-a of the Act, or the State Comptroller shall fail to pay to the Corporation, as and when required by such Section, for deposit in the Capital Reserve Fund, the Bond Service Fund or the Operating Fund any amount or amounts
as shall be certified by the Chairman pursuant to such provisions of the Act or the Corporation shall fail or refuse to deposit in the Capital Reserve Fund or the Bond Service Fund the amount or amounts received by the Corporation for deposit in such Funds, respectively; or

(d) the Corporation shall fail or refuse to comply with the provisions of subdivisions 2 and 3 of Section 3036-a of the Act, or the State shall fail to appropriate and pay to the Corporation, as and when required by such Section, for deposit in the Capital Reserve Fund any amount or amounts as shall be certified by the Chairman pursuant to such provisions of the Act or the Corporation shall fail or refuse to deposit in the Capital Reserve Fund the amount or amounts received by the Corporation for deposit in such Fund; or

(e) the Corporation shall fail or refuse to comply with the provisions of the Act, other than as provided in (c) or (d) above, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in this Resolution, any Series Resolution, any Supplemental Resolution, or in the Bonds, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Holders of not less than five per centum (5%) in principal amount of the Outstanding Bonds; or

(f) the State shall for any reason fail or refuse to continue the imposition of either the Sales Tax imposed by Section 1107 of Article 28 of the Tax Law as the same may be from time to time amended or the Stock Transfer Tax imposed by Sections 270 and 270-a of Article 12 of such Law as the same may be from time to time amended or if the rates of such taxes shall be reduced to rates less than those in effect on July 2, 1975; or

(g) the State shall fail to maintain the existence of either the special account for the Corporation in the municipal assistance tax fund established pursuant to Section 92-d of the State Finance Law or the stock transfer tax fund established by Section 92-b of said Law; or

(h) the State shall for any reason fail or refuse to apportion and pay Per Capita Aid or shall fail to maintain the State Aid Fund and the Special Aid Account therein or shall reduce the amount of Per Capita Aid payable during the current Fiscal Year to an amount less than the maximum amount of principal of and interest matur-
ing or otherwise coming due on the Outstanding Bonds in the current or any future Fiscal Year.

1203. Remedies. (1) Upon the happening and continuance of any event of default specified in paragraph (a) or (b) of Section 1202, the Trustee shall proceed, or upon the happening and continuance of any event of default specified in paragraphs (c), (d), (e), (f), (g) or (h) of Section 1202, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, and to require the Corporation to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(b) by bringing suit upon the Bonds;

(c) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the Holders of the Bonds;

(d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds;

(e) in accordance with the provisions of the Act, to declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, to annul such declaration and its consequences.

(2) In the enforcement of any remedy under this Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Corporation for principal, Redemption Price, interest or otherwise, under any provision of this Resolution or a Series Resolution or of the Bonds, and unpaid, with interest on overdue payments 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 hereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against the Corporation for any portion of
such amounts remaining unpaid, with interest, costs and expenses, and to collect from any monies available for such purpose, in any manner provided by law, the monies adjudged or decreed to be payable.

1204. *Priority of Payments After Default.* In the event that the funds held by the Trustee and Paying Agents shall be insufficient for the payment of interest and principal, Sinking Fund Installments or Redemption Price then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons which have theretofore become due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the Act and this Article XII, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied as follows:

(a) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to
the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds and coupons.

The provisions of this Section 1204 are in all respects subject to the provisions of Section 902.

Whenever monies are to be applied by the Trustee pursuant to the provisions of this Section, such monies shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such monies available for application and the likelihood of additional money becoming available for such application in the future; the deposit of such monies with the Paying Agents, or otherwise setting aside such monies in trust for the proper purpose, shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Corporation, to any Bondholder or to any other person for any delay in applying any such monies, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such monies, it shall fix the date (which shall be an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any unpaid coupon or any Bond unless such coupon or such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

1205. Termination of Proceedings. In case any proceeding taken by the Trustee on account of any event of default shall have been discontinued or abandoned for any reason, then in every such case the Corporation, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

1206. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the Holders of the majority
in principal amount of the Bonds then Outstanding shall have the right by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

1207. Limitation on Rights of Bondholders. No Holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution or any right under law unless such Holder shall have given to the Trustee written notice of the event of default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than twenty-five per centum (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its 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; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or under law. It is understood and intended that no one or more Holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all Holders of the Outstanding Bonds and coupons. Notwithstanding the foregoing provisions of this Section or any other provisions of this Article XII, the obligation of the Corporation shall be absolute and unconditional to pay the principal and Redemption Price of and interest on the Bonds to the respective Holders
thereof and the coupons pertaining thereto at the respective due dates thereof, and nothing herein shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Anything to the contrary notwithstanding contained in this Section 1207, or any other provision of this Resolution, each Holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Series Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least twenty-five per centum (25%) in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or Redemption Price of or interest on any Bond on or after the respective due date thereof expressed in such Bond.

1208. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the coupons appertaining thereto or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Bonds and coupons, subject to the provisions of this Resolution.

1209. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

1210. No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be con-
strued to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Resolution to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

1211. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each event of default hereunder known to the Trustee within ninety (90) days after knowledge of the occurrence thereof, unless such event of default shall have been remedied or cured before the giving of such notice; provided that, except in the case of default in the payment of the principal, Sinking Fund Installment, or Redemption Price of or interest on any of the Bonds, or in the making of any payment required to be made into the Operating Fund, the Bond Service Fund or the Capital Reserve Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders. Each such notice of event of default shall be given by the Trustee by mailing written notice thereof: (1) to all registered Holders of Bonds, as the names and addresses of such Holders appear upon the books for registration and transfer of Bonds as kept by the Trustee; (2) to such Bondholders as have filed their names and addresses with the Trustee for that purpose; and (3) to such other persons as is required by law.

ARTICLE XIII

EXECUTION OF INSTRUMENTS BY BONDHOLDERS AND PROOFS OF OWNERSHIP OF BONDS

1301. Evidence of Signatures of Bondholders and Ownership of Bonds. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Resolution to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Bondholders in person or by their attorneys or agents appointed by an instrument in writing for that purpose, or, in the case of coupon Bonds, by any bank, trust company, or other depository of such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the holding and ownership of Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein provided), if made in the following manner:
(a) The fact and date of the execution by any Bondholder or his attorney or agent of any such instrument and of any instrument appointing any such attorney or agent, may be proved by delivery of a certificate, which need not be acknowledged or verified, of an officer of any bank, trust company, or other depository, or of any notary public, or other officer authorized to take acknowledgments. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

(b) The fact of the holding of coupon Bonds by any Bondholder and the amount and the numbers of such Bonds and the date of his holding the same (unless such Bonds be registered as to principal other than to bearer) may be proved by a certificate executed by an officer of any bank, trust company, or other depository, if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such person had on deposit with or exhibited to such bank, trust company, or other depository the Bonds described in such certificate. The Trustee may conclusively assume that such ownership continues until written notice of the contrary is served upon the Trustee. The ownership of registered Bonds shall be proved by the registry books kept by the Trustee under the provisions of this Resolution.

Nothing contained in this Article shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which may seem sufficient. Any request or consent of the Holder of any Bond shall bind every future Holder of the same Bond in respect of anything done or suffered to be done by the Corporation, the Trustee or any Paying Agent in pursuance of such request or consent.

ARTICLE XIV

DEFEASANCE

1401. Defeasance. 1. If the Corporation shall pay or cause to be paid to the Holders of all Bonds and coupons then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then, at the option of the Corporation, expressed in an instrument in writing signed by an Authorized Officer and delivered to the
Trustee, the covenants, agreements and other obligations of the Corporation to the Bondholders shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Corporation, execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Corporation all money, securities and funds held by them pursuant to the Resolution which are not required for the payment or redemption of Bonds or coupons not theretofore surrendered for such payment or redemption.

2. Bonds or coupons or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Corporation of funds 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 effect expressed in subsection 1 of this Section. All Outstanding Bonds of any Series and all coupons appertaining to such Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section if (a) 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 publish as provided in Article IV of the Resolution notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either monies in an amount which shall be sufficient, or direct obligations of the United States of America the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, shall be sufficient, to pay, when due, the principal 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, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Corporation shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in an Authorized Newspaper a notice to the Holders of such Bonds and coupons that the deposit required by (b) above has been made with the Trustee and that said Bonds and coupons are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which monies are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Neither direct obligations of the Unit-
ed States of America or monies deposited with the Trustee pursuant to this Section nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such direct obligations of the United States of America deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in direct obligations of the United States of America maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge.

3. Anything in the Resolution to the contrary notwithstanding, any monies held by a Fiduciary in trust for the payment and discharge of any of the Bonds or coupons which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such monies were held by the Fiduciary at such date, or for six years after the date of deposit of such monies if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the Corporation, be repaid by the Fiduciary to the Corporation, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Corporation for the payment of such Bonds and coupons; provided, however, that before being required to make any such payment to the Corporation, the Fiduciary shall, at the expense of the Corporation, cause to be published at least twice, at an interval of not less than seven days between publications, in an Authorized Newspaper, a notice that said monies remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such monies then unclaimed will be returned to the Corporation.
ARTICLE XV
MISCELLANEOUS

1501. Preservation and Inspection of Documents. All documents received by the Trustee or any Paying Agent under the provisions of this Resolution or any Series Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Corporation, the Trustee or any Paying Agent and after written request received by the Trustee at least five business days prior to the date of inspection, by any Holder of Outstanding Bonds and their agents and representatives, any of whom may make copies thereof.

1502. Parties of Interest. Nothing in this Resolution or in any Series Resolution adopted pursuant to the provisions hereof, expressed or implied, is intended to or shall be construed to confer upon or to give to any person or party other than the Corporation, Trustee, Paying Agents and the Holders of the Bonds and coupons pertaining thereto any rights, remedies or claims under or by reason of this Resolution or any Series Resolution or any covenants, condition or stipulation thereof; and all covenants, stipulations, promises and agreements in this Resolution and any Series Resolution contained by or on behalf of the Corporation shall be for the sole and exclusive benefit of the Corporation, Trustee and Paying Agents and the Holders from time to time of the Bonds and the coupons pertaining thereto.

1503. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of the Corporation contained in this Resolution 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 in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of the Corporation or any natural person executing the Bonds.

1504. Severability. If any one or more of the covenants, stipulations, promises, agreements or obligations provided in this Resolution on the part of the Corporation, Trustee or any Paying Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, then such covenant or covenants, stipulation or stipulations, promise or promises, agreement or agreements, obligation or obligations shall be deemed and construed to be severable from the remain-
ing covenants, stipulations, promises, agreements and obligations herein contained and shall in no way affect the validity of the other provisions of this Resolution.

1505. **Headings.** Any headings preceding the texts of the several Articles and Sections hereof, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect.

1506. **Conflict.** All resolutions or parts of resolutions or other proceedings of the Corporation in conflict herewith be and the same are repealed insofar as such conflict exists.

1507. **Effective Date.** This Resolution shall take effect immediately upon its adoption.
MEMORANDUM

TO: Bernard Rosen
FROM: Charles F. Budenbender
SUBJECT: M. Ives opinion on Rainy Day Fund (RDF)

The opening sentence of the third paragraph of the opinion "I assume...when surpluses are needed for budget balancing purposes", I believe this "budget balancing purposes" may have established a mind set that led to Marty's conclusion. In addition we used the term "revenue" within our draft work-up of the RDF, which was strictly interpreted by GASB staff.

With hind-sight perhaps we should have used the term "other financing sources" (I realize now that in OMB we consider "revenue" to equal "revenue and other financing sources". This would be an important definitional issue to theory accountants just as the transfer to the RDF would not be an expenditure but rather "Other Financing Uses". By using these terms the City would not be double counting revenues (classic definition) over a period of years but rather properly utilizing the transfer concept.

While the draft work-up of the RDF, seemed to be explicit on when funds could return to the General Fund, it would appear that the GASB staff was reading "gimmick" into the transfer. The last paragraph also has the statement "be made available for budget balancing purposes".

While Marty seems "positive" I believe that with certain massaging in concert with PMM we can achieve our end.
May 28, 1987

Mr. Bernard Rosen
Deputy Director
Office of Management and Budget
Municipal Building
New York, NY 10007

Ms. Joan Miles
Assistant Comptroller
Office of the City Comptroller
Municipal Building
New York, NY 10007

Dear Bernie and Joan:

I have had a chance to review the proposal for a Revenue Stabilization Reserve Fund, set forth in your letter of May 20. The comments that follow represent my personal views (as former Deputy City Comptroller) and those of the GASB staff; the GASB itself communicates only through formal pronouncements issued after due process.

As you know, I supported a "rainy day fund" such as that proposed in your letter while I was with the City. I thought such a fund could take the place of the annual $100 million contingency appropriation. I still think a "rainy day fund" would be useful as a matter of good financial management.

I assume, however, that one purpose of the proposal is to record a General Fund "expenditure" by transferring surplus to the Reserve and then to record a General Fund "revenue" when the surpluses are needed for budget balancing purposes. The GASB staff and I do not believe that these actions can be classified as "expenditures" and "revenues." At best, they are transfers out and transfers in; more likely — in terms of the substance rather than the form of the actions — they are essentially legal segregations of the General Fund fund balance.
May 28, 1987

Mr. Bernard Rosen
Deputy Director
Office of Management and Budget
Municipal Building
New York, NY 10007

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Section 1300.121 of the GASB Codification discusses fund balance segregations. A good discussion of the subject is contained in the enclosed excerpt (pages 121 - 124) from Preferred Accounting Practices for State Governments. Note that the original conclusion of Preferred Practices suggests that "economic stabilization" and "revenue fluctuation" activities be classified as fund balance segregations. However, upon reconsideration of the issues, Preferred Practices suggests that if the activity takes the form of a separate fund, the activity should be reported as a fund. Preferred Practices offers no guidance, however, as to how the fund ought to be reported or how transactions in and out of the fund ought to be reported. Looking to the substance of the matter in the context of Cod. Section 1800.121, we believe the fund itself would still be a segregation of General Fund fund balance. Therefore I question whether the accounting following from your proposal meets one of the purposes of the proposal.

In my opinion, there is no reason why accumulated surpluses should not be made available for budget balancing purposes in subsequent years. To the best of my knowledge, all governments (except New York City) do it. It ought to be done openly, not with transactions that obscure operating results from year to year. It seems to me that this can be done by means of a change in the law that permits surpluses accumulated in one year to be used for budget balancing purposes in subsequent years. The accounting effect of this would be to report a surplus in one year and a deficit in the subsequent year; over the two year period, however, there would be budgetary equilibrium. I believe, too, that it could be accomplished by creating a "Revenue Stabilization Subfund" of the General Fund (in effect a segregation of General Fund fund balance), using the same concept as your proposal. I think a change in the law would be understood by both the financial community and the Public.

Sincerely,

[Signature]

Martin Ives

MI:mf