

**NEW ISSUE**

In the opinion of Bond Counsel, interest on the Series 2002 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 Tax-Exempt Fixed Rate 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.



**\$419,235,000**

**Future Tax Secured Bonds, Fiscal 2002 Series B  
(Tax-Exempt Fixed Rate Bonds)**

Dated: Date of Delivery

Due: May 1, as shown on the inside cover

The Future Tax Secured Bonds, Fiscal 2002 Series B (the "Series 2002 B Bonds") are being issued by the New York City Transitional Finance Authority (the "Authority") pursuant to Chapter 16 of the Laws of 1997 of the State of New York, as amended (the "Act"), and an Indenture, dated as of October 1, 1997, as amended and supplemented (the "Indenture"), by and between the Authority and State Street Bank and Trust Company, N.A., as trustee (the "Trustee").

The Authority's Series 2002 B Bonds will be on a parity with the \$7,488,160,000 of outstanding Future Tax Secured Bonds. Provided the statutory and contractual conditions are met, Other Series of Bonds on a parity with or subordinate to the Series 2002 B Bonds may be issued (Other Series of Senior Bonds heretofore or hereafter issued, together with the Series 2002 B Bonds, the "Bonds"). See "SECTION IV: THE BONDS—Other Series."

Pursuant to the Act (as defined herein), the Bonds are payable from the Revenues of the Authority derived from collections of personal income taxes imposed by the City and 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 2002 B Bonds will be issued only as fully registered bonds, registered in the nominee name of The Depository Trust Company. Purchases of beneficial interests in the Tax-Exempt Fixed Rate 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 2002 B Bonds.

Principal, redemption price and interest on the Tax-Exempt Fixed Rate Bonds (with interest accruing from the dated date and payable on May 1, 2002 and thereafter on November 1 and May 1 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 2002 B Bonds are the responsibility of DTC Participants, as described herein.

The Tax-Exempt Fixed Rate 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 Tax-Exempt Fixed Rate Bonds are being offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of legality of the Tax-Exempt Fixed Rate Bonds and certain other matters by Sidley Austin 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, Clifford Chance Rogers & Wells LLP, New York, New York. It is expected that the Tax-Exempt Fixed Rate Bonds will be available for delivery to DTC in New York, New York, on or about November 14, 2001.

**Lehman Brothers**

**Bear, Stearns & Co. Inc.**

**Morgan Stanley**

**Dain Rauscher, Inc.**

**First Albany Corporation**

**Goldman, Sachs & Co.**

**JPMorgan**

**Merrill Lynch & Co.**

**UBS PaineWebber Inc.**

**Ramirez & Co., Inc.**

**Salomon Smith Barney**

**Advest, Inc.**

**Apex Pryor Securities**

**David Lerner Associates, Inc.**

**Lebenthal & Co., Inc.**

**M.R. Beal & Company**

**CIBC Oppenheimer**

**Quick & Reilly, Inc.**

**Roosevelt & Cross Incorporated**

**Siebert Brandford Shank & Co. LLC**

**\$620,190,000<sup>(1)</sup> Future Tax Secured Bonds, Fiscal 2002 Series B**

<u>May 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2003 .....	\$ 8,090,000	3½%	2.25%
2004 .....	3,825,000	4	2.74
2004 .....	6,000,000	5	2.74
2005 .....	9,995,000	4	3.05
2006 .....	1,460,000	4	3.31
2006 .....	7,380,000	5	3.31
2007 .....	12,250,000	4%	3.54
2007 .....	845,000	5	3.54
2008 .....	13,720,000**	4	3.68
2009 .....	11,750,000**	4	3.82
2009 .....	2,460,000	4	3.89
2010 .....	1,865,000	4	3.99
2010 .....	10,900,000	5¼	3.99
2011 .....	7,615,000**	4	4.02
2011 .....	8,000,000**	5¼	4.02
2012 .....	4,565,000**	4%	4.16
2012 .....	11,770,000**	5¼	4.16
2013 .....	320,000	4.30	4.34
2013 .....	16,770,000	5¼	4.34*
2014 .....	470,000	4.40	4.47
2014 .....	17,720,000	5¼	4.47*
2015 .....	225,000	4.60	100
2015 .....	15,520,000**	5¼	4.50*
2016 .....	465,000	4%	4.70
2016 .....	17,820,000**	5¼	4.60*
2017 .....	8,310,000**	4.70	100
2017 .....	10,420,000**	5¼	4.70*
2018 .....	19,770,000	5	4.91*
2019 .....	6,700,000**	5	4.92*
2020 .....	18,265,000**†	5	4.98*
2026 .....	24,445,000	5	5.13
2026 .....	4,985,000	5¼	5.13
2030 .....	97,000,000†	5	5.15
2031 .....	37,540,000**	5	5.06

<sup>(1)</sup> Includes \$200,955,000 Taxable Bonds not offered hereby.

† Term Bond.

\* Priced to first par call on November 1, 2012.

\*\* Insured by MBIA Insurance Corporation.

The information in this Offering Circular has been provided by the Authority, the City and other sources considered by the Authority to be reliable. 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, salesperson 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 expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the City 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 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.

Unless otherwise noted, the projections and forecasts contained herein were made prior to the terrorist attack on the World Trade Center on September 11, 2001 and have not been revised to reflect changes that may occur as a result of this event.

**THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY BODY. 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.**

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## 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 (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 (as amended, the "Act").
Securities Offered .....	\$620,190,000 Future Tax Secured Bonds, Fiscal 2002 Series B (the "Series 2002 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. \$419,235,000 of the Series 2002 B Bonds are to be issued as tax-exempt fixed rate bonds (the "Tax Exempt Fixed Rate Bonds") and \$200,955,000 of the Series 2002 B Bonds will be issued as taxable bonds (the "Taxable Bonds") and will be offered by a separate Offering Circular. The Series 2002 B Bonds (along with other Series of Senior Bonds heretofore or hereafter issued, the "Bonds") will be payable from Statutory Revenues which the Act requires to be paid to the Authority as described herein.
Trustee .....	State Street Bank and Trust Company, N.A., 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 and Subordinate Bonds, if any, including Recovery Bonds, in such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds and Subordinate Bonds. 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 2002 B Bonds will be used, along with other funds of the Authority, to provide for Project Capital Costs and for the payment of the Authority’s Fiscal 2002 Series 1 and Series 2 Bond Anticipation Notes, the proceeds of which have been 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, while applicable, 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 approximately \$5.8 billion in fiscal year 2001. Personal Income Tax Revenues are projected to be approximately \$5.0 billion, \$5.4 billion, \$5.7 billion and \$6.2 billion in fiscal years 2002 through 2005, respectively. The decline in fiscal year 2002 was projected before the terrorist attack on the World Trade Center to result from reductions in tax rates and declines in security industry bonuses and capital gains realizations. See “SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Statutory Revenues.” 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 (as defined herein) 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 and Subordinate Bonds. Since the inception of the Sales Tax in fiscal year 1934, Sales Tax Revenues have increased to approximately \$3.7 billion in fiscal year 2001. Sales Tax Revenues are expected to be approximately \$3.7 billion, \$3.4 billion, \$3.6 billion, and \$3.7 billion in fiscal years 2002 through 2005, respectively.

Unless otherwise noted, the projections and forecasts contained herein were made prior to the terrorist attack on the World Trade Center on September 11, 2001 and have not been revised to reflect changes that may occur as a result of this event. The City projects that Personal Income Tax Revenues and Sales Tax Revenues are preliminarily projected to be reduced by approximately \$276 million and \$272 million, respectively, in fiscal year 2002 as a result of this event.

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. The Act was amended in June 2000 and September 2001, to among other things, increase the debt-incurring capacity of the Authority. The amendment in September 2001 permitted the Authority to issue its bonds and notes to pay Recovery Costs.

State and City Covenants.....

The Act and the Indenture contain the covenant of the State with the Noteholders and 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 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, but such taxes payable to the Authority will in all events continue to be so payable so long as any such taxes are imposed.

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 and Subordinate Bonds, 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 and Recovery Bonds; 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 has pledged and agreed 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 and Subordinate Bonds.

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."



Other Series of Bonds..... The Authority has previously issued \$7,651,765,000 of Senior Bonds of which \$7,488,160,000 are Outstanding. In addition, \$600,000,000 of the Authority's Bond Anticipation Notes due November 30, 2001 are expected to be paid through the issuance of the Series 2002 B Bonds. In October 2001, the Authority issued its \$1,000,000,000 New York City Recovery Notes, Fiscal 2002 Series A due October 2, 2002 (the "Recovery Notes") to pay costs related to the September 11 attack. The Recovery Notes are expected to be paid through the issuance of Recovery Bonds or from Statutory Revenues on a subordinated basis. Other Series of Bonds, Bond Anticipation Notes and New York City Recovery Notes are expected to be issued from time to time. See "SECTION IV: THE BONDS—Other Series" and "SECTION V: THE AUTHORITY—Plan of Finance."

The Act authorizes the Authority to issue bonds and notes for capital purposes (up to \$11.5 billion) and for the refunding of bonds and notes. In addition, the Act was amended in September 2001 to permit the Authority to have outstanding an additional \$2.5 billion of its bonds and notes to pay Recovery Costs.

Interest and Principal..... Interest on the Tax Exempt Fixed Rate Bonds will accrue from their dated date at the rates set forth on the inside cover page hereof and will be payable semiannually, commencing May 1, 2002. The record date for payment of interest on the Tax Exempt Fixed Rate Bonds is the fifteenth day of the calendar month preceding the interest payment date.

Principal will be due on the annual serial maturities as shown on the inside cover page.

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 Tax Exempt Fixed Rate Bonds are redeemable, on 30 days' notice to the holders of such Bonds, beginning November 1, 2011 at a price of 101% declining to par on November 1, 2012.

Form and Denomination..... The Series 2002 B Bonds will be issued as fully registered securities registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC").

The Tax Exempt Fixed Rate Bonds will be denominated in principal amounts of \$5,000 and integral multiples thereof.

Indenture..... The Indenture 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, as supplemented, between the Authority and the City, provides for the application of Bond and Note proceeds to fund capital expenditures of the City and Recovery Costs and includes covenants of the City and the City's agreement to hold the Authority harmless against claims related to the 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 in accordance with the Retention Procedures described below for the payment of Senior Debt Service, including notes and Senior Agreements, if any, that are to be paid out of the Bond Account on a parity with Senior Bonds. Currently the Authority is not a party to any Senior Agreements, nor are any notes so payable.

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 Senior 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* to the Recovery and Parity Debt Account or otherwise for the benefit of noteholders, Subordinate Bondholders, including holders of Recovery Bonds, 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, Senior 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 Matters..... In the opinion of Sidley Austin Brown & Wood LLP, Bond Counsel to the Authority, interest on the Tax Exempt Fixed Rate 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, as described herein, interest on the Tax Exempt Fixed Rate 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 Tax Exempt Fixed Rate Bonds have been rated "AA+" by Fitch, Inc. ("Fitch"), "AA+" by Standard & Poor's Ratings Services ("Standard & Poor's") and "Aa2" by Moody's Investors Service, Inc. ("Moody's") (each a "Rating Agency" and, collectively, the "Rating Agencies"). 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 a revision or withdrawal at any time by the assigning rating organization. See "SECTION VIII: RATINGS."

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## 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 the fixed rate portion of the Authority’s Future Tax Secured Bonds, Fiscal 2002 Series B (the “Tax Exempt Fixed Rate Bonds” and, together with the Series 2002 B taxable bonds (the “Taxable Bonds”) and Other Series of Senior 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 (as amended, the “Act”). The Taxable Bonds will be described in a separate offering circular and are not offered hereby.

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 State Street Bank and Trust Company, N.A., New York, New York, 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, as supplemented, which provides for the application of Bond proceeds to fund capital expenditures of the City and Recovery Costs (as defined below) and includes 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 Authority was created to provide for the issuance of debt to fund a portion of the capital program of the City. The Act authorizes the issuance of Bonds and Notes (up to \$11.5 billion) and the refunding of Bonds and Notes. In addition, the Act was amended in September 2001 to permit the Authority to have outstanding an additional \$2.5 billion of its bonds and notes to pay Recovery Costs. In addition to the financing capacity of the Authority for capital purposes, the City’s current Four-Year Financial Plan for fiscal years 2002-2005 which was released on June 13, 2001 (the “City Financial Plan”) anticipates access to approximately \$2.4 billion in financing capacity of a separate entity, TSASC, Inc. (“TSASC”), which issues debt secured by revenues derived from the settlement of litigation with tobacco companies selling cigarettes in the United States. The debt-incurring capacity of the Authority and TSASC has permitted the City to continue to enter into new contractual commitments. The City Financial Plan projects that the City will have sufficient capacity to continue its capital program through the end of the City Financial Plan in fiscal year 2005. The City’s projections indicate that it will require an additional \$3.0 billion in financing capacity to complete its Ten-Year Capital Strategy for fiscal years 2002-2011. The City will either seek an amendment to the State Constitution to increase its debt-incurring capacity or seek some other financing mechanism to enable it to complete its Ten-Year Capital Strategy.

The Indenture permits the issuance of up to \$12 billion of Senior Bonds (not including refunding Bonds). The Indenture further 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 Senior Bonds and further provided that the Authority complies with restrictions on the amount of such Subordinate Bonds which may be issued. For additional information regarding the issuance of parity or subordinate obligations of the Authority, see “SECTION IV: THE BONDS—Other Series.”

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center and damage to other buildings in the vicinity. The attack also resulted in the disruption of public transportation and business and displacement of residents in the immediate vicinity of the World Trade Center. Trading on the major

New York stock exchanges was suspended until September 17, 2001, and business in the financial district was interrupted. Recovery efforts are continuing in the City's financial district in lower Manhattan.

Continuing recovery, clean up and repair efforts will result in substantial expenditures. The U.S. Congress passed emergency supplemental legislation which appropriates \$40 billion for increased disaster assistance, increased security costs, rebuilding infrastructure systems and other public facilities, and disaster recovery and related activities, at least \$20 billion of which is for disaster recovery activities and assistance in New York, Pennsylvania and Virginia. To date, the President has released approximately \$2.5 billion of emergency funds for the City and the State, and has submitted legislation to Congress for an additional \$6.3 billion of emergency funds for the City and the State. The President has indicated that he does not intend to seek additional supplemental funding during the current session of Congress, but will continue to determine additional funding needs during the next session of Congress. In addition, the State legislature has increased the financing capacity of the Authority by \$2.5 billion to fund the City's costs related to or arising from the events at the World Trade Center ("Recovery Costs"), and has authorized the Authority to issue debt without limit as to principal amount that is payable solely from State or Federal aid received on account of the disaster.

The City will prepare a modification to the City Financial Plan in November which will amend the City Financial Plan to accommodate revisions to forecasts for fiscal years 2002 through 2005. Such revisions will include expected fiscal year 2002 tax revenue shortfalls as a result of the September 11 events. Based on preliminary estimates, which are subject to revision as additional information becomes available, the City's Office of Management and Budget ("NYC OMB") has prepared a preliminary update to the City Financial Plan for fiscal year 2002 to reflect developments since the publication of the City Financial Plan on June 13, 2001 (the "Preliminary 2002 Update"). The Preliminary 2002 Update projects a shortfall of tax revenue, as a result of the September 11 attack, totaling \$1 billion. The City projects that Personal Income Tax Revenues and Sales Tax Revenues will be reduced by approximately \$276 million and \$272 million, respectively, in fiscal year 2002 as a result of the September 11 attack. The assumed tax revenue shortfalls for the 2002 fiscal year after September 11 reflect steeper declines in national gross domestic product and corporate profits, additional declines in capital gains realizations, local job losses exceeding 100,000 and a disruption in tourism and related spending.

Prior to the events of September 11, the national and local economies had been weakening, reflecting lower business investment, increased unemployment and, recently, a decline in consumer confidence. It is expected that the destruction of the World Trade Center will have a substantial impact on the City and its economy. Reduced economic activity is expected to lower corporate profits, increase job losses and reduce consumer spending, which would result in reduced personal income and sales tax receipts and other business tax revenues for the City and could negatively affect real property values. The events of September 11 increased the risk of a recession and a delay in recovery. It is not possible to quantify at present with any certainty the short-term or long-term adverse impact of the September 11 events on the City and its economy, any offsetting economic benefits which may result from recovery and rebuilding activities and the amount of additional resources from Federal, State, City and other sources which will be required.

Unless otherwise noted, the projections and forecasts contained herein were made prior to the September 11 attack on the World Trade Center and have not been revised to reflect changes that may occur as a result of this event.

## 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 from the amounts payable to it from the Statutory Revenues which are the only source of payment pledged to 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 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 to pay Recovery Costs. *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, while applicable, on nonresident earnings in the City as described below. 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 Bonds and Notes. 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 the following: the expiration of the 12.5% Surcharge (as defined below) which became effective on January 1, 1999; a State rebate program called the School Tax Relief Program ("STAR Program") which was phased in from fiscal year 1999 to fiscal year 2001; the elimination of the Sales Tax on items of clothing under \$110 which became effective on March 1, 2000; the repeal of the Personal Income Tax on individuals who

work in the City but reside elsewhere which became effective as of July 1, 1999; the reduction and restructuring of the 14% Surcharge (as defined below) which became effective on January 1, 2001 beginning in tax year 2001; and the further reduction of the 14% Surcharge beginning in tax year 2002.

The Current Base Rate, the 14% Surcharge and the State authorization to reduce the 14% Surcharge have been extended through December 31, 2003. However, passage of a local law is required to extend the reductions of the 14% Surcharge beyond December 31, 2001. Projections of Statutory Revenues assume the extension of the Current Base Rate (as defined below) which is scheduled to decline to the Reduced Base Rate on December 31, 2003 and the extension of the 14% Surcharge reductions beyond December 31, 2001. If the 14% Surcharge reductions were not so extended, additional Statutory Revenues of \$88 million and \$458 million in fiscal years 2002 and 2003, respectively, are expected to be collected. If the 14% Surcharge were to expire on December 31, 2003, it is expected that there would be losses of revenue of \$199 million and \$434 million in fiscal years 2004 and 2005, respectively. If, in addition to the expiration of the 14% Surcharge, the Current Base Rate were to decline to the Reduced Base Rate after 2003, there would be additional revenue losses estimated at approximately \$780 million and \$2.48 billion in fiscal years 2004 and 2005, respectively.

The forecasts of Statutory Revenues do not assume the following tax reductions which were proposed in the City Financial Plan but have not received the State legislative authorization or City Council approval that would be required to become effective: (i) the introduction of a City earned income tax credit and a personal income tax credit for dependent care, which, taken together, would result in projected losses of Personal Income Tax Revenues of \$71 million, \$71 million, \$72 million, and \$72 million in fiscal years 2002 through 2005, respectively and (ii) the elimination of the City sales tax on clothing and footwear purchases entirely, which would result in projected revenue losses of \$27 million, \$101 million, \$102 million and \$105 million in fiscal years 2002 through 2005, respectively.

From fiscal year 1980 to fiscal year 2000, the average annual compound growth rate for Statutory Revenues was approximately 8.8%. Historical collections of Statutory Revenues for fiscal years 1980 to 2001 and forecasted collections of Statutory Revenues for fiscal years 2002 through and including 2005 are shown in the following table.



**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	1993 .....	\$5,444
1981.....	1,962	1994 .....	5,702
1982.....	2,182	1995 .....	6,202
1983.....	2,414	1996 .....	6,533
1984.....	2,669	1997 .....	7,048
1985.....	2,998	1998 .....	7,816
1986.....	3,490	1999 .....	8,704
1987.....	3,691	2000 .....	8,961
1988.....	3,916	2001 .....	9,485
1989.....	4,273	2002 <sup>(1)</sup> .....	8,780
1990.....	4,475	2003 <sup>(1)</sup> .....	8,814
1991.....	4,720	2004 <sup>(1)</sup> .....	9,319
1992.....	5,028	2005 <sup>(1)</sup> .....	9,847

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

<sup>(1)</sup> As forecasted by NYC OMB as set forth in the City Financial Plan. For information regarding projection assumptions and the expiration and reduction of certain portions of the Personal Income Tax and Sales Tax, see “— Statutory Revenues,” “— Personal Income Tax” and “— Sales Tax.” The forecasts contained herein were made prior to the September 11 attack on the World Trade Center and have not been revised to reflect changes that may occur as a result of this event.

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 reflected 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**

The Act authorizes the Authority to issue bonds and Notes for capital purposes (up to \$11.5 billion) and for refunding of Bonds and Notes. In addition, the Act was amended in September 2001 to permit the Authority to have outstanding an additional \$2.5 billion of its bonds and notes to pay Recovery Costs. The Authority has previously issued \$7,651,765,000 of Senior Bonds of which \$7,488,160,000 are Outstanding. The Indenture provides for the issuance of Bonds on a parity with Senior Bonds of up to \$12 billion (excluding Bonds for refunding purposes). In addition, the Indenture includes the Quarterly Debt Service Covenant which provides that the maximum Quarterly Senior Debt Service may not exceed \$330 million. The maximum Quarterly Senior Debt Service would total \$1.32 billion on an annual basis, which corresponds to the cost of debt service on \$12 billion of Authority debt outstanding at a maximum interest rate of 9% (the “Covenanted Maximum Annual Debt Service”). See “SECTION IV: THE BONDS—Other Series.”

The following table shows the coverage of Covenanted Maximum Annual Debt Service by Statutory Revenues. Phased issuance of debt and actual market rates are expected to result in substantially higher actual annual coverage. For information regarding projection assumptions and the expiration and reduction of portions of the Personal Income Tax, see “—Statutory Revenues” and “—Personal Income Tax.”

**DEBT SERVICE COVERAGE BY HISTORICAL AND  
FORECASTED STATUTORY REVENUES**

Fiscal Year Ending June 30	Statutory Revenues (\$ millions)	Coverage <sup>(1)</sup>
1980	\$1,679	1.27x
1981	1,962	1.49x
1982	2,182	1.65x
1983	2,414	1.83x
1984	2,669	2.02x
1985	2,998	2.27x
1986	3,490	2.64x
1987	3,691	2.80x
1988	3,916	2.97x
1989	4,273	3.24x
1990	4,475	3.39x
1991	4,720	3.58x
1992	5,028	3.81x
1993	5,444	4.12x
1994	5,702	4.32x
1995	6,202	4.70x
1996	6,533	4.95x
1997	7,048	5.34x
1998	7,816	5.92x
1999	8,704	6.59x
2000	8,961	6.79x
2001	9,485	7.19x
2002 <sup>(2)</sup>	8,780	6.65x
2003 <sup>(2)</sup>	8,814	6.68x
2004 <sup>(2)</sup>	9,319	7.06x
2005 <sup>(2)</sup>	9,847	7.46x

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

<sup>(1)</sup> Coverage of Covenanted Maximum Annual Debt Service, which is \$1,320 million based on an assumption of \$12 billion of Senior Bonds outstanding at a maximum interest rate of 9%.

<sup>(2)</sup> As forecasted by NYC OMB as set forth in the City Financial Plan. For information regarding projection assumptions and the expiration and reduction of portions of the Personal Income Tax and Sales Tax, see “—Statutory Revenues” and “— Personal Income Tax” and “ — Sales Tax.” The forecasts contained herein were made prior to the September 11 attack on the World Trade Center and have not been revised to reflect changes that may occur as a result of this event.

The table below shows the coverage of covenanted maximum Quarterly Debt Service of \$330 million based on historical collections of Statutory Revenues. Phased issuance of debt and actual market rates are expected to result in substantially higher coverage.

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

Year Ending July 31	August through October		November through January		February through April		May through July	
	Revenue	Coverage	Revenue	Coverage	Revenue	Coverage	Revenue	Coverage
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	1,532	4.6x
1998	1,619	4.9x	2,156	6.5x	2,398	7.3x	1,698	5.1x
1999	1,903	5.8x	2,442	7.4x	2,462	7.5x	1,853	5.6x
2000	1,919	5.8x	2,676	8.1x	2,563	7.8x	1,884	5.7x
2001	2,038	6.2x	2,779	8.4x	2,653	8.0x	1,944	5.9x

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

## 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 10.1% 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 and Subordinate Bonds, 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 and Subordinate Bonds. In the event Personal Income Tax Revenues are projected to provide coverage of at least 150% of maximum annual debt service on the Bonds and Subordinate Bonds, no Sales Tax Revenues will be paid by the State Comptroller to the Authority. See "Agreements of the State and the City" below. 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, 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, while applicable, 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. For information regarding assumptions relating to Personal Income Tax Revenues, see "—Statutory Revenues."

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. The Personal Income Tax is composed of several components, which State laws authorize the City to impose. Some of these components have required renewals in the past and will require renewals in the future. 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, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed. The Personal Income Tax for 2001 is imposed on residents according to a schedule with a current maximum rate of 3.315% (the "Current Base Rate"). A State rebate program lowered the Current Base Rate in fiscal years 1999, 2000 and 2001. In addition, Personal Income Tax paid by City residents is subject to a 14% surcharge (the "14% Surcharge") that is imposed on the Current Base Rate and is authorized by the State and enacted by the City. For tax year 2001, the 14% Surcharge has been reduced and restructured and the maximum Current Base Rate was reduced such that the Current Base Rate plus the 14% Surcharge on City residents ranges from 2.684% to 3.592% of taxable income.

The State laws which authorize the Current Base Rate are scheduled to expire on December 31, 2003, 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, 2005 so that the maximum rate would be 1.50%. 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 previously authorized, and the City imposed, a Personal Income Tax surcharge of approximately 12.5% (the "12.5% Surcharge") which expired in December 1998. The State law that authorizes the 14% Surcharge is scheduled to expire on December 31, 2003 if not extended beyond that date.

If the 14% Surcharge were not extended beyond December 31, 2003, there would be losses of revenue estimated at \$199 million and \$434 million in fiscal years 2004 and 2005, respectively. In the event that the Current Base Rate declines to the Reduced Base Rate after December 31, 2003 and the 14% Surcharge is not extended beyond 2003, Statutory Revenues would exceed Covenanted Maximum Annual Debt Service by \$5.4 billion and \$5.5 billion in fiscal years 2004 and 2005, respectively.

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, historically Personal Income Tax Revenues have steadily increased. Personal Income Tax Revenues were approximately \$130 million in fiscal year 1967. The compounded annual growth rate of Personal Income Tax Revenues from fiscal year 1980 to fiscal year 2000 was approximately 9.1%. Prior to the terrorist attack on the World Trade Center on September 11, 2001, Personal Income Tax Revenues were projected to fall below 2001 levels in fiscal year 2002 due to tax reductions described above, including the STAR Program, the elimination of the 12.5% Surcharge, the repeal of the non-resident income tax, the reduction and restructuring of the 14% Surcharge beginning in tax year 2001 and the further reduction of the 14% Surcharge beginning in tax year 2002. The following table shows Personal Income Tax Revenues for fiscal years 1980 through 2001 and forecasted Personal Income Tax Revenues for fiscal years 2002 through 2005.

**HISTORICAL AND FORECASTED PERSONAL INCOME TAX REVENUES**  
(\$ millions)

Fiscal Year Ending June 30	Personal Income Tax Revenues	Fiscal Year Ending June 30	Personal Income Tax Revenues
1980.....	\$ 879	1993.....	\$ 3,477
1981.....	1,018	1994.....	3,564
1982.....	1,159	1995.....	3,585
1983.....	1,331	1996.....	3,907
1984.....	1,547	1997.....	4,376
1985.....	1,740	1998.....	5,147
1986.....	1,816	1999.....	5,462
1987.....	2,160	2000.....	5,528
1988.....	2,092	2001.....	5,771
1989.....	2,448	2002 <sup>(1)</sup> .....	5,040
1990.....	2,551	2003 <sup>(1)</sup> .....	5,375
1991.....	2,784	2004 <sup>(1)</sup> .....	5,747
1992.....	3,232	2005 <sup>(1)</sup> .....	6,163

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

<sup>(1)</sup> As forecasted by NYC OMB as set forth in the City Financial Plan. For information regarding projection assumptions and the expiration of portions of the Personal Income Tax and Sales Tax during the forecast period, see "— Statutory Revenues" and "— Personal Income Tax" and "— Sales Tax." The forecasts contained herein were made prior to the September 11 attack on the World Trade Center and have not been revised to reflect changes that may occur as a result of this event.

For fiscal years 1995 through 2000, an average of 75% of Personal Income Tax Revenues was collected through mandatory withholding by employers as a percentage of wage income paid to employees. For fiscal year 2000, \$3.9 billion of the Personal Income Tax Revenues was collected through withholdings. State law requires most employers to remit to the New York State Department of Taxation and Finance amounts withheld from income paid to employees within three business days of such payments. For fiscal years 1996 through 2001, approximately 15% of Personal Income Tax Revenues was collected from taxpayers through quarterly installment payments on non-wage income and self-employment earnings, and approximately 8% of Personal Income Tax Revenues was collected from taxpayers following the end of each tax year based on the filing of final tax returns.

## **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. For information on assumptions relating to projections of Sales Tax Revenues, see “— Statutory Revenues” above.

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% on July 1, 2008. 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% and include the exemption on sales up to \$110 for clothing and shoes that commenced March 1, 2000. 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.

Currently, MAC has approximately \$2.9 billion 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 or the City.

#### *Sales Tax Collections Net of MAC Funding Requirements*

The compounded annual growth rate of Sales Tax Revenues from fiscal year 1980 to fiscal year 2000 was 7.1%. The table below shows historical gross Sales Tax collections for fiscal years 1980 through 2001 and forecasted Sales Tax collections, projected MAC Funding Requirements and Sales Tax Revenues for fiscal years 2002 through 2005.

**HISTORICAL AND FORECASTED SALES TAX COLLECTIONS AND SALES TAX REVENUES TO THE AUTHORITY NET OF MAC FUNDING REQUIREMENTS<sup>(1)</sup>**  
**(\$ millions)**

<b>Fiscal Year Ending June 30</b>	<b>Gross Sales Tax Collections</b>	<b>MAC Funding Requirements<sup>(2)</sup></b>	<b>Sales Tax Revenues</b>
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 .....	2,973	304	2,669
1999 .....	3,242	0	3,242
2000 .....	3,433	0	3,433
2001 .....	3,714	0	3,714
2002 <sup>(3)</sup> .....	3,740	0	3,740
2003 <sup>(3)</sup> .....	3,929	490	3,439
2004 <sup>(3)</sup> .....	4,061	489	3,572
2005 <sup>(3)</sup> .....	4,174	490	3,684

Source: NYC OMB. All figures shown herein are calculated on a cash basis.

<sup>(1)</sup> For information regarding projection assumptions, see “ – Statutory Revenues.”

<sup>(2)</sup> MAC Funding Requirements for fiscal years 2006-2008 are projected as of June 13, 2001 to be \$492 million, \$493 million and \$220 million, respectively. Such projections do not take into account any other moneys MAC may have available to make such payments but do take into account payments from the City to MAC for MAC mirror bonds for which MAC does not retain Sales Tax Revenues. There was no MAC Funding Requirement for 1999, 2000 and 2001 and there is not expected to be a MAC Funding Requirement for 2002 because such requirements were or are expected to be prepaid from the City’s General Fund.

<sup>(3)</sup> As forecasted by NYC OMB. The projections and forecasts contained herein were made prior to the September 11 attack on the World Trade Center and have not been revised to reflect changes that may occur as a result of this event.

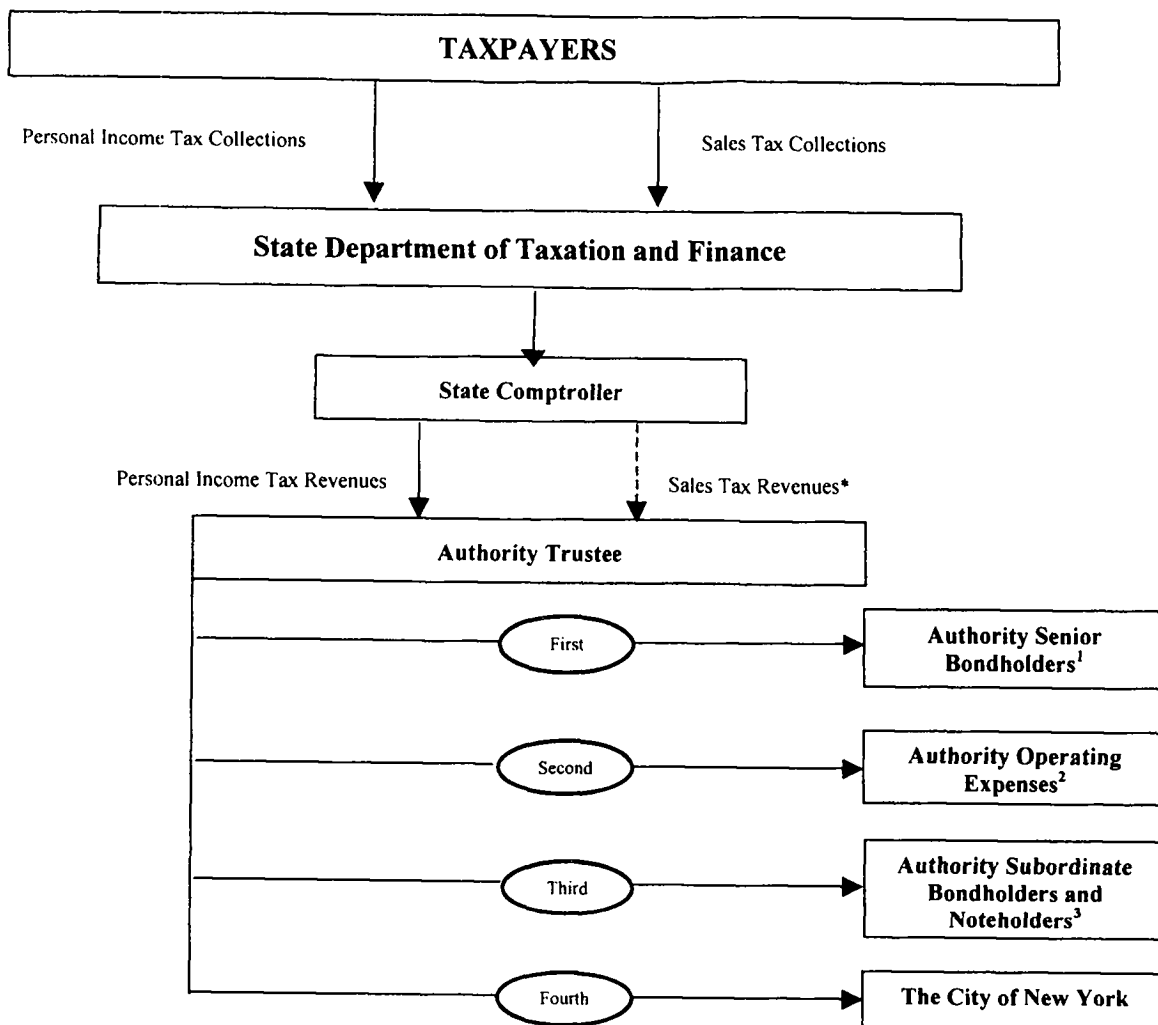


## Application of Revenues

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. 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 Senior Debt Service in accordance with the Retention Procedures described 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*, to the Recovery and Parity Debt Account or otherwise 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.

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 and Subordinate 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 Senior Debt Service (including principal of and interest on Outstanding Senior 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 Senior Debt Service such Revenues are paid to the Authority for its operating expenses.
- (3) After payment of Authority operating expenses, Revenues are applied for the benefit of noteholders, Subordinate Bondholders and parties to ancillary and swap contracts.

## **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 Quarterly Senior Debt Service 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 2002 B Bonds will commence on February 1, 2002 and the initial Payment Period for the Series 2002 B Bonds will commence May 1, 2002.

After all payments are made to the Bond Account and Redemption Account, as described above, and for Authority operating expenses, money 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, money on deposit in the Collection Account will be transferred 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 and payment requirement for Quarterly Subordinate Debt Service 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 or Quarterly Subordinate Debt Service, 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, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed.

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 and Subordinate Bonds, then Outstanding, 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 and Subordinate Bonds; provided, however, that such amounts are subject to State appropriation until the MAC Funding Requirements are paid in full. See “—Sales Tax” above. 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 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 and Subordinate Bonds of the Authority.

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 securities, banking, law, accounting, new media and advertising firms.

The City is a major seaport and focal point for international business. Many of the major corporations headquartered in the City are multinational in scope and have extensive foreign operations. Numerous foreign-owned companies in the United States are also headquartered in the City. These firms, which have increased in number substantially over the past decade, are found in all sectors of the City's economy, but are concentrated in trade, 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. During 1991 and 1992, 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 1990 the City experienced strong increases in retail sales. However, from 1991 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 between 1997 and 2000. 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 growing rapidly. The City's Financial Plan assumes that economic growth, after slowing in the last quarter of calendar year 2000 and in calendar year 2001, will begin to recover in calendar year 2002. 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. The economic projections in the City Financial Plan were made prior to the September 11 attack on the World Trade Center and have not been revised to reflect changes that may occur as a result of this event.

### **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 1989 to 1999 (the most recent year for which City personal income data are available) and is higher than the average for the United States. From 1989 to 1999, per capita personal income in the City averaged 5.3% growth compared to 4.6% for the nation. The following table sets forth recent information regarding personal income in the City.

## PERSONAL INCOME IN NEW YORK CITY<sup>(1)</sup>

Year	Total NYC Personal Income (\$ billions)	Per Capita Personal Income NYC	Per Capita Personal Income U.S.	Per Capita NYC as a Percent of U.S.
1989 .....	168.2	\$ 22,909	\$ 18,571	123.4%
1990 .....	182.3	24,895	19,588	127.1
1991 .....	186.8	25,577	20,099	127.3
1992 .....	199.7	27,331	21,077	129.7
1993 .....	202.9	27,677	21,709	127.5
1994 .....	208.6	28,416	22,565	125.9
1995 .....	221.9	30,192	23,543	128.2
1996 .....	236.6	32,147	24,630	130.5
1997 .....	245.3	33,228	25,851	128.5
1998 .....	261.1	35,266	27,292	129.2
1999 .....	278.1	37,435	28,508	131.3

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

<sup>(1)</sup> 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.

### Sectoral Distribution of Employment and Income

In 2000, the City's services employment sector hit an all-time peak, providing more than 1.4 million jobs and accounting for 39% 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 1979 to 1999, the employment share for FIRE remained approximately 13% in the City while the FIRE sector earnings share for the same period rose from approximately 17% to approximately 32% 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 may have a disproportionately adverse effect on the City relative to the nation.

A comparison of the City's and the nation's employment and earnings by industry is set forth in the following table.

### SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS<sup>(1)</sup>

Sector	Employment				Earnings <sup>(2)</sup>			
	1979		1999		1979		1999	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
<b>Private Sector:</b>								
Non-Manufacturing:								
Services.....	26.2%	19.1%	38.2%	30.3%	25.2%	17.9%	32.8%	29.1%
Wholesale and Retail Trade.....	18.9	22.5	16.8	23.1	15.3	16.8	9.6	15.3
Finance, Insurance and Real Estate.....	13.1	5.5	13.4	5.9	16.6	5.8	31.6	9.2
Transportation and Public Utilities.....	7.9	5.7	5.7	5.3	10.3	7.5	5.4	6.8
Contract Construction.....	2.2	5.0	3.2	5.0	2.5	6.7	2.6	5.9
Mining.....	0.0	1.1	0.0	0.4	0.7	1.8	0.4	0.8
Total Non-Manufacturing.....	68.3	58.8	77.4	69.9	70.7	56.5	82.3	67.1
Manufacturing:								
Durable.....	4.7	14.2	1.7	8.6	3.9	16.2	1.3	10.2
Non-Durable.....	11.1	9.3	5.2	5.8	9.9	9.0	5.3	6.1
Total Manufacturing.....	15.8	23.4	6.9	14.4	13.8	25.2	6.6	16.2
<b>Total Private Sector.....</b>	<b>84.1</b>	<b>82.2</b>	<b>84.3</b>	<b>84.3</b>	<b>84.4</b>	<b>82.1</b>	<b>88.9</b>	<b>84.0</b>
<b>Government<sup>(3)</sup>.....</b>	<b>15.9</b>	<b>17.8</b>	<b>15.7</b>	<b>15.7</b>	<b>15.6</b>	<b>17.9</b>	<b>11.1</b>	<b>16.0</b>

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

Note: Totals may not add due to rounding.

- (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 1999 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 1993 to 2000, the City experienced significant private sector job growth with the addition of more than 449,000 new private sector jobs (an average growth rate of 2.2%). Over the last seven years, the City has experienced its longest period of consecutive annual employment growth since the 1950s. This contrasts with the approximately 9% loss in the City's employment base during 1989-1992. As of September 2001, total employment in the City was approximately 3,734,800 compared to approximately 3,722,900 in September 2000.

The table below shows the distribution of employment from 1990 to 2000.

### NEW YORK CITY EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Private Sector</b>											
Non-Manufacturing:											
Services.....	1,149	1,097	1,093	1,116	1,148	1,184	1,227	1,275	1,325	1,384	1,456
Wholesale and Retail Trade.....	608	565	546	538	544	555	565	578	590	610	631
Finance, Insurance and Real Estate ..	520	494	473	472	480	473	469	473	483	486	490
Transportation and Public Utilities...	229	218	205	203	201	203	205	206	206	208	211
Construction.....	115	100	87	86	89	90	91	94	102	114	122
<b>Total Non-Manufacturing.....</b>	<b>2,621</b>	<b>2,474</b>	<b>2,404</b>	<b>2,415</b>	<b>2,463</b>	<b>2,505</b>	<b>2,557</b>	<b>2,625</b>	<b>2,707</b>	<b>2,802</b>	<b>2,910</b>
Manufacturing:											
Durable .....	88	77	72	71	69	68	66	64	64	63	61
Non-Durable .....	250	231	220	218	211	206	201	201	195	188	182
<b>Total Manufacturing .....</b>	<b>338</b>	<b>308</b>	<b>293</b>	<b>289</b>	<b>280</b>	<b>274</b>	<b>266</b>	<b>265</b>	<b>259</b>	<b>251</b>	<b>242</b>
<b>Total Private Sector .....</b>	<b>2,959</b>	<b>2,782</b>	<b>2,697</b>	<b>2,704</b>	<b>2,744</b>	<b>2,779</b>	<b>2,823</b>	<b>2,890</b>	<b>2,967</b>	<b>3,053</b>	<b>3,153</b>
<b>Government.....</b>	<b>608</b>	<b>593</b>	<b>585</b>	<b>588</b>	<b>578</b>	<b>560</b>	<b>546</b>	<b>552</b>	<b>561</b>	<b>567</b>	<b>568</b>
<b>Total.....</b>	<b>3,566</b>	<b>3,375</b>	<b>3,282</b>	<b>3,291</b>	<b>3,322</b>	<b>3,339</b>	<b>3,369</b>	<b>3,442</b>	<b>3,528</b>	<b>3,621</b>	<b>3,721</b>

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 to 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 from 1989 to 1999.

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

Year <sup>(1)</sup>	Retail <sup>(2)</sup>	Utility & Communication Sales <sup>(3)</sup>	Services <sup>(4)</sup>	Manufacturing	Other <sup>(5)</sup>	Total
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
1997 .....	31.5	9.8	13.5	3.9	8.8	67.5
1998 .....	33.9	9.8	15.0	4.2	9.3	72.2
1999 .....	35.0	9.6	16.1	4.2	9.5	74.4

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 populations of Los Angeles, Chicago and Houston, the three next most populous cities in the nation.

The following table provides information concerning the City's population.

**POPULATION OF NEW YORK CITY**

Year	Total Population
1970 .....	7,895,563
1980 .....	7,071,639
1990 .....	7,322,155
2000 .....	8,008,278

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

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

**City Infrastructure**

On August 25, 1998, the City Comptroller issued a report which estimated that the expenditure of approximately \$91.83 billion would be required over the next decade to bring the City’s infrastructure to a systematic state of good repair and address new capital needs already identified. The City’s current ten-year capital strategy, together with certain other investments noted in the report, provides approximately \$52.08 billion. The report noted that the issue for the City is how best to set priorities and manage limited resources.

**SECTION IV: THE BONDS**

**General**

The Tax Exempt Fixed Rate Bonds will be dated the date of delivery, bear interest and mature on the date as set forth on the cover and inside cover page of this Offering Circular unless redeemed prior to maturity. All of the Series 2002 B Bonds will be issued in book-entry only form.

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

The Bonds are subject to defeasance in accordance with the Indenture. See “APPENDIX A — SUMMARY OF INDENTURE AND AGREEMENT — THE INDENTURE — Defeasance.”

**Optional Redemption**

The Tax Exempt Fixed Rate Bonds maturing on or before May 1, 2011 are not redeemable prior to maturity. The Tax Exempt Fixed Rate Bonds maturing on or after May 1, 2012 are redeemable prior to maturity beginning on November 1, 2011 at the option of the Authority in whole or in part at any time, at the following prices expressed as percentages of the principal amount plus accrued interest to the redemption date:

<u>Redemption Period (Both Dates Inclusive)</u>	<u>Redemption Price</u>
November 1, 2011 through October 31, 2012 .....	101%
November 1, 2012 and thereafter .....	100

**Sinking Fund Redemption**

The Fixed Rate Bonds maturing on May 1, 2020 and May 1, 2030 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 May 1, 2020</u>		<u>Bonds Maturing May 1, 2030</u>	
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2019	\$13,770,000	2027	\$29,140,000
2020*	4,495,000	2028	30,595,000
		2029	32,125,000
		2030*	5,140,000

\* 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 Holders of the Bonds to be redeemed at least 30 days prior to the date set for redemption. Failure by a particular Holder to receive notice, or any defect in the notice to such Holder, will not affect the redemption of any other Bond.

### **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**

The bonds and Notes of the Authority 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 Senior Bonds shall be authenticated and delivered without Rating Confirmation unless the amount 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 for Outstanding Bonds

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 debt service on all outstanding Bonds during such period.

12-Month Period Ending June 30	Series 2002 B Bonds Debt Service <sup>(1)</sup>			Outstanding Bonds Debt Service <sup>(1)</sup>	Total Debt Service <sup>(1)</sup>
	Principal and Sinking Fund Installments	Interest Payments	Series 2002 B Bonds Debt Service		
2002 .....		\$16,014,047	\$16,014,047	\$496,426,474	\$512,440,520
2003 .....	\$2,245,000	34,521,299	49,061,299	545,876,231	594,937,530
2004 .....	2,335,000	33,821,029	49,061,029	556,470,258	605,531,287
2005 .....	2,425,000	32,988,979	50,723,979	559,842,999	610,566,978
2006 .....	3,000,000	32,047,379	45,072,379	564,486,472	609,558,851
2007 .....	3,060,000	31,327,029	44,467,029	568,727,296	613,194,325
2008 .....	3,215,000	30,699,754	44,469,754	568,505,617	612,975,371
2009 .....	3,375,000	30,147,454	44,412,454	568,266,248	612,678,701
2010 .....	3,510,000	29,575,204	45,645,204	568,016,585	613,661,789
2011 .....	3,655,000	28,697,004	46,052,004	566,231,782	612,283,786
2012 .....	3,810,000	27,850,604	44,560,604	564,141,694	608,702,298
2013 .....	3,870,000	27,018,123	44,188,123	564,899,197	609,087,319
2014 .....	4,045,000	26,118,338	44,373,338	541,405,270	585,778,608
2015 .....	4,265,000	25,162,808	44,367,808	541,086,479	585,454,286
2016 .....	4,495,000	24,095,458	44,160,458	519,951,999	564,112,456
2017 .....	4,735,000	23,013,801	44,153,801	506,359,712	550,513,513
2018 .....	4,985,000	21,907,481	44,137,481	487,767,819	531,905,300
2019 .....	5,245,000	20,746,781	44,291,781	488,113,150	532,404,931
2020 .....	5,505,000	19,508,031	38,598,031	488,903,782	527,501,813
2021 .....	5,785,000	18,261,631	38,506,631	447,763,522	486,270,153
2022 .....	6,070,000	16,844,481	38,379,481	393,544,550	431,924,031
2023 .....	6,375,000	15,337,031	38,262,031	372,834,685	411,096,716
2024 .....	6,695,000	13,732,281	38,137,281	354,145,103	392,282,384
2025 .....	7,030,000	12,023,931	38,003,931	354,058,667	392,062,598
2026 .....	7,380,000	10,205,331	39,635,331	354,943,878	394,579,209
2027 .....	7,750,000	8,727,600	37,867,600	349,098,550	386,966,150
2028 .....	8,135,000	7,270,600	37,865,600	349,251,335	387,116,935
2029 .....	8,545,000	5,740,850	37,865,850	232,284,528	270,150,378
2030 .....	8,990,000	4,134,600	37,854,600	125,740,431	163,595,031
2031 .....	9,470,000	1,877,000	39,417,000	32,297,175	71,714,175
2032 .....				10,290,000	10,290,000

<sup>(1)</sup> Figures reflect estimated debt service on tax-exempt adjustable rate bonds calculated at an assumed interest rate of 5% per annum and on taxable adjustable rate bonds at an assumed rate of 7% per annum.

## **Use of Proceeds**

The proceeds from the sale of the Series 2002 B Bonds will be used, along with other funds of the Authority, to provide for the payment of the Authority's Fiscal 2002 Series 1 and Series 2 Bond Anticipation Notes the proceeds of which have been used to finance City capital expenditures. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 2002 B Bonds will be paid from the proceeds of the Series 2002 B Bonds.

## **Bond Insurance**

The following information pertaining to MBIA Insurance Corporation ("MBIA") has been supplied by MBIA. The Authority makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date indicated. Summary of or reference to the insurance policy to be issued by MBIA is made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any of all of such provisions. See "APPENDIX D – SPECIMEN INSURANCE POLICY."

Concurrently with the issuance of the Bonds, MBIA will issue its financial guaranty insurance policy (the "MBIA Policy") for the Tax-Exempt Fixed Rate Bonds due in 2008, 2009 (\$11,750,000), 2011, 2012, 2015 (5¼%), 2016 (5¼%), 2017, 2019, 2020 and 2031 (the "MBIA-Insured Bonds"). The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Authority's Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment), and interest on, the MBIA-Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the MBIA-Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The MBIA Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any MBIA-Insured Bond. The MBIA Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of MBIA-Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The MBIA Policy also does not insure against nonpayment of principal of or interest on the MBIA-Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Authority's Fiscal Agent or any other paying agent for the MBIA-Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Authority's Fiscal Agent or any owner of a MBIA-Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then

due. Upon presentment and surrender of such MBIA-Insured Bonds or presentment of such other proof of ownership of the MBIA-Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA-Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA-Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA-Insured Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Authority's Fiscal Agent payment of the insured amounts due on such MBIA-Insured Bonds, less any amount held by the Authority's Fiscal Agent for the payment of such insured amounts and legally available therefor.

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2000;
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001; and
- (3) The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Offering Circular and prior to the termination of the offering of the MBIA-Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Offering Circular and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Offering Circular, shall be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under Filed No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2000, (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, and (3) the report on Form 8-K filed by the Company on January 30, 2001) are available (i) over the Internet at SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2000, MBIA had admitted assets of \$7.6 billion (audited), total liabilities of \$5.2 billion (audited), and total capital and surplus of \$2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2001, MBIA had admitted assets of \$8.1 billion (unaudited), total liabilities of \$5.8 billion (unaudited), and total capital and surplus of \$2.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of MBIA's year-end financial statements prepared in accordance with statutory accounting practices are available without charge from MBIA. A copy of the Annual Report on Form 10-K of the Company is available from MBIA or the Securities and Exchange Commission. The address of MBIA is 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

Moody's Investors Service, Inc. ("Moody's") rates the financial strength of MBIA "Aaa".

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., ("Standard & Poor's"), rates the financial strength of MBIA "AAA".

Fitch, Inc. ("Fitch") rates the financial strength of MBIA "AAA".

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the MBIA-Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the MBIA-Insured Bonds. MBIA does not guarantee the market price of the MBIA-Insured Bonds nor does it guarantee that the ratings on the MBIA-Insured Bonds will not be revised or withdrawn.

This policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **Book-Entry Only System**

Beneficial ownership interests in the Tax Exempt Fixed Rate 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.

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 note 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.

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 of or interest on the Bonds, giving any notice permitted or required to be given to registered owners under the Indenture 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. The Trustee will forward interest and principal payments 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 NOTEHOLDERS 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 note certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such note 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 available thereunder, 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 issuance of the Authority's debt.

The Authority does not 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:

Adam L. Barsky, Chairperson .....	—	Director of Management and Budget of the City
Andrew S. Eristoff.....	—	Commissioner of Finance of the City
Alan G. Hevesi .....	—	Comptroller of the City
Kenneth R. Holden .....	—	Commissioner of the Department of Design and Construction of the City
Peter F. Vallone.....	—	Speaker of the City Council

The following is a brief description of certain officers and 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. 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.

*Prescott D. Ulrey, General Counsel*

Mr. Ulrey is a graduate of the University of California at Berkeley, the Fletcher School of Law and Diplomacy at Tufts University and Columbia Law School. He also serves as Deputy Counsel of the Office of Management and Budget of the City.

*Lawrence R. Glantz, Comptroller*

Mr. Glantz was appointed Comptroller in January 2000. He is a graduate of Hofstra University.

*Wei-Li Pai, Deputy Treasurer*

Ms. Pai was appointed Assistant Treasurer in April 1997 and Deputy Treasurer in October 2000. She is a graduate of Rutgers University and the London School of Economics.

*F. Jay Olson, Assistant Treasurer*

Mr. Olson was appointed Assistant Treasurer in October 2000. Mr. Olson is a graduate of Northwestern University, the University of Texas at Austin, and the John F. Kennedy School of Government at Harvard University.

*Albert F. Moncure, Jr., Assistant Secretary*

Mr. Moncure is a graduate of Dartmouth College and the Yale Law School. He also serves as Chief of the Municipal Finance Division of the New York City Law Department, where he has worked since 1986.

## **Plan of Finance**

Assuming conditions specified in the Act and the Indenture are met, the Act authorizes the Authority to issue bonds and notes for capital purposes (up to \$11.5 billion) and for refunding of Bonds and Notes. In addition, the Act was amended in September 2001 to permit the Authority to have outstanding an additional \$2.5 billion of its bonds and notes to pay Recovery Costs. The Authority expects to have issued its authorized capacity of bonds for capital purposes by the end of fiscal year 2004. The Authority has previously issued \$7,651,765,000 of Senior Bonds of which \$7,488,160,000 are Outstanding. Other than the Series 2002 B Bonds, the Authority does not expect to issue additional

Bonds in fiscal year 2002. The Authority also expects to issue \$1.2 billion of Bond Anticipation Notes for capital purposes in fiscal year 2002, in addition to the \$600,000,000 of Bond Anticipation Notes previously issued which the Authority expects to retire with the proceeds of the Series 2002 B Bonds and other funds. The Authority has previously issued \$1 billion of Recovery Notes which it expects to repay through the issuance of Recovery Bonds or from Statutory Revenues on a subordinate basis. The Authority expects that it will issue Recovery Notes from time to time. The Authority is authorized to issue additional senior and subordinate obligations provided certain conditions are met. See "SECTION IV: THE BONDS — Other Series."

### **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 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**

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.

### **SECTION VII: TAX MATTERS**

In the opinion of Sidley Austin Brown & Wood LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Tax Exempt Fixed Rate Bonds (as used in this Section VII, the "Bonds") will not be includable in the gross income of the owners of the Bonds for purposes of Federal income taxation under existing law. Interest on the Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the 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 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 no opinion is rendered by Sidley Austin Brown & Wood LLP as to the exclusion from gross income of the interest on the 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 such firm.

In the opinion of Bond Counsel, interest on the 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 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 Sidley Austin Brown & Wood LLP renders 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. Interest on the 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 the 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 Bonds for Federal, New York State and New York 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 adjustable basis for purposes of determining a holder's gain or loss on disposition of the Bonds with original issue discount (the "OID Bonds") will be increased by such amount. A portion of the original issue discount that accrues in each year to an owner of an OID 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 an OID 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 above. Consequently, owners of any OID 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 OID Bond has not received cash attributable to such original issue discount in such year.

Owners of OID 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 OID Bonds, other tax consequences of owning OID Bonds and other state and local tax consequences of holding such OID Bonds.

The excess, if any, of the tax basis of Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity of any maturity is "bond premium." Bond premium is amortized over the term of such Bonds for Federal income tax purposes (or, in the case of a Bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Bond). Owners of such Bonds are required to decrease their adjusted basis in such Bonds by the amount of amortizable bond premium attributable to each taxable year such Bonds are held. The amortizable bond premium on such Bonds attributable to a taxable year is not deductible for Federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest received on such Bonds. Owners of such Bonds should consult their tax advisors with respect to the determination for Federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Bonds and with respect to the state and local tax consequences of owning and disposing of such 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 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 Bonds will not have an adverse effect on the status of the Bonds. Legislative or regulatory actions and proposals may also affect the economic value of the tax exemption or the market price of the Bonds.

### **SECTION VIII: RATINGS**

The Tax Exempt Fixed Rate Bonds have been rated “AA+” by Fitch, “AA+” by Standard & Poor’s and “Aa2” by Moody’s. 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 Rating Agency originally establishing the rating, circumstances so warrant. A downward revision or withdrawal of such ratings, or any of them, may have an effect on the market price of the Tax Exempt Fixed Rate Bonds.

### **SECTION IX: APPROVAL OF LEGALITY**

All legal matters incident to the authorization, issuance and delivery of the Series 2002 B Bonds are subject to the approval of Sidley Austin 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 Clifford Chance Rogers & Wells LLP, New York, New York, counsel to the Underwriters.

### **SECTION X: 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 2002 B Bonds.

### **SECTION XI: FINANCIAL STATEMENTS**

The Authority’s Financial Statements included in Appendix B to this Offering Circular have been audited by Grant Thornton LLP, independent certified public accountants, to the extent and for the periods indicated in their report thereon.

### **SECTION XII: 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 Series 2002 B 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 Series 2002 B 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 Tax Exempt Fixed Rate Bonds, the Authority does not apply for or participate in obtaining the enhancement and the enhancement is not described in this Offering Circular.

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 or notes benefited by the same or a substantially similar covenant, and no remedy shall be sought or granted other than specific performance of the covenant at issue.

An amendment to the 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 Tax Exempt Fixed Rate 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 Tax Exempt Fixed Rate 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 XIII: UNDERWRITING**

The Tax Exempt Fixed Rate Bonds are being purchased for reoffering by the Underwriters, for whom Lehman Brothers Inc., Bear, Stearns & Co. 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 Tax Exempt Fixed Rate Bonds from the Authority at an aggregate underwriters' discount of \$2,383,283.22 and to make an initial public offering of the Tax Exempt Fixed Rate 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 the Tax Exempt Fixed Rate Bonds if any Tax Exempt Fixed Rate Bonds are purchased.

The Tax Exempt Fixed Rate 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 XIV: LEGAL INVESTMENT**

Pursuant to the Act, the Series 2002 B 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 Series 2002 B 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 Series 2002 B Bonds are fully set forth in the Indenture. Neither any advertisement of the Series 2002 B Bonds nor this Offering Circular is to be construed as a contract with purchasers of the Series 2002 B Bonds.

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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## 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 Recovery and Parity Debt Account, 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.

**“Chapter 296”** means Chapter 296 of the Laws of 2001 of the State of New York, as it may be amended and in effect from time to time.

**“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”** or **“Senior 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. Principal of Notes and termination payments on swap

contracts shall be deemed Debt Service only to the extent expressly specified in the text of a Series Resolution.

**“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 Standard & Poor’s 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 Standard & Poor’s;

(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 Standard & Poor’s;

(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 Standard & Poor's and in one of the two highest categories by Moody's 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 Standard & Poor's 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 Standard & Poor's, 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 Standard & Poor's; or

(x) investment agreements with a corporation whose principal business is to enter into such agreements if (a) such corporation has been assigned a counterparty rating by Moody's in one of the two highest categories and Standard & Poor's 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 Standard & Poor's; 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 Bonds 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 State Street Bank and Trust Company, N.A., 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.

“**Other Series,**” of Bonds or Notes means Series thereof other than the first Series of Bonds.

“**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 the 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.

**“Parity Debt”** means Bonds or Notes payable from the Recovery and Parity Debt Account on a parity with the Recovery Bonds or Recovery Notes respectively.

**“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 (i) 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 (ii) the costs of any preliminary studies, surveys, maps, plans, estimates and hearings, or (iii) incidental costs, including legal fees, printing or engraving, publication of notices, taking of title, apportionment of costs, and interest during construction, or (iv) any underwriting or other costs incurred in connection with the financing thereof, or (v) to the extent financed by Recovery Obligations, Recovery Costs (the financing of which is not limited by references to the Capital Financing Need).

**“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 or are Recovery Costs, and are financed, by payment or reimbursement, with the proceeds of Bonds or Notes.

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

**“Quarterly Subordinate Debt Service”** means amounts payable in the following Payment Period from the Recovery and Parity Debt Account pursuant to supplemental indentures, including interest on and principal of Recovery Obligations and Parity Debt issued as Bonds and interest on Recovery Obligations and Parity Debt issued as Notes, as certified to the Trustee by an Officer’s Certificate.

**“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.

**“Recovery and Parity Debt Account”** means the account established under the Indenture to provide for the payment of debt service on Recovery Obligations and Parity Debt.

**“Recovery Bonds”** means Recovery Obligations issued as Bonds.

**“Recovery Costs”** means costs described in Chapter 296.

**“Recovery Notes”** means Recovery Obligations issued as Notes.

**“Recovery Obligations”** means bonds, notes or other obligations described in Chapter 296.

**“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.

**“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.

**“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.

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

**“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 Standard & Poor’s 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 Senior Bonds shall be authenticated and delivered without Rating Confirmation except upon receipt by the Trustee of the following:
  - (x) 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
  - (y) 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 (x) after deducting the operating expenses set forth pursuant to clause (y)(II), will be at least three times such aggregate amount set forth in clause (y)(I) for each Fiscal Year set forth pursuant to clause (y)(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 first series of 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 of Bonds. The interest on such Notes and renewals thereof may be made payable from the proceeds of such Notes, from the Bond Account, from the Recovery Account or from the proceeds of renewal notes or the Series of Bonds in anticipation of which such Notes are issued. The proceeds of such renewal notes or 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.

*Recovery Obligations and Parity Debt.* The Authority may from time to time request the authentication and delivery of a Series of Recovery Obligations or Parity Debt by providing to the Trustee (among other things) the following at the delivery of Bonds or of Notes in anticipation thereof (but not both):

(i) a certificate by the Director of Management and Budget setting forth the collections for the most recent Fiscal Year ended at least two months prior to the date of such certificate, of the Statutory Revenues collected by the State and to be payable to the Authority; and

(ii) an Officer's Certificate of the Authority setting forth (x) the sum of \$1.32 billion and the aggregate amount payable from the Recovery and Parity Debt Account, including such Series of Bonds (assumed, at the delivery of Notes, to be issued at the Note maturity and to amortize over 30 years at an interest rate of 7%, with level debt service), for each Fiscal Year such Bonds will be Outstanding and (y)

that the amounts set forth pursuant to clause (i) will be at least 3 times the sum set forth in clause (ii)(x) for each Fiscal Year set forth pursuant to clause (ii)(x).

*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 (see "Recovery and Parity Debt Account"); 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, plus the amount payable therefrom in the current Payment Period, 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 remains 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.

*Recovery and Parity Debt Account.* A Recovery and Parity Debt Account is established with the Trustee and money shall be deposited therein as provided in the Indenture or by Officer's Certificate. The money in the Recovery and Parity Debt Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payments of Recovery Obligations and Parity Debt payable therefrom. If at any time the amount held in the Recovery and Parity Debt Account exceeds Quarterly Subordinate Debt Service, plus the amount payable therefrom in the current Payment Period, the Trustee shall transfer such excess to the Collection Account as Revenues. At the *third* level of priority described under "Application of Revenues" and subject to rights of the Holders of Notes Outstanding prior to October 4, 2001: at the beginning of each Collection Quarter, the Trustee shall begin to transfer all Revenues to the Recovery and Parity Debt Account, and shall continue such transfers until the amount in the Recovery and Parity Debt Account is equal to one-half of Quarterly Subordinate Debt Service; and on the first business day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers until

Quarterly Subordinate Debt Service is held in the Recovery and Parity Debt Account. To the extent that Quarterly Subordinate Debt Service includes principal, interest or premium on Bonds or Notes to be purchased or redeemed prior to maturity, or Revenues are available to pay principal of Notes, such amounts may be paid through the Redemption Account or an escrow fund, and the Authority may by Officer's Certificate direct the Trustee to transfer Revenues thereto. Prior to any payment date from the Recovery and Parity Debt Account, 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. The transfers and payments shall be appropriately adjusted by Officer's Certificate to reflect the date of issue of Notes or Bonds, actual rates of interest, anticipated receipts of proceeds or Revenues, any amount needed or held in the Recovery and Parity Debt Account, and any purchase or redemption of Notes or Bonds, so that there will be available on each payment date the amount necessary and so that accrued or capitalized interest will be applied to the installments of interest to which it is applicable. The Trustee shall pay, or transfer money from the Recovery and Parity Debt Account to a Paying Agent in time for such Paying Agent to pay, Recovery Obligations and Parity Debt when due in same-day funds.

*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, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed. 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 Bonds and may further acknowledge in any Series Resolution if and the extent to which any provision of the 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 by the Indenture. 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 the 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 first series of 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 thereof, premium, if any, or interest thereon 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 Notes offered hereby) and the Authority covenant with the Holders of the Outstanding Notes offered hereby 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 and the Act 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. 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 Project.

*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 first series of 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.

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**NEW YORK CITY TRANSITIONAL FINANCE  
AUTHORITY**

June 30, 2001 and 2000

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the  
**New York City Transitional Finance Authority**

We have audited the accompanying basic financial statements of the New York City Transitional Finance Authority (the "Authority"), as of and for the years ended June 30, 2001 and 2000, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2001 and 2000, and the results of its activities and operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note B, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2000. In addition, as described in Note B, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of July 1, 2000. The accompanying basic financial statements for the year ended June 30, 2000 have been restated to reflect the changes required by these statements.

GRANT THORNTON LLP

New York, New York  
September 5, 2001 (except for Note G, as to  
which the date is October 3, 2001)

## New York City Transitional Finance Authority

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the New York City Transitional Finance Authority's (the "Authority") provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2001. Please read it in conjunction with the Authority's financial statements, which begin on page 5.

#### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS

Restricted cash and cash equivalents decreased by \$558 million (83%), other assets decreased by \$23 million (13%) and total assets decreased by \$581 million (69%). The decrease in restricted cash and cash equivalents is due to the timing of issuance of bonds or bond anticipation notes by the Authority and the timing of Authority payments to New York City for capital projects. Thus at June 30, 2001, restricted funds available to transfer to New York City were \$558 million less than at June 30, 2000.

Long-term liabilities increased by \$1,464 million (25%), short-term liabilities decreased by \$545 million (62%) and total liabilities payable increased by \$919 million (14%). The increase in long-term liabilities is from issuance of bonds during the fiscal year ended June 30, 2001. At June 30, 2000, there was \$515 million of short-term debt that was refinanced by the issuance of bonds during the year ended June 30, 2001, thus decreasing the short-term liabilities.

Personal income tax revenue increased by \$88 million (2%) and investment earnings decreased by \$29 million (59%). The decrease in investment earnings is a combination of lower interest rates and having funds for a shorter period during the year ended June 30, 2001.

#### OVERVIEW OF FINANCIAL STATEMENTS

The annual financial statements of the Authority consist of two parts - management's discussion and analysis (this section) and the basic financial statements.

The entity-wide financial statements of the Authority, which include the statement of net assets (deficit) and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB No. 34. The statement of net assets (deficit) and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. All revenues and expenses are taken into account regardless of when cash is paid or received.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period.

New York City Transitional Finance Authority

**STATEMENTS OF NET ASSETS (DEFICIT)**

June 30,  
(in thousands)

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
Restricted cash and cash equivalents	\$ 110,911	\$ 669,203
Personal income tax receivable	110,181	139,192
Bond issue costs, net of amortization	<u>41,511</u>	<u>35,235</u>
Total assets	<u>262,603</u>	<u>843,630</u>
<b>LIABILITIES</b>		
Distributions payable to New York		
City capital program	13,975	65,600
Payable to New York City	110,181	139,192
Accrued expenses	1,157	594
Accrued interest payable	85,244	78,779
Bond anticipation notes payable	-	515,000
Bonds payable		
Portion due within one year	117,535	73,970
Portion due after one year	7,268,475	5,849,185
Unamortized bond premium (discount)	<u>26,910</u>	<u>(17,921)</u>
Total liabilities	<u>7,623,477</u>	<u>6,704,399</u>
<b>NET ASSETS (DEFICIT)</b>		
Reserved for capital program	2,899	27,703
Reserved for debt service	92,880	60,306
Deficit	<u>(7,456,653)</u>	<u>(5,948,778)</u>
Total net assets (deficit)	<u>\$(7,360,874)</u>	<u>\$(5,860,769)</u>

*The accompanying notes are an integral part of these statements.*

New York City Transitional Finance Authority

**STATEMENTS OF ACTIVITIES**

Year ended June 30,  
(in thousands)

	<u>2001</u>	<u>2000</u>
Expenses		
General and administrative expenses	\$ 3,102	\$ 2,778
Distributions to New York City for capital program	1,576,954	1,806,350
Bond interest expense	344,385	243,079
Bond issue expense	<u>3,226</u>	<u>3,873</u>
Total expenditures	<u>1,927,667</u>	<u>2,056,080</u>
General revenues		
Personal income tax revenues	5,546,545	5,458,466
Less remittances to New York City	<u>(5,139,103)</u>	<u>(5,211,353)</u>
Personal income tax revenues retained	407,442	247,113
Investment earnings	<u>20,120</u>	<u>49,216</u>
Total general revenues	<u>427,562</u>	<u>296,329</u>
Change in net assets	(1,500,105)	(1,759,751)
Net assets (deficit) - beginning of year	<u>(5,860,769)</u>	<u>(4,101,018)</u>
Net assets (deficit) - end of year	<u>\$(7,360,874)</u>	<u>\$(5,860,769)</u>

*The accompanying notes are an integral part of these statements.*



New York City Transitional Finance Authority

**BALANCE SHEET**  
**Governmental Funds**

June 30, 2001  
(in thousands)

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Restricted cash and cash equivalents	\$18,031	\$ 92,880	\$110,911
Personal income tax receivable	<u>-</u>	<u>110,181</u>	<u>110,181</u>
Total assets	<u>\$18,031</u>	<u>\$203,061</u>	<u>\$221,092</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Distributions payable to New York			
City capital program	\$13,975	\$ -	\$ 13,975
Accrued expenses	1,157	-	1,157
Personal income tax payable to New York City	-	9,181	9,181
Deferred personal income tax revenue	<u>-</u>	<u>101,000</u>	<u>101,000</u>
Total liabilities	<u>15,132</u>	<u>110,181</u>	<u>125,313</u>
Fund balances			
Reserved for capital program	2,899	-	2,899
Reserved for debt service	<u>-</u>	<u>92,880</u>	<u>92,880</u>
Total fund balances	<u>2,899</u>	<u>92,880</u>	<u>95,779</u>
Total liabilities and fund balances	<u>\$18,031</u>	<u>\$203,061</u>	<u>\$221,092</u>

*The accompanying notes are an integral part of this statement.*

New York City Transitional Finance Authority

**BALANCE SHEET**  
**Governmental Funds**

June 30, 2000  
(in thousands)

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Restricted cash and cash equivalents	\$608,897	\$ 60,306	\$669,203
Personal income tax receivable	<u>-</u>	<u>139,192</u>	<u>139,192</u>
Total assets	<u>\$608,897</u>	<u>\$199,498</u>	<u>\$808,395</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Bond anticipation notes payable	\$515,000	\$ -	\$515,000
Distributions payable to New York			
City capital program	65,600	-	65,600
Accrued expenses	594	-	594
Personal income tax payable to New York City	-	2,192	2,192
Deferred personal income tax revenue	<u>-</u>	<u>137,000</u>	<u>137,000</u>
Total liabilities	<u>581,194</u>	<u>139,192</u>	<u>720,386</u>
Fund balances			
Reserved for capital program	27,703	-	27,703
Reserved for debt service	<u>-</u>	<u>60,306</u>	<u>60,306</u>
Total fund balances	<u>27,703</u>	<u>60,306</u>	<u>88,009</u>
Total liabilities and fund balances	<u>\$608,897</u>	<u>\$199,498</u>	<u>\$808,395</u>

*The accompanying notes are an integral part of this statement.*

New York City Transitional Finance Authority

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Governmental Funds**

Year ended June 30, 2001  
(in thousands)

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Personal income tax revenues	\$ -	\$ 5,582,545	\$ 5,582,545
Less remittances to New York City	<u>-</u>	<u>(5,175,103)</u>	<u>(5,175,103)</u>
Personal income tax revenues retained	-	407,442	407,442
Interest income	<u>13,956</u>	<u>6,164</u>	<u>20,120</u>
Total revenues	<u>13,956</u>	<u>413,606</u>	<u>427,562</u>
<b>Expenditures</b>			
Bond interest expense	-	344,428	344,428
Principal amount of bonds retired	-	73,970	73,970
Costs of bond issuance	9,502	-	9,502
Distributions to New York City for capital program	1,576,954	-	1,576,954
General and administrative expenses	<u>3,102</u>	<u>-</u>	<u>3,102</u>
Total expenditures	<u>1,589,558</u>	<u>418,398</u>	<u>2,007,956</u>
Excess of expenditures over revenues	<u>(1,575,602)</u>	<u>(4,792)</u>	<u>(1,580,394)</u>
<b>Other financing sources (uses)</b>			
Principal amount of bonds issued	1,536,825	-	1,536,825
Bond premium, net of discount	51,339	-	51,339
Transfers in (out)	<u>(37,366)</u>	<u>37,366</u>	<u>-</u>
Total other financing sources and uses	<u>1,550,798</u>	<u>37,366</u>	<u>1,588,164</u>
Net change in fund balances	(24,804)	32,574	7,770
Fund balances - beginning of year	<u>27,703</u>	<u>60,306</u>	<u>88,009</u>
Fund balances - end of year	<u>\$ 2,899</u>	<u>\$ 92,880</u>	<u>\$ 95,779</u>

*The accompanying notes are an integral part of this statement.*

New York City Transitional Finance Authority

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Governmental Funds**

Year ended June 30, 2000  
(in thousands)

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Personal income tax revenues	\$ -	\$ 5,583,466	\$ 5,583,466
Less remittances to New York City	<u>-</u>	<u>(5,336,353)</u>	<u>(5,336,353)</u>
Personal income tax revenues retained	-	247,113	247,113
Interest income	<u>45,829</u>	<u>3,387</u>	<u>49,216</u>
Total revenues	<u>45,829</u>	<u>250,500</u>	<u>296,329</u>
<b>Expenditures</b>			
Bond interest expense	-	214,046	214,046
Principal amount of bonds retired	-	41,785	41,785
Costs of bond issuance	13,758	-	13,758
Distributions to New York City for capital program	1,806,350	-	1,806,350
General and administrative expenses	<u>2,778</u>	<u>-</u>	<u>2,778</u>
Total expenditures	<u>1,822,886</u>	<u>255,831</u>	<u>2,078,717</u>
Excess of expenditures over revenues	<u>(1,777,057)</u>	<u>(5,331)</u>	<u>(1,782,388)</u>
<b>Other financing sources (uses)</b>			
Principal amount of bonds issued	1,814,940	-	1,814,940
Bond premium, net of discount	9,275	-	9,275
Transfers in (out)	<u>(33,871)</u>	<u>33,871</u>	<u>-</u>
Total other financing sources and uses	<u>1,790,344</u>	<u>33,871</u>	<u>1,824,215</u>
Net change in fund balances	13,287	28,540	41,827
Fund balances - beginning of year	<u>14,416</u>	<u>31,766</u>	<u>46,182</u>
Fund balances - end of year	<u>\$ 27,703</u>	<u>\$ 60,306</u>	<u>\$ 88,009</u>

*The accompanying notes are an integral part of this statement.*

New York City Transitional Finance Authority

**RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENTS OF ACTIVITIES**

Years ended June 30,  
(in thousands)

	<u>2001</u>	<u>2000</u>
Net change in fund balances - total governmental funds	\$ 7,770	\$ 41,827
Amounts reported for governmental activities in the statement of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statement of net assets.	(1,536,825)	(1,814,940)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	73,970	41,785
Governmental funds report costs of debt issuance as expenditures. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the debt.	6,276	9,884
Governmental funds report bond premiums/discounts as other financing sources/uses. However, in the statement of activities, bond premiums/discounts are amortized over the lives of the debt as interest expense.	(44,831)	196
Interest expense is reported in the statement of activities on the accrual basis, but interest is reported as expenditure in governmental funds when outlay of financial resources is required.	<u>(6,465)</u>	<u>(38,503)</u>
Change in net assets of governmental activities	<u>\$ (1,500,105)</u>	<u>\$ (1,759,751)</u>

New York City Transitional Finance Authority

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2001 and 2000

**NOTE A - ORGANIZATION**

The New York City Transitional Finance Authority (the "Authority") is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State"). The Authority is governed by a Board of five directors, consisting of the following officials of the City of New York (the "City"): the Director of Management and Budget (who also serves as Chairperson), the Commissioner of Finance, the Commissioner of Design and Construction, the Comptroller and the Speaker of the Council. Although legally separate from the City, the Authority is a component unit of the City and, accordingly, is included in the City's financial statements.

The Authority was created by State legislation enacted in 1997 to issue and sell up to \$7.5 billion in bonds and notes to fund a portion of the capital program of the City, the purpose of which is to maintain, rebuild and expand the infrastructure of the City. In June 2000, the State legislature increased the debt authorization by \$4 billion to an aggregate amount of \$11.5 billion and increased the amount of allowable variable rate debt from \$750 million to \$2.3 billion. (See Note G - Subsequent Events.)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

During the year ended June 30, 2001, the Authority elected to adopt the provisions of Statement No. 34 of the Governmental Accounting Standards Board ("GASB No. 34"), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, accordingly, the accompanying financial statements for the year ended June 30, 2000 have been restated to conform with GASB No. 34 requirements.

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB No. 34. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

In addition, the Authority adopted the provisions of Statement No. 33 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Nonexchange Transactions* ("GASB No. 33"). The accompanying financial statements for the year ended June 30, 2000 have been restated to reflect the changes required by this statement. The implementation of GASB No. 33 resulted in an increase to personal income tax revenues and related remittances to New York City in the Authority's Debt Service Fund of approximately \$7 million and \$8 million in the years ended June 30, 2001 and 2000, respectively. The Authority's Debt Service Fund recognized personal income tax receivables of

New York City Transitional Finance Authority

**NOTES TO FINANCIAL STATEMENTS (continued)**

June 30, 2001 and 2000

**NOTE B (continued)**

approximately \$110 million and \$139 million as of June 30, 2001 and 2000, respectively, related remittances payable to New York City of approximately \$9 million and \$2 million as of June 30, 2001 and 2000, respectively, and deferred personal income tax revenue of approximately \$101 million and \$137 million as of June 30, 2001 and 2000, respectively.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for unmatured interest on bonds payable, which is recognized when due. The governmental funds consist of the Capital Projects Fund, which accounts for resources to be transferred to the City's capital program and supports the operations of the Authority, and the Debt Service Fund, which accounts for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt.

Bond premiums, discounts and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the entity-wide financial statements. The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when paid in the individual governmental fund financial statements.

The Authority receives City personal income taxes, imposed pursuant to State law and collected on behalf of the Authority by the State, to service its debt and pay administrative expenses. Funds for debt service are required to be set aside for debt service prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE C - BONDS PAYABLE

The Authority was initially authorized by the State to issue obligations in an aggregate principal amount of \$7.5 billion, which authorization was increased to \$11.5 billion in June 2000 (see Note G). The Authority has issued \$7.502 billion at June 30, 2001 and \$6.480 billion (including \$515 million of bond anticipation notes - see Note D) at June 30, 2000. All City personal income tax is paid by the State to the Authority. The Authority has pledged the personal income tax as collateral to secure its bonds. The Authority retains personal income taxes in an amount sufficient to service its debt and pay its operating expenditures, and remits the difference to the City. The Authority has no taxing power.

The Authority funds its debt service requirements and operating expenditures from personal income taxes collected on its behalf by the State and, under certain circumstances, sales taxes. Sales taxes are only available to the Authority after such amounts required by the Municipal Assistance Corporation are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. The Authority periodically certifies to its bond trustee the amount of funding it requires. Net collections of personal income taxes not required by the Authority are paid by the Authority to the City. No sales tax revenues were received or required during fiscal 2001 and 2000.

Bonds are recorded at the principal amount outstanding and consist of the following:

	Balance at June 30, 2000	Issued	Retired	Balance at June 30, 2001
		(in thousands)		
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	\$ 634,365	\$ -	\$ (16,260)	\$ 618,105
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	638,375	-	(12,080)	626,295
1998 Fiscal Series C 4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	650,000	-	(1,340)	648,660
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	85,475	-	(13,935)	71,540
Variable rate tax-exempt bonds due in 2028 (a)	100,000	-	-	100,000



New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE C (continued)

	Balance at June 30, 2000	Issued	Retired	Balance at June 30, 2001
	(in thousands)			
1999 Fiscal Series A				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2016	\$ 360,000	\$ -	\$ (9,745)	\$ 350,255
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	40,000	-	(4,615)	35,385
Variable rate tax-exempt bonds due in 2028 (a)	500,000	-	-	500,000
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	410,000	-	(4,540)	405,460
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	40,000	-	(4,365)	35,635
Variable rate tax-exempt bonds due in 2028 (a)	150,000	-	-	150,000
1999 Fiscal Series C				
3.5% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2029	460,000	-	(5,855)	454,145
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	40,000	-	(1,235)	38,765
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2019	560,000	-	-	560,000
6.00% to 6.75% serial taxable bonds maturing in varying installments through 2005	40,000	-	-	40,000
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	560,000	-	-	560,000
5.90% to 7.125% serial taxable bonds maturing in varying installments through 2005	40,000	-	-	40,000

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE C (continued)

	Balance at June 30, <u>2000</u>	<u>Issued</u>	<u>Retired</u>	Balance at June 30, <u>2001</u>
		(in thousands)		
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2020	\$ 573,405	\$ -	\$ -	\$ 573,405
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2006	41,535	-	-	41,535
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2024	-	417,665	-	417,665
Variable rate tax-exempt bonds due in 2030 (a)	-	100,000	-	100,000
2001 Fiscal Series B				
4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2020	-	415,000	-	415,000
Variable rate tax-exempt bonds due in 2031 (a)	-	100,000	-	100,000
2001 Fiscal Series C				
4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2022	-	404,160	-	404,160
Variable rate tax-exempt term bonds due in 2032 (a)	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
 Total bonds payable	 <u>\$5,923,155</u>	 <u>\$1,536,825</u>	 <u>\$(73,970)</u>	 <u>\$7,386,010</u>

- (a) Variable rates are adjusted daily or weekly and represent the lowest rate of interest that would cause the adjustable rate bonds to have a market value equal to the principal amount. The rates cannot exceed certain specified levels.

New York City Transitional Finance Authority

**NOTES TO FINANCIAL STATEMENTS (continued)**

June 30, 2001 and 2000

**NOTE C (continued)**

Debt service requirements to maturity at June 30, 2001, are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u> (in thousands)	<u>Total</u>
2002	\$ 117,535	\$ 372,882	\$ 490,417
2003	161,400	374,796	536,196
2004	179,865	366,925	546,790
2005	192,200	357,966	550,166
2006	206,150	348,182	554,332
2007 to 2011	1,216,180	1,573,239	2,789,419
2012 to 2016	1,463,565	1,218,010	2,681,575
2017 to 2021	1,553,355	815,744	2,369,099
2022 to 2026	1,343,340	436,381	1,779,721
2027 to 2031	942,620	96,241	1,038,861
2032	<u>9,800</u>	<u>490</u>	<u>10,290</u>
	<u>\$7,386,010</u>	<u>\$5,960,856</u>	<u>\$13,346,866</u>

Debt service accounts have been established under each of the Authority's indentures to provide security for the payment of interest on and principal of bonds outstanding. The principal and interest required to be paid are to be deposited into the debt service account in the quarter preceding the payment due date.

At June 30, 2001 and 2000, the Authority maintained its required debt service accounts totaling \$92,880,000 and \$60,306,000, respectively, of which \$28,045,000 and \$16,260,000 were for principal retirement, respectively, and \$64,835,000 and \$44,046,000 were for interest payments, respectively.

New York City Transitional Finance Authority

**NOTES TO FINANCIAL STATEMENTS (continued)**

June 30, 2001 and 2000

**NOTE D - BOND ANTICIPATION NOTES PAYABLE**

Bond anticipation notes are recorded at the principal amount outstanding and consist of the following:

	Balance at June 30, <u>2000</u>	<u>Issued</u>	<u>Retired</u>	Balance at June 30, <u>2001</u>
		(in thousands)		
2000 Fiscal Series 3				
6.50% tax-exempt bond anticipation notes maturing November 1, 2000	\$415,000	\$ -	\$ (415,000)	\$ -
4.75% taxable bond anticipation notes maturing November 1, 2000	100,000	-	(100,000)	-
2001 Fiscal Series 1				
5.6% tax-exempt bond anticipation notes maturing June 29, 2001	<u>-</u>	<u>515,000</u>	<u>(515,000)</u>	<u>-</u>
Total bonds payable	<u>\$515,000</u>	<u>\$515,000</u>	<u>\$(1,030,000)</u>	<u>\$-</u>

**NOTE E - CASH AND CASH EQUIVALENTS**

The Authority's cash and cash equivalents are currently limited to bank deposits and commercial paper. At June 30, 2001, the Authority's cash and cash equivalents consisted of bank deposits of approximately \$643,000 and commercial paper of approximately \$110,268,000. At June 30, 2000, the Authority's cash and cash equivalents consisted of repurchase agreements of approximately \$4 million and commercial paper of approximately \$665 million. All of the Authority's investments are classified as cash and cash equivalents because they have an original maturity date of three months or less. Accordingly, the Authority values its investments at cost plus accrued interest, which approximates market.

The Authority's commercial paper is held by the Authority's agent in the Authority's name. Bank deposits up to \$100,000 were insured by the Federal Deposit Insurance Corporation. At June 30, 2001 and 2000, the carrying amounts of bank deposits were approximately \$643,000 and \$224,000, respectively, and the bank balances were approximately \$845,000 and \$231,000, respectively. The bank balances were either insured or collateralized by securities held by the Authority, or its agent, in the Authority's name.

New York City Transitional Finance Authority

**NOTES TO FINANCIAL STATEMENTS (continued)**

June 30, 2001 and 2000

**NOTE F - ADMINISTRATIVE COSTS**

The Authority's salaries, rent and expenditures related to carrying out the Authority's duties are funded from the personal income taxes flowing through the Authority's accounts.

**NOTE G - SUBSEQUENT EVENTS**

On July 10, 2001, the Authority issued \$150,000,000 of Tax Exempt Bonds, Series 2002A. On August 1, 2001, the Authority issued \$600,000,000 of Bond Anticipation Notes. On September 13, 2001, the State Legislature increased the financing capacity of the Authority by \$2.5 billion to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center ("Recovery Costs"). The State Legislature has authorized the Authority to issue debt without limit to principal amount that is payable solely from State or Federal aid received on account of the disaster. On October 3, 2001 the Authority issued \$1 billion of the New York City Transitional Finance Authority New York City Recovery Notes with a maturity date of October 2, 2002.

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PROPOSED FORM OF BOND COUNSEL OPINION

November 14, 2001

NEW YORK CITY TRANSITIONAL  
FINANCE AUTHORITY

We have acted as bond counsel to 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"), in the Authority's issuance of its Future Tax Secured Bonds, Fiscal 2002 Series B (the "New Bonds"). The New Bonds are being issued as Senior Bonds pursuant to Chapter 16, Laws of New York, 1997, as amended (the "Act"), to an Indenture dated as of October 1, 1997, as amended and supplemented (the "Indenture"), between the Authority and State Street Bank and Trust Company, N.A., as Trustee, and to a Financing Agreement, dated October 1, 1997, as supplemented (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 New 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 obligations of the Authority payable from the Revenues pledged and the other collateral provided therefor in the Indenture. The New 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 New 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. 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.

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 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.

5. The lien of the Indenture on the Revenues for the security of the Bonds (and the 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 pledge of Revenues and other collateral made by the Authority in the Indenture is valid, binding and perfected 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 its bonds and notes, 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 3½% New Bonds due in 2003 and the New Bonds bearing interest at fixed rates that mature after 2003 (the "Tax-Exempt Bonds") is not includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of Federal income taxation under existing law. Interest on the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 any maturity of the Tax-Exempt 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 which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Tax-Exempt 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 Tax-Exempt 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 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.

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**FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Insurer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

This policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**  
\_\_\_\_\_  
President  
\_\_\_\_\_  
Assistant Secretary

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**\$419,235,000**  
**Future Tax Secured Bonds**  
**Fiscal 2002 Series B**  
**(Tax-Exempt Fixed Rate Bonds)**

**OFFERING CIRCULAR**

**November 1, 2001**