

NEW ISSUE

In the opinion of Bond Counsel, interest on the Series 1998 B Bonds will be exempt from personal income taxes imposed by the State of New York (the "State") or any political subdivision thereof, including The City of New York (the "City"), and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series 1998 B Bonds will not be includable in the gross income of the owners thereof for Federal income tax purposes. See "SECTION VII: TAX MATTERS" herein for further information.



\$650,000,000

Future Tax Secured Bonds Fiscal 1998 Series B

Dated: Date of Delivery

Due: November 15, as shown on the inside cover

The Future Tax Secured Bonds Fiscal 1998 Series B (the "Series 1998 B Bonds") are being issued by the New York City Transitional Finance Authority (the "Authority") pursuant to an Indenture, dated as of October 1, 1997, as amended and supplemented (the "Indenture"), by and between the Authority and The Chase Manhattan Bank, New York, New York, as trustee (the "Trustee").

The Authority's \$650,000,000 Future Tax Secured Bonds Fiscal 1998 Series A will be on a parity with the Series 1998 B Bonds. Provided certain statutory and contractual conditions are met, Other Series of Bonds on a parity with or subordinate to the Series 1998 B Bonds may be issued (Other Series of Bonds heretofore or hereafter issued, together with the Series 1998 B Bonds, the "Bonds"). See "SECTION IV: THE BONDS—Other Series."

Pursuant to the Act, the Bonds are payable from the Revenues of the Authority which are derived from collections of personal income taxes imposed by the City and certain collections of sales and compensating use taxes imposed within the City. Such taxes are imposed pursuant to statutes enacted by the State. The State is not prohibited from amending, modifying, repealing or otherwise altering such taxes. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

The Series 1998 B Bonds will be issued only as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 1998 B Bonds will be made in book-entry form in denominations of \$5,000 principal amount or whole multiples thereof. Purchasers will not be entitled to receive physical delivery of the Series 1998 B Bonds.

Principal, redemption price and interest on the Series 1998 B Bonds (with interest accruing from the dated date and payable on November 15, 1998 and thereafter on May 15 and November 15 of each year) will be payable to DTC by the Trustee. So long as DTC or its nominee remains the registered owner, disbursements of such payments to DTC Participants are the responsibility of DTC and disbursements of such payments to the purchasers of the Series 1998 B Bonds are the responsibility of DTC Participants, as described herein.

The Series 1998 B Bonds are subject to redemption prior to maturity as described herein.

THE BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A LIEN ON THE REVENUES OF THE AUTHORITY AND THE ACCOUNTS HELD BY THE TRUSTEE. THE BONDS ARE NOT A DEBT OF EITHER THE STATE OR THE CITY, AND NEITHER THE STATE NOR THE CITY SHALL BE LIABLE THEREON, NOR SHALL THE BONDS BE PAYABLE OUT OF ANY FUNDS OTHER THAN THOSE OF THE AUTHORITY.

The Series 1998 B Bonds are offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, and to the approval of legality of the Bonds and certain other matters by Brown & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by the New York City Corporation Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, New York, New York. It is expected that the Series 1998 B Bonds will be available for delivery to DTC in New York, New York, on or about January 22, 1998.

Bear, Stearns & Co. Inc.

Lehman Brothers

Morgan Stanley Dean Witter

Artemis Capital Group, Inc.

First Albany Corporation

Goldman, Sachs & Co.

J.P. Morgan & Co.

Merrill Lynch & Co.

PaineWebber Incorporated

Prudential Securities Incorporated

Samuel A. Ramirez & Co., Inc.

Salomon Smith Barney

Advest, Inc.

A.G. Edwards & Sons, Inc.

David Lerner Associates, Inc.

Fleet Securities, Inc.

Lebenthal & Co., Inc.

M.R. Beal & Company

Oppenheimer & Co., Inc.

Pryor, McClendon, Counts & Co., Inc.

Roosevelt & Cross Incorporated

Siebert Brandford Shank & Co.

William E. Simon & Sons Municipal Securities Inc.

a division of Muriel Siebert & Co., Inc.

\$650,000,000 Future Tax Secured Bonds Fiscal 1998 Series B

\$412,070,000 Serial Bonds

<u>November 15</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1999	\$11,625,000	4.00%	3.60%
2000	12,080,000	4.00	3.75
2001	12,565,000	4.00	3.85
2002	13,075,000	4.00	100.00
2003	7,950,000	5.25	4.03
2003	7,650,000	4.00	4.03
2004	10,000,000	5.25	4.08
2004	6,325,000	4.00	4.08
2005	11,950,000	5.25	4.15
2005	5,150,000	4.125	4.15
2006	14,420,000	5.00	4.20
2006	3,525,000	4.20	100.00
2007	15,020,000	5.00	4.25
2007	3,795,000	4.25	100.00
2008	9,040,000	5.50	4.30
2008	10,685,000	4.30	100.00
2009	13,615,000	5.00	4.40
2009	7,065,000	4.40	100.00
2010	21,675,000	5.00	104.681
2011	22,760,000	4.60	4.65
2012	23,805,000	4.60	4.70
2013	24,900,000	4.75	100.00
2014	26,085,000	4.75	4.80
2015	27,320,000	4.75	4.85
2016	28,615,000	4.75	4.90
2017	29,975,000	4.75	4.95
2018	31,400,000	4.75	4.95

**\$126,115,000 4.750% Term Bonds due November 15, 2023,
Yield 4.990%**

**\$111,815,000 4.500% Term Bonds due November 15, 2027,
Yield 4.950%**

The information in this Offering Circular has been obtained from the Authority, the City and other sources considered to be reliable. Such information is not guaranteed as to accuracy or completeness and is not to be considered as a representation by the Underwriters. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized. No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation with respect to the Bonds, other than those contained in this Offering Circular, and if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Offering Circular contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect economic conditions in the City and the amount of Statutory Revenues (as defined herein), the inclusion in this Offering Circular of such forecasts, projections and estimates should not be regarded as a representation by the Authority or the Underwriters that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Offering Circular, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Authority. These forward-looking statements speak only as of the date of this Offering Circular. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

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

(This page has been left blank intentionally.)

SUMMARY OF TERMS

The following is qualified in its entirety by reference to the information appearing elsewhere in this Offering Circular. Terms used in this summary and not defined herein are defined in "APPENDIX A: SUMMARY OF INDENTURE AND AGREEMENT."

Issuer	The New York City Transitional Finance Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York created by Chapter 16 of the Laws of 1997 (the "Act").
Securities Offered	\$650,000,000 Future Tax Secured Bonds Fiscal 1998 Series B (the "Series 1998 B Bonds") are to be issued pursuant to an Indenture, dated as of October 1, 1997 (as amended and supplemented from time to time, the "Indenture"), by and between the Authority and the Trustee. The Series 1998 B Bonds (along with Other Series of Bonds heretofore or hereafter issued, the "Bonds") will be payable from the Statutory Revenues which the Act requires to be paid to the Authority as described herein.
Trustee	The Chase Manhattan Bank, New York, New York
Servicer	The New York State Department of Taxation and Finance collects the Statutory Revenues, which consist of Personal Income Tax Revenues and Sales Tax Revenues, each as defined herein, and reports the amount of such collections to the State Comptroller. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Servicing."
Disbursement Agent	The State Comptroller holds Personal Income Tax Revenues in trust for the Authority and deposits such Revenues with the Trustee for payment of Debt Service and other expenses of the Authority. Sales Tax collections are remitted to the State Comptroller who first transfers to the Municipal Assistance Corporation For The City of New York ("MAC") such amount of Sales Tax collections as is needed by MAC for its funding requirements. The State Comptroller then transfers Sales Tax collections to the Authority, if and to the extent that Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds (including Subordinate Bonds, if any), in amounts required by the Act to pay Debt Service and other expenses of the Authority. Payment of Sales Tax collections to MAC and the Authority is subject to appropriation by the State Legislature. For information regarding payment of Sales Tax collections to MAC, see "SECTION II: SOURCES OF

PAYMENT AND SECURITY FOR THE BONDS—Sales Tax—MAC Funding Requirements.”

Not Debt of State or City

The Bonds are not a debt of either the State or the City, and neither the State nor the City shall be liable thereon. The Bonds are not payable out of any funds other than those of the Authority. Based on State and Federal constitutional, statutory and case law and the terms of the Indenture and the Agreement, Bond Counsel is of the opinion that the Authority is not eligible for protection from its creditors pursuant to Title 11 (the “Bankruptcy Code”) of the United States Code; and if the debts of the City were adjusted under the Bankruptcy Code and the City or its creditors were to assert a right to the Revenues equal or prior to the rights of the Bondholders, such assertion would not succeed.

Purpose of Issue

The proceeds of the Series 1998 B Bonds will be used to fund a portion of the City’s capital program.

Statutory Revenues

The Bonds are payable from the “Statutory Revenues” which consist of Personal Income Tax Revenues and Sales Tax Revenues. The Act provides that the Authority’s Revenues are not funds of the City.

The term “Personal Income Tax Revenues” means the collections from the Personal Income Tax less overpayments and administrative costs. The term “Personal Income Tax” means the tax imposed by the City, as authorized by the State, on the income of City residents and on nonresident earnings in the City. Since its adoption in 1966, Personal Income Tax Revenues have risen from approximately \$130 million in fiscal year 1967 to \$4.4 billion in fiscal year 1997. Payment of Personal Income Tax Revenues to the Authority as required by the Act is not subject to State or City appropriation.

The term “Sales Tax Revenues” means the collections from the Sales Tax less administrative costs and amounts paid to MAC. See “SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax—MAC Funding Requirements.” The term “Sales Tax” means the 4% tax currently imposed by the State on the sale and use of tangible personal property and services in the City, until such time when all MAC Funding Requirements have been paid in full, and thereafter means the similar tax imposed by the City. Almost all of the Sales Tax collections are subject to appropriation by the State until all MAC Funding Requirements have been paid in full. Approximately 4% of Sales Tax collections are from a sales and compensating use tax imposed by

the City which is not subject to the prior pledge to MAC or State or City appropriation. Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Bonds if Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds. Since the inception of the Sales Tax in fiscal year 1934, Sales Tax Revenues have increased to approximately \$2.7 billion in fiscal year 1997.

Enabling Legislation

The Act, which became effective March 5, 1997, provides for the issuance of the Bonds, the payment of the Bonds from the Statutory Revenues, and the statutory and contractual covenants of the Authority, the City and the State.

State and City Covenants

The Act and the Indenture contain the covenant of the State with the Bondholders (the "State Covenant") that the State shall not limit or alter the rights vested in the Authority by the Act to fulfill the terms of the Indenture, or in any way impair the rights and remedies of such holders of the Bonds or the security for the Bonds until such Bonds, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders of the Bonds, are fully paid and discharged. The State Covenant does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Tax.

The Act and the Indenture also contain the covenant of the State that in the event Personal Income Tax Revenues payable to the Authority during any fiscal year are projected by the Mayor of the City to be insufficient to provide at least 150% of maximum annual debt service on Outstanding Bonds (including Subordinate Bonds, if any), the State Comptroller shall pay to the Authority from Sales Tax Revenues such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds (including Subordinate Bonds, if any); provided, however, that such amounts are subject to State appropriation until the MAC Funding Requirements have been paid in full. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax—*MAC Funding Requirements*." The State is not obligated to make any additional payments or impose any taxes to satisfy the debt service obligations of the Authority. The Act does not restrict the right of the State to alter or repeal the statutes imposing or relating to the Sales Tax.

In accordance with the Act, the City will pledge and agree with the holders of the Bonds (the "City Covenant") that the City will not limit or alter the rights vested by the Act in the Authority to

fulfill the terms of any agreements made with such holders pursuant to the Act, or in any way impair the rights and remedies of such holders or the security for the Bonds until the Bonds are fully paid and discharged. Nothing contained in the Act or the Agreement restricts any right the City may have to amend, modify, repeal or otherwise alter local laws imposing or relating to the Personal Income Tax Revenues payable to the Authority so long as, after giving effect to such amendment, modification or other alteration, the amount of Statutory Revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration is not less than 150% of maximum annual debt service on Outstanding Bonds (including Subordinate Bonds, if any).

For more information regarding the State and City Covenants, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Agreements of the State and the City" herein.

Other Series of Bonds

This is the second issuance of Bonds by the Authority. On October 9, 1997, the Authority issued its first Series of Bonds in the aggregate principal amount of \$650,000,000, all of which remain Outstanding. Other Series are expected to be issued from time to time. See "SECTION IV: THE BONDS—Other Series" and "SECTION V: THE AUTHORITY—Plan of Finance" herein.

The Act authorizes the issuance of Bonds and Notes for capital purposes (up to \$7.5 billion) and for the refunding of Bonds and Notes.

The Indenture provides that Other Series of Bonds means those Bonds and Notes that may be issued (i) as Senior Bonds on a parity with the Series 1998 B Bonds (or Notes in anticipation thereof) (x) to pay or reimburse Project Capital Costs, but (I) not to exceed \$12 billion in issuance amount, measured by proceeds to the Authority and (II) subject to a \$330 million limit on Quarterly Debt Service to be payable, or (y) to refund or renew such Bonds or Notes, subject to a \$330 million limit on Quarterly Debt Service to be payable; or (ii) as subordinate to the Bonds (or Notes in anticipation thereof), with Rating Confirmation, but (iii) no Series of Bonds on a parity with the Series 1998 A Bonds shall be authenticated and delivered without Rating Confirmation unless the amount of collections of Statutory Revenues for the twelve consecutive calendar months ended not more than two months prior to the calculation date less the aggregate amount of operating expenses of the Authority for the current fiscal year is at least three times the amount of annual Debt Service, including debt service on the Series of Bonds proposed to be issued, for

each fiscal year Bonds will be Outstanding. See "APPENDIX A: SUMMARY OF INDENTURE AND AGREEMENT."

Interest and Principal

Interest on the Series 1998 B Bonds will accrue from their dated date at the rates set forth on the inside cover page hereof and will be payable semiannually, commencing November 15, 1998. The record date for payment of interest on the Series 1998 B Bonds is the last business day of the calendar month preceding the interest payment date.

Principal will be due on the annual serial maturities and sinking fund installments as shown on the inside cover page and herein.

Interest and principal on the Bonds will be paid from the Revenues on deposit in the Bond Account or Redemption Account, if applicable. Statutory Revenues shall be deposited into the Bond Account in accordance with the retention schedule as described in "Retention Procedures" below.

Optional Redemption

The Series 1998 B Bonds are redeemable, on 30 days' notice to the holders of the Bonds, beginning May 15, 2008 at a price of 101%, declining to par on May 15, 2010.

Form and Denomination

The Series 1998 B Bonds will be represented by one or more global bonds registered in the name of The Depository Trust Company or its nominee ("DTC"). Beneficial owners of Series 1998 B Bonds will not be entitled to receive Bond certificates except under the limited circumstances described herein.

The Series 1998 B Bonds will be denominated in principal amounts of \$5,000 and integral multiples thereof.

Indenture

The Indenture, dated as of October 1, 1997, by and between the Authority and The Chase Manhattan Bank, New York, New York, as Trustee, provides for the issuance of the Bonds pursuant to the Act, including the Authority's pledge to the Trustee of the revenues, accounts and statutory and contractual covenants contained therein. The Trustee is authorized to enforce the Indenture and such covenants against the Authority, the City and the State.

Financing Agreement

The Financing Agreement, dated October 1, 1997, between the Authority and the City, provides for the application of Bond proceeds to fund capital expenditures of the City and includes covenants of the City and the City's agreement to hold the Authority harmless against claims related to the City's capital projects.

Collection Account

The State Comptroller is required by the Act, commencing on or before the fifteenth day of each month, to pay the Personal Income Tax Revenues on a daily basis directly to the Trustee for application in accordance with the Indenture. While the State Comptroller is required by statute to transfer the Personal Income Tax Revenues on or prior to the fifteenth day of each month, current practice of the State Comptroller is to transfer such funds commencing on the first day of each month. See "Application of Revenues" below.

All Revenues received by the Authority shall be promptly deposited into the Collection Account.

Bond Account

The Bond Account is held by the Trustee in accordance with the terms of the Indenture. The Trustee shall deposit amounts from the Collection Account into the Bond Account (i) in accordance with the Retention Procedures described below for the payment of Debt Service and (ii) to provide for the payment of Notes and Senior Agreements, if any, that are to be paid out of the Bond Account on a parity with the Senior Bonds. Currently the Authority is not a party to any Senior Agreements.

Application of Revenues

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

Retention Procedures

On the first business day of each Collection Quarter, which commences on the first day of each August, November, February and May, the Trustee shall begin to transfer all Statutory Revenues from the Collection Account to the Bond Account, and shall continue such transfers until the amount in the Bond Account is equal to one-half of the debt service on the Senior Bonds due in the three month period following the Collection Quarter, each such period, a "Payment Period." The total

amount due in each Payment Period is the "Quarterly Payment Requirement." On the first business day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers until the Quarterly Payment Requirement is held in the Bond Account. During the third month of each Collection Quarter, if there is less than the Quarterly Payment Requirement on deposit in the Bond Account, or the Redemption Account, as the case may be, the Trustee will continue to transfer Statutory Revenues from the Collection Account to the Bond Account until there is on deposit therein the Quarterly Payment Requirement. The payment obligations of the Trustee for payments to be made from the Collection Account to the Bond Account shall be cumulative so that any shortage in the first month of the Collection Quarter will become part of the funding obligation in the second month of the Collection Quarter, and if necessary, the third month of the Collection Quarter. The Authority expects that the Quarterly Payment Requirement will be provided from Statutory Revenues during the applicable Collection Quarter. However, in the event collections from the Statutory Revenues are insufficient during any Collection Quarter to completely provide for the Quarterly Payment Requirement, the Trustee is required to withhold additional Statutory Revenues in subsequent Collection Quarters. To the extent the Quarterly Payment Requirement includes principal, interest or premium on Bonds or Notes to be purchased or redeemed prior to maturity at the option of the Authority, such Debt Service may be paid through the Redemption Account, and the Authority may direct the Trustee to transfer Revenues to the Redemption Account rather than the Bond Account.

Defeasance

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

Tax Exemption

In the opinion of Brown & Wood LLP, Bond Counsel to the Authority, interest on the Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City, and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, interest on the Series 1998 B Bonds will not be includable in the gross income of the owners thereof for Federal income tax purposes. See "SECTION VII: TAX MATTERS."

Ratings

The Bonds are rated "AAA" by Duff & Phelps Credit Rating Co., "AA+" by Fitch IBCA Inc., "Aa3" by Moody's Investors Service, Inc., and "AA" by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. (each a "Rating

Agency” and, collectively, the “Rating Agencies”). These ratings take into consideration the nature and value of the Statutory Revenues, the structural and legal aspects of the Bonds and the Authority, and the extent to which the payment streams from the Statutory Revenues are adequate to make required Bond payments. A security rating should be evaluated independently of similar ratings of different types of securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. See “SECTION VIII: RATINGS.”

Authority Contact

Mr. Patrick McCoy
Investor Relations Manager
Phone Number: (212) 788-9170
Fax Number: (212) 788-9198

SECTION I: INTRODUCTION

This Offering Circular of the New York City Transitional Finance Authority (the "Authority") sets forth information concerning the Authority in connection with the sale of \$650,000,000 aggregate principal amount of the Authority's Future Tax Secured Bonds Fiscal 1998 Series B (the "Series 1998 B Bonds" and, together with Other Series of Bonds, the "Bonds"). The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State") created by Chapter 16 of the Laws of 1997 (the "Act").

On October 9, 1997, the Authority issued its first Series of Bonds in the aggregate principal amount of \$650,000,000, all of which remain Outstanding (the "Series 1998 A Bonds"). The Series 1998 B Bonds are the second Series of Bonds issued by the Authority. The Bonds are being issued pursuant to the Act and an Indenture dated as of October 1, 1997, as amended and supplemented (the "Indenture") by and between the Authority and The Chase Manhattan Bank as Trustee (the "Trustee"). The Authority and The City of New York (the "City") entered into a Financing Agreement (the "Agreement") dated October 1, 1997, providing for the application of Bond proceeds for City capital expenditures and containing various covenants of the City. A summary of certain provisions of the Indenture and the Agreement, together with certain defined terms used therein and in this Offering Circular, is contained in Appendix A hereto.

The Bonds are payable from the Revenues of the Authority which are derived from the Personal Income Tax Revenues and Sales Tax Revenues (each as defined herein). See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

The purpose of the Authority is to provide for the issuance of debt to fund a portion of the capital program of the City that the City cannot finance through the issuance of its general obligation bonds due to the State constitutional limitation on the amount of general obligation debt of the City. The City's current Four-Year Financial Plan for fiscal years 1998-2001 (the "City Financial Plan") assumes the issuance of \$7.275 billion of Bonds. An additional \$225 million of Authority Bonds is scheduled to be issued in fiscal year 2002, for a total of \$7.5 billion, which is the Authority's current authorization level. If the State constitution is not amended to increase the City's general obligation debt limitation, the State may, but is not required to, amend the Act to increase the amount of debt the Authority is authorized to issue. In order to provide financing for the City's current capital plan through fiscal year 2007, the State may need to increase the Authority's current authorization level by \$4.5 billion for a total of \$12 billion. A proposed amendment to the State constitution may be considered by the State Legislature in 1998 and 1999, and if approved by the State Legislature in two consecutive legislative sessions and approved by voter referendum will have an effective date in the year 2000. If the State constitution is amended to increase the City's general obligation debt limitation so that the City is able to finance its capital plan through the issuance of its general obligation debt, the Authority would not be permitted to continue the issuance of debt except for the issuance of obligations for refunding purposes unless the Act were amended to permit such issuance. See "SECTION V: THE AUTHORITY—Purpose and Operations."

The Indenture permits the issuance of up to \$12 billion of Bonds (not including refunding bonds). The Indenture permits the Authority to issue additional indebtedness as subordinate bonds provided that such additional issuance of debt does not cause an adverse change in the ratings obtained by the Authority on the Bonds. For additional information regarding the issuance of parity or subordinate obligations of the Authority, see "SECTION IV: THE BONDS—Other Series." The Authority has covenanted in the Indenture that the maximum Quarterly Debt Service on the Senior Bonds (including refunding Bonds) will not exceed \$330 million (the "Quarterly Debt Service Covenant"). For information regarding debt service coverage based upon the issuance of Bonds by the Authority with maximum Quarterly Debt Service of \$330 million, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS —Debt Service Coverage."

SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

The Act authorizes the Authority to issue debt and secure the repayment of such debt with a pledge of the Authority's right, title and interest in the Revenues of the Authority, which are required by the Act to be paid to the Authority. The Authority's Revenues are derived solely from the amounts payable to it from the Statutory Revenues which are the only source of payment for the holders of the Bonds. See "Statutory Revenues" below. Pursuant to the Act and the Indenture, the Authority has pledged the Revenues to the Trustee for payment of the Bonds. The Act provides that the Authority's pledge of its Revenues represents a perfected security interest on behalf of the holders of the Bonds.

The Authority does not have, nor is it expected to have, any significant assets or sources of funds other than the Statutory Revenues and amounts on deposit pursuant to the Indenture. The Bonds will not be insured or guaranteed by the City, the State or the Trustee. Consequently, Bondholders must rely for repayment solely upon collection of the Statutory Revenues and accounts held by the Trustee pursuant to the Indenture.

The Authority's only authorized activity is the issuance of debt, the use of the proceeds thereof to fund a portion of the City's capital program and the payment of its debt service obligations and related costs from the Statutory Revenues. *The Authority's debt is not debt of the State or the City and neither the State nor the City shall be liable thereon.*

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

Statutory Revenues

The Bonds are payable from the Statutory Revenues, which consist of Personal Income Tax Revenues and Sales Tax Revenues. Personal Income Tax Revenues are the revenues collected from the Personal Income Tax less overpayments and costs of administration. The Personal Income Tax is the tax imposed by the City as authorized by the State on the income of City residents and on nonresident earnings in the City. Sales Tax Revenues are the revenues collected from the Sales Tax less costs of administration and amounts paid to The Municipal Assistance Corporation For The City of New York ("MAC") for the payment of the MAC Funding Requirements. For information regarding the MAC Funding Requirements, see "Sales Tax—MAC Funding Requirements" below. The Sales Tax is the 4% tax currently imposed by the State on the sale and use of tangible personal property and services in the City. The term "Sales Tax" also includes certain amounts collected from a sales and compensating use tax imposed by the City as authorized by the State. Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Bonds if Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds. For a description of the Personal Income Tax Revenues and the Sales Tax Revenues, see "Personal Income Tax" and "Sales Tax" below. For a description of the servicing and application of the Statutory Revenues, see "Servicing" and "Application of Revenues" below.

The forecasts of Statutory Revenues set forth in this Offering Circular reflect several recently enacted State and local tax reductions. These tax reductions lower the Personal Income Tax Revenues through a credit for resident owners of businesses paying the City's Unincorporated Business Tax and a State rebate program, and lower the Sales Tax Revenues by eliminating the Sales Tax on the purchase of items of clothing (excluding footwear) under \$100. In addition, projected Statutory Revenues reflect a sales tax exemption on clothing

purchases under \$500 (including footwear) during one week in January 1998 that was recently approved by the State legislature. They also reflect a recent Federal capital gains tax reduction and an IRA program expansion, which together are expected to have minimal long term effect on Personal Income Tax Revenues. Projections of Statutory Revenues also assume that each of the Current Base Rate, the 12.5% Surcharge, the 14% Surcharge (each, as defined below) and the current tax on nonresident wage income and self-employment earnings is extended. The projections do not reflect the following tax law changes recently proposed by the Mayor of the City: the elimination of the sales tax on items of clothing over \$100 (including footwear); a credit against the personal income tax of resident shareholders of subchapter S corporations; and a credit against the personal income tax for qualified dependent care expenses. If enacted, these changes are projected to reduce statutory revenues by approximately \$70 million, \$142 million and \$200 million in the fiscal years 1999, 2000 and 2001, respectively. There can be no assurance that future changes in Federal, State or City laws will not affect Personal Income Tax Revenues or Sales Tax Revenues.

Statutory Revenues for fiscal year 1997 were approximately \$7.0 billion and are projected to be approximately \$7.5 billion by the end of fiscal year 2001. From fiscal year 1980 to fiscal year 1997, the average annual compound growth rate for Statutory Revenues was approximately 8.8%. Historical collections of Statutory Revenues for fiscal years 1980 to 1997 and forecasted collections of Statutory Revenues for fiscal years 1998 through and including 2001 are shown in the table below.

**HISTORICAL AND FORECASTED AMOUNTS OF STATUTORY REVENUES†
(\$ millions)**

Fiscal Year Ending June 30	Statutory Revenues	Fiscal Year Ending June 30	Statutory Revenues
1980	\$1,679	1991	\$4,720
1981	1,962	1992	5,028
1982	2,182	1993	5,444
1983	2,414	1994	5,702
1984	2,669	1995	6,202
1985	2,998	1996	6,533
1986	3,490	1997	7,048
1987	3,691	1998*	7,237
1988	3,916	1999*	7,223
1989	4,273	2000*	7,426
1990	4,475	2001*	7,505

† Source: New York City Office of Management and Budget ("NYC OMB")

* As forecasted by NYC OMB. For information regarding the expiration of certain portions of the Personal Income Tax and Sales Tax during and after the forecast period, see "Personal Income Tax" and "Sales Tax" below.

The amount of future Statutory Revenues to be collected depends upon various factors including the economic conditions in the City. The forecasts of Statutory Revenues are not intended to be guarantees of actual collections and results may vary from forecasts. Economic conditions in the City have experienced numerous cycles of growth and recession. There can be no assurance that historical data relating to economic conditions in the City are predictive of future trends or that forecasts of future economic developments will be realized. For more information regarding the economic conditions in the City, see "SECTION III: ECONOMIC AND DEMOGRAPHIC STATISTICS."

Debt Service Coverage

Currently the Authority is authorized by the Act to issue up to \$7.5 billion of Bonds (not including refunding Bonds) to provide financing for a portion of the City's capital program. The Authority projects that it will issue \$7.5 billion of debt by the end of fiscal year 2002. The Indenture provides for the issuance of additional parity debt up to \$4.5 billion for a total of \$12 billion of debt (excluding Bonds for refunding purposes). In addition, the Indenture includes the Quarterly Debt Service Covenant which provides that the maximum Quarterly Debt Service on the Senior Bonds (including refunding Bonds) may not exceed \$330 million, unless the Authority receives a Rating Confirmation. See "SECTION IV: THE BONDS—Other Series."

Statutory Revenues would have provided approximately 5.3 times coverage of debt service in fiscal year 1997 and are expected to provide approximately 5.7 times coverage of debt service by fiscal year 2001 based on a maximum annual debt service amount of \$1,320 million (annualized covenanted maximum Quarterly Debt Service of \$330 million). Statutory Revenues would have provided approximately 10.6 times coverage of debt service in fiscal year 1997 and are expected to provide 11.3 times coverage of debt service by fiscal year 2001 based on forecasted maximum annual debt service amount of approximately \$664 million on \$7.275 billion of Bonds expected to be issued through 2001. The table on the following page shows the coverage for both annualized covenanted maximum Quarterly Debt Service and forecasted maximum annual debt service based on historical and forecasted collections of Statutory Revenues.

DEBT SERVICE COVERAGE OF HISTORICAL AND FORECASTED AMOUNTS OF STATUTORY REVENUES†

Fiscal Year Ending June 30	Statutory Revenues (\$ Millions)	Coverage of Annualized Covenanted Maximum Quarterly Debt Service⁽¹⁾	Coverage of Forecasted Maximum Annual Debt Service⁽²⁾
1980	\$1,679	1.27x	2.53x
1981	1,962	1.49x	2.95x
1982	2,182	1.65x	3.29x
1983	2,414	1.83x	3.64x
1984	2,669	2.02x	4.02x
1985	2,998	2.27x	4.52x
1986	3,490	2.64x	5.26x
1987	3,691	2.80x	5.56x
1988	3,916	2.97x	5.90x
1989	4,273	3.24x	6.44x
1990	4,475	3.39x	6.74x
1991	4,720	3.58x	7.11x
1992	5,028	3.81x	7.57x
1993	5,444	4.12x	8.20x
1994	5,702	4.32x	8.59x
1995	6,202	4.70x	9.34x
1996	6,533	4.95x	9.84x
1997	7,048	5.34x	10.61x
1998*	7,237	5.48x	10.90x
1999*	7,223	5.47x	10.88x
2000*	7,426	5.63x	11.18x
2001*	7,505	5.69x	11.30x

† Source: NYC OMB.

* As forecasted by NYC OMB. For more information regarding the expiration of certain portions of the Personal Income Tax and Sales Tax during and after the forecast period, see "Personal Income Tax" and "Sales Tax" below.

(1) Covenanted maximum Quarterly Debt Service is \$330 million, which on an annual basis is \$1,320 million based on an assumption of \$12 billion of Bonds outstanding at a maximum interest rate of 9%.

(2) Based on forecasted maximum annual debt service of approximately \$664 million at an assumed maximum interest rate of 7.25% on debt expected to be issued through 2001.

The table below shows the coverage of covenanted maximum Quarterly Debt Service of \$330 million based on historical collections of Statutory Revenues.

**HISTORICAL STATUTORY REVENUES AND COVERAGE OF
COVENANTED MAXIMUM QUARTERLY DEBT SERVICE†
(\$ millions)**

<u>Year Ending July 31</u>	<u>August through October</u>		<u>November through January</u>		<u>February through April</u>		<u>May through July</u>	
	<u>Revenue</u>	<u>Coverage</u>	<u>Revenue</u>	<u>Coverage</u>	<u>Revenue</u>	<u>Coverage</u>	<u>Revenue</u>	<u>Coverage</u>
1988	\$1,091	3.3x	\$1,108	3.4x	\$ 935	2.8x	\$ 777	2.4x
1989	1,105	3.3x	1,102	3.3x	1,159	3.5x	998	3.0x
1990	1,007	3.1x	1,270	3.8x	1,150	3.5x	1,062	3.2x
1991	1,160	3.5x	1,311	4.0x	1,263	3.8x	933	2.8x
1992	1,233	3.7x	1,273	3.9x	1,463	4.4x	1,083	3.3x
1993	1,308	4.0x	1,652	5.0x	1,419	4.3x	1,041	3.2x
1994	1,293	3.9x	1,618	4.9x	1,558	4.7x	1,307	4.0x
1995	1,444	4.4x	1,755	5.3x	1,683	5.1x	1,361	4.1x
1996	1,480	4.5x	1,745	5.3x	1,798	5.4x	1,533	4.6x
1997	1,587	4.8x	1,909	5.8x	2,064	6.3x	1,487	4.5x

† Source: NYC OMB.

While the Authority is authorized by the Act to issue up to \$7.5 billion of Bonds and Notes, the City Financial Plan currently assumes the issuance of approximately \$1.950 billion of Bonds during its fiscal year 1998 and \$1.775 billion of Bonds during each of its fiscal years 1999, 2000 and 2001 for a total of approximately \$7.275 billion of Bonds. The coverage for the maximum Quarterly Debt Service on such debt (assuming equal quarterly distributions of principal and interest of approximately \$167 million) based on historical collections of Statutory Revenues is shown in the following table. There can be no assurance that debt service payment dates for Bonds will result in equal quarterly distributions of principal and interest.

**HISTORICAL AMOUNTS OF STATUTORY REVENUES AND COVERAGE OF ASSUMED MAXIMUM
QUARTERLY DEBT SERVICE ON DEBT PROPOSED TO BE ISSUED THROUGH 2001*†
(\$ millions)**

<u>Year Ending July 31</u>	<u>August through October</u>		<u>November through January</u>		<u>February through April</u>		<u>May through July</u>	
	<u>Revenue</u>	<u>Coverage</u>	<u>Revenue</u>	<u>Coverage</u>	<u>Revenue</u>	<u>Coverage</u>	<u>Revenue</u>	<u>Coverage</u>
1988	\$1,091	6.5x	\$1,108	6.6x	\$ 935	5.6x	\$ 777	4.7x
1989	1,105	6.6x	1,102	6.6x	1,159	6.9x	998	6.0x
1990	1,007	6.0x	1,270	7.6x	1,150	6.9x	1,062	6.4x
1991	1,160	6.9x	1,311	7.9x	1,263	7.6x	933	5.6x
1992	1,233	7.4x	1,273	7.6x	1,463	8.8x	1,083	6.5x
1993	1,308	7.8x	1,652	9.9x	1,419	8.5x	1,041	6.2x
1994	1,293	7.7x	1,618	9.7x	1,558	9.3x	1,307	7.8x
1995	1,444	8.6x	1,755	10.5x	1,683	10.1x	1,361	8.1x
1996	1,480	8.9x	1,745	10.5x	1,798	10.8x	1,533	9.2x
1997	1,587	9.5x	1,909	11.4x	2,064	12.4x	1,487	8.9x

* Based on an assumed maximum interest rate of 7.25% on debt expected to be issued through 2001. Assumed maximum Quarterly Debt Service equals approximately \$167 million.

† Source: NYC OMB.

Servicing

Personal Income Tax Collection

The New York State Department of Taxation and Finance collects the Personal Income Tax from employers and individual taxpayers and reports the amount of such funds to the State Comptroller, who holds such collections net of overpayments and administrative costs in trust for the Authority. The amount of overpayments and administrative costs paid by the State Comptroller out of gross Personal Income Tax collections has averaged less than 10% of the annual collections over the last five fiscal years. The State Comptroller is required by the Act, commencing on or before the fifteenth day of each month, to pay the Personal Income Tax Revenues on a daily basis directly to the Trustee for application in accordance with the Indenture. While the State Comptroller is required by statute to transfer the Personal Income Tax Revenues on or prior to the fifteenth day of each month, the usual practice of the State Comptroller is to transfer such funds commencing on the first day of each month. For more information regarding the application of Statutory Revenues upon receipt by the Trustee, see "Application of Revenues" below. Payments of the Personal Income Tax Revenues by the State Comptroller to the Authority are not subject to State or City appropriation.

Sales Tax Collection

Sales Tax is collected by vendors and service providers in the City and remitted to the New York State Department of Taxation and Finance monthly, quarterly or annually based on the volume of sales. The New York State Department of Taxation and Finance reports the amounts of such collections to the State Comptroller. The State Comptroller is required to hold almost all of the Sales Tax collections (approximately 96% annually) in a separate account to secure payments required for MAC Funding Requirements (the "MAC pledge"). Sales Tax collections subject to the MAC pledge are subject to State appropriation but not City appropriation. While MAC debt is outstanding MAC is required to report each quarter what portion, if any, of the money held by the State Comptroller in such separate account is needed by MAC as the MAC Funding Requirement. In the event the Mayor of the City certifies to the State Comptroller that Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of maximum annual debt service on Outstanding Bonds (including Subordinate Bonds, if any), the Act requires the State Comptroller to pay to the Authority from Sales Tax collections available after payments to MAC and the deduction of certain administrative costs, together with the portion of the Sales Tax not subject to the MAC pledge or State or City appropriation (approximately 4% annually), an amount necessary to provide at least 150% of maximum annual debt service on the Authority's Bonds (including Subordinate Bonds, if any). In the event Personal Income Tax Revenues are projected to provide coverage of at least 150% of maximum annual debt service on the Bonds, no Sales Tax Revenues will be paid by the State Comptroller to the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Agreements of the State and the City." Upon the payment in full of all outstanding MAC Funding Requirements, Sales Tax collections, if required, will be available to be paid to the Authority and will no longer be subject to State appropriation and will not be subject to City appropriation. For information regarding the MAC pledge, see "Sales Tax—MAC Funding Requirements" below. The Authority has instructed the State Comptroller to pay Sales Tax Revenues directly to the Trustee, if required, for application in accordance with the Indenture. For more information regarding the application of Statutory Revenues upon receipt by the Trustee, see "Application of Revenues" below.

Personal Income Tax

For purposes of this Offering Circular the term "Personal Income Tax" means the tax imposed by the City as authorized by the State on the income of City residents and on nonresident earnings in the City. Personal Income Tax collections, net of overpayments and administrative costs required to be paid, are referred to herein as "Personal Income Tax Revenues" and are Revenues of the Authority when they are paid or payable to the Trustee.

The Personal Income Tax was originally adopted in 1966 by State legislation allowing the City to impose a tax on the income of City residents and on nonresident earnings in the City. Since its inception, Personal Income Tax Revenues have had a history of strong growth and have risen from \$130 million in fiscal year 1967 to approximately \$4.4 billion in fiscal year 1997. The compounded annual growth rate of Personal Income Tax Revenues from fiscal year 1980 to fiscal year 1997 is approximately 9.9%. The Personal Income Tax is currently imposed on residents according to a schedule with a current maximum rate of 3.4% (the "Current Base Rate"). In addition, Personal Income Tax paid by City residents is subject to two surcharges authorized by the State and enacted by the City. The first surcharge, which varies depending on each City resident's income, averages approximately 12.5% of the Current Base Rate (the "12.5% Surcharge"). A second flat rate surcharge of 14% (the "14% Surcharge") is imposed on the Current Base Rate plus the 12.5% surcharge. The Current Base Rate plus the 12.5% Surcharge and the 14% Surcharge on City residents for tax year 1997 ranged from 3.08% to 4.46% of taxable income. The recently enacted State rebate program will lower the Current Base Rate starting in tax year 1999. By 2001, the maximum Current Base Rate will have decreased to 3.2%, reducing the maximum Current Base Rate plus the 12.5% Surcharge plus the 14% Surcharge to 4.23%. The current tax on nonresident income is 0.45% on wage earnings and 0.65% on earnings from self-employment.

The Act provides that nothing contained therein restricts the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Tax.

Although the Personal Income Tax rates and schedules have changed numerous times and the City has experienced several economic cycles since the tax was enacted, Personal Income Tax Revenues have steadily increased. The following table shows historical Personal Income Tax Revenues for fiscal years 1980 to 1997 and forecasted Personal Income Tax Revenues for fiscal years 1998 through and including 2001.

HISTORICAL AND FORECASTED PERSONAL INCOME TAX REVENUES^{(1)†}
 (\$ millions)

Fiscal Year Ending June 30	Personal Income Tax Revenues	Fiscal Year Ending June 30	Personal Income Tax Revenues
1980	\$ 879	1991	\$2,784
1981	1,018	1992	3,232
1982	1,159	1993	3,477
1983	1,331	1994	3,564
1984	1,547	1995	3,585
1985	1,740	1996	3,907
1986	1,816	1997	4,376
1987	2,160	1998*	4,526
1988	2,092	1999*	4,587
1989	2,448	2000*	4,673
1990	2,551	2001*	4,725

(1) Historical amounts are calculated on a cash basis. Forecasted amounts are on an accrual basis.

† Source: NYC OMB. For more information regarding the expiration of certain portions of the Personal Income Tax and Sales Tax during the forecast period, see below.

* As forecasted by NYC OMB.

For the past five fiscal years, an average of 79% of Personal Income Tax Revenues has been collected through mandatory withholding by employers as a percentage of wage income paid to employees. For fiscal year 1997, \$3.3 billion of the Personal Income Tax Revenues was collected through withholdings. State law requires most employers to remit to the State Department of Taxation and Finance amounts withheld from

income paid to employees within three business days of such payments. Withholding is collected from the bi-weekly, monthly and quarterly payrolls of approximately 3.4 million employees working in the City. For the past five fiscal years approximately 14% of Personal Income Tax Revenues has been collected from taxpayers through quarterly, installment payments on non-wage income and self-employment earnings, and approximately 7% of Personal Income Tax Revenues has been collected from taxpayers following the end of each tax year based on the filing of final tax returns.

State laws authorize the City to impose the components of the Personal Income Tax. Some of those components have required renewals in the past and have consistently been renewed. The State laws which authorize the Current Base Rate are scheduled to expire on December 31, 1999 at which time a lower rate schedule (the "Reduced Base Rate") with a maximum rate of 1.61% is to become effective. The Reduced Base Rate is not subject to renewal but is scheduled to decline on January 1, 2001 so that the maximum rate would be 1.48%. The Current Base Rate, which was implemented in 1989 has since such time been scheduled to decline to the Reduced Base Rate on several occasions but such scheduled reductions did not occur because the Current Base Rate was extended. The State laws that authorize the 14% Surcharge and the 12.5% Surcharge are scheduled to expire on December 31, 1999 and December 31, 1998, respectively. The 14% Surcharge and the 12.5% Surcharge have, as the table below indicates, been extended on several occasions. The tax rate on nonresident income is also scheduled to decline on December 31, 1999 unless it is renewed at its current rate. From time to time in the past, City officials and others have proposed that one or both of such surcharges not be extended. The Speaker of the City Council has recently proposed that the 12.5% Surcharge be permitted to expire. Similar proposals relating to the 14% Surcharge and the 12.5% Surcharge and the Current Base Rate may be made in the future. Any extension of the 12.5% Surcharge would require City Council approval. The following table shows that such laws have been regularly renewed in the past.

AUTHORIZATION AND RENEWAL OF PERSONAL INCOME TAX COMPONENTS

<u>Year</u>	<u>Personal Income Tax Component</u>	<u>Legislative Action</u>
1987	Current Base Rate ⁽¹⁾	Authorization
1989	Current Base Rate	Renewal
1990	Current Base Rate	Renewal
1990	12.5% Surcharge	Authorization
1991	14% Surcharge	Authorization
1991	Current Base Rate	Renewal
1991	12.5% Surcharge	Renewal
1993	Current Base Rate	Renewal
1993	14% Surcharge	Renewal
1995	Current Base Rate	Renewal
1995	14% Surcharge	Renewal
1997	12.5% Surcharge	Renewal
1997	14% Surcharge	Renewal
1997	Current Base Rate ⁽²⁾	Renewal

⁽¹⁾ The Personal Income Tax was originally authorized in 1966.

⁽²⁾ Renewed, but with a lower rate schedule to take effect in 1999.

In the event that the Current Base Rate is allowed to decline to the Reduced Base Rate after December 31, 1999 and neither the 12.5% Surcharge nor the 14% Surcharge is renewed in 1998 and 1999, respectively, Statutory Revenues would be reduced. This reduced level of Statutory Revenues is projected

to provide approximately 3.5 times coverage of annualized covenanted maximum Quarterly Debt Service in fiscal year 2001.

Sales Tax

For purposes of this Offering Circular the term "Sales Tax" means the 4% tax on the sale and use of tangible personal property and services in the City currently imposed by the State until such time as MAC Funding Requirements (as defined below) have been paid in full and thereafter means the similar tax imposed by the City. The term "Sales Tax" also includes a sales and compensating use tax imposed by the City as authorized by the State. Sales Tax Revenues do not include that portion of the Sales Tax collections required for the MAC Funding Requirements.

The Sales Tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. In addition, the Sales Tax includes a 6% tax on receipts from parking, garaging or storing motor vehicles in the City.

Sales Tax Revenues (except for the collections derived from the Sales Tax imposed by the City) are subject to appropriation by the State legislature but are not subject to City appropriation. The obligation of the State to pay such amounts is subject to, and dependent upon, the making of annual appropriations therefor by the State Legislature and the availability of money to fund such payments. Approximately 4% of Sales Tax Revenues, derived from the Sales Tax imposed by the City, are not subject to the prior pledge to MAC and are not subject to State or City appropriation.

On July 1, 2008, or earlier if all MAC Funding Requirements are met prior to July 1, 2008, the Sales Tax imposed by the State will expire, and the Sales Tax imposed by the City will again be in effect. Under current law, at such time, Sales Tax Revenues payable to the Authority will no longer be subject to State appropriation and will not be subject to appropriation by the City.

Due to the expiration of certain State legislation, the City-imposed Sales Tax would, under current law, take effect at the rate of 3%. The projections herein assume the renewal of the City's authority to impose an additional 1% sales tax so that the Sales Tax will remain at the rate of 4%. There can be no assurance that the City will receive such authorization.

The Act does not restrict the right of the State to alter or repeal the statutes imposing or relating to the Sales Tax.

MAC Funding Requirements

From 1934 to 1974, the City was authorized pursuant to State laws to impose the Sales Tax. Upon the establishment of MAC in 1975, the City's authority to impose the Sales Tax was suspended. A similar tax was imposed by the State to provide funds to pay for certain obligations of MAC. MAC is required to certify to the State Comptroller each quarter what portion, if any, of the Sales Tax collections is needed by MAC to make payments on all of its outstanding debt obligations and its other expenses net of any other moneys MAC has available to it to pay such amounts (collectively, the "MAC Funding Requirements"). MAC has the right to receive Sales Tax collections to satisfy the MAC Funding Requirements before Sales Tax collections (other than that portion of the Sales Tax imposed by the City) are available to pay Debt Service.

The average MAC Funding Requirement during the last five fiscal years has been less than 9% of Sales Tax collections. Currently MAC has \$4,241,920,000 of debt obligations outstanding. MAC's borrowing capacity (other than for refunding purposes) is capped at its level of currently outstanding debt. MAC's outstanding debt obligations are scheduled to mature on or before July 1, 2008 and State law requires

that any additional debt obligations issued by MAC must mature no later than July 1, 2008. There can be no assurance that the State law which authorizes MAC will not be amended to increase the amount of debt MAC is authorized to issue or to extend the date by which MAC debt is required to mature. In the event of such actions, the pledge of Sales Tax collections to MAC could extend beyond July 1, 2008 and the amount of Sales Tax collections payable to MAC could increase.

Upon payment in full of all of the MAC Funding Requirements, Sales Tax collections will not be subject to the MAC pledge and will not be subject to appropriation by the State legislature or the City.

Sales Tax Collections Net of MAC Funding Requirements

In 1997, Sales Tax collections (less the MAC Funding Requirement of \$264 million) were approximately \$2.7 billion. The compounded annual growth rate of Sales Tax Revenues from fiscal year 1980 to fiscal year 1997 was 7.3%. The table below shows historical gross Sales Tax collections for fiscal years 1980 to 1997 and forecasted Sales Tax collections, projected MAC Funding Requirements and Sales Tax Revenues for fiscal years 1998 through and including 2001.

**Historical and Forecasted Sales Tax Collections and Sales Tax Revenues
to the Authority Net of MAC Funding Requirements†⁽¹⁾
(\$ millions)**

Fiscal Year Ending June 30	Gross Sales Tax Collections	MAC Funding Requirements(2)	Sales Tax Revenues
1980	\$1,142	\$342	\$ 800
1981	1,311	367	944
1982	1,415	392	1,023
1983	1,515	432	1,083
1984	1,686	564	1,122
1985	1,828	570	1,258
1986	1,909	235	1,674
1987	2,081	550	1,531
1988	2,251	428	1,824
1989	2,340	515	1,825
1990	2,446	522	1,924
1991	2,385	449	1,936
1992	2,335	540	1,795
1993	2,338	370	1,968
1994	2,492	354	2,138
1995	2,646	29	2,617
1996	2,759	132	2,627
1997	2,935	264	2,671
1998*	3,071	360	2,711
1999*	3,187	551	2,636
2000*	3,241	488	2,753
2001*	3,292	512	2,780

† Source: NYC OMB.

(1) Historical amounts are calculated on a cash basis. Forecasted amounts are on an accrual basis.

(2) MAC Funding Requirements for fiscal years 2002-2008 are projected as of June 30, 1997 to be \$524 million, \$525 million, \$526 million, \$528 million, \$529 million, \$530 million, and \$530 million, respectively. Such projections do not take into account any other moneys MAC may have available to make such payments.

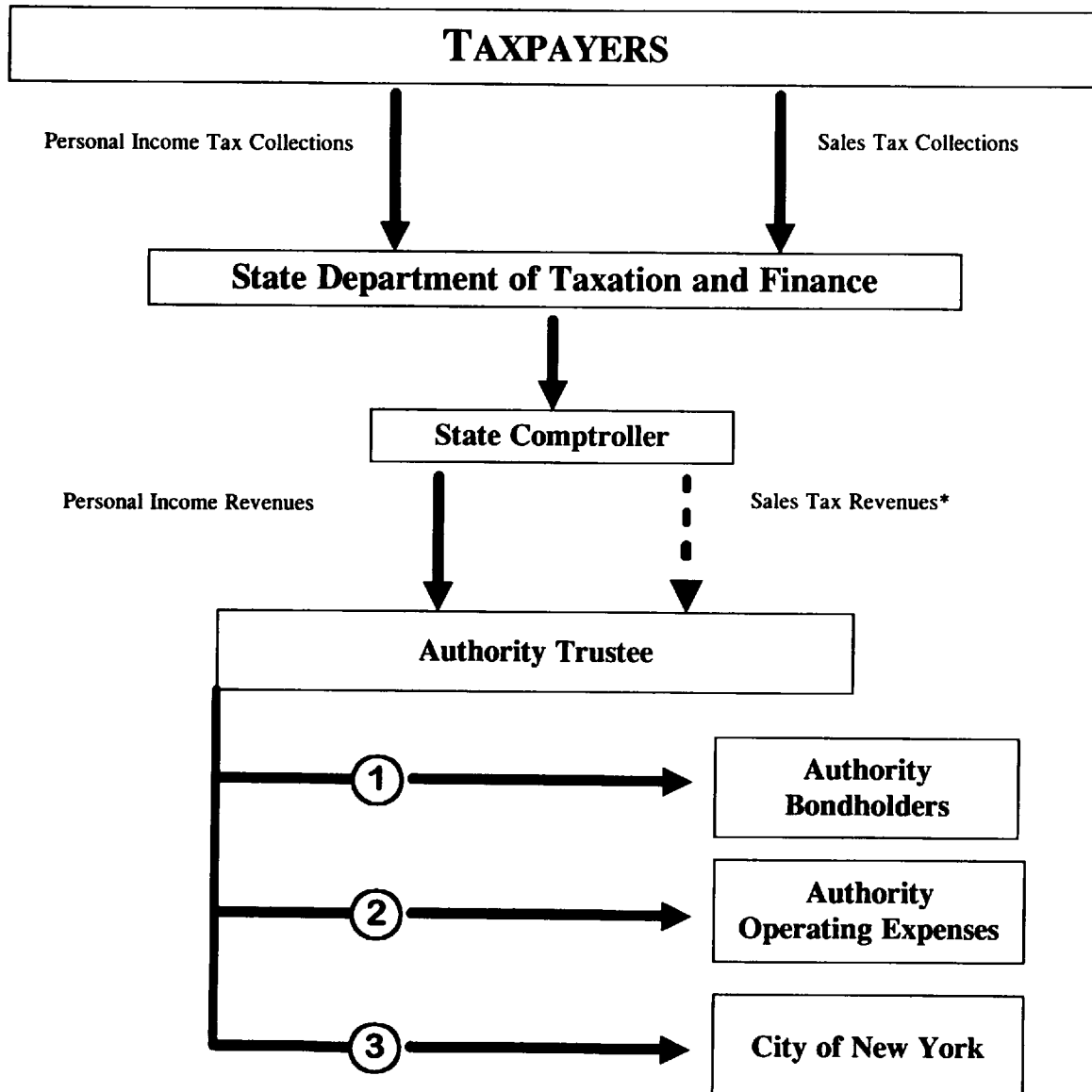
* As forecasted by NYC OMB.

Application of Revenues

Upon receipt of (i) Personal Income Tax Revenues and (ii) Sales Tax Revenues, if any are required to be paid to the Authority, the Trustee must deposit such amounts into the Collection Account held by the Trustee for payment of Debt Service, expenses and obligations of the Authority and payments under Senior Agreements, if any, and the City in accordance with the Indenture.

The chart on the following page illustrates the collection of Statutory Revenues (as described under "Servicing" above) and the flow of funds under the Indenture, as described below.

SUMMARY OF COLLECTION AND APPLICATION OF STATUTORY REVENUES



- (*) Sales Tax Revenues are available to the Authority only in the event that projected Personal Income Tax Revenues are less than 150% of maximum annual debt service on Outstanding Bonds of the Authority. The Authority's right to receive Sales Tax collections is subordinate to that of MAC for payment of MAC Funding Requirements. Under existing law, MAC's outstanding debt matures no later than on July 1, 2008 and its borrowing capacity (other than for refunding purposes) is capped at the level of currently outstanding debt. A small amount of Sales Tax collections (approximately 4%) is not pledged to MAC and will flow directly to the Trustee, if needed.
- (1) Revenues will be retained by the Trustee for the payment of Debt Service on Outstanding Bonds and for the payment of Senior Agreement providers, if any, in accordance with the Retention Procedures detailed below.
 - (2) After Revenues are retained by the Trustee for the payment of Debt Service and for the payment of Senior Agreement providers, if any, each Revenues are paid to the Authority for its operating expenses.
 - (3) After the payments described in (1) and (2) above are made, remaining Revenues are paid to the City.

Retention Procedures

A quarterly retention mechanism has been adopted by the Authority to provide for payment of Debt Service.

For each three month period commencing August, November, February and May (each such period, a "Collection Quarter"), the Trustee shall begin on the first business day of the first month of each Collection Quarter to transfer Revenues from the Collection Account to the Bond Account (or the Redemption Account as directed by the Authority) in an amount equal to one-half of the quarterly debt service on the Senior Bonds due in the three month period commencing November, February, May, and August following such Collection Quarter (each such period, a "Payment Period"). The total amount due in each Payment Period is the Quarterly Payment Requirement. On the first business day of the second month of each Collection Quarter the Trustee will resume or continue to transfer Statutory Revenues from the Collection Account to the Bond Account until there is on deposit in the Bond Account, or the Redemption Account, as the case may be, the Quarterly Payment Requirement. During the third month of each Collection Quarter, if there is less than the Quarterly Payment Requirement on deposit in the Bond Account, or the Redemption Account, as the case may be, the Trustee will continue to transfer Statutory Revenues from the Collection Account to the Bond Account until there is on deposit therein the Quarterly Payment Requirement. The obligations of the Trustee for payments to be made from the Collection Account to the Bond Account shall be cumulative so that any shortage in the first month of the Collection Quarter will become part of the funding obligations in the second month of the Collection Quarter and, if necessary, the third month of the Collection Quarter.

The initial Collection Quarter for the Series 1998 B Bonds will commence on August 1, 1998 and the initial Payment Period for the Series 1998 B Bonds will commence November 1, 1998.

After all payments are made to the Bond Account and Redemption Account, moneys on deposit in the Collection Account will be used in the following order of priority; for the payment of the Authority's operating expenses; for the benefit of subordinate bondholders, noteholders or contract parties; and as soon as practicable but not later than the last day of each month, to the City, free and clear of the lien of the Indenture. Before the beginning of each fiscal year and each month during such fiscal year, the City will provide the Authority with a schedule of forecasted collections of Statutory Revenues. The Authority expects that the Quarterly Payment Requirement will be provided from Statutory Revenues during the applicable Collection Quarter. However, in the event projected collections from the Statutory Revenues are anticipated to be insufficient during any Collection Quarter to completely provide for the Quarterly Payment Requirement, the Trustee is required to withhold additional Statutory Revenues in subsequent Collection Quarters. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT—Application of Revenues."

Agreements of the State and the City

In the Act, the State pledges and agrees with the holders of the Bonds that the State will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with such holders pursuant to the Act, or in any way impair the rights and remedies of such holders or the security for the Bonds until the Bonds are fully paid and discharged. The Act provides that nothing therein restricts the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Tax.

In addition and in accordance with the Act, the State pledges and agrees with the holders of the Bonds, to the extent that Personal Income Tax Revenues payable to the Authority during any fiscal year are projected by the Mayor to be insufficient to meet at least 150% of maximum annual debt service on the Bonds then Outstanding (including Subordinate Bonds, if any), the State Comptroller shall pay to the Authority from Sales Tax Revenues such amount as is necessary to provide at least 150% of such maximum annual debt service on the Outstanding Bonds (including Subordinate Bonds, if any); provided, however, that such amounts

are subject to State appropriation until the MAC Funding Requirements are paid in full. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax." The State is not obligated to make any additional payments or impose any taxes to satisfy the debt service obligations of the Authority. The Act does not restrict the right of the State to alter or repeal the statutes imposing or relating to the Sales Tax.

In accordance with the Act, the City will pledge and agree with the holders of the Bonds that the City will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with such holders pursuant to the Act, or in any way impair the rights and remedies of such holders or the security for the Bonds until the Bonds are fully paid and discharged. Nothing contained in the Act or the Agreement restricts any right the City may have to amend, modify, repeal or otherwise alter local laws imposing or relating to the Personal Income Tax Revenues payable to the Authority so long as, after giving effect to such amendment, modification or other alteration, the amount of tax revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration is not less than 150% of maximum annual debt service on Outstanding Bonds of the Authority (including Subordinate Bonds, if any).

The Bonds are not a debt of either the State or the City, and neither the State nor the City is liable thereon.

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

SECTION III: ECONOMIC AND DEMOGRAPHIC STATISTICS

This section presents information regarding certain of the major economic and demographic factors in the City which may affect the Statutory Revenues of the Authority. All information is presented on a calendar year basis unless otherwise indicated. The data set forth are the latest available. Sources of information are indicated in the text or immediately following the tables. Although the Authority considers the sources to be reliable, the Authority has made no independent verification of the information presented herein and does not warrant its accuracy.

New York City Economy

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

The City is a major seaport and focal point for international business. Many of the major corporations headquartered in the City are multinational in scope and have extensive foreign operations. Numerous foreign-owned companies in the United States are also headquartered in the City. These firms, which have increased in number substantially over the past decade, are found in all sectors of the City's economy, but are concentrated in trade, manufacturing sales offices, tourism and finance. The City is the location of the headquarters of the United Nations, and several affiliated organizations maintain their principal offices in the City. A large diplomatic community exists in the City to staff the 186 missions to the United Nations and the 96 foreign consulates.

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. Changes in the economic activity in the City, particularly employment, per capita personal income and retail sales, may have an impact on the Statutory Revenues. From 1969 to 1977, the City experienced declines in employment, but from 1978 to 1987 the City

experienced strong growth in jobs, especially in the City's finance, insurance and real estate ("FIRE") sector due in large part to lower inflation, lower interest rates and a strong securities market. Beginning in 1988, employment growth in the City slowed, and in 1990 the City experienced job losses, although the U.S. economy expanded during that period. From 1991 to 1993, employment levels in the City continued to decline. In recent years, the City has experienced increases in employment. Real per capita personal income (i.e., per capita personal income adjusted for the effects of inflation and the differential in living costs) has generally experienced fewer fluctuations than employment in the City. Although the City periodically experienced declines in real per capita personal income between 1969 and 1981, real per capita personal income in the City has generally increased from the mid-1980s until the present. In nearly all of the years between 1969 and 1988 the City experienced strong increases in retail sales. However, from 1989 to 1993, the City experienced a weak period of retail sales. Since 1994, the City has returned to a period of growth in retail sales. Overall, the City's economic improvement accelerated significantly in fiscal year 1997. Much of the increase can be traced to the performance of the securities industry, but the City's economy also produced gains in the retail trade sector, the hotel and tourism industry, and business services, with private sector employment higher than previously forecasted. The City's current Four-Year Financial Plan assumes that moderate economic growth will exist through calendar year 2001, with moderating job growth and wage increases. However, there can be no assurance that the economic projections assumed in the City Financial Plan will occur or that the tax revenues projected in the City Financial Plan to be received will be received in the amounts anticipated.

Personal Income

Per capita personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, has steadily increased from 1985 to 1995 (the most recent year for which City personal income data are available) and is higher than the average for the United States. From 1985 to 1995, per capita personal income in the City averaged 5.7% growth compared to 4.9% for the nation. The following table sets forth recent information regarding personal income in the City.

PERSONAL INCOME IN NEW YORK CITY*†

Year	Total NYC Personal Income (\$ billions)	Per Capita Personal Income NYC	Per Capita Personal Income U.S.	NYC as a Percent of U.S.
1985	\$124.2	\$17,075	\$14,406	118.5%
1986	133.3	18,212	15,140	120.3
1987	142.7	19,434	16,944	114.7
1988	156.5	21,277	17,017	125.0
1989	167.8	22,842	18,127	126.0
1990	179.9	24,570	19,142	128.4
1991	184.5	25,242	19,638	128.5
1992	197.4	26,985	20,582	131.1
1993	199.1	27,098	21,223	127.7
1994	207.2	28,133	22,044	127.6
1995	219.3	29,743	23,196	128.2

* In current dollars. Personal Income is based on the place of residence and is measured from income which includes wages and salaries, other labor income, proprietors' income, personal dividend income, personal interest income, rental income of persons, and transfer payments.

† Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census.

Sectoral Distribution of Employment and Income

In 1996, the City's services employment sector hit an all-time peak, providing more than 1.2 million jobs and accounting for 36.6% of total employment. Figures on the sectoral distribution of employment in the City reflect a significant shift to non-manufacturing employment, particularly to the areas of services and FIRE, and a shrinking manufacturing base in the City relative to the nation.

The structural shift from manufacturing to the services and FIRE sectors affects the level of earnings per employee because employee compensation in finance and related business and professional services is considerably higher than in manufacturing. Moreover, per employee earnings in the FIRE sector are significantly higher in the City than in the nation. From 1977 to 1994, the employment share for FIRE increased from 13.0% to 14.5% in the City while the FIRE sector earnings share for the same period rose from 16% to 25% in the City. This shift in employment and earnings distribution toward the FIRE sector was more pronounced in the City than in the nation overall as indicated in the table below. Due to this shift in earnings distribution, sudden or large shocks in the financial markets have a disproportionately adverse effect on the City relative to the nation.

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

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS†⁽¹⁾

Sector	Employment				Earnings(2)			
	1977		1994		1977		1994	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector:								
Non-Manufacturing:								
Services	24.6%	18.6%	34.7%	27.7%	24.9%	17.9%	35.0%	27.9%
Wholesale and Retail Trade	19.5	22.4	16.4	23.4	16.0	17.2	11.0	16.0
Finance, Insurance and Real Estate	13.0	5.4	14.5	6.0	16.0	5.8	24.9	7.5
Transportation and Public Utilities	8.1	5.7	6.1	5.2	10.9	7.7	6.0	6.8
Contract Construction	2.0	4.7	2.7	4.4	2.4	6.5	2.7	5.4
Mining	0.0	1.0	0.0	0.5	0.4	1.8	0.0	0.9
Total Non-Manufacturing	<u>67.2</u>	<u>57.8</u>	<u>74.4</u>	<u>67.2</u>	<u>70.8</u>	<u>57.2</u>	<u>79.6</u>	<u>64.6</u>
Manufacturing:								
Durable	5.1	14.0	2.1	9.2	4.3	16.4	1.8	11.3
Non-Durable	11.8	9.8	6.4	6.9	10.5	9.5	5.7	7.3
Total Manufacturing	<u>16.9</u>	<u>23.9</u>	<u>8.5</u>	<u>16.1</u>	<u>14.8</u>	<u>25.9</u>	<u>7.5</u>	<u>18.5</u>
Total Private Sector	<u>84.0</u>	<u>81.7</u>	<u>82.9</u>	<u>83.3</u>	<u>85.6</u>	<u>83.1</u>	<u>87.1</u>	<u>83.2</u>
Government⁽³⁾	15.9	18.3	17.1	16.7	14.4	16.9	12.7	16.2

Note: Totals may not add due to rounding.

† Sources: The two primary sources of employment and earnings information are U.S. Dept. of Labor, Bureau of Labor Statistics, and U.S. Department of Commerce, Bureau of Economic Analysis.

- (1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
- (2) Includes the sum of wage and salary disbursements, other labor income, and proprietors' income. The latest information available for the City is 1994 data.
- (3) Excludes military establishments.

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1994 through 1997, the City has experienced significant private sector job growth with the addition of more than 140,000 new private sector jobs. This expansion over the last three years matches the largest three year job growth rate that the City has experienced since the 1950s, and contrasts with the approximately 9% loss in the City's employment base during 1989-1992.

The table below shows the distribution of employment from 1988 to 1996.

NEW YORK CITY EMPLOYMENT DISTRIBUTION†

	Average Annual Employment (in thousands)								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Private Sector									
Non-Manufacturing									
Services	1,123	1,147	1,149	1,097	1,093	1,116	1,148	1,184	1,229
Wholesale and Retail Trade	634	630	608	565	546	538	544	555	562
Finance, Insurance and Real Estate	542	531	520	494	473	472	480	473	472
Transportation and Public Utilities	220	218	229	218	205	203	201	203	205
Construction	120	121	115	100	87	86	89	90	91
Total Non-Manufacturing	2,639	2,647	2,621	2,474	2,404	2,415	2,462	2,505	2,559
Manufacturing:									
Durable	98	94	88	77	72	71	69	68	65
Non-Durable	272	265	250	231	220	218	211	206	199
Total Manufacturing	370	359	338	308	292	289	280	274	264
Total Private Sector	3,010	3,006	2,958	2,782	2,697	2,703	2,744	2,779	2,823
Government	596	602	608	593	584	580	567	544	534
Total	3,606	3,608	3,566	3,375	3,281	3,283	3,311	3,323	3,357

† Source: U.S. Department of Labor, Bureau of Labor Statistics.

Note: Totals may not add due to rounding.

Taxable Sales

The Sales Tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. The total taxable sales volume has grown steadily over the past 13 years, except for the period from 1991-1992, with a growth rate averaging over 4%.

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. Retail sales account for almost 50% of the total taxable sales volume.

The following table illustrates the volume of sales and purchases subject to the Sales Tax over the past ten years.

**TAXABLE SALES AND PURCHASES SUBJECT TO SALES TAX†
(\$ billions)**

<u>Year(1)</u>	<u>Retail(2)</u>	<u>Utility & Communication Sales(3)</u>	<u>Services(4)</u>	<u>Manufacturing</u>	<u>Other(5)</u>	<u>All Total</u>
1987	\$ 22.6	\$ 7.1	\$ 7.7	\$ 3.9	\$ 6.7	\$ 48.0
1988	23.8	7.3	8.5	3.9	7.3	50.8
1989	24.5	7.6	9.0	3.8	7.8	52.8
1990	25.4	8.1	9.2	3.7	7.9	54.4
1991	24.0	8.5	9.1	3.3	7.8	52.6
1992	23.8	7.3	9.0	3.2	7.9	51.1
1993	24.1	9.4	9.1	3.2	8.6	54.5
1994	26.2	9.3	10.3	3.3	8.1	57.2
1995	27.6	9.0	10.7	3.3	8.9	59.4
1996	29.1	9.7	11.4	3.6	9.4	63.1

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

- (1) The yearly data is for the period from September 1 of the year prior to the listed year through August 31 of the listed year.
- (2) Retail sales include building materials, general merchandise, food, auto dealers/gas stations, apparel, furniture, eating and drinking and miscellaneous retail.
- (3) Utility and Communication sales include electric and gas and communication.
- (4) Services include business services, hotels, personal services, auto repair and other services.
- (5) All other sales include construction, wholesale trade and others.

Population

The City has been the most populous city in the United States since 1810. The City's population is almost as large as the combined population of Los Angeles, Chicago and Houston, the three next most populous cities in the nation.

The City's population reached its peak of approximately 7.9 million in 1970 before declining by 10.4% between 1970 and 1980. From 1980 to 1988, the population of the City steadily increased before dropping slightly from 1989 to 1991. The City's population has increased to approximately 7.4 million in 1996 from approximately 7.3 million in 1991. The following table provides information concerning the City's population.

POPULATION OF NEW YORK CITY†

<u>Year(1)</u>	<u>Total Population</u>
1980	7,071,639
1984	7,234,514
1985	7,274,054
1986	7,319,246
1987	7,342,476
1988	7,353,719
1989	7,344,175
1990	7,322,564
1991	7,308,237
1992	7,315,213
1993	7,347,396
1994	7,363,500
1995	7,373,057
1996	7,380,906

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

(1) 1984-1989 and 1991-1996 figures are based on midyear population estimates of the U.S. Bureau of the Census as of March 1997.

Note: Figures do not include an undetermined number of undocumented aliens.

SECTION IV: THE BONDS

General

The Series 1998 B Bonds will be dated, will bear interest at the rates and will mature on the dates as set forth on the cover and inside cover page of this Offering Circular unless redeemed prior to maturity as described below. The Series 1998 B Bonds will be issued in an aggregate principal amount of \$650,000,000. All of the Series 1998 B Bonds will be issued in book-entry only form as described below.

The Series 1998 B Bonds will be issued in denominations of \$5,000 or any whole multiple thereof, and the Series 1998 B Bonds will bear interest calculated on the basis of a 360-day year of 30-day months.

Optional Redemption

The Series 1998 B Bonds maturing on or before November 15, 2007 are not redeemable prior to maturity. The Series 1998 B Bonds maturing on or after November 15, 2008 are redeemable prior to maturity beginning on May 15, 2008, at the option of the Authority in whole or in part at any time (other than the Series 1998 B Bonds maturing 2008 that bear interest at 5.500%, maturing 2009 that bear interest at 5.000% and maturing 2010 that bear interest at 5.000%, all of which are redeemable at the option of the Authority in whole or in part only on February 15, May 15, August 15 and November 15, of each year commencing May 15, 2008), at the following prices expressed as percentages of their principal amount plus accrued interest to the redemption date:

<u>Redemption Period</u> <u>(Both Dates Inclusive)</u>	<u>Redemption Price</u>
May 15, 2008 to May 14, 2009	101 %
May 15, 2009 to May 14, 2010	100½
May 15, 2010 and thereafter	100

Sinking Fund Redemption

The Series 1998 B Bonds maturing on November 15, 2023 and November 15, 2027 are also subject to mandatory redemption on the dates and in the principal amounts shown below at a Redemption Price of par plus interest accrued to the date fixed for redemption.

<u>Bonds Maturing November 15, 2023</u>		<u>Bonds Maturing November 15, 2027</u>	
<u>November 15</u>	<u>Amount</u>	<u>November 15</u>	<u>Amount</u>
2019	\$32,895,000	2024	\$26,135,000
2020	21,710,000	2025	27,315,000
2021	22,740,000	2026	28,540,000
2022	23,820,000	2027	29,825,000
2023*	24,950,000		

* Stated maturity.

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

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

Notice of Redemption

Upon receipt of notice from the Authority of its election to redeem Bonds or when redemption of Bonds is required pursuant to the Indenture, the Trustee is to give notice of such redemption by mail to the registered owners of Bonds to be redeemed at least 30 days prior to the date set for redemption. However, mailing of notices of redemption to the registered owners of Bonds to be so redeemed shall not be a condition precedent to the validity of the proceedings for the redemption of Bonds.

Payment of Bonds

The Bonds are payable from the Statutory Revenues. For a complete description of the Statutory Revenues, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

Other Series

Bonds and Notes may be issued only (i) as Senior Bonds on a parity with the Series 1998 B Bonds (or Notes in anticipation thereof) (x) to pay or reimburse Project Capital Costs, but (I) not to exceed \$12 billion in issuance amount, measured by proceeds to the Authority, and (II) subject to a \$330 million limit on Quarterly Debt Service to be payable, or (y) to refund or renew such Bonds or Notes, subject to a \$330 million limit on Quarterly Debt Service to be payable; or (ii) as subordinate to the Bonds (or Notes in

anticipation thereof), with Rating Confirmation, but (iii) no Series of Bonds on a parity with the Series 1998 A Bonds shall be authenticated and delivered without Rating Confirmation unless the amount of collections of Statutory Revenues for the twelve consecutive calendar months ended not more than two months prior to the calculation date less the aggregate amount of operating expenses of the Authority for the current fiscal year is at least three times the amount of annual Debt Service, including debt service on the series of Bonds proposed to be issued, for each fiscal year Bonds will be Outstanding. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

Debt Service Requirements

The following schedule sets forth, for each 12-month period ending June 30 of the years shown, the amounts required to be paid by the Authority for the payment of principal and Sinking Fund Installments of, and interest on, the Series 1998 A Bonds and the Series 1998 B Bonds payable on their respective payment dates of each such period, and the total payments to be made with respect to debt service on the Series 1998 B Bonds and for all Bonds during each such period.

12-Month Period Ending June 30	Series 1998 B Bonds Debt Service				Total Debt Service
	Series 1998 A Bonds Debt Service	Principal and Sinking Fund Installments	Interest Payments	Series 1998 B Bonds Debt Service	
1998	\$11,172,402.50				\$11,172,402.50
1999	31,921,150.00	0.00	39,793,069.56	39,793,069.56	71,714,219.56
2000	47,243,450.00	11,625,000.00	30,053,980.00	41,678,980.00	88,922,430.00
2001	47,230,550.00	12,080,000.00	29,579,880.00	41,659,880.00	88,890,430.00
2002	47,200,240.00	12,565,000.00	29,086,980.00	41,651,980.00	88,852,220.00
2003	47,180,705.00	13,075,000.00	28,574,180.00	41,649,180.00	88,829,885.00
2004	49,388,280.00	15,600,000.00	27,950,992.50	43,550,992.50	92,939,272.50
2005	49,401,560.00	16,325,000.00	27,200,305.00	43,525,305.00	92,926,865.00
2006	49,382,902.50	17,100,000.00	26,391,398.75	43,491,398.75	92,874,301.25
2007	49,371,902.50	17,945,000.00	25,536,967.50	43,481,967.50	92,853,870.00
2008	49,275,590.00	18,815,000.00	24,646,298.75	43,461,298.75	92,736,888.75
2009	49,185,802.50	19,725,000.00	23,711,827.50	43,436,827.50	92,622,630.00
2010	49,181,633.75	20,680,000.00	22,737,695.00	43,417,695.00	92,599,328.75
2011	49,200,032.50	21,675,000.00	21,700,015.00	43,375,015.00	92,575,047.50
2012	49,146,062.50	22,760,000.00	20,634,660.00	43,394,660.00	92,540,722.50
2013	49,108,937.50	23,805,000.00	19,563,665.00	43,368,665.00	92,477,602.50
2014	49,068,687.50	24,900,000.00	18,424,775.00	43,324,775.00	92,393,462.50
2015	49,026,437.50	26,085,000.00	17,213,881.25	43,298,881.25	92,325,318.75
2016	26,874,937.50	27,320,000.00	15,945,512.50	43,265,512.50	70,140,450.00
2017	26,858,187.50	28,615,000.00	14,617,056.25	43,232,056.25	70,090,243.75
2018	26,834,687.50	29,975,000.00	13,225,543.75	43,200,543.75	70,035,231.25
2019	26,807,162.50	31,400,000.00	11,767,887.50	43,167,887.50	69,975,050.00
2020	26,782,581.25	32,895,000.00	10,240,881.25	43,135,881.25	69,918,462.50
2021	26,763,156.25	21,710,000.00	8,994,012.50	30,654,012.50	57,417,168.75
2022	26,736,581.25	22,740,000.00	7,888,325.00	30,628,325.00	57,364,906.25
2023	26,723,250.00	23,820,000.00	6,782,525.00	30,602,525.00	57,325,775.00
2024	26,701,750.00	24,950,000.00	5,624,237.50	30,574,237.50	57,275,987.50
2025	26,673,125.00	26,135,000.00	4,443,637.50	30,578,637.50	57,251,762.50
2026	26,644,875.00	27,315,000.00	3,241,012.50	30,556,012.50	57,200,887.50
2027	26,614,250.00	28,540,000.00	1,984,275.00	30,524,275.00	57,138,525.00
2028	26,583,375.00	29,825,000.00	671,062.50	30,496,062.50	57,079,437.50

Use of Proceeds

The proceeds from the sale of the Series 1998 B Bonds will be used by the Authority to provide financing for City capital expenditures. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 1998 B Bonds will be paid from the proceeds of the Series 1998 B Bonds.

Book-Entry Only System

Beneficial ownership interests in the Series 1998 B Bonds will be available in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof. Purchasers of beneficial ownership interests in the Bonds will not receive certificates representing their interests in the Bonds purchased.

DTC, as an automated clearinghouse for securities transactions, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC. If, however, the aggregate principal amount of any such maturity exceeds \$200 million, one bond certificate will be issued with respect to each \$200 million of principal amount of such maturity and an additional bond certificate will be issued with respect to any remaining principal amount of such maturity.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds, as appropriate, are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

DTC may discontinue providing its service with respect to the Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice

to DTC. In either event the Authority may retain another securities depository for the Bonds as appropriate, or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Bonds may thereafter be exchanged for denominations and of the same maturity as set forth in the Indenture, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry-Only System" has been extracted from information furnished by DTC. Neither the Authority nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Other Information

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

SECTION V: THE AUTHORITY

Purpose and Operations

The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State created to issue and sell its bonds and notes to fund a portion of the capital program of the City, as requested by the Mayor.

The Authority may only issue its bonds and notes upon the request of the Mayor. At least annually, the Mayor determines whether the implementation by the City of its capital plan would cause the City to incur debt in excess of the limitation on its general obligation debt imposed by the State constitution. Upon such determination, the Authority is authorized to enter into various agreements with the City to facilitate the implementation of the issuance of the Authority's debt.

The Authority does not have, nor is it expected to have, any significant assets or sources of funds other than the Statutory Revenues and amounts on deposit pursuant to the Indenture. The Bonds will not be insured or guaranteed by the City, the State or the Trustee. Consequently, holders of the Bonds must rely for repayment solely upon collections of the Statutory Revenues and amounts on deposit with the Trustee pursuant to the Indenture.

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

Directors and Management

The Authority is administered by five directors, consisting of the Director of Management and Budget of the City, the Comptroller of the City, the Speaker of the City Council, the Commissioner of Finance of the City and the Commissioner of the Department of Design and Construction of the City. Three directors constitute a quorum for the transaction of business or the exercise of any power of the Authority. A favorable vote of at least three directors present at a meeting where such action is taken is necessary to approve any action, including the issuance of bonds or notes of the Authority or to authorize any amendatory or

supplemental indenture or financing agreement of the Authority relating to such issuance. The current directors of the Authority, each of whom serve in an *ex-officio* capacity, are:

Joseph J. Lhota, Chairperson	—	Director of Management and Budget of the City
Alan G. Hevesi	—	Comptroller of the City
Peter F. Vallone	—	Speaker of the City Council
Alfred C. Cerullo, III	—	Commissioner of Finance of the City
Luis M. Tormenta	—	Commissioner of the Department of Design and Construction of the City

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

Mark Page, Executive Director

Mr. Page was appointed Executive Director in April 1997. Mr. Page also serves as the Deputy Director and General Counsel of the Office of Management and Budget of the City. Mr. Page has worked for the City since 1978 and has served as Assistant General Counsel of the Office of Management and Budget. Mr. Page is a graduate of Harvard University and New York University School of Law.

Alan Anders, Treasurer

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

Marjorie E. Henning, Secretary

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

Patrick J. McCoy, Manager of Investor Relations

Mr. McCoy is a graduate of St. Ambrose University and the New School for Social Research.

Plan of Finance

Assuming conditions specified in the Act and the Indenture are met, the Authority is authorized to issue \$7.5 billion of debt of which \$750 million of outstanding debt may be at a variable rate. The Authority projects that it will issue approximately \$1.950 billion of Bonds (including this issue and the first issue) during fiscal year 1998 and approximately \$1.775 billion during each of fiscal years 1999, 2000 and 2001. The Authority is authorized to issue additional parity obligations and subordinate obligations provided certain conditions are met. See "SECTION IV: THE BONDS—Other Series."

The Act's debt limitation of \$7.5 billion is intended to allow the City to meet its capital plan needs until the State constitution is amended to increase the City's general obligation debt limitation. A proposed amendment to the State constitution may be considered by the State Legislature in 1998 and 1999 and if approved by the State Legislature in two consecutive legislative sessions and approved by voter referendum could have an effective date in the year 2000. If the State constitution is not so amended, the State may, but is not required to, amend the Act to increase the Authority's debt limitation in order to allow the City to meet its capital plan needs. If the City were able to issue sufficient general obligation debt to finance its capital

program, the Mayor may not declare a need for the issuance of additional Authority debt and the Authority would, therefore, not be able to issue Other Series of Bonds unless the Act were amended to permit such issuance.

Financial Emergency Act

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

SECTION VI: LITIGATION

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

On June 2, 1997, Robert L. Schulz and Gary T. Loughrey served an order to show cause with respect to an action in the State Supreme Court, Albany County against the State Legislature, Speaker of the Assembly, Sheldon Silver, Senate Majority Leader Joseph Bruno, and Governor George Pataki. On June 24, 1997, the plaintiffs added State Comptroller H. Carl McCall as a defendant. The action seeks a declaratory judgment declaring the Act to be unconstitutional as allowing the City to issue debt in avoidance of the City’s constitutional debt limitation and also seeks to enjoin issuance of the Series 1998 B Bonds. At their request, the Authority and the City were joined as defendants. The plaintiffs’ application for a temporary restraining order (“TRO”) enjoining the Authority from issuing bonds was denied by the State Supreme Court. The plaintiffs also made application to the State Supreme Court, Appellate Division, Third Department for a TRO enjoining the Authority from issuing bonds. On September 29, 1997, the Appellate Division also denied the plaintiffs’ request for a TRO. On November 25, 1997, the Supreme Court found the Act to be constitutional and granted the defendants’ motion for summary judgment. On December 5, 1997, the plaintiffs appealed the decision to the New York Court of Appeals. In the opinion of Brown & Wood LLP, Bond Counsel to the Authority, the contentions of the plaintiffs relating to the Authority and the issuance of the Bonds are without merit.

SECTION VII: TAX MATTERS

In the opinion of Brown & Wood LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Series 1998 B Bonds will not be includable in the gross income of the owners of the Series 1998 B Bonds for purposes of Federal income taxation under existing law. Interest on the Series 1998 B Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 1998 B Bonds in the event of a failure by the Authority or the City to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and no opinion is rendered by Brown & Wood LLP as to the exclusion from gross income of the interest on the Series 1998 B Bonds for Federal income tax purposes on or after the date on which any action is taken under the Series 1998 B Bond proceedings upon the approval of counsel other than such firm.

In the opinion of Bond Counsel, interest on the Series 1998 B Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

In the opinion of Bond Counsel, interest on the Series 1998 B Bonds will not be a specific preference item for purposes of the Federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which Brown & Wood LLP renders no opinion, as a result of ownership of such Series 1998 B Bonds or the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income. Interest on the Series 1998 B Bonds owned by a corporation will be included in the calculation of the corporation's Federal alternative minimum tax liability.

The excess, if any, of the amount payable at maturity of any maturity of Series 1998 B Bonds over the initial public offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such maturity is sold constitutes original issue discount, which will be excludable from gross income to the same extent as interest on the Series 1998 B Bonds for Federal, State and City income tax purposes. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of the Series 1998 B Bonds with original issue discount (the "Discount Bonds") will be increased by such amount. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's Federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral Federal income tax consequences discussed below. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral Federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

Owners of Discount Bonds should consult their personal tax advisors with respect to the determination for Federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Discount Bonds, other tax consequences of owning Discount Bonds and other state and local tax consequences of holding such Discount Bonds.

The excess, if any, of the tax basis of Series 1998 B Bonds to a purchaser (other than a purchaser who holds such Series 1998 B Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Series 1998 B Bonds for Federal income tax purposes. Owners of such Series 1998 B Bonds

are required to decrease their adjusted basis in such Series 1998 B Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 1998 B Bonds are held. The amortizable bond premium on such Series 1998 B Bonds attributable to a taxable year is not deductible for Federal income tax purposes. Owners of such Series 1998 B Bonds should consult their tax advisors with respect to the determination for Federal income tax purposes of the treatment of bond premiums upon sale or other disposition of such Series 1998 B Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 1998 B Bonds.

Ownership of tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or railroad retirement benefits, taxpayers eligible for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 1998 B Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 1998 B Bonds will not have an adverse effect on the status of the Series 1998 B Bonds. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Series 1998 B Bonds.

SECTION VIII: RATINGS

The Series 1998 B Bonds are expected to be rated "AAA" by Duff & Phelps Credit Rating Co., "AA+" by Fitch IBCA Inc., "Aa3" by Moody's Investors Service and "AA" by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. (collectively, the "Rating Agencies"). These ratings take into consideration the nature and value of the Statutory Revenues, the structural and legal aspects of the Bonds and the Authority, and the extent to which the payment streams from the Statutory Revenues are adequate to make the required Bond payments.

Ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings must be obtained from the rating agency furnishing such rating. 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. A downward revision or withdrawal of such ratings, or either of them, may have an effect on the market price of the Bonds.

SECTION IX: UNDERWRITING

The Series 1998 B Bonds are being purchased for reoffering by the Underwriters, for whom Bear, Stearns & Co. Inc., Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated are acting as Lead Managers. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 1998 B Bonds from the Authority at an aggregate underwriters' discount of \$3,959,921.65 and to make an initial public offering of the Series 1998 B Bonds at prices that are not in excess of the initial public offering prices set forth on the cover page of this Offering Circular, plus accrued interest, if any. The Underwriters will be obligated to purchase all such Bonds if any such Bonds are purchased.

The Series 1998 B Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriters.

SECTION X: APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance and delivery of the Series 1998 B Bonds are subject to the approval of Brown & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters are subject to the approval of the New York City Corporation Counsel, counsel to the Authority and the City, and of Hawkins, Delafield & Wood, New York, New York, counsel to the Underwriters. Hawkins, Delafield & Wood, with the consent of the Authority and the Underwriters, is also serving as litigation counsel to the Authority in connection with the challenge described above in Section VI.

SECTION XI: FINANCIAL ADVISOR

Public Resources Advisory Group, New York, New York, is acting as financial advisor to the Authority in connection with the issuance of the Series 1998 B Bonds.

SECTION XII: FINANCIAL STATEMENTS

The Authority was created in March 1997. The first full fiscal year of the Authority will end June 30, 1998. The Authority will retain an independent accountant. The first financial statements of the Authority will be prepared following completion of the Authority's first full fiscal year and are expected to be available not later than 185 days after the end of the first fiscal year.

SECTION XIII: CONTINUING DISCLOSURE UNDERTAKING

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

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

- (b) in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to any New York State information depository, notice of any of the following events with respect to the Bonds, if material:
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;

- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) modifications to rights of security holders;
- (8) bond calls;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the securities;
- (11) rating changes; and
- (12) failure of the Authority to comply with clause (a) above.

The Authority will not undertake to provide any notice with respect to credit enhancement if the credit enhancement is added after the primary offering of the Series 1998 B Bonds, the Authority does not apply for or participate in obtaining the enhancement and the enhancement is not described in this Offering Circular.

The Authority will not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail herein, (ii) the only open issue is which Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the Bonds and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or Bond purchases.

No Bondholder may institute any suit, action or proceeding at law or in equity (“Proceeding”) for the enforcement of the continuing disclosure undertaking (the “Undertaking”) or for any remedy for breach thereof, unless such Bondholder shall have filed with the Authority evidence of ownership and a written notice of and request to cure such breach, and the Authority shall have refused to comply within a reasonable time. All Proceedings shall be instituted only as specified herein, in the Federal or State courts located in the Borough of Manhattan, State and City of New York, and for the equal benefit of all holders of the outstanding bonds benefitted by the same or a substantially similar covenant, and no remedy shall be sought or granted other than specific performance of the covenant at issue.

An amendment to the Undertaking may only take effect if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of award of a series of Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Authority (such as, but without limitation, the Authority’s financial advisor or bond counsel) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the “impact” (as that word is used in the letter from the SEC staff to the National Association

of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

(b) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the Series 1998 B Bonds, ceases to be in effect for any reason, and the Authority elects that the Undertaking shall be deemed terminated or amended (as the case may be) accordingly.

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

SECTION XIV: LEGAL INVESTMENT

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

SECTION XV: MISCELLANEOUS

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

The agreements of the Authority with holders of the Bonds are fully set forth in the Indenture. Neither any advertisement of the Bonds nor this Offering Circular is to be construed as a contract with purchasers of the Bonds.

The delivery of this Offering Circular has been duly authorized by the Authority.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

SUMMARY OF INDENTURE AND AGREEMENT

This summary of the Indenture and the Agreement is qualified in its entirety by reference to such documents, copies of which are available from the Authority.

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

“*Accounts*” means the Collection Account, the Bond Account and the Redemption Account.

“*Act*” means the New York City Transitional Finance Authority Act, as in effect from time to time, and as the context requires, other provisions of chapter 16 of the laws of 1997, as amended.

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

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

“*Beneficiaries*” means Bondholders and, to the extent specified in the Indenture, Noteholders and the parties to ancillary and swap contracts.

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

“*Bonds*” means all obligations issued as Bonds.

“*Capital Financing Need*” means a period during which and only the extent to which the City is unable to implement its capital plan because such plan would require the City to incur debt and contractual liabilities in excess of the limit imposed by the State Constitution and implementing legislation, all as determined by the Mayor pursuant to the Act.

“*Collection Quarter*” means the three months beginning each August, November, February and May.

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

“*Debt Service*” means interest, redemption premium, purchase price to the extent provided by Officer’s Certificate of the Authority, principal and sinking fund payments due on Outstanding Senior Bonds and (to the extent provided by Series Resolution) Notes, and amounts payable from the Bond Account on Senior Agreements.

“*Defeasance Collateral*” means money and (A) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including “CATS,” “TIGRS” and “TRS” unless the Authority obtains Rating Confirmation with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component)

for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

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

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

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

“Defeased Bonds” means Bonds or Notes that remain in the hands of their Holders but are no longer deemed Outstanding.

“Eligible Investments” means the following obligations to the extent they are legal for investment of money hereunder pursuant to any applicable provision of the Act:

(i) Defeasance Collateral;

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

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

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

(v) commercial or finance company paper (including both non-interest-bearing discount obligations and interest bearing obligations payable on demand or on a specified date not more than one year after the date of issuance thereof) that is rated A-1+ by S&P in one of its two highest short-term unsecured rating category at the time of such investment or contractual commitment providing for such investment;

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

(vii) securities bearing interest or sold at a discount that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated in one of

the two highest categories by Moody's and either A-1+ or in one of the two highest long-term categories by S&P at the time of such investment or contractual commitment providing for such investment; provided, however, that securities issued by any such corporation will not be Eligible Investments to the extent that investment therein would cause the then outstanding principal amount of securities issued by such corporation that are then held to exceed 20% of the aggregate principal amount of all Eligible Investments then held;

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

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

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

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

"*FHLMC*" means the Federal Home Loan Mortgage Corporation.

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

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

"*FNMA*" means the Federal National Mortgage Association.

"*Indenture*" means the Indenture between the Authority and The Chase Manhattan Bank, as Trustee, dated as of October 1, 1997, as amended, supplemented and in effect from time to time.

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

“MAC” means the Municipal Assistance Corporation For The City of New York.

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

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

“Moody’s” means Moody’s Investors Service; references to Moody’s are effective so long as Moody’s is a Rating Agency.

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

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

“Payment Period” means the three months following each Collection Quarter.

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

“Project Capital Costs” or **“Costs”** means costs, appropriated in the capital budget of the City pursuant to Chapters 9 and 10 of the City Charter, as amended from time to time, providing for the construction, reconstruction, acquisition or installation of physical public betterments or improvements which would be classified as capital assets under generally accepted accounting principles for municipalities, or the costs of any preliminary studies, surveys, maps, plans, estimates and hearings, or incidental costs, including legal fees, printing or engraving, publication of notices, taking of title, apportionment of costs, and interest during construction, or any underwriting or other costs incurred in connection with the financing thereof.

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

“Quarterly Debt Service” or **“Quarterly Payment Requirement”** means Debt Service payable in the following Payment Period, as certified to the Trustee by Officer’s Certificate of the Authority.

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

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

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

“S&P” means Standard & Poor’s Ratings Services; references to S&P are effective so long as S&P is a Rating Agency.

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

“Second Supplement” means the Second Supplemental Indenture and Series Resolution, authorizing the Series 1998 B Bonds.

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

“Senior Bonds” means all Bonds issued as Senior Bonds.

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

“State” means the State of New York.

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

“Subordinate Bonds” means all Bonds but Senior Bonds.

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

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

“Tax Revenues” means the Personal Income Taxes and such other revenues, including Alternative Revenues, as the Authority may derive directly from the State from taxes imposed by the City or the State and collected by the State.

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

THE INDENTURE

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

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

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

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

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

Bonds and Notes may be issued only:

- (i) as Senior Bonds (or Notes in anticipation thereof)
 - (x) to pay or reimburse Project Capital Costs, but
 - (I) not to exceed \$12 billion in issuance amount, measured by proceeds to the Authority, and
 - (II) subject to a \$330 million limit on Quarterly Debt Service to be payable, or
 - (y) to refund or renew such Bonds or Notes, subject to a \$330 million limit on Quarterly Debt Service to be payable; or
- (ii) as Subordinate Bonds (or Notes in anticipation thereof), with Rating Confirmation; but
- (iii) no Series of Bonds on a parity with the Series 1998 A Bonds shall be authenticated and delivered without Rating Confirmation except upon receipt by the Trustee of the following:
 - (y) a certificate by the Director of Management and Budget setting forth the most recent collections for the 12 consecutive calendar months ended not more than two months prior to the date of such certificate, of the Statutory Revenues, in effect at the date of issuance of such Series of Bonds, collected by the State and to be payable to the Authority; and
 - (z) an Officer's Certificate of the Authority setting forth
 - (I) the aggregate amount of Debt Service (excluding any accrued or capitalized interest), including such series of Bonds, for each Fiscal Year such Bonds will be Outstanding,
 - (II) the aggregate amount of operating expenses as estimated by an Authorized Officer of the Authority for the current Fiscal Year, and
 - (III) that the amounts set forth pursuant to clause (y) after deducting the operating expenses set forth pursuant to clause (z)(II), will be at least three times such aggregate amount set forth in clause (z)(I) for each Fiscal Year set forth pursuant to clause (z)(I).

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

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

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

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

(b) an opinion of Counsel as to the due authorization, execution and delivery by the Authority of the Indenture and each relevant Supplemental Indenture; to the effect that the Series Resolution is in full force and effect and that the Bonds or Notes are valid and binding; and after delivery of the Series 1998 B Bonds, to the effect that the issuance of the Bonds or Notes will not adversely affect the exclusion from gross income for Federal income tax purposes of interest on Tax-Exempt Bonds or Tax-Exempt Notes theretofore issued (as set forth in the opinions delivered with such prior Bonds or Notes).

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

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

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

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

Application of Revenues. (a) Provision is made in the Act for the payment to the Authority of the Tax Revenues, and the Authority has requested the State Comptroller to make such payments to the Collection Account to be held by the Trustee. Any Revenues received by the Authority shall be promptly deposited in the Collection Account. All Revenues in the Collection Account shall be applied upon receipt by the Trustee, in the following order of priority: *first* to the Bond Account to pay Debt Service pursuant to paragraph (b) summarized below; *second*, to the Authority's operating expenses, which may include deposits to the Redemption Account for optional redemption and reserves to be held by the Authority for payment of operating expenses, in such amounts as may be determined by Supplemental Indenture or Officer's Certificate; *third* pursuant to Supplemental Indentures for the benefit of Noteholders, Subordinate Bondholders and parties to ancillary and swap contracts, to the extent such Supplemental Indentures may require application

of Revenues to pay items after payment of Debt Service and operating expenses; and *fourth* daily or as soon as practicable but not later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.

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

(c) Prior to any interest payment date for Outstanding Notes or Senior Bonds, the Authority may by Officer's Certificate estimate interest payable at a variable rate; or treat anticipated receipts on an ancillary or swap contract as offsets thereto as specified in the Indenture.

(d) The transfers and payments shall be appropriately adjusted by Officer's Certificate of the Authority to reflect the date of issue of Notes or Bonds, any accrued or capitalized interest deposited in the Bond Account, actual rates of interest, any amount needed or held in the Accounts for Debt Service payable in the current Collection Quarter, and any purchase or redemption of Notes or Bonds, so that there will be available on each payment date the amount necessary to pay Debt Service and so that accrued or capitalized interest will be applied to the installments of interest to which it is applicable.

(e) Revenues shall in all events be transferred from the Collection Account to the Bond Account or Redemption Account to provide for the timely payment of Debt Service, and all Revenues shall be applied to pay Debt Service and other amounts then overdue pursuant to the remedial provisions of the Indenture.

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

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

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

If on any date the amount in the Bond Account is less than the amount then required to be applied to pay Debt Service then due, the Trustee shall apply the amount in the Redemption Account (other than any

sum irrevocably set aside for particular Notes or Bonds no longer Outstanding) to the extent necessary to meet the deficiency.

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

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

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

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

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

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

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

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

Unclaimed Money. Except as may otherwise be required by applicable law, in case any money deposited with the Trustee or a Paying Agent for the payment of the principal of, or interest or premium, if

any, on any Bond or Note remain unclaimed for two years after such principal, interest or premium has become due and payable, the Fiduciary may and upon receipt of a written request of the Authority will pay over to the Authority the amount so deposited and the owner of such Bond or Note shall be entitled (subject to any applicable statute of limitations) to look only to the Authority as an unsecured creditor for the payment thereof.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State Covenant and Tax Contract. The Authority includes in the Indenture: (a) the State's pledge and agreement with the Holders of Outstanding Bonds and Notes that the State will not limit or alter the rights vested in the Authority by the Act to fulfill the terms of any agreements made with the Holders, or in any way impair the rights and remedies of such Holders or the security for the Bonds and Notes until such Bonds and Notes, together with the interest thereon, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged, (b) the further terms of §2799-ii of the Act to the effect that: Nothing contained in this covenant shall be deemed to restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Taxes. Not less than 30 days prior to the beginning of each City fiscal year, the Chairperson of the Authority shall certify to the State Comptroller, the Governor, and the members of the Board of Directors of the Authority a schedule of maximum annual debt service payments due on the Bonds and Notes then Outstanding. To the extent that Personal Income Taxes payable to the Authority during such fiscal year are projected by the Mayor to be insufficient to meet at least 150% of maximum annual debt service on the Bonds then Outstanding, the Mayor shall so notify the State Comptroller and the State Comptroller shall pay to the Authority from Sales Taxes such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds; provided, however, that for so long as any indebtedness of MAC remains outstanding no Sales Taxes that are, as of March 5, 1997, or may in the future be, required to be deposited in the Municipal Assistance

Tax Fund established under §92-d of the State Finance Law shall be paid to the Authority except out of funds that are otherwise required to be paid to the City under that section. Nothing in this covenant shall be deemed to obligate the State to make any additional payments or impose any taxes to satisfy the obligations of the Authority; and (c) the tax contract of the State in the Act.

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

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

(c) The Authority confirms that the acknowledgments and agreements summarized forth in paragraphs (a) and (b) above have been included as a result of negotiations with the underwriters of the Series 1998 B Bonds and may further acknowledge in any Series Resolution if and the extent to which any provision of this Resolution has been amended, or any provision of such Series Resolution has been included therein, as a result of the same or similar negotiations.

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

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

Each Fiduciary shall be entitled to the advice of counsel (who may be counsel for any party) and shall not be liable for any action taken in good faith in reliance on such advice. Each Fiduciary may rely conclusively on any notice, certificate or other document furnished to it under the Indenture and reasonably believed by it to be genuine. A Fiduciary shall not be liable for any action taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under the Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the

consequences of any error of judgment reasonably made by it. When any payment or consent or other action by a Fiduciary is called for by the Indenture, the Fiduciary may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof. A permissive right or power to act shall not be construed as a requirement to act.

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

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

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

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

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

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

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

Registered Owners. The enumeration of certain provisions applicable to DTC as Holder of immobilized Notes and Bonds shall not be construed in limitation of the rights of the Authority and each

Fiduciary to rely upon the registration books in all circumstances and to treat the registered owners of Notes and Bonds as the owners thereof for all purposes not otherwise specifically provided for. Notwithstanding any other provisions of the Indenture, any payment to the registered owner of a Note or Bond shall satisfy the Authority's obligations thereon to the extent of such payment.

Events of Default; Default. "Event of Default" in the Indenture means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice. (a) The Authority shall fail to pay when due any interest, principal or redemption premium on a Note or Bond. (b) The Authority shall fail to make any other required payment to the Trustee or other Fiduciary and such failure is not remedied within 7 days after written notice thereof is given by the Trustee or other Fiduciary to the Authority. (c) The Authority shall fail to observe or perform any of its other agreements, covenants or obligations under the Indenture and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the Authority. (d) Specified events of insolvency. (e) The State shall (i) amend, alter, repeal or fail to comply with the State Covenant or its tax contract in the Act as in effect on the date hereof or (ii) enact a moratorium or other similar law affecting the Bonds or Notes or (iii) amend, modify, repeal or otherwise alter, in any material respect, (y) the requirement of §1313 of the Tax Law that: "The comptroller, after reserving such refund fund and such costs shall, commencing on or before the fifteenth day of each month, pay to the New York city transitional finance authority on a daily basis the balance of" Personal Income Taxes or (z) the requirement of §2799-ii of the Act that: "To the extent that the tax revenues payable to the authority under section thirteen hundred thirteen of the tax law during such fiscal year are projected by the mayor to be insufficient to meet at least one hundred fifty percent of maximum annual debt service on authority bonds then outstanding, the mayor shall so notify the state comptroller and the state comptroller shall pay to the authority from" Alternative Revenues such amount as is necessary to provide at least 150% of the maximum annual debt service; subject to the proviso in effect at the date of the Series 1998 B Bonds recognizing the prior lien in favor of MAC. (f) The State Comptroller shall fail or refuse to comply with any provision of law in effect for the benefit of the Authority. (g) The City shall fail to observe or perform any of its agreements, covenants or obligations under the Agreement for the benefit of the Holders and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the City and the Authority or by the Authority to the Trustee and the City. (h) Any Officer's Certificate delivered pursuant to paragraph (c) of "Accounts and Reports" above shall show estimated Revenues to be less than 150% of Debt Service.

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

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

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

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

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

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

Supplements and Amendments. (A) The Indenture may be (1) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority and executed or approved by the Mayor and Comptroller to the extent, if any, required by the Act, to (a) provide for earlier or greater deposits into the Bond Account, (b) subject any property to the lien of the Indenture, (c) add to the covenants and

agreements of the Authority or surrender or limit any right or power of the Authority, (d) identify particular Notes or Bonds for purposes not inconsistent with the Indenture including credit or liquidity support, remarketing, serialization and defeasance, or (e) authorize Bonds or Notes of a Series and in connection therewith determine the matters referred to in the Indenture and any other things relative to such Bonds or Notes that are not prejudicial to the Holders, or to modify or rescind any such authorization or determination at any time prior to the first authentication and delivery of such Series of Bonds or Notes; or

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

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

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

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

Financial Reporting Covenants. The City (by the Mayor's approval of the issuance of the Series 1998 B Bonds) and the Authority covenant with the Holders of the Outstanding Series 1998 B Bonds to comply with the financial reporting requirements of the Financial Emergency Act for The City of New York and the Act, respectively, each as in effect from time to time.

THE AGREEMENT

The Agreement, including the Transitional Capital Plan attached thereto:

- (i) describes by reference to the capital budget of the City the particular Projects and Costs to be financed in whole or in part by the Authority;
- (ii) describes the plan for the financing of the Costs or Projects;
- (iii) sets forth the method for which and by whom and the terms and conditions upon which money provided by the Authority shall be distributed to the City, which disbursements shall occur, subject to receipt by the Authority of such documentation as to the costs being reimbursed as the Authority shall reasonably require, at least monthly;
- (iv) provides for the payment of such Costs by the City under such contracts as shall be awarded by the City or for the City to make a capital contribution of such proceeds as City funds to another entity for the payment or reimbursement of such Costs;
- (v) requires every contract entered into by the City, or another entity receiving funds from the City, for Projects or Costs to be financed in whole or in part by the Authority to be subject to the provisions of the City Charter and other applicable laws governing contracts of the City or such entity, as the case may be; and
- (vi) authorizes the Authority's assignment and pledge to the Trustee in trust for the benefit and security of the Bondholders and, to the extent specified in the Indenture, of Noteholders and the parties to ancillary and swap contracts of rights of the Authority under the Agreement.

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

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

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

The Authority shall pay from the Project Fund the Costs of Issuance, including any expenses of the City in connection with the issuance of the Bonds and Notes that are approved by the Authority, and disburse

funds to the City to finance, by payment or reimbursement, Project Capital Costs to the extent of the Capital Financing Need. When all Costs of Issuance and Project Capital Costs have been paid or reimbursed, as evidenced by Officer's Certificates of the Authority and the City, any excess in the Project Fund shall promptly be paid to the Trustee for deposit in the Collection Account.

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

Money in the Project Fund shall be invested and reinvested in accordance with the Act. Earnings thereon shall be transferred to the Collection Account as Revenues.

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

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

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

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

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

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

certify to the Authority and the Trustee (in addition to other required matters) the City's projection of Sales Taxes available to be paid to the Authority each month during such fiscal year.

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

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

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

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

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

(c) The City further acknowledges that the acknowledgments and agreements described in paragraphs (a) and (b) above have been included as a result of negotiations with the underwriters of the Series 1998 B Bonds and may further acknowledge if and the extent to which any provision of the Agreement has been amended, or any provision of a Series Resolution has been included therein, as a result of the same or similar negotiations.

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

and agreements of the City or the Authority for the benefit of the Holders or surrender or limit for the benefit of the Holders any right or power of the City or the Authority; or

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

(B) Except as described in the foregoing paragraph (A), the Agreement may be amended only by the City and the Authority with the written consent of a Majority in Interest of the Subordinate Bonds, Senior Bonds and Notes (acting as three separate classes) to be Outstanding at the effective date thereof and affected thereby; but only with the unanimous written consent of the affected Holders to reduce the percentage of the Bonds and Notes required to be represented by the Holders giving their consent to any amendment.

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

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

(This page has been left blank intentionally.)

[LETTERHEAD OF BROWN & WOOD LLP]

January 22, 1998

NEW YORK CITY TRANSITIONAL
FINANCE AUTHORITY

We have acted as bond counsel in connection with the issuance by the New York City Transitional Finance Authority (the "Authority"), a public benefit corporation organized under the laws of the State of New York (the "State"), of \$650,000,000 Future Tax Secured Bonds, Fiscal 1998 Series B (the "New Bonds"). The New Bonds are being issued as Senior Bonds pursuant to Chapter 16, Laws of New York, 1997 (the "Act"), to an Indenture dated as of October 1, 1997, as amended and supplemented (the "Indenture"), between the Authority and The Chase Manhattan Bank, as Trustee, and to a Financing Agreement dated October 1, 1997 (the "Agreement"), between the Authority and The City of New York (the "City").

The New Bonds are dated, bear interest, mature, are subject to redemption and are secured as set forth in the Indenture. The Authority is authorized to issue additional Senior Bonds (together with such Senior Bonds heretofore issued and the New Bonds, the "Bonds") only on the terms and conditions set forth in the Indenture and all such Bonds shall with the New Bonds be entitled to the equal benefit, protection and security of the provisions, covenants and agreements in the Indenture. We assume the parties will perform their respective covenants in the Indenture and the Agreement in all material respects.

Based on the foregoing and our examination of existing law, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion that:

1. The Authority is a public benefit corporation duly organized and existing under the laws of the State, and is authorized under the laws of the State, particularly the Act, to enter into the Indenture and the Agreement and to issue the Bonds. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matter of this opinion letter. The New Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding general obligations of the Authority payable from the Revenues pledged and the other collateral provided therefor in the Indenture. The Bonds do not constitute a debt of the State or the City, and neither the State nor the City shall be liable thereon, nor shall the Bonds be payable out of any funds other than those of the Authority.

2. The Act validly provides for (a) the payment to the Authority (i) of the taxes so payable pursuant to §1313 of the Tax Law (the "Personal Income Taxes"), and (ii) to the extent specified in the Act, of sales and compensating use taxes that the City is authorized by the State to impose and taxes imposed by the State pursuant to §1107 of the Tax Law (the "Alternative Revenues", and to the extent so payable, with the Personal Income Taxes and such other revenues, if any, as the Authority may derive directly from the State from taxes imposed by the City or the State and collected by the State, the "Tax Revenues"), (b) the Authority's pledge to the Trustee of the Tax Revenues and all aid, rents, fees, charges, payments and other income and receipts paid or payable to the Authority or the Trustee (the "Revenues"), and (c) the application of proceeds of the Bonds to finance or refinance capital projects of the City.

3. The Personal Income Taxes are subject neither to appropriation by the City or the State, nor to prior claims in favor of other obligations or purposes of the City or the State except as specified in §1313 of the Tax Law with respect to overpayments and the State's reasonable costs in

administering, collecting and distributing such taxes. Alternative Revenues consisting of sales and compensating use taxes imposed by the State, if payable to the Authority pursuant to the Act, are subject to State appropriation and to a prior claim of the Municipal Assistance Corporation for The City of New York. Alternative Revenues consisting of sales and compensating use taxes imposed by the City, if payable to the Authority pursuant to the Act, are not subject to appropriation by the City or the State.

4. The Indenture (a) has been duly and lawfully authorized, executed and delivered by the Authority, (b) creates the valid pledge of Revenues and other collateral that it purports to create and (c) is a valid and binding agreement, enforceable in accordance with its terms, of the Authority, and to the extent specified in the Act, the State. The lien of the Indenture on the Revenues for the security of the Bonds (and other instruments to the extent specified in the Indenture) is, and pursuant to the covenant of the Authority in the Indenture will be, prior to all other liens thereon. The Act does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the taxes payable to the Authority pursuant to §1313 of the Tax Law, nor does it obligate the State to make any payments not specified in the Act or impose any taxes to satisfy the obligations of the Authority. Upon any failure of the State Legislature to make required appropriations for State debt obligations, the Tax Revenues would not constitute revenues applicable to the General Fund of the State; hence Article 7, Section 16, of the State Constitution does not mandate such money to be set apart by the State Comptroller for the payment of State obligations.

5. Each pledge of or security interest in Revenues, money, accounts, contract rights, general intangibles or other personal property made or created by the Authority in the Indenture is valid, binding and perfected from the time when such pledge is made or other security interest attaches without any physical delivery of the collateral or further act, and the lien thereof is valid, binding and perfected against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of such parties' notice thereof.

6. The Agreement has been duly and lawfully, authorized, executed and delivered by the Authority and the City pursuant to the Act, and is a valid and binding agreement of each of them.

7. Pursuant to the Act, the State Comptroller shall pay the Tax Revenues to the Trustee, to be applied first pursuant to the Authority's contracts with the holders of the Bonds, then to pay the Authority's operating expenses, and then pursuant to the Authority's agreements with the City, which shall require the Authority to transfer the balance of such taxes to the City as frequently as practicable; all of which is provided for in the Indenture and the Agreement.

8. The Authority is not eligible for protection from its creditors pursuant to Title 11 (the "Bankruptcy Code") of the United States Code. If the debts of the City were adjusted under the Bankruptcy Code, and the City or its creditors asserted a right to the Tax Revenues superior or equal to the rights of the holders of the Bonds, such assertion would not succeed.

9. Interest on the Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

10. Except as provided in the following sentence, interest on the New Bonds is not includable in the gross income of the owners of the New Bonds for purposes of Federal income taxation under existing law. Interest on the New Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the New Bonds in the event of a failure by the Authority or the City to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code"), and their respective covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and

we render no opinion as to the exclusion from gross income of interest on the New Bonds for Federal income tax purposes on or after the date on which any action is taken under the Indenture or related proceedings upon the approval of counsel other than ourselves.

11. Interest on the New Bonds is not a specific preference item for purposes of the Federal individual or corporate alternative minimum tax. The Tax Code contains other provisions that could result in tax consequences, upon which we render no opinion, as a result of ownership of such Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

12. The excess, if any, of the amount payable at maturity of a maturity of the New Bonds over the initial offering price of such Bonds to the public at which price a substantial amount of such maturity is sold represents original issue discount that is excluded from gross income for Federal income tax purposes to the same extent as interest on the New Bonds. The Tax Code further provides that such original issue discount excluded as interest accrues in accordance with a constant interest method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of the New Bonds with original issue discount will be increased by the amount of such accrued interest.

13. No registration with, consent of, or approval by any governmental agency or commission that has not been obtained is necessary for the execution and delivery of the New Bonds.

14. The adoption and compliance with all of the terms and conditions of the Indenture and the New Bonds, and the execution and delivery of the New Bonds, will not result in a violation of or be in conflict with any term or provision of any existing law.

The rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the extent constitutionally applicable and except as specifically stated above, and may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

(This page has been left blank intentionally.)



TABLE OF CONTENTS

	<u>Page</u>
SUMMARY OF TERMS	1
SECTION I: INTRODUCTION	9
SECTION II: SOURCES OF PAYMENT AND SECURITY	
FOR THE BONDS	10
General	10
Statutory Revenues	10
Debt Service Coverage	12
Servicing	15
Personal Income Tax Collection	15
Sales Tax Collection	15
Personal Income Tax	15
Sales Tax	18
MAC Funding Requirements	18
Sales Tax Collections Net of MAC Funding	
Requirements	19
Application of Revenues	20
Retention Procedures	22
Agreements of the State and the City	22
SECTION III: ECONOMIC AND	
DEMOGRAPHIC STATISTICS	23
New York City Economy	23
Personal Income	24
Sectoral Distribution of Employment and Income ...	25
Employment Trends	26
Taxable Sales	26
Population	27
SECTION IV: THE BONDS	28
General	28
Optional Redemption	28
Sinking Fund Redemption	29
Notice of Redemption	29
Payment of Bonds	29
Other Series	29
Debt Service Requirements	30
Use of Proceeds	31
Book-Entry Only System	31
Other Information	33
SECTION V: THE AUTHORITY	33
Purpose and Operations	33
Directors and Management	33
Plan of Finance	34
Financial Emergency Act	35
SECTION VI: LITIGATION	35
SECTION VII: TAX MATTERS	36
SECTION VIII: RATINGS	37
SECTION IX: UNDERWRITING	37
SECTION X: APPROVAL OF LEGALITY	38
SECTION XI: FINANCIAL ADVISOR	38
SECTION XII: FINANCIAL STATEMENTS	38
SECTION XIII: CONTINUING DISCLOSURE UNDERTAKING	38
SECTION XIV: LEGAL INVESTMENT	40
SECTION XV: MISCELLANEOUS	40
APPENDIX A: SUMMARY OF INDENTURE AND	
AGREEMENT	A-1
APPENDIX B: PROPOSED FORM OF BOND	
COUNSEL OPINION	B-1



\$650,000,000 Future Tax Secured Bonds Fiscal 1998 Series B

OFFERING CIRCULAR

January 14, 1998

84782
91

MSRB

FORM G-36(OS) - FOR OFFICIAL STATEMENTS

SECTION I - MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: 1/15/98 (b) DATE SENT TO MSRB: 1/15/98

2. AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: (b) DATE SENT TO MSRB:

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement and wrap, even if physically attached). PLEASE CHECK HERE:

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED. PLEASE CHECK HERE (include copy of original Form G-36(OS)):

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here:

A. NAME OF ISSUER: New York City Transitional Finance Authority STATE: New York
DESCRIPTION OF ISSUE: Future Tax Secured Bonds Fiscal 1998 Series B DATED DATE: 1/22/98

B. NAME OF ISSUER: STATE:
DESCRIPTION OF ISSUE: DATED DATE:

C. NAME OF ISSUER: STATE:
DESCRIPTION OF ISSUE: DATED DATE:

SECTION III - TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 11/15/2027

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 1/14/98

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 1/22/98

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE:

A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER: Bear, Stearns & Co. Inc. SEC REG. NUMBER: 13-3299429

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING: \$ 650,000,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): \$

D. CHECK ALL THAT APPLY

- 1. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent
- 2. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent
- 3. This offering is exempt from SEC Rule 15c2-12 under section (d)(1)(i) of that rule. Section (d)(1)(i) of SEC Rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment, and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
<i>please see</i>	<i>attached</i>				

B IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9". CHECK HERE AND LIST THEM BELOW:
 (Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED _____

State the reason why such securities have not been assigned a "CUSIP-9" _____

C IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE:

State the reason why such securities are ineligible for CUSIP number assignment: _____

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.

RECEIVED
 JAN 16 1998
 "M.S.R.B"