

**NEW ISSUE**

In the opinion of Bond Counsel, interest on the Series 1 Recovery Bonds will be exempt from personal income taxes imposed by the State of New York (the "State") or any political subdivision thereof, including The City of New York (the "City"), and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series 1 Recovery 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.



**\$480,000,000**  
**New York City Transitional Finance Authority**  
**New York City Recovery Bonds**  
**Fiscal 2003 Series 1**  
**Subseries 1A through Subseries 1E**

Dated: Date of Delivery

Due: As shown on inside cover

The New York City Recovery Bonds, Fiscal 2003 Series 1 (the "Series 1 Recovery 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").

Interest on and principal of the Series 1 Recovery Bonds are payable from the Revenues of the Authority subordinate to Debt Service and operating expenses of the Authority. See "Section II: Sources of Payment and Security for the Bonds."

The Series 1 Recovery Bonds will be issued as Adjustable Rate Bonds, only as fully registered bonds, and registered in the nominee name of The Depository Trust Company. Purchases of beneficial interests in the Series 1 Recovery Bonds will be made in book-entry form in denominations of \$100,000 principal amount or multiples of \$5,000 in excess thereof. Purchasers will not be entitled to receive physical delivery of the Series 1 Recovery Bonds. Other terms of the Series 1 Recovery Bonds including interest rate modes, interest payment dates, mandatory and optional redemption and tender provisions are described herein.

Payment of the Purchase Price on the Series 1 Recovery Bonds tendered for purchase as described herein will be made pursuant and subject to the terms of the Liquidity Facilities described herein provided severally by Bayerische Landesbank Girozentrale, acting through its New York Branch, JPMorgan Chase Bank, Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, and Societe Generale, acting through its New York Branch (collectively, the "Banks"), representing separate obligations of the respective Banks in respect of the applicable Subseries of the Series 1 Recovery Bonds as shown on the inside cover.

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

The Series 1 Recovery 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 Series 1 Recovery 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 Series 1 Recovery Bonds will be available for delivery to DTC in New York, New York, on or about July 11, 2002.

**Bear, Stearns & Co. Inc.**  
Remarketing Agent for  
Subseries 1A Bonds

**JPMorgan**  
Remarketing Agent for  
Subseries 1D Bonds

**Lehman Brothers**  
Remarketing Agent for  
Subseries 1B Bonds

**Merrill Lynch & Co.**  
Remarketing Agent for  
Subseries 1E Bonds

**Morgan Stanley**  
Remarketing Agent for  
Subseries 1C Bonds

July 1, 2002

**\$480,000,000**  
**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
**NEW YORK CITY RECOVERY BONDS**  
**FISCAL 2003 SERIES 1**  
**SUBSERIES 1A THROUGH SUBSERIES 1E**  
**Price: 100%**

	<u>Subseries 1A Bonds (1)</u>	<u>Subseries 1B Bonds (2)</u>	<u>Subseries 1C Bonds (3)</u>	<u>Subseries 1D Bonds (4)</u>	<u>Subseries 1E Bonds (5)</u>
<u>November 1</u>	<u>Principal Amount</u>	<u>Principal Amount</u>	<u>Principal Amount</u>	<u>Principal Amount</u>	<u>Principal Amount</u>
2022	\$135,000,000(t)	\$111,200,000(t)	\$100,000,000(t)	\$80,000,000(t)	\$53,800,000(t)

(t) Term Bond

- (1) Adjustable Rate Bonds. Bear, Stearns & Co. Inc. is the Remarketing Agent for the Subseries 1A Bonds, which initially will be in the Weekly Mode, supported by a Liquidity Facility provided by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Branch, which is scheduled to terminate on July 11, 2005.
- (2) Adjustable Rate Bonds. Lehman Brothers Inc. is the Remarketing Agent for the Subseries 1B Bonds, which initially will be in the Weekly Mode, supported by a Liquidity Facility provided by Societe Generale, acting through its New York Branch, which is scheduled to terminate on November 1, 2006.
- (3) Adjustable Rate Bonds. Morgan Stanley & Co. Incorporated is the Remarketing Agent for the Subseries 1C Bonds, which initially will be in the Daily Mode, supported by a Liquidity Facility provided by JPMorgan Chase Bank which is scheduled to terminate on July 11, 2005.
- (4) Adjustable Rate Bonds. J.P. Morgan Securities Inc. is the Remarketing Agent for the Subseries 1D Bonds, which initially will be in the Daily Mode, supported by a Liquidity Facility provided by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Branch, which is scheduled to terminate on July 11, 2007.
- (5) Adjustable Rate Bonds. Merrill Lynch, Pierce, Fenner & Smith Incorporated is the Remarketing Agent for the Subseries 1E Bonds, which initially will be in the Weekly Mode, supported by a Liquidity Facility provided by Bayerische Landesbank Girozentrale, acting through its New York Branch, which is scheduled to terminate on July 11, 2005.

**RATE PERIOD TABLE  
FOR TAX-EXEMPT ADJUSTABLE RATE BONDS**

	DAILY RATE	WEEKLY RATE	MONTHLY RATE	QUARTERLY RATE	SEMIANNUAL RATE	TERM RATE	MONEY MARKET MUNICIPAL RATE
Interest Payment Date	First Business Day of each May and November	First Business Day of each May and November	First Business Day of each May and November	First Business Day of each May and November	First Business Day of the sixth calendar month following Conversion to the Semiannual Rate Period and the first Business Day of each sixth calendar month thereafter	First Business Day of the sixth calendar month following Conversion to the Term Rate Period and the first Business Day of each sixth calendar month thereafter	First Business Day following a Money Market Municipal Rate Period*
Record Date	Last Business Day of the calendar month next preceding the Interest Payment Date	Last Business Day of the calendar month next preceding the Interest Payment Date	Last Business Day of the calendar month next preceding the Interest Payment Date	Last Business Day of the calendar month next preceding the Interest Payment Date	Fifteenth day of the calendar month next preceding the Interest Payment Date	Fifteenth day of the calendar month next preceding the Interest Payment Date	Interest on presentment*
Date of Interest Rate Determination	Not later than 9:30 a.m. on each Business Day	Not later than 9:00 a.m. on the commencement date of the Weekly Rate Period, or if such day is not a Business Day, the next succeeding Business Day	Not later than 4:00 p.m. on the Business Day immediately preceding the commencement of the Monthly Rate Period	Not later than 4:00 p.m. on the Business Day immediately preceding the commencement of the Quarterly Rate Period	Not later than 4:00 p.m. on the Business Day immediately preceding the commencement of the Semiannual Rate Period	Not later than 4:00 p.m. on the Business Day immediately preceding the commencement of the Term Rate Period	Not later than 12:00 noon on the first Business Day of a Money market Municipal Rate Period
Commencement of Rate Period	Each Business Day	On Conversion to a Weekly Rate and on each Wednesday thereafter	On Conversion to a Monthly Rate and on the first Business Day of each month thereafter	On Conversion to a Quarterly Rate and thereafter on the first Business Day of each third calendar month thereafter	On Conversion to a Semiannual Rate and thereafter on the first Business Day of each sixth calendar month thereafter	On Conversion to a Term Rate and thereafter on the first Business Day of any subsequent period of twelve months or any integral multiple thereof	Interest Rate Determination Date
Purchase Date	Any Business Day	Any Business Day	First day of each Rate Period	First day of each Rate Period	Any Interest Payment Date	Mandatory Tender	Mandatory Tender
Notice Period for Tender	Telephone notice by 9:00 a.m. on Purchase Date	Written notice not later than 5:00 p.m. on any Business Day not less than seven days prior to the Purchase Date	Written notice not later than 5:00 p.m. on any Business Day not less than seven days prior to the Purchase Date	Written notice not later than 5:00 p.m. on any Business Day not less than 15 days prior to the Purchase Date	Written notice not later than 5:00 p.m. on any Business Day not less than 15 days prior to the Purchase Date	Mandatory Tender	Mandatory Tender
Tender Date for Tendered Bonds	Not later than 10:00 a.m. on the Purchase Date	Not later than 10:00 a.m. on the Purchase Date	Not later than 10:00 a.m. on the Purchase Date	Not later than 10:00 a.m. on the Purchase Date	Not later than 10:00 a.m. on the Purchase Date	Not later than 10:00 a.m. on the commencement of the Term Rate Period or the next succeeding Business Day	Not later than 10:00 a.m. on the commencement of a Money market Municipal Rate Period
Payment Date for Tendered Bonds	Not later than 3:00 p.m. on the Purchase Date	Not later than 3:00 p.m. on the Purchase Date	Not later than 3:00 p.m. on the Purchase Date	Not later than 3:00 p.m. on the Purchase Date	Not later than 3:00 p.m. on the Purchase Date	Not later than 3:00 p.m. on the commencement of the Term Rate Period or the next succeeding Business Day	Not later than 3:00 p.m. on the commencement of a Money market Municipal Rate Period

*Note:* All time references given above refer to New York City time.

The information in this Rate Period Table is provided for the convenience of the Bondholders and is not meant to be comprehensive. See "SECTION III: The Series 1 Recovery Bonds" for a description of the Adjustable Rate Bonds.

\* In an MMR Period exceeding six months, interest is payable on the first Business Day of the sixth calendar month, and the Record Date therefor is the fifteenth day of the calendar month preceding such Interest Payment Date.

WHILE THE SERIES 1 RECOVERY BONDS MAY IN THE FUTURE BE CONVERTED TO AUCTION RATES, THIS OFFERING CIRCULAR DOES NOT DESCRIBE THE AUCTION PROCEDURES OR OTHER TERMS SPECIFICALLY APPLICABLE TO SERIES 1 RECOVERY BONDS BEARING AUCTION RATES NOR DOES IT DESCRIBE SERIES 1 RECOVERY BONDS HELD BY A BANK OR BY ANY REGISTERED OWNER OTHER THAN DTC.

The information in this Offering Circular has been provided by the Authority, the City, the Banks 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 Series 1 Recovery 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 Series 1 Recovery 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 original purchasers 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.

**THE SERIES 1 RECOVERY 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 SERIES 1 RECOVERY BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

## 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").

Purpose of Issue.....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 proceeds from the sale of the Series 1 Recovery Bonds (as defined below) will be used for Recovery Costs (as defined below). Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 1 Recovery Bonds will be paid from the proceeds of the Series 1 Recovery Bonds.

Securities Offered.....\$480,000,000 New York City Recovery Bonds, Fiscal 2003 Series 1 (the "Series 1 Recovery Bonds") are to be issued pursuant to an Indenture, dated as of October 1, 1997 (as amended and supplemented from time to time, the "Indenture"), by and between the Authority and the Trustee. The Series 1 Recovery Bonds will be issued as Adjustable Rate Bonds. Interest on and principal of the Series 1 Recovery Bonds will be payable from the Revenues subordinate to the payment of Senior Debt Service and operating expenses of the Authority. Information regarding the Remarketing Agents for the Series 1 Recovery Bonds and the Liquidity Facilities available for payment of the Purchase Price of the Series 1 Recovery Bonds is set forth on the inside cover page of this Offering Circular. See "SECTION II: Sources of Payment and Security for the Bonds."

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, including Recovery Bonds, in such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds, including Recovery 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 of New York (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.

Statutory Revenues.....The Series 1 Recovery Bonds are payable on the subordinate basis described herein 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 \$4.6 billion, \$5.0 billion, \$5.5 billion, \$5.9 billion and \$6.3 billion in fiscal years 2002 through 2006, respectively. 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, including Recovery 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 \$3.4 billion, \$3.4 billion, \$3.2 billion, \$3.4 billion, and \$3.5 billion in fiscal years 2002 through 2006, respectively.

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 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, including the Series 1 Recovery 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, including 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, including the Series 1 Recovery 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 Authority Indebtedness.....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 (“Recovery Bonds”) and notes (“Recovery Notes”) to pay Recovery Costs. See “SECTION IV: The Series 1 Recovery Bonds—Other Series” and “SECTION V: The Authority—Plan of Finance.”

The Authority entered into three Senior Agreements on June 20, 2002 with the New York City Housing Development Corporation.

The Authority has previously issued \$8,521,955,000 of Senior Bonds of which \$8,288,665,000 are Outstanding. The Authority has Outstanding \$1.0 billion of Recovery Notes which are expected to be paid through the issuance of Recovery Bonds or from other sources. In addition, the Authority has Outstanding \$1.2 billion of Bond Anticipation Notes, which are expected to be paid through the issuance of Senior Bonds. The Authority expects to issue approximately \$1.24 billion of its Senior Bonds on July 2, 2002. Other Series of Bonds and Notes (including Recovery Bonds and Recovery Notes) are expected to be issued from time to time. See “SECTION IV: The Series 1 Recovery Bonds—Other Series” and “SECTION V: The Authority—Plan of Finance.”



Other Series of Recovery Obligations and debt issued on a parity (“Parity Debt”) may be issued, provided that collections of Statutory Revenues for the most recent Fiscal Year ended at least two months prior to the date of such issuance are for each Fiscal Year during which such proposed Bonds are to be outstanding at least three times the sum of \$1.32 billion (Covenanted Maximum Annual Debt Service for Senior Bonds) and annual debt service on Outstanding Recovery Obligations and Parity Debt, together with the Series proposed to be issued, as estimated in accordance with the Indenture.

Interest and Principal.....The Series 1 Recovery Bonds will be dated the date of delivery and will mature as shown on the inside cover page hereof. The Series 1 Recovery Bonds will bear interest payable at the times and at the rates as described herein.

Form and Denomination.....The Series 1 Recovery Bonds will be issued as fully registered securities registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”).

The Series 1 Recovery Bonds will be denominated in principal amounts of \$100,000 and integral multiples of \$5,000 in excess 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, will provide for the application of Bond proceeds to fund capital expenditures of the City and Recovery Costs and include 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 Senior Agreements that are to be paid out of the Bond Account on a parity with Senior Bonds.

Recovery and Parity

Debt Account.....The Recovery and Parity Debt Account will be held by the Trustee in accordance with the terms of the Indenture. Following required deposits to the Bond Account and payment of Authority operating expenses in accordance with the terms of the Indenture, the Trustee shall transfer all Revenues to the Recovery and Parity Debt Account in accordance with the Retention Procedures described below for the payment of debt service on Recovery Obligations, including the Series 1 Recovery Bonds, and Parity Debt.

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 the Series 1 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, such 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.

After retention for Senior Debt Service in the manner described above and payment of Authority operating expenses, 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.

Defeasance.....Under the Indenture, the Authority will have the ability to defease the Series 1 Recovery 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 Series 1 Recovery 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 Series 1 Recovery Bonds will not be includable in the gross income of the owners thereof for Federal income tax purposes. See "SECTION VII: Tax Matters."

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## SECTION I: INTRODUCTION

### General

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”). 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 Authority’s \$480,000,000 New York City Recovery Bonds, Fiscal 2003 Series 1 (the “Series 1 Recovery Bonds”). The Authority also expects to issue approximately \$1.24 billion of its Future Tax Secured Refunding Bonds, Fiscal 2003 Series A, on July 2, 2002. In addition, the Authority expects to convert \$222,500,000 of its Future Tax Secured Bonds, Fiscal 1999 Series A, and \$100,000,000 of its Future Tax Secured Bonds, Fiscal 1999 Series B, to fixed rates which is expected to be effective July 11, 2002.

The Series 1 Recovery 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 the Authority’s 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: Summary of Indenture and Agreement.”

The Series 1 Recovery Bonds are payable from the Revenues of the Authority, subordinate to Debt Service and operating expenses of the Authority. The Revenues are derived from the Personal Income Tax Revenues and Sales Tax Revenues (each as defined herein). See “SECTION II: Sources of Payment and Security for the Bonds.”

The 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 for capital purposes (up to \$11.5 billion) and the refunding of Bonds and Notes. The Act was amended in September 2001 to permit the Authority to have outstanding an additional \$2.5 billion of its Bonds (“Recovery Bonds”) and Notes (“Recovery Notes”) to pay costs related to or arising from the events at the World Trade Center (“Recovery Costs”). The Authority has Outstanding \$1 billion of Recovery Notes. The proceeds of those Recovery Notes may be used to accommodate cash needs resulting from delays or eligibility disputes affecting Federal reimbursement of City payments for Recovery Costs. Such Recovery Notes may be paid with Revenues (with the resulting reduction in City tax revenues to be offset by Federal aid or other sources) or proceeds of renewal Recovery Notes or Recovery Bonds of the Authority. It is expected that the City will use \$1.5 billion of proceeds of Recovery Bonds (including the Series 1 Recovery Bonds) or Notes in fiscal year 2003 to compensate for Recovery Costs that arose as revenue losses related to the September 11 attack.

In addition to the financing capacity of the Authority and City for capital purposes, the City’s current Financial Plan for fiscal years 2002-2006 which was released on June 26, 2002 (the “City Financial Plan”) anticipates access to approximately \$2.2 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 and is expected to permit the City to complete its Ten-Year Capital Strategy for fiscal years 2002-2011.

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 Series 1 Recovery Bonds—Other Series."

### **World Trade Center Attack**

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.

Total expenditures for recovery, clean up and repair efforts will be substantial. The U.S. Congress passed emergency legislation which authorized \$40 billion for increased disaster assistance, increased security costs, rebuilding infrastructure systems and other public facilities, and disaster recovery and related activities, at least half of which was for disaster recovery activities and assistance in New York, Pennsylvania and Virginia. Congress and the President have already appropriated over \$10 billion toward this \$20 billion commitment to recovery, and money is currently available to reimburse localities for cleanup costs, reimburse hospitals for lost revenue, to provide funding for job training activities and economic redevelopment. The President has submitted a bill to Congress that would increase Federal assistance to \$21.4 billion.

On March 9, 2002 the President signed nation-wide economic stimulus legislation which includes \$5.5 billion toward the \$20 billion commitment to the City in the form of temporary tax provisions aimed at creating redevelopment incentives for businesses located in the Liberty Zone, the area surrounding the World Trade Center site. The Liberty Zone provisions expand the work opportunity tax credit, provide a bonus 30% depreciation deduction, authorize the issuance of \$8 billion in tax-exempt private activity bonds, allow for advance refunding of certain bonds for facilities in the City and increase the small business expensing limit.

The City is seeking to be reimbursed by the Federal government for all of its direct costs for response and remediation of the World Trade Center site. These costs are now expected to be substantially below previous estimates. The City also expects to receive Federal funds for costs of economic revitalization and other needs, not directly payable through the City budget, relating to the September 11 attack.

## **SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

### **General**

Interest on and principal of the Series 1 Recovery Bonds are payable from the Revenues, subordinate to payment of Senior Debt Service, including principal of and interest on Senior Bonds, outstanding and to be issued, and payments in respect of Senior Agreements, and to operating expenses of the Authority.

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 Series 1 Recovery 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 the Recovery Account held by the Trustee pursuant to the Indenture.

The Series 1 Recovery Bonds are to be issued as Subordinate Bonds and as such will be subordinate to Senior Debt Service and Authority operating expenses. See "Application of Revenues" herein.

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 Recovery Bonds are payable on the subordinate basis described above, 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 Outstanding Bonds, including Recovery Bonds. For a description of the Personal Income Tax Revenues and the Sales Tax Revenues, see "Personal Income Tax" and "Sales Tax" below. For a description of the servicing and application of the Statutory Revenues, see "Servicing" and "Application of Revenues" below.

From fiscal year 1980 to fiscal year 2001, the average annual compound growth rate for Statutory Revenues was approximately 8.6%. However, Statutory Revenues are projected to decrease from fiscal year 2001 levels primarily due to the September 11 attack and the effects of the national recession.

Historical collections of Statutory Revenues for fiscal years 1980 to 2001 and forecasted collections of Statutory Revenues for fiscal years 2002 through and including 2006 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> .....	8,042
1990 .....	4,475	2003 <sup>(1)</sup> .....	8,304
1991 .....	4,720	2004 <sup>(1)</sup> .....	8,705
1992 .....	5,028	2005 <sup>(1)</sup> .....	9,243
		2006 <sup>(1)</sup> .....	9,792

Source: New York City Office of Management and Budget (“NYC OMB”). Figures shown are calculated on a cash basis.

(1) 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 “— Personal Income Tax” and “— Sales Tax.”

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 Information.”

**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 \$8,521,955,000 of Senior Bonds of which \$8,288,665,000 are Outstanding. The Authority expects to issue approximately \$1.24 billion of refunding Senior Bonds on July 2, 2002. 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 Series 1 Recovery Bonds—Other Series.”

The following table shows the coverage of Covenanted Maximum Annual Debt Service plus forecasted debt service on the Series 1 Recovery Bonds 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>	8,042	6.09x
2003 <sup>(2)</sup>	8,304	5.95x
2004 <sup>(2)</sup>	8,705	6.11x
2005 <sup>(2)</sup>	9,243	6.34x
2006 <sup>(2)</sup>	9,792	6.55x

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

- (1) Coverage of Covenanted Maximum Annual Debt Service plus forecasted debt service on the Recovery Bonds in the principal amount of \$2.1 billion at an assumed interest rate of 5% as described in the Indenture. Covenanted Maximum Quarterly Debt Service is \$330 million, which on an annual basis is \$1,320 million based on an assumption of \$12 billion of Senior Bonds outstanding at a maximum interest rate of 9%.
- (2) 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 “ — Personal Income Tax” and “ — Sales Tax.”



## **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, including Recovery 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, including Recovery 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, 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 2002 is imposed on residents according to a schedule with a current maximum rate of 3.315% (the “Current Base Rate”) 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. The Current Base Rate plus the 14% Surcharge ranges from 2.907% to 3.648% of taxable income for tax year 2002.

A State rebate program called the School Tax Relief Program lowered the Current Base Rate starting in 1999 and was fully implemented in 2001. 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 1.5%. 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 14% Surcharge was reduced and restructured for tax year 2001. Although the State authorization to continue such reduction was extended through December 31, 2003, passage of a local law required to extend such reduction did not occur and the full 14% Surcharge was restored in 2002. If the 14% Surcharge is not extended, it will expire on December 31, 2003 resulting in losses of revenue estimated at \$258 million, \$781 million and \$838 million in fiscal years 2004 through 2006, 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 be reduced by an estimated \$805 million, \$2.3 billion and \$2.5 billion in fiscal years 2004 through 2006, respectively, but exceed Covenanted Maximum Annual Debt Service by \$5.8 billion, \$4.7 billion and \$4.9 billion in such fiscal years, respectively.

The State previously authorized, and the City imposed, a Personal Income Tax surcharge of approximately 12.5% which expired January 1, 1999.

The forecasts of Personal Income Tax Revenues set forth in this Offering Circular reflect the impact on Personal Income Tax Revenues of recently-enacted Federal economic stimulus legislation and recently-enacted State legislation, including a State tax amnesty program, a lowering of the withholding Electronic Funds Transfer Program filing threshold, an income tax exemption for victims of the September 11 attack and audit enhancement activities.

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. However, Personal Income Tax Revenues are projected to decrease from fiscal year 2001 levels primarily due to the September 11 attack and the effects of the national recession. 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

2001 was approximately 9.1%. 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 2006.

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

<b>Fiscal Year Ending June 30</b>	<b>Personal Income Tax Revenues</b>	<b>Fiscal Year Ending June 30</b>	<b>Personal Income Tax Revenues</b>
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> .....	4,622
1990.....	2,551	2003 <sup>(1)</sup> .....	4,953
1991.....	2,784	2004 <sup>(1)</sup> .....	5,460
1992.....	3,232	2005 <sup>(1)</sup> .....	5,850
		2006 <sup>(1)</sup> .....	6,265

Source: NYC OMB. Figures are calculated on a cash basis.

(1) As forecasted by NYC OMB as set forth in the City Financial Plan.

For fiscal years 1995 through 2001, 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 2001, \$4.2 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 2001 was 7.9%. However, Sales Tax Revenues are projected to decrease from fiscal year 2001 levels primarily due to the September 11 attack and the effects of the national recession. 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 2006. Projections reflect the elimination of Sales Tax on clothing items under \$110 which became effective on March 1, 2000. The forecasts of Sales Tax Revenues reflect recently-enacted legislation including a lowering of the annual sales tax Electronic Funds Transfer Program filing threshold, three sales-tax-free weekends in lower Manhattan for purchases under \$500, the impact of a State and City cigarette excise tax increase and a revised price index to calculate the pre-paid sales tax on cigarettes.

**HISTORICAL AND FORECASTED SALES TAX COLLECTIONS AND SALES TAX REVENUES TO THE AUTHORITY NET OF MAC FUNDING REQUIREMENTS (\$ MILLIONS)**

<u>Fiscal Year Ending June 30</u>	<u>Gross Sales Tax Collections</u>	<u>MAC Funding Requirements<sup>(1)</sup></u>	<u>Sales Tax Revenues</u>
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>(2)</sup> .....	3,420	0	3,420
2003 <sup>(2)</sup> .....	3,606	255	3,351
2004 <sup>(2)</sup> .....	3,734	489	3,245
2005 <sup>(2)</sup> .....	3,883	490	3,393
2006 <sup>(3)</sup> .....	4,017	490	3,527

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

- (1) MAC Funding Requirements for fiscal years 2007-2008 are projected to be \$493 million and \$470 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, 2001 and 2002 because such requirements were prepaid from the City's General Fund.
- (2) As forecasted by NYC OMB.

## Application of Revenues

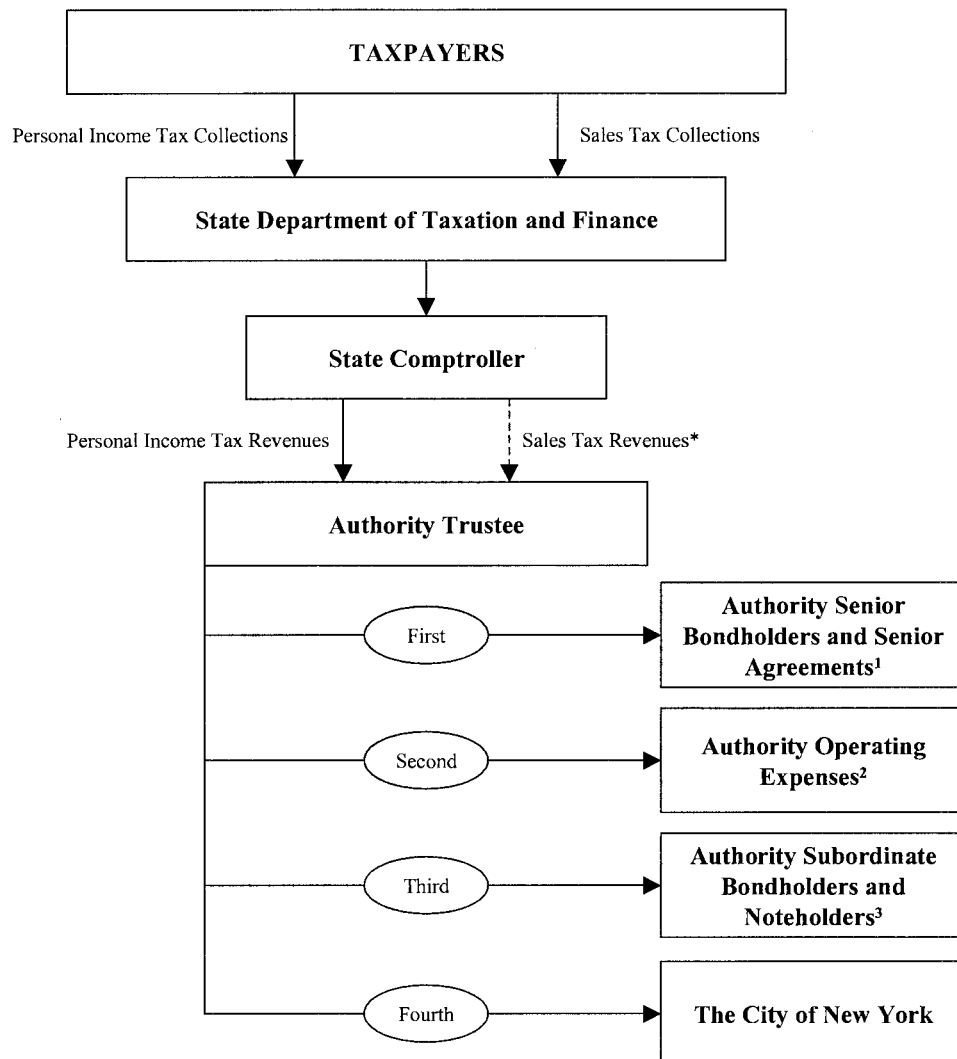
Upon receipt of (i) Personal Income Tax Revenues and (ii) Sales Tax Revenues, if any are required to be paid to the Authority, the Trustee must deposit such amounts into the Collection Account held by the Trustee.

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 Indenture provides that at the *third* level of priority described above: 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, all as more fully described in Appendix A.

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, including Recovery 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 obligations under Senior Agreements), 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 other than Senior Agreements.

## **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.

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 applied in accordance with a quarterly retention method adopted by the Authority in the Indenture to provide for payment of debt service on Recovery Obligations and Parity Debt. 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 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. The obligation of the Trustee for payments to be made from the Collection Account to the Recovery and Parity Debt Account shall be cumulative so that any shortfall 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. 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." 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.

## **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, including Recovery 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 including Recovery 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 of the Authority including Recovery Bonds.

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 INFORMATION**

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

## New York City Economy

The City has a highly diversified economic base, with a substantial volume of business activity in the service, wholesale and retail trade and manufacturing industries and is the location of many major securities, banking, law, accounting, 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. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s, but was followed by an expansion that lasted until 2001. The City Financial Plan assumes negative economic growth from the latter half of calendar year 2001 through the first half of calendar year 2002 as a result of the September 11 attack and national economic recession. The City Financial Plan assumes the City's economy will begin a slow recovery around the middle of 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.

## 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

<u>Year</u>	<u>Total Population</u>
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.

## Taxable Sales

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. The Sales Tax is levied on a variety of economic activities including retail sales, utility and

communication sales, services and manufacturing. Retail sales account for almost 50% of the total taxable sales volume. 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%. It is projected that total taxable sales will decrease in 2002 and increase in 2003 after having increased in 2000 and 2001.

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	8.9	3.2	7.9	51.1
1993.....	24.1	9.4	9.1	3.2	8.7	54.5
1994.....	26.2	9.3	10.3	3.3	8.1	57.2
1995.....	27.6	9.0	10.7	3.3	8.8	59.4
1996.....	29.1	9.8	11.4	3.6	9.3	63.2
1997.....	31.5	9.8	13.5	3.9	8.8	67.5
1998.....	33.4	9.8	14.8	4.2	9.7	71.9
1999.....	35.0	9.6	16.1	4.2	9.6	74.5

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.

## Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, has steadily increased from 1990 to 2000 (the most recent year for which City personal income data are available). From 1990 to 2000, personal income in the City averaged 5.1% growth compared to 5.4% for the nation. Total personal income is projected to grow in 2003, after increasing in 2001 and remaining flat in 2002. The following table sets forth information regarding personal income in the City from 1990 to 2000.

### 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.
1990	182.3	\$24,849	\$19,572	126.9%
1991	186.8	25,333	20,023	126.5
1992	199.7	26,875	20,960	128.2
1993	202.9	27,024	21,539	125.4
1994	208.6	27,556	22,340	123.3
1995	221.9	29,071	23,255	125.0
1996	236.6	30,739	24,270	126.7
1997	245.3	31,559	25,412	124.2
1998	263.6	33,548	26,893	124.7
1999	276.6	34,800	27,843	125.0
2000	300.8	37,541	29,469	127.5

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 2001, the City's services employment sector hit an all-time peak, providing more than 1.4 million jobs and accounting for 40% 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 finance, insurance and real estate ("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 1980 to 2000, the employment share for FIRE remained approximately 13% in the City while the FIRE sector earnings share for the same period rose from approximately 18% to approximately 34% 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>			
	1980		2000		1980		2000	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
<b>Private Sector:</b>								
Non-Manufacturing:								
Services	27.0%	19.8%	39.1%	30.7%	25.9%	18.5%	32.1%	29.5%
Wholesale and Retail Trade	18.6	22.5	16.8	23.0	15.0	16.6	9.1	15.0
Finance, Insurance and Real Estate	13.6	5.7	13.2	5.7	17.8	5.9	34.2	9.5
Transportation and Public Utilities	7.8	5.7	5.7	5.3	10.1	7.5	5.2	6.9
Contract Construction	2.3	4.8	3.3	5.1	2.6	6.3	2.8	6.0
Mining	0.0	1.1	0.0	0.4	0.3	2.1	0.0	0.9
<i>Total Non-Manufacturing</i>	<u>69.3</u>	<u>59.6</u>	<u>78.1</u>	<u>70.3</u>	<u>71.7</u>	<u>56.9</u>	<u>83.4</u>	<u>67.7</u>
Manufacturing:								
Durable	4.4	13.4	1.6	8.4	3.6	15.7	1.2	10.0
Non-Durable	10.6	9.0	4.9	5.6	9.4	8.8	4.8	5.9
<i>Total Manufacturing</i>	<u>15.0</u>	<u>22.4</u>	<u>6.5</u>	<u>14.0</u>	<u>13.0</u>	<u>24.5</u>	<u>6.0</u>	<u>15.9</u>
<b>Total Private Sector</b>	<u>84.3</u>	<u>82.0</u>	<u>84.7</u>	<u>84.3</u>	<u>85.1</u>	<u>81.9</u>	<u>89.8</u>	<u>84.3</u>
<b>Government<sup>(3)</sup></b>	15.7	18.0	15.3	15.7	14.9	18.1	10.2	15.7

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 2000 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 1989 to 1992, the City lost approximately 9% of its employment base. From 1993 to 2001, the City experienced significant private sector job growth with the addition of approximately 435,000 new private sector jobs (an average growth rate of approximately 2%). As of May 2002, total employment in the City was approximately 3,624,000 compared to approximately 3,725,900 in May 2001, a decline of approximately 2.7%. In 2001, average annual employment in the City fell by 21,000 and is projected by NYC OMB to decline by approximately 81,000 jobs in 2002 before increasing in 2003.

The table below shows the distribution of employment from 1991 to 2001.

### NEW YORK CITY EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Private Sector</b>											
Non-Manufacturing:											
Services	1,097	1,093	1,116	1,148	1,184	1,227	1,275	1,325	1,384	1,457	1,465
Wholesale and Retail Trade	565	546	538	544	555	565	578	590	610	627	619
Finance, Insurance and Real Estate	494	473	472	480	473	469	473	483	486	491	487
Transportation and Public Utilities	218	205	203	201	203	205	206	206	208	213	212
Construction	100	87	86	89	90	91	94	102	114	122	125
Total Non-Manufacturing	2,474	2,404	2,415	2,463	2,505	2,557	2,625	2,707	2,802	2,911	2,908
Manufacturing:											
Durable	77	72	71	69	68	66	64	64	63	61	58
Non-Durable	231	220	218	211	206	201	201	195	188	182	172
Total Manufacturing	308	293	289	280	274	266	265	259	251	243	230
<b>Total Private Sector</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>3,154</b>	<b>3,139</b>
<b>Government</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>570</b>	<b>564</b>
<b>Total</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>3,723</b>	<b>3,702</b>

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

Note: Totals may not add due to rounding.

### 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.

### SECTION IV: THE SERIES 1 RECOVERY BONDS

#### General

The Series 1 Recovery Bonds are issued as adjustable rate bonds and are referred to in this Section IV as the "Adjustable Rate Bonds". The Adjustable Rate Bonds (i) bearing a Money Market Municipal Rate, a Daily Rate, a Weekly Rate, a Monthly Rate or a Quarterly Rate shall be fully registered Bonds in the denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof, (ii) bearing a Semiannual Rate, a Term Rate or a Fixed Rate and Stepped Coupon Bonds, shall be fully registered Bonds in the denomination of \$5,000 or any integral multiple thereof and (iii) bearing Auction Rates shall be fully registered bonds in the denomination of \$25,000 or any integral multiple thereof unless modified by agreement or Officer's Certificate (in each case, an "Authorized Denomination"). Each Subseries of the Adjustable Rate Bonds shall bear interest from its date of issuance as described on the inside cover page hereof and as described below in "Interest on Adjustable Rate Bonds." The rate of interest for any Rate Period shall be determined as provided in the Indenture and each determination of rate or period shall be conclusive and binding upon the Remarketing Agent, the Authority, the Banks, the Trustee, the Paying Agent, the Tender Agent and the Bondholders. All or a portion of the Adjustable Rate Bonds are subject to Conversion to or from Stepped Coupons, Fixed Rates or Auction Rates, or from a Variable Rate Period to a different Variable Rate Period or to the Money Market Mode, or from the Money Market Mode to a Variable Rate Period. The rate of interest for any Rate Period shall be determined as described

below, and each determination of rate or period shall be conclusive and binding upon the Remarketing Agent, the Authority, the Bank, the Trustee, the Paying Agent, the Tender Agent and the Bondholders.

### **Use of Proceeds**

The proceeds from the sale of the Adjustable Rate Bonds will be used to compensate the City for Recovery Costs that arose as revenue losses related to the September 11 attack.

### **Other Series**

Other Series of Recovery Obligations and Parity Debt may be issued, provided that collections of Statutory Revenues for the most recent Fiscal Year ended at least two months prior to the date of such issuance are for each Fiscal Year during which such proposed Bonds are to be outstanding at least three times the sum of \$1.32 billion (Covenanted Maximum Annual Debt Service for Senior Bonds) and annual debt service on Outstanding Recovery Obligations and Parity Debt, together with the Series proposed to be issued, as estimated in accordance with the Indenture.

### **Interest On Adjustable Rate Bonds**

Interest for any Rate Period shall accrue from and including the commencement date of such Rate Period through and including the last day thereof. The Interest Payment Dates for the Adjustable Rate Bonds shall be: (a) the first Business Day of each May and November, commencing November 1, 2002, in the case of interest payable at Daily, Weekly, Monthly or Quarterly Rates; (b) the first Business Day of the sixth calendar month following a Conversion to a Semiannual Rate Period or Term Rate Period and the first Business Day of each sixth calendar month thereafter, in the case of interest payable at Semiannual or Term Rates; (c) the first day of each May and November, in the case of interest payable on Stepped-Coupon Bonds or at a Fixed Rate or in any case not otherwise specified herein; (d) the first Business Day of the sixth month in the case of an MMMR Period exceeding six months and the first Business Day following the period during which a specific Money Market Municipal Rate applies (the "MMMR Period"), in the case of interest payable at Money Market Municipal Rates; (e) the date of any redemption or mandatory tender of Adjustable Rate Bonds for purchase; and (f) the date of maturity.

Computations of interest shall be based on 365-day or 366-day years for the actual number of days elapsed; except that interest accruing on Stepped-Coupon Bonds or at Fixed Rates shall be computed on the basis of a year of 360 days and twelve 30-day months.

**Variable Rates.** Variable Rates shall be determined on the following dates (the "Rate Determination Dates"): (a) not later than 9:30 a.m., New York City time, on the commencement date of each Daily Rate Period; (b) not later than 9:30 a.m., New York City time, on the commencement date of each Weekly Rate Period (or, if such date is not a Business Day, on the immediately succeeding Business Day); and (c) not later than 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of each Monthly, Quarterly, Semiannual or Term Rate Period.

Each Variable Rate Period shall commence: (a) initially, on the delivery date of the New Bonds or the effective date of a Conversion to such Variable Rate Period; and (b) thereafter (i) on each Business Day following such Conversion, in the case of Daily Rate Periods, (ii) on Wednesday of each week commencing after such Conversion, in the case of Weekly Rate Periods, (iii) on the first Business Day of each calendar month commencing after such Conversion, in the case of Monthly Rate Periods, (iv) on the first Business Day of each third calendar month commencing after such Conversion, in the case of Quarterly Rate Periods, (v) on the first Business Day of each sixth calendar month commencing after such conversion, in the case of Semiannual Rate Periods, and (vi) on the first Business Day of the calendar

month that is twelve or an integral multiple of twelve, as the case may be, months from the calendar month of such Conversion, in the case of Term Rate Periods. Each such Variable Rate Period shall end on the last day preceding the earliest of the commencement date of the next Rate Period, the date of maturity and the date of any mandatory tender.

Each Variable Rate shall be determined by the Remarketing Agent and shall represent the rate which, in the judgment of the Remarketing Agent, is the lowest rate of interest that would cause the Adjustable Rate Bonds to have a market value equal to the principal amount thereof, plus accrued interest (if any), under prevailing market conditions on the commencement date of the applicable Rate Period. In the event that the Remarketing Agent no longer determines, or fails to determine when required, any Variable Rate for any Bond in a Variable Rate Period, or if for any reason such manner of determination shall be determined to be invalid or unenforceable, the Variable Rate for such Period shall be a Daily Rate equal to 105% of the 30-day Dealer Commercial Paper Rate set forth in Federal Reserve Board Statistical Release H.15 (519) as of such day.

Notice of each Variable Rate shall be given by the applicable Remarketing Agent by telephone confirmed in writing to the Authority, the Trustee, the applicable Bank, the Tender Agent and the Paying Agent not later than 4:00 p.m., New York City time, on the Rate Determination Date (except that such Remarketing Agent shall give such notice on each Tuesday (or, if not a Business Day, on the next succeeding Business Day) of the Daily Rate applicable to each day of the previous week), and the Tender Agent (or such Remarketing Agent in the case of Daily Rates) shall make such rate or rates available from the time of notification to the owners of the Adjustable Rate Bonds upon request for such information. Notice of interest rates shall be given (a) in the case of Daily Rates and Weekly Rates, by the Paying Agent to the owners of Adjustable Rate Bonds which bear interest at Daily Rates or Weekly Rates on each Interest Payment Date with the distribution of interest on such Bond; and (b) other than for Daily Rates and Weekly Rates, by mail by the Tender Agent by the third Business Day following the applicable Rate Determination Date.

**Money Market Mode.** For Adjustable Rate Bonds bearing interest in the Money Market Mode, the Money Market Municipal Rate for each MMMR Period for each Bond shall be determined as follows:

(i) Establishment of MMMR Periods. At or prior to 12:00 noon, New York City time, on the date of issue or any Conversion Date upon which Adjustable Rate Bonds will begin to bear interest in the Money Market Mode and on any day immediately after the end of an MMMR Period, the applicable Remarketing Agent shall establish MMMR Periods in accordance with instructions from the Authority with respect to Adjustable Rate Bonds for which no MMMR Period is currently in effect. Any MMMR Period may not exceed 270 days and may not extend beyond the day prior to the maturity date of the Bond or to any applicable mandatory tender date notice of which has been given prior to the establishment of the MMMR Period.

(ii) Setting of Rates. On the first Business Day of each MMMR Period (the “Rate Determination Date”), the applicable Remarketing Agent shall set a rate (a “Money Market Municipal Rate”) by 12:00 noon, New York City time, for each MMMR Period. For each MMMR Period, the Money Market Municipal Rate shall be the rate of interest that, if borne by the Adjustable Rate Bonds, would, in the judgment of such Remarketing Agent, having due regard to the prevailing market conditions as of the Rate Determination Date, be the lowest rate of interest necessary to enable such Remarketing Agent to remarket such Bonds at a price of par on the commencement date of the applicable MMMR Period.

The Authority may change its instructions about the establishment of MMMR Periods pursuant to the preceding paragraph (i) in a written direction from the Authority, which direction must be received by



the applicable Remarketing Agent prior to 10:00 a.m., New York City time, on the day prior to any Rate Determination Date to be effective on such date, but only if the Authority receives a Favorable Opinion of Bond Counsel.

Notice of each Money Market Municipal Rate and MMMR Period for each Adjustable Rate Bond shall be given by the applicable Remarketing Agent to the Authority, the applicable Bank, the Trustee, the Paying Agent and the Tender Agent not later than 1:00 p.m., New York City time, on the Rate Determination Date, and the Tender Agent shall make such rate and period available from the time of notification to the owners of Adjustable Rate Bonds upon request for such information.

In the event that the applicable Remarketing Agent no longer determines, or fails to determine when required, any MMMR Period or any Money Market Municipal Rate for any Adjustable Rate Bond in the Money Market Mode, or if for any reason such manner of determination shall be determined to be invalid or unenforceable, the MMMR Period for any such Bond shall automatically extend from the day after the next preceding MMMR Period to but not including the next succeeding Business Day and the Money Market Municipal Rate for each such MMMR Period shall automatically be equal to 105% of the 30-day Dealer Commercial Paper Rate set forth in Federal Reserve Board Statistical Release H.15 (519) as of such day.

**Fixed Rates.** The Fixed Rate to be effective to maturity (or prior redemption or purchase in lieu thereof) upon Conversion to such rate shall be determined by the applicable Remarketing Agent on the date (the "Rate Determination Date") specified in the notice of mandatory tender related to such Conversion and shall represent the lowest rate that, in the judgment of such Remarketing Agent, would cause the Adjustable Rate Bonds being converted to have a market value equal to the principal amount thereof as of the commencement date of the applicable Rate Period under prevailing market conditions.

**Conversions.** Upon the direction of the Authority, all or a portion of the Adjustable Rate Bonds may be Converted on: if from a Fixed Rate or in the case of Conversion of Stepped-Coupon Bonds, a potential optional redemption date; to or from Auction Rates, if from a Variable Rate Period other than a Term Rate Period, a regularly scheduled Interest Payment Date for the Rate Period from which the Conversion is to be made, or from Daily or Weekly Rates as specified by Officer's Certificate; if from a Term Rate Period, only on a date on which a new Term Rate Period would have commenced; and if from the Money Market Mode, only on a regularly scheduled Mandatory Tender Date for all Adjustable Rate Bonds to be converted which is at least 30 days after notice of mandatory tender upon Conversion is given to Bondholders.

Not later than the 15th day prior to the Conversion Date (or the immediately succeeding Business Day, if such 15th day is not a Business Day), the Authority may irrevocably withdraw its election to Convert the Adjustable Rate Bonds and its notice of mandatory tender by giving written notice of such withdrawal to the Tender Agent, the Trustee, the Paying Agent, the applicable Remarketing Agent, and the applicable Bank. In the event the Authority gives such notice of withdrawal (or upon failure to meet the conditions specified below), (i) the Tender Agent shall promptly give Written Notice to the owners of all Adjustable Rate Bonds that were to be Converted and (ii) such Bonds shall continue to bear interest as previously specified. Failure by the Tender Agent to provide such notice to the owners of the Adjustable Rate Bonds shall not affect the validity of the notice of withdrawal given by the Authority.

Subject to meeting the conditions to such Conversion, the Authority shall Convert to Auction Rates, Stepped Coupons or a Fixed Rate all Bonds bearing interest at a Variable Rate or a Money Market Municipal Rate prior to the mandatory tender that would occur upon expiration of the Liquidity Facility if the Liquidity Facility is not extended or replaced.

Each Conversion is conditioned upon determination of the new rate or rates of interest and delivery to the Authority (not later than 10:00 a.m. on the Conversion Date) of (a) a Favorable Opinion of Bond Counsel and (b) in the case of Conversion to a Variable Rate or to the Money Market Mode, evidence that there is a Liquidity Facility complying with the Act and the Indenture that provides for coverage of principal of the Converted Bonds and interest for a period at least 5 days longer than the period that will extend between Interest Payment Dates after such Conversion.

### **Tender of Adjustable Rate Bonds**

So long as no Liquidity Condition exists, each Adjustable Rate Bond shall be subject to tender for purchase by the Tender Agent or a Bank as described herein. In each case, such purchases shall be made at a purchase price (the "Purchase Price") equal to 100% of the principal amount to be purchased, plus all accrued and unpaid interest thereon to the date of purchase thereof (the "Purchase Date"), which principal and interest components shall be applied to the purchase of the rights to receive such principal and interest, when and as the same is or becomes due, from the Owners of such rights.

Tenders for purchase at the option of the Bondowner shall be permitted (a) on any Business Day during a Daily or Weekly Rate Period, (b) on the first day of each Monthly or Quarterly Rate Period and (c) on any Interest Payment Date following a Semiannual Rate Period. All Adjustable Rate Bonds or portions thereof tendered or retained shall be in Authorized Denominations.

Mandatory tender for purchase of an Adjustable Rate Bond shall occur (a) on the commencement date of an MMMR Period but only with respect to the Adjustable Rate Bond to which such Period relates, (b) on the commencement date of a Term Rate Period for such Bond, (c) on the effective date of any Conversion of such Bond, and (d) as described below under "Mandatory Tender—Mandatory Tender to Bank".

The owners of the Adjustable Rate Bonds may not elect to retain their Bonds upon any mandatory tender for purchase.

The purchase price shall be payable (if an Adjustable Rate Bond is delivered to the Tender Agent not later than 10:00 a.m., New York City time, on the Purchase Date) by the Tender Agent by wire transfer or at its designated office in immediately available funds, on the Purchase Date to the Owner thereof.

### **Optional Tender**

So long as no Liquidity Condition exists, the Adjustable Rate Bonds bearing interest at a Variable Rate (other than a Term Rate) are subject to tender for purchase at the applicable Purchase Price by the Tender Agent at the option of the Bondholders as provided therein and herein.

**Notice of Optional Tender.** Each notice of Optional Tender:

- (i) shall, in a Daily Rate Period, be given telephonically to the Tender Agent not later than 9:00 a.m., New York City time, on the Purchase Date;
- (ii) shall, in a Weekly or Monthly Rate Period, be given in writing not later than 5:00 p.m. on any Business Day not less than seven days prior to the Purchase Date; and
- (iii) shall, in a Quarterly or Semiannual Rate Period, be given in writing not later than 5:00 p.m. on any Business Day not less than 15 days prior to the Purchase Date.

**Remarketing of Tendered Bonds.** The applicable Remarketing Agent shall, subject to the provisions of the Remarketing Agreement, offer for sale and use its best efforts to find purchasers (at par plus accrued interest, if any) for all Bonds or portions thereof properly tendered. Bonds shall not be remarketed to the Authority or any affiliate thereof except for cancellation. The applicable Remarketing Agent shall cause the purchase price to be paid to the Tender Agent in immediately available funds at or before 2:00 p.m., New York City time, on the Purchase Date. Notwithstanding the foregoing, such Remarketing Agent shall not offer for sale any Bond as to which a notice of redemption or mandatory tender has been given unless such Remarketing Agent has advised the person to whom the offer is made of the notice of redemption or mandatory tender.

**Purchase of Tendered Bonds.** By 3:00 p.m., New York City time, on the Purchase Date the Tender Agent shall pay the purchase price of such Bonds to the owners thereof at its principal office or by bank wire transfer. Such payments of purchase price shall be made in immediately available funds. The Tender Agent shall apply in order (A) money paid to it by the new purchaser of the Tendered Bonds as proceeds of the remarketing of such Bonds by the applicable Remarketing Agent, (B) money made available for such purpose by the Authority and (C) money drawn on the Bank. If sufficient funds are not available for the purchase of all Tendered Bonds, no purchase shall be consummated.

### **Mandatory Tender**

So long as no Liquidity Condition exists, the Adjustable Rate Bonds bearing interest at a Variable Rate or a Money Market Municipal Rate are subject to mandatory tender for purchase described herein; and the Holders of mandatorily tendered Bonds may not elect to retain such Bonds.

**Mandatory Tender upon Conversion.** The Adjustable Rate Bonds bearing interest at a Variable Rate or a Money Market Municipal Rate shall be subject to mandatory tender for purchase by the Tender Agent on each Conversion Date for such Bonds at the applicable Purchase Price. Written notice of mandatory tender shall be given to Bondowners. Upon withdrawal of the Authority's election to Convert Bonds or failure to meet the conditions thereto, the Tender Agent shall give Written Notice thereof to the Holders of such Bonds. Unless this condition is waived by the applicable Bank, the Authority shall not convert Bonds to a Fixed Rate unless a firm commitment for their purchase, subject only to customary conditions, is in effect at the last date the election to convert may be withdrawn.

**Mandatory Tender Following MMMR or Term Rate Period.** Each Adjustable Rate Bond is subject to mandatory tender (without notice) for purchase by the Tender Agent on the commencement date of an MMMR Period that follows an MMMR Period, or a Term Rate Period that follows a Term Rate Period, applicable to such Bond, at a purchase price equal to par.

**Mandatory Tender to Bank.** So long as no Liquidity Condition exists, the Adjustable Rate Bonds bearing interest at a Variable Rate or a Money Market Municipal Rate are subject to mandatory tender for purchase by the applicable Bank pursuant to the applicable Liquidity Facility, on the Purchase Date following a notice of bank purchase (the "Notice") from the Tender Agent to such Bank, at the applicable Purchase Price. If (x) on the 15th day prior to the Expiration Date of a Liquidity Facility, Adjustable Rate Bonds are bearing interest at a Variable Rate or a Money Market Municipal Rate and the Authority has not given Written Notice to the Tender Agent of the extension, or replacement with Rating Confirmation, of the Liquidity Facility or (y) the Tender Agent receives a mandatory tender notice from the applicable Bank pursuant to the Liquidity Facility, the Tender Agent shall deliver the Notice on that day (or, at the latest, by 12:30 p.m. on the next Business Day); and the Tender Agent shall promptly notify the registered owners of the Purchase Date (which shall be the last Business Day on or prior to the date of expiration or termination of such Bank's commitment); that such Adjustable Rate Bonds shall be required to be surrendered to the Tender Agent on the Purchase Date; that if any such Bond is not so

tendered, it shall be deemed to have been tendered on the Purchase Date; and that upon the deposit by the Tender Agent of sufficient money in a special account for the payment of the Purchase Price of such Bond, interest on such Bond shall cease to accrue to the former owner and such Bond shall be deemed purchased by such Bank. So long as no Liquidity Condition exists, such Bank shall purchase each Adjustable Rate Bond mandatorily tendered pursuant to this paragraph at the Purchase Price (whether or not actually tendered). If Notice is not given as aforesaid, then following expiration or termination of such Bank's commitment, such Adjustable Rate Bonds shall bear interest at the highest rate provided by law for interest on accrued claims against municipalities as of such date (that is, the rate stated in subdivision one of Section 3-a of the General Municipal Law, as amended or superseded from time to time) and shall not be subject to optional or mandatory tender for purchase (except upon Conversion).

**Purchase; Undelivered Bonds.** On the Purchase Date designated for any Adjustable Rate Bond, if sufficient money for the payment of the purchase price of such Bond is held by the Tender Agent, interest on such Bond shall cease to accrue to the former owner, such Bond shall be deemed to have been purchased pursuant hereto, irrespective of whether or not such Bond shall have been presented to the Tender Agent, and the former owners of such Bond or interests therein shall have no claim thereunder or otherwise for any amount other than to receive the Purchase Price therefor.

**Inadequate Funds for Tenders; Loss of Liquidity.** If either the funds available for purchases of Adjustable Rate Bonds are inadequate for the purchase of all such Bonds tendered on any Purchase Date or a Liquidity Condition shall exist, then all such Adjustable Rate Bonds theretofore subject to tender for purchase shall bear interest from such date at the highest rate provided by law for interest on accrued claims against municipalities as of such date or as Bank Bonds, if applicable, and shall no longer be subject to optional or mandatory tender for purchase (except upon Conversion); and the Trustee or Tender Agent shall immediately: (i) return all such tendered Bonds to the owners thereof; (ii) return all money received for the purchase of such Bonds to the persons providing such money; and (iii) give Written Notice to all Adjustable Rate Bondowners. As long as no Liquidity Condition exists, the obligation to deposit funds in sufficient amounts to purchase Adjustable Rate Bonds from either proceeds of the applicable Liquidity Facility or remarketing proceeds will remain enforceable pursuant to the terms of the Indenture and only be discharged at such time as funds are deposited with the Tender Agent in an amount sufficient to purchase all Adjustable Rate Bonds that were required to be purchased on the prior optional tender date or mandatory tender date, together with any interest which has accrued to such subsequent purchase date.

### **Liquidity Facilities**

So long as such Bonds are subject to tender by the holders thereof for purchase, the Authority shall keep in effect one or more liquidity facility agreements for the benefit of the Bondowners of the Adjustable Rate Bonds, which shall require a financially responsible party or parties other than the Authority to purchase all or any portion of such Bonds tendered by the holders thereof for repurchase prior to the final maturity of such Bonds. A financially responsible party or parties, for the purposes of this paragraph, shall mean a person or persons meeting any applicable statutory requirements and determined by the Directors of the Authority to have sufficient net worth and liquidity to purchase and pay for on a timely basis all of such Bonds which may be tendered for repurchase by the holders thereof.

On or before the date of substitution of a new liquidity facility agreement for the Liquidity Facility previously in effect, the Authority shall either cause a mandatory tender or obtain Rating Confirmation from each Rating Agency. The Authority shall give Written Notice to the Trustee, the applicable Bank, the Remarketing Agent and each affected Bondholder at least five days prior to any substitution.

## **Liquidity Conditions**

The Adjustable Rate Bonds are not subject to tender for purchase if a Liquidity Condition exists.

Upon the occurrence of a Liquidity Condition, the applicable Bank's obligation under the applicable Liquidity Facility to purchase the related Bonds shall immediately terminate or be suspended without notice or demand to any person, and thereafter such Bank shall be under no obligation to purchase such Bonds (nor shall such Bonds be subject to optional or mandatory tender for purchase). Promptly upon the occurrence of such Liquidity Condition, such Bank shall give written notice of the same to the Authority, the Tender Agent, the Trustee and the applicable Remarketing Agent and the Tender Agent shall promptly relay such notice to the Bondholders upon receipt, but such Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination or suspension of its obligation to purchase such Bonds.

## **Miscellaneous**

**Defeasance.** For the purpose of determining whether Adjustable Rate Bonds shall be deemed to have been defeased, the interest to come due on such Adjustable Rate Bonds shall be calculated at the maximum applicable rate; and if, as a result of such Adjustable Rate Bonds having borne interest at less than the maximum rate for any period, the total amount on deposit for the payment of interest on such Adjustable Rate Bonds exceeds the total amount required, the balance shall be paid to the Authority. Prior to defeasing any Adjustable Rate Bonds bearing interest at a Variable Rate or a Money Market Municipal Rate, the Authority shall satisfy any related obligations to the applicable Bank, provide to each Rating Agency a cash flow statement demonstrating compliance with the conditions to defeasance and obtain Rating Confirmation from each of them.

**Supplements and Amendments.** In addition to supplements and amendments otherwise authorized by the Indenture, Adjustable Rate Provisions may be supplemented or amended by Officer's Certificate:

- (a) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision relating to the Adjustable Rate Bonds;
- (b) to identify particular Adjustable Rate Bonds for purposes not inconsistent with the Indenture, including credit or liquidity support, remarketing, Conversion, redemption, serialization and defeasance; or
- (c) to insert such provisions with respect to the Adjustable Rate Bonds as are necessary or desirable and are not to the prejudice of the Bondholders.

## **Optional Redemption**

Adjustable Rate Bonds bearing interest at Variable Rates or Money Market Municipal Rates are subject to redemption prior to maturity at the option of the Authority, in whole or in part, on any potential Conversion Date following their defeasance, on 30 days' notice at the principal amount thereof plus any interest accrued and unpaid thereon. The Authority may select amounts, rates and maturities of Bonds to be redeemed in its sole discretion except that Adjustable Rate Bonds shall be selected for redemption: (i) first, from Adjustable Rate Bonds, if any, which are held by or for a Bank, (ii) second, from other Adjustable Rate Bonds bearing interest as Bank Bonds or at the highest rate provided by law for interest on accrued claims against municipalities; and (iii) third, by lot.

## Mandatory Redemption

The Adjustable Rate Bonds are subject to mandatory redemption at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, on the dates and in the amounts set forth below:

<u>November 1</u>	<b>Subseries 1A</b>	<u>Amount</u>	<u>November 1</u>	<b>Subseries 1B</b>	<u>Amount</u>
2004		\$ 5,100,000	2004		\$ 4,100,000
2005		5,100,000	2005		4,200,000
2006		5,300,000	2006		4,300,000
2007		5,400,000	2007		4,500,000
2008		5,600,000	2008		4,600,000
2009		5,800,000	2009		4,800,000
2010		6,000,000	2010		5,000,000
2011		6,200,000	2011		5,100,000
2012		6,500,000	2012		5,400,000
2013		6,800,000	2013		5,600,000
2014		7,100,000	2014		5,800,000
2015		7,400,000	2015		6,100,000
2016		7,700,000	2016		6,400,000
2017		8,100,000	2017		6,700,000
2018		8,500,000	2018		7,000,000
2019		8,900,000	2019		7,300,000
2020		9,400,000	2020		7,700,000
2021		9,800,000	2021		8,100,000
2022		10,300,000*	2022		8,500,000*

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\* Stated Maturity

<u>November 1</u>	<b>Subseries 1C</b>	<u>Amount</u>	<u>November 1</u>	<b>Subseries 1D</b>	<u>Amount</u>
2004		\$ 3,700,000	2004		\$ 3,000,000
2005		3,900,000	2005		3,000,000
2006		3,900,000	2006		3,100,000
2007		4,000,000	2007		3,200,000
2008		4,100,000	2008		3,300,000
2009		4,300,000	2009		3,400,000
2010		4,500,000	2010		3,500,000
2011		4,600,000	2011		3,800,000
2012		4,800,000	2012		3,800,000
2013		5,000,000	2013		4,000,000
2014		5,300,000	2014		4,200,000
2015		5,500,000	2015		4,400,000
2016		5,700,000	2016		4,600,000
2017		6,000,000	2017		4,800,000
2018		6,300,000	2018		5,000,000
2019		6,600,000	2019		5,300,000
2020		6,900,000	2020		5,600,000
2021		7,300,000	2021		5,800,000
2022		7,600,000*	2022		6,200,000*

<u>November 1</u>	<b>Subseries 1E</b>	<u>Amount</u>
2004		\$ 2,000,000
2005		2,000,000
2006		2,100,000
2007		2,200,000
2008		2,300,000
2009		2,300,000
2010		2,400,000
2011		2,500,000
2012		2,600,000
2013		2,700,000
2014		2,800,000
2015		2,900,000
2016		3,100,000
2017		3,200,000
2018		3,400,000
2019		3,600,000
2020		3,700,000
2021		3,900,000
2022		4,100,000*

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\* 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 Term Bonds that have been defeased, purchased or redeemed and not previously so applied or credited.

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

### **Initial Liquidity Facilities**

The initial Liquidity Facilities for the Series 1 Recovery Bonds are listed on the inside cover hereof. The obligations of each Bank are several. The Bank's commitment under each Liquidity Facility in the initial mode will be sufficient to pay a Purchase Price equal to the principal of and up to 185 days' interest on the Adjustable Rate Bonds at an assumed rate of 9%.

The term of each Liquidity Facility is set forth on the inside cover hereof. The obligation of a Bank may be suspended or may terminate prior to the expiration of the term of the applicable Liquidity Facility as described below.

The following events of default (each a "Liquidity Condition") under the Liquidity Facility provided by each of the Banks cause the immediate suspension or termination of such Liquidity Provider's obligation to purchase Series 1 Recovery Bonds under such Liquidity Facility: (i) failure by the Authority to pay when due any interest, principal or redemption premium on any Note or Bond; (ii) insolvency of the Authority; (iii) amendment or repeal by the State of the provisions of the law obligating the State to pay over to the Authority Personal Income Taxes (as defined in the Indenture) or Alternative Revenues (as defined in the Indenture) in accordance with the terms of such law as now in effect; (iv) delivery by the Authority of an officer's certificate pursuant to Section 604(c) of the Indenture showing estimated Revenues (as defined in the Indenture) to be less than 150% of Debt Service (as defined in the Indenture); (v) enactment by the State of a moratorium or other similar law affecting the Bonds or Notes; (vi) a final, nonappealable judgment shall be issued by a court of competent jurisdiction or the Authority shall initiate legal proceedings asserting that the Bonds or any material provision of the Liquidity Facility or the Indenture is invalid or that the Authority has no liability thereon; (vii) the Authority ceases to maintain its existence as a public benefit corporation under the laws of the State, including the State constitution, with full right and power to issue the Bonds and to execute, deliver and perform its obligations pursuant to the Liquidity Facility; or (viii) the long term ratings assigned to the Bonds by S&P, Moody's and Fitch are withdrawn, suspended or reduced below "BBB-," "Baa3" or "BBB-" respectively.

The preceding is a summary of certain provisions expected to be included in the Liquidity Facilities and the proceedings under which the Adjustable Rate Bonds are to be issued, and is subject in all respects to the underlying documents, copies of which will be available for inspection during business hours at the office of the Tender Agent. Information regarding the Banks is included herein as Appendix C hereto. Neither the Authority nor the Underwriters make any representation with respect to the information in Appendix C hereto.



## Debt Service Requirements

The following schedule sets forth, for each 12-month period ending June 30 of the years shown, the amounts required to be paid by the Authority for the payment of debt service on all outstanding Bonds (including the Series 1 Recovery Bonds) during such period.

Period Ending June 30	Series 1 Recovery Bonds			Outstanding Bonds Debt Service <sup>(1)</sup>	Total Debt Service <sup>(1)</sup>
	Principal and Sinking Fund Installments	Interest Payments	Total Debt Service		
2003	-	\$19,333,333	\$19,333,333	\$547,799,972	\$567,133,305
2004	-	24,000,000	24,000,000	591,777,559	615,777,559
2005	\$17,900,000	23,552,500	41,452,500	647,294,966	688,747,466
2006	18,200,000	22,650,000	40,850,000	633,673,927	674,523,927
2007	18,700,000	21,727,500	40,427,500	633,714,026	674,141,526
2008	19,300,000	20,777,500	40,077,500	636,915,028	676,992,528
2009	19,900,000	19,797,500	39,697,500	632,484,859	672,182,359
2010	20,600,000	18,785,000	39,385,000	637,896,296	677,281,296
2011	21,400,000	17,735,000	39,135,000	636,315,211	675,450,211
2012	22,200,000	16,645,000	38,845,000	603,867,903	642,712,903
2013	23,100,000	15,512,500	38,612,500	641,631,899	680,244,399
2014	24,100,000	14,332,500	38,432,500	637,711,950	676,144,450
2015	25,200,000	13,100,000	38,300,000	617,731,529	656,031,529
2016	26,300,000	11,812,500	38,112,500	602,505,724	640,618,224
2017	27,500,000	10,467,500	37,967,500	584,375,030	622,342,530
2018	28,800,000	9,060,000	37,860,000	565,637,443	603,497,443
2019	30,200,000	7,585,000	37,785,000	548,893,311	586,678,311
2020	31,700,000	6,037,500	37,737,500	539,272,193	577,009,693
2021	33,300,000	4,412,500	37,712,500	485,374,221	523,086,721
2022	34,900,000	2,707,500	37,607,500	446,106,198	483,713,698
2023	36,700,000	917,500	37,617,500	419,547,409	457,164,909
2024	-	-	-	399,545,239	399,545,239
2025	-	-	-	399,786,592	399,786,592
2026	-	-	-	400,446,997	400,446,997
2027	-	-	-	392,902,888	392,902,888
2028	-	-	-	386,005,647	386,005,647
2029	-	-	-	273,046,140	273,046,140
2030	-	-	-	145,194,181	145,194,181
2031	-	-	-	73,555,425	73,555,425
2032	-	-	-	12,132,750	12,132,750

(1) 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; interest on stepped coupon bonds is assumed to be 5% per annum after November 1, 2011. Assumes no amounts paid on account of Senior Agreements.

## Book-Entry Only System

Beneficial ownership interests in the Series 1 Recovery 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 Series 1 Recovery Bonds will not receive certificates representing their interests in the Series 1 Recovery Bonds purchased.

DTC, as an automated clearinghouse for securities transactions, will act as securities depository for the Series 1 Recovery Bonds. The Series 1 Recovery Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One or more fully-registered bond certificates will be issued for each principal amount of Series 1 Recovery Bonds maturing on a specified date and bearing interest at a specified interest rate, each in the aggregate principal amount of such quantity of Series 1 Recovery Bonds 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 sales and other securities transactions in deposited securities through electronic computerized book-entry changes in Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange, 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, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 1 Recovery Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1 Recovery Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1 Recovery Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Series 1 Recovery Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bond certificates representing their ownership interests in the Series 1 Recovery Bonds, except in the event that use of the book-entry system for the Series 1 Recovery Bonds is discontinued.

To facilitate subsequent transfers, all Series 1 Recovery Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the Series 1 Recovery Bonds with DTC and their registration in the name of Cede & Co. effect no change in the beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 1 Recovery Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1 Recovery Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Series 1 Recovery Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 1 Recovery 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 Series 1 Recovery Bonds, as appropriate, are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 1 Recovery 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.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

Notwithstanding any other provision of the Resolution to the contrary, so long as any Series 1 Recovery Bond is held in book-entry form, such Series 1 Recovery Bond need not be delivered in connection with any optional or mandatory tender of Series 1 Recovery Bonds described under "DESCRIPTION OF THE SERIES 1 RECOVERY BONDS." In such case, payment of the Purchase Price in connection with such tender shall be made to the registered owner of such Series 1 Recovery Bonds on the date designated for such payment, without further action by the Beneficial Owner who delivered notice, and, notwithstanding the description of optional and mandatory tender of Series 1 Recovery Bonds contained under "DESCRIPTION OF THE SERIES 1 RECOVERY BONDS," transfer of beneficial ownership shall be made in accordance with the procedures of DTC.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 1 Recovery Bonds registered in its name for the purpose of payment of the principal of or interest on the Series 1 Recovery Bonds, giving any notice permitted or required to be given to registered owners under the Indenture registering the transfer of the Series 1 Recovery 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 Series 1 Recovery 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 Series 1 Recovery 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 SERIES 1 RECOVERY BONDS, REFERENCES HEREIN TO THE OWNERS, HOLDERS OR BONDHOLDERS OF THE SERIES 1 RECOVERY 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 Series 1 Recovery Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its service with respect to the Series 1 Recovery 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 Series 1 Recovery Bonds as appropriate, or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Series 1 Recovery Bonds may thereafter be exchanged 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 Series 1 Recovery 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. In September 2001, the Authority was authorized to issue its bonds and notes to pay Recovery Costs.

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 Series 1 Recovery Bonds will not be insured or guaranteed by the City, the State or the Trustee. Consequently, holders of the Series 1 Recovery 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:

Mark Page, Chairperson .....	—	Director of Management and Budget of the City
Martha E. Stark.....	—	Commissioner of Finance of the City
William C. Thompson, Jr. ....	—	Comptroller of the City
Kenneth R. Holden .....	—	Commissioner of the Department of Design and Construction of the City
A. Gifford Miller .....	—	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 Director 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 Deputy Director for Finance of 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 General Counsel to the Office of Management and Budget of the City. Ms. Henning is a graduate of the State University of New York at Buffalo and the Harvard Law School.

*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 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. She also serves as Director of Financing Strategies and Quantitative Analysis of the Office of Management and Budget of the City.

*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 has previously issued \$8,521,955,000 of Bonds of which \$8,288,665,000 are Outstanding. The Authority has Outstanding \$1.0 billion of Recovery Notes which are expected to be paid through the issuance of Recovery Bonds in fiscal year 2003 to the extent not paid through other sources. The Authority expects to issue approximately \$1.24 billion of its Future Tax Secured Refunding Bonds, Fiscal 2003 Series A, on July 2, 2002. In addition, the Authority expects to convert \$222,500,000 of its Future Tax Secured Bonds, Fiscal 1999 Series A and \$100,000,000 of its Future Tax Secured Bonds, Fiscal 1999 Series B to fixed rate which is expected to be effective July 11, 2002. The Authority has issued \$600 million of Bond Anticipation Notes maturing in November 2002 and \$600 million of Bond Anticipation Notes maturing in February 2003 that it expects to repay through the issuance of Senior Bonds during fiscal year 2003. The Authority also expects to issue \$1.5 billion of Recovery Bonds during fiscal year 2003. The Authority expects that it will issue Bonds and Bond Anticipation Notes from time to time in future fiscal years. The Authority is authorized to issue additional parity and subordinate obligations provided certain conditions are met. See "SECTION IV: The Series 1 Recovery Bonds—Other Series."

The Authority is authorized to issue additional senior and subordinate obligations provided certain conditions are met. See "SECTION IV: The Series 1 Recovery 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 Series 1 Recovery Bonds or questioning or affecting the validity of the Series 1 Recovery 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 Series 1 Recovery Bonds will not be includable in the gross income of the owners of the Series 1 Recovery Bonds for purposes of Federal income taxation under existing law. Interest on the Series 1 Recovery Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 1 Recovery 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 the proceeds of the Series 1 Recovery Bonds 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 Series 1 Recovery Bonds for Federal income tax purposes on or after the date on which any action is taken under the Series 1 Recovery Bonds proceedings upon the approval of counsel other than such firm.

In the opinion of Bond Counsel, interest on the Series 1 Recovery Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City. In the opinion of Bond Counsel, interest on the Series 1 Recovery 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 Series 1 Recovery Bonds or the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of

interest that is excluded from gross income. Interest on the Series 1 Recovery Bonds owned by a corporation will be included in the calculation of the corporation's Federal alternative minimum tax liability.

Ownership of tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or railroad retirement benefits, taxpayers eligible for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 1 Recovery Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 1 Recovery Bonds will not have an adverse effect on the status of the Notes. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Series 1 Recovery Bonds.

#### **SECTION VIII: APPROVAL OF LEGALITY**

All legal matters incident to the authorization, issuance and delivery of the Series 1 Recovery 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 IX: 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 1 Recovery Bonds.

#### **SECTION X: 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 XI: UNDERWRITING**

The Series 1 Recovery Bonds are being purchased for reoffering by the Underwriters: Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc., and Morgan Stanley & Co. Incorporated. The Underwriters have agreed, severally, subject to certain conditions, to purchase the Series 1 Recovery Bonds from the Authority at an aggregate underwriters' discount of \$136,568.84 and to make an initial public offering of the Series 1 Recovery Bonds at par. The Underwriters will be obligated to purchase all the Series 1 Recovery Bonds if any Series 1 Recovery Bonds are purchased.

The Series 1 Recovery 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 XII: LEGAL INVESTMENT**

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

## **SECTION XIII: 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 1 Recovery Bonds are fully set forth in the Indenture. Neither any advertisement of the Series 1 Recovery Bonds nor this Offering Circular is to be construed as a contract with purchasers of the Series 1 Recovery 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, 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 by the Authority, as bonds, including Senior Bonds and Subordinate 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 297”** means Chapter 297 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 Notes or Subordinate Bonds appointed by Series Resolution, or any Paying Agent, including each fiscal agent.

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

“**FNMA**” means the Federal National Mortgage Association.

“**Indenture**” means the Indenture between the Authority and 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.

“**Notes**” means all obligations issued by the Authority as notes.

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

“**Outstanding,**” when used to modify Bonds or Notes, refers to Bonds or Notes issued under the Indenture, excluding: (i) Bonds or Notes which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment; (ii) Bonds or Notes which have been paid; (iii) Bonds or Notes which have become due and for the payment of which money has been duly provided; (iv) Bonds or Notes for which there have been irrevocably set aside sufficient Defeasance Collateral timely maturing and bearing interest, to pay or redeem them; and if any such Bonds or Notes are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds or Notes and notice of such redemption shall have been duly mailed in accordance with 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 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 Account”** or **“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 297.

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

**“Recovery Obligations”** means bonds, notes or other obligations described in Chapter 297.

“**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. 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": 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 Bonds offered hereby) and the Authority covenant with the Holders of the Outstanding Bonds 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 to the extent of the Capital Financing Need. When all Costs of Issuance and Project Capital Costs have been paid or reimbursed, as evidenced by Officer's Certificates of the Authority and the City, any excess in the Project Fund shall promptly be paid to the Trustee for deposit in the Collection Account.

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

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

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

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## APPENDIX A-1

**“Business Day”** means a day (a) other than a day on which commercial banks in The City of New York, New York, and such other cities as may be specified in the Liquidity Facility, are required or authorized by law or executive order to close and (b) on which the City and the New York Stock Exchange are not closed.

**“Conversion”** means a change in the type of interest Rate Period applicable to the Adjustable Rate Bonds; including a change from a Term Rate Period to a Term Rate Period equal (or approximately equal) in length to a different number of years from the preceding Term Rate Period. A change in the rate of interest borne by Stepped-Coupon Bonds is not a Conversion.

**“Direct Obligations”** means 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, non-callable “CATS”, non-callable “TIGRS” 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.

**“Favorable Opinion of Bond Counsel”** means an opinion of nationally recognized bond counsel, to the effect that the action proposed to be taken is authorized or permitted by law and the Indenture and will not adversely affect the exclusion of interest on the Tax-Exempt Bonds from gross income for purposes of federal income taxation.

**“Liquidity Condition”** means a condition under which the Bank is not obligated to purchase Adjustable Rate Bonds and, accordingly, such Bonds are not subject to tender for purchase.

**“Liquidity Facility”** means each Standby Bond Purchase Agreement between the Authority and a Bank with respect to the Adjustable Rate Bonds, as in effect from time to time.

**“Money Market Mode”** means that Period or sequence of Periods during which Adjustable Rate Bonds bear interest at Money Market Municipal Rates.

**“Money Market Municipal Rate”** or **“MMMR”** means the interest rate that may be separately determined for each Adjustable Rate Bond. The MMMR shall not exceed 9% per annum.

**“Rate Period”** or **“Period”** means the period during which a specific rate of interest determined for any Adjustable Rate Bonds will remain in effect.

**“Rating Agency”** means each of Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Services (“S&P”) and Fitch, Inc. (“Fitch”), that has a rating in effect, at the request of the Authority, for the Adjustable Rate Bonds.

**“Rating Category”** means one of the generic rating categories of any Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

**“Rating Confirmation”** means a written notice from each Rating Agency that its rating on the Adjustable Rate Bonds will not be suspended, withdrawn or reduced in Rating Category as a result of action proposed to be taken under the Indenture.

**“Record Date”** means with respect to each Interest Payment Date (a) during a Daily, Weekly, Monthly or Quarterly Rate Period, the last Business Day of the calendar month next preceding such Interest Payment Date; (b) during a Semiannual or Term Rate Period, or for the Interest Payment Date on the First Business Day of the sixth calendar month in an MMR Period exceeding six months, the fifteenth day of the calendar month next preceding such Interest Payment Date; and (c) for Stepped-Coupon Bonds or during a Fixed Rate Period, the fifteenth day of the calendar month preceding the Interest Payment Date.

**“Stepped-Coupon Bonds”** means Adjustable Rate Bonds bearing interest at rates and for periods of time that are specified without reference to future events or contingencies. Stepped-Coupon Bonds shall be subject to mandatory tender for purchase in lieu of redemption on any redemption date, but there shall be no optional or mandatory tender for purchase thereof unless provided for in accordance with the Act.

**“Tender Agent”** means State Street Bank and Trust Company, N.A., New York, New York, and its permitted successors and assigns.

**“Tendered Bonds”** means all Adjustable Rate Bonds tendered or deemed tendered for optional or mandatory purchase.

**“Variable Rate”** means, as the context requires, the Daily, Weekly, Monthly, Quarterly, Semiannual or Term Rate applicable to the Adjustable Rate Bonds. The Variable Rate shall not exceed 9% per annum.

**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.



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**

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.

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 B-5.

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.

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.



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>
Revenues			
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>
Expenditures			
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>
Other financing sources (uses)			
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 STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT 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>

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

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	<u>Issued</u>	<u>Retired</u>	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				
3.75% 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				
3.65% 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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## THE BANKS

### BAYERISCHE LANDESBANK GIROZENTRALE

Bayerische Landesbank Girozentrale (the “Bank”) was incorporated as a public law financial institution (*Rechtsfaehige Anstalt des Oeffentlichen Rechts*) by the Law Establishing Bayerische Landesbank Girozentrale (*Gesetz ueber die Errichtung der Bayerischen Landesbank Girozentrale*) of June 27, 1972, as amended, as adopted by the Parliament of the Free State of Bavaria, and is subject to the German Federal Banking Act of July 10, 1961, as amended (*Gesetz ueber das Kreditwesen*) (the “Federal Banking Act”). Its statutes authorize the Bank to provide universal financial services including both commercial and investment banking as well as brokerage activities. The Free State of Bavaria owns 50% of the Bank’s share capital, the other 50% being owned by the Bavarian Savings Bank and Clearing Association (*Bayerischer Sparkassen-und Giroverband*) (which is the central organization of the Bavarian Savings Banks).

The Bank is equipped to provide a full range of domestic and international banking services; with regard to local banking functions, the Bank also makes use of the Bavarian Savings Bank’s network. In the domestic field, the Bank places emphasis on wholesale banking, lending to federal and local authorities and mortgage lending, together with industrial credit. The Bank holds the function of a banker of the Free State of Bavaria and its municipalities, and also finances public and private development projects, administers public funds and performs certain treasury functions for the Free State of Bavaria.

The Free State of Bavaria and the Bavarian Savings Bank and Clearing Association are jointly and severally liable for the obligations of the Bank if the liabilities cannot be satisfied from the Bank’s assets (*Gewaeehrtraeger*). The owners of the Bank also have an obligation to maintain the Bank in a financial position which enables it to carry out its functions. This liability (*Anstaltslast*), which is peculiar to German law, obliges the owners to provide funds for the Bank that are necessary to enable it to fulfill its functions, to meet its liabilities and to keep its finances sound. As an additional safeguard, it is noted that as a public law institution the Bank can only be put into liquidation through a specific law to this effect.

The Bank established a Representative Office in New York in October 1979 and obtained a license from the office of the Comptroller of the Currency in October 1981 to operate through a branch located in the City of New York.

The New York Branch engages in a diversified banking business, and is a major wholesale lending participant throughout the United States, offering a full range of domestic and international financial services, including loans, foreign exchange and money market operations.

All banking institutions in the Federal Republic of Germany are subject to governmental supervision and regulation exercised by the Federal Banking Supervisory Authority (*Bundesaufsichtsamt fuer das Kreditwesen*), an independent federal authority with regulatory powers and by the Deutsche Bundesbank (the “German Federal Central Bank”) in accordance with the Federal Banking Act. The Federal Banking Act contains major rules for banking supervision and regulates the Bank’s business activities, capital adequacy and liquidity. In addition to the above-mentioned general banking supervision, the group of Landesbanks is subject to special supervision by their respective federal states.

As reported in the Bank’s Annual Report for the Fiscal Year ended December 31, 2001, the Bank had total assets of EURO (“EUR”) 301.3 billion (\$265.5 billion at \$0.8813 = EUR 1.00 at 12/31/01) on a consolidated basis. Business volume (balance sheet total, own drawings charged to borrowers,

endorsement liabilities, and guarantees) expanded by 5.7% to EUR 321.7 billion (\$283.5 billion) from the previous year end. The Bank's consolidated lending volume increased 1.7% to EUR 206.7 billion (\$182.2 billion) from year end 2000. Total equity of the Bank, including, among other items, nominal capital of EUR 1.2 billion (\$1.06 billion), profits participation rights with a nominal value of EUR 2.83 billion (\$2.49 billion) and capital contributions of silent partners in an amount of EUR 2.89 billion (\$2.55 billion), totaled EUR 11.1 billion (\$9.78 billion) or 3.7% of the consolidated balance sheet. Net income amounted to EUR 254.0 million (\$223.9 million), a decrease of 53.8% compared to year end 2000. EUR 82.3 million (\$72.5 million) of such amount has been allocated to revenue reserves, raising the Bank's published reserve to EUR 4.13 billion (\$3.6 billion). The accounting principles applied in the preparation of the Bank's financial statements comply with generally accepted accounting principles in the Federal Republic of Germany and may not conform to generally accepted accounting principles applied by United States banks. (At 5/7/02, \$0.9155 = EUR 1.00).

The rate of exchange between the EUR and the dollar is determined by the forces of supply and demand in the foreign exchange markets, which, in turn, are affected by changes in the balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The foregoing information relating to the Bank is based upon facts and circumstances present on the dates referenced above. Such facts and circumstances may change from time to time. The Bank shall have no obligation to update the foregoing information to reflect any such change.

Copies of the Bank's Annual Report for the most recent available fiscal year may be obtained at the New York Branch in person during normal business hours or by mail by writing to the New York Branch at: Bayerische Landesbank Girozentrale, 560 Lexington Avenue, New York, New York 10022, Attention: Corporate Finance.

The Bank has supplied the information relating to it in the previous paragraphs. The Bank does not accept responsibility for any information contained in this Offering Circular other than the information contained in this Section relating to the Bank.

## **JPMORGAN CHASE BANK**

JPMorgan Chase Bank is a wholly owned bank subsidiary of J.P. Morgan Chase & Co. (the “Corporation”), a Delaware corporation whose principal office is located in New York, New York. JPMorgan Chase Bank is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. JPMorgan Chase Bank resulted from the merger on November 10, 2001 of The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. As of March 31, 2002, JPMorgan Chase Bank had total assets of \$541.3 billion, total net loans of \$175.7 billion, total deposits of \$271.9 billion, and total stockholder’s equity of \$33.8 billion. As of December 31, 2001, JPMorgan Chase Bank had total assets of \$537.8 billion, total net loans of \$174.9 billion, total deposits of \$280.5 billion, and total stockholder’s equity of \$33.3 billion.

Additional information, including the most recent Form 10-K for the year ended December 31, 2001 of J.P. Morgan Chase & Co. (formerly known as “The Chase Manhattan Corporation”), the 2001 Annual Report of J.P. Morgan Chase & Co. and additional annual, quarterly and current reports filed with the Securities and Exchange Commission by J.P. Morgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, J.P. Morgan Chase & Co., 270 Park Avenue, New York, New York 10017.

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The information contained in the foregoing paragraphs relates to and has been obtained from JPMorgan Chase Bank. The delivery of the Offering Circular shall not create any implication that there has been no change in the affairs of JPMorgan Chase Bank since the date hereof, or that the information contained or referred to in this Offering Circular is correct as of any time subsequent to its date.

## LANDESBANK HESSEN-THÜRINGEN GIROZENTRALE, NEW YORK BRANCH

The Provider is the New York Branch of Landesbank Hessen-Thüringen Girozentrale (“Helaba”). With effect from July 1, 1992, Helaba took its present name with effect from July 1, 1992. At that date, the Treaty on the Formation of a Joint Savings Banks Organization between the federal states of Hesse and Thuringia came into force. The former Hessische Landesbank was formed in 1953 by the merger of Hessische Landesbank Darmstadt (founded 1940), Nassauische Landesbank Wiesbaden (founded 1840) and of Landeskreditkasse zu Kassel (founded 1832).

Helaba is a legal entity under public law. The owners and guarantors of Helaba are the states of Hesse and Thuringia and the Savings Banks and Giro Association Hesse-Thuringia (*Sparkassen- und Giroverband Hessen-Thüringen- SGVHT*), a joint institution of the municipal savings banks and their guarantors in Hesse and Thuringia. Executive bodies of Helaba are the Board of Guarantors, the Supervisory Board and the Board of Managing Directors.

In accordance with its Charter, Helaba fulfills the functions of a central bank for the savings banks and those of a state bank for the states of Hesse and Thuringia. Helaba pays an annual dividend to its owners and, in the case of the savings banks, cooperates with them to develop their businesses.

Headquartered in Frankfurt/Main and Erfurt, Helaba concentrates on wholesale financial services offering comprehensive banking facilities for multinational corporations, central banks, public sector entities, and other financial institutions. Outside of Germany, Helaba has branch offices in London, New York, Dublin and Grand Cayman as well as wholly owned subsidiaries in Amsterdam and Dublin. Representative offices are maintained in Madrid, Paris and Hong Kong.

On May 19, 2000, the owners and the chairmen of Helaba and BayernLB announced a strategic cooperation agreement between the two Landesbanks, focusing on selected business activities such as Payment Transactions, Corporate Finance, Asset Management, cooperation at their foreign branches and subsidiaries, E-Commerce, building saving institutions. Several joint projects have already been realized, such as the merger of their subsidiaries in Zurich and Luxembourg - now operating under the names of LB Swiss and LB Lux, respectively, - the formation of a joint M&A company, the integration of their computer centers and of their custodian and securities settlement business in a joint unit for transaction business.

In the year ending December 31, 2001, the consolidated business volume rose by 9.6% to €168.5 billion. The off-balance sheet lending, which grew above-average, accounted for roughly half of this growth. This business grew by 35% to €30.9 billion. Growth was mainly supported by the dynamic development of loan commitments, in particular in the US Public Finance business. The balance sheet total rose by 5.1% to €137.6 billion. The operating result before risk provisions of Helaba and its consolidated subsidiaries (the “Helaba Group”) declined by 37.5% to €219.7 million. Adjusted for special effects such as the discontinuation of deferrals for closing fees received by Landesbausparkasse of €67 million (other operating income), results from operating business are nevertheless at the level of the year 2000. Operating results after risk provisions amounts to €90.2 million, down 64.2% on the previous year’s figure. The cost-income ratio increased from 60.8% to 73.1%. The return on equity before taxes declined to 5.6% (previous year: 15%).

The profit and loss statement in further detail:

Net interest income declined slightly by 1.9% to €601.6 million. The contribution from customer’s fees and commissions developed very positively. The high-margin business – in particular in the fields of Corporate Finance and Real Estate – was increased with due regards to risks. The

discontinuation of one-off effects, such as prepayment penalties and the funding from the purchase of additional shares in GWH, adversely affected results here. Moreover, the effect of the deconsolidation of LB Lux and LB Swiss also negatively influenced net interest income.

The net result from commission and fee-earning business nearly attained the previous year's, amounting to €119.8 million. Net profit on financial transactions was influenced by a volatile market environment. The Helaba Group succeeded in increasing the result by €11.1 million to €23.8 million.

Administrative expense – i.e. personnel expense and non-personnel expense - rose by 9.4% to €595.9 million. The average increase during the past five years was in contrast 6.1%. The increase in personnel expense, which rose by 9.4% to €304.8 million, is due to a larger pay-roll together with an increase in the number of highly qualified employees. Non-personnel expense increased by 9.4% to €291.1 million. This is due to investment concentrating on strategic IT projects and on the improvement of control systems and process workflows.

The risk provisions and valuation expense of the Helaba Group increased by €29.5 million to €129.5 million. This amount includes a net contribution to loan loss provisions of €109 million. Due to the quality of the loan portfolio, no above-average additions to loan loss provisions were required.

Taking into account taxes on income and profits of €6.5 million, the after-tax result of the Helaba Group amounts to €83.7 million. For the Helaba Group as a whole, an amount of €10 million was allocated to the after-tax reserve in accordance with section 340 g HGB (German Commercial Code) and the special reserve for general banking risks. An amount of €100 million is allocated to the revenue reserves of the Helaba Group and a dividend of 6% will be distributed to the owners (about €29 million).

The New York Branch of Helaba, licensed under New York law, provides a full range of wholesale commercial banking services in the New York City metropolitan area and throughout the United States. Upon written request, Helaba will provide without charge a copy of its most recent Annual Report. Requests should be directed to Landesbank Hessen-Thüringen Girozentrale, New York Branch, 420 Fifth Avenue, 24th Floor, New York, NY 10018, Tel: (212) 703-5200, Fax: (212) 703-5256.

Helaba currently has a long-term credit rating of “Aaa” from Moody's Investors Service, Inc., and is rated “AAA” by Standard & Poor's Rating Group and by Fitch Ratings. Helaba's short-term ratings are “P-1” from Moody's, “A-1+” from Standard & Poor's and “F1+” from Fitch. Currently, Standard & Poor's Rating Group maintains a negative outlook on the Landesbank sector as a whole.

Helaba's obligations benefit from guarantor obligation (*Gewährträgerhaftung*) and statutory liability (*Anstaltslast*) of its owners.

On July 17, 2001 the Federal Government of Germany reached an agreement with the European Commission on regulations concerning adaptations of state liability obligations for Landesbanks and savings banks. *Anstaltslast* is scheduled to be modified after a four-year transition period, i.e. after July 18, 2005 to the effect that capital contributions in the event of reorganizations will in future be subjected to the EU regulations governing subsidies. *Gewährträgerhaftung* is scheduled to expire after the end of the same transition period, subject to the following proviso: Obligations that already existed on July 18, 2001 will also in the future and without limitation in time be subject to the guarantor obligation. This applies irrespective of their maturity. Obligations incurred after July 18, 2001 but prior to July 19, 2005 will be covered in full by the guarantor obligation, if their maturity ends by December 31, 2015 at the latest.

The federal states of Hesse and Thuringia are currently amending the Treaty on the Formation of a Joint Savings Bank Organization so that it complies with the aforementioned requirements. The legislative amendments will be completed by December 31, 2002 and will become effective on July 19, 2005.

Helaba has supplied information relating to it in the previous paragraphs. Helaba does not accept any responsibility for any information contained in this Offering Circular other than the information relating to Helaba.

*NOTE: The official (FOREX fixing) exchange rate on December 28, 2001, the last trading day in 2001, was €1.1339 = US \$1.00*

## SOCIETE GENERALE

Société Générale, New York Branch is a licensed New York branch of Société Générale, a French banking corporation. The executive offices of Société Générale, New York Branch are located at 1221 Avenue of the Americas, 6th Floor, New York, New York 10020, Attention: Derivatives and Financial Products, Telephone (212) 278-7100.

Société Générale (the “Bank”) is a French banking corporation and the most important constituent entity of the Société Générale Group (the “Group”). The Group is an international banking and financial services group based in France that includes approximately 300 French and foreign banking and non-banking companies. The Group also holds (for investment) minority interests in industrial and commercial companies. The term “Bank” refers to Société Générale (the parent company) only and the term “Group” refers to Société Générale and its domestic and foreign subsidiaries and affiliates which are consolidated in full or under the equity method.

The Bank was originally incorporated in 1864 and was nationalized along with other major French commercial banks in 1945. In July 1987, the Bank was returned to the private sector through offerings of shares in France and abroad. The Bank and other French financial institutions of the Group are subject to laws and regulations which are applicable generally to financial institutions doing business in the relevant jurisdictions and which cover such matters as liquidity and asset coverage, reserve requirements, risk diversification and limitations on equity investments in non-financial companies, all of which require compliance with numerous reporting and accounting requirements.

The Group is engaged in a broad range of banking and financial services activities, including deposit-taking, lending and leasing, securities brokerage services, investment management, investment banking, capital markets activities and foreign exchange transactions. The Group’s customers are served by its extensive network of domestic and international branches, agencies and other offices, which at December 31, 2001 consisted of approximately 2,600 offices in France and approximately 500 offices in 75 foreign countries.

The registered office of the Bank is 29, Boulevard Haussmann, 75009 Paris, France. Its headquarters are at Tour Société Générale, 92987 Paris, La Défense Cedex, France. Its telephone number is 42 14 20 00.

The Group has had operations in the United States since 1940. The Bank maintains offices in New York, Chicago, Dallas, Greenwich (Connecticut), Houston, San Francisco, Boston, Cleveland and Denver. The Group also conducts business in the United States through a number of subsidiaries.

At December 31, 2001, the Group had total consolidated assets of approximately 512.5 billion<sup>1</sup> Euros and total consolidated shareholders’ equity of approximately 15.8 billion Euros, and the Bank had total consolidated assets of 412.0 billion Euros and total consolidated shareholders’ equity of 13.5 billion Euros.

The foregoing financial figures have been derived from, and are qualified by reference to, the Group’s audited consolidated financial statements and notes (including note 1 which contains a discussion of the significant accounting principles applied) and the Bank’s audited financial statements and notes (including note 1 which contains a discussion of the significant accounting principles applied) that are

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<sup>1</sup> At December 31, 2001, the buying rate expressed in U.S. dollars per Euro was 0.8813 U.S. dollars.

contained in the Group's 2001 Annual Report (the "Annual Report"). Such financial statements are prepared in accordance with French generally accepted accounting principles, which differ in certain significant respects from generally accepted accounting principles in the United States.

Copies of the English version of the Annual Report (translated in full from the underlying French document) will be mailed to each person to whom this Private Placement Memorandum is delivered, upon written request mailed to Société Générale, New York Branch, 1221 Avenue of the Americas, New York, New York 10020, Attention: Corporate Communications Department.

**The Series 1 Recovery Bonds are not obligations of, interests in, or guaranteed by, Société Générale or any of their subsidiaries or affiliates, and no holder of the Series 1 Recovery Bonds will have any claim or recourse to any funds or assets of Société Générale or any of their subsidiaries or affiliates for the payment of any principal or interest payable thereon or with respect thereto except for payment of the Purchase Price thereof provided in the Offering Circular.**



PROPOSED FORM OF BOND COUNSEL OPINION

July 11, 2002

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 \$480,000,000 New York City Recovery Bonds, Fiscal 2003 Series 1 (the "New Bonds"). The New Bonds are being issued as Recovery 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"). Terms not defined herein are used as defined in the Indenture.

The New Bonds are dated, bear interest, mature and are secured as set forth in the Indenture. The Authority has outstanding and may issue Senior Bonds to finance and refinance capital projects of the City and may issue additional Recovery Bonds (including the New Bonds, the "Recovery Bonds" and, with the Senior Bonds, the "Bonds") to finance or refinance the City's costs related to or arising from the terrorist attack that occurred on September 11, 2001 ("Recovery Costs"), and all such Recovery Bonds shall be entitled to the equal benefit, protection and security of the Indenture, subordinate to Senior Debt Service, including the Authority's obligations on the Senior Bonds and Senior Agreements, and to operating expenses of the Authority. 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 sources and at the level of priority provided therefor in the Indenture. The Bonds do not constitute a debt of the State or the City, and neither the State nor the City shall be liable thereon, nor shall the Bonds be payable out of any funds other than those of the Authority.

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

payable to the Authority or the Trustee (the “Revenues”), and (c) the application of proceeds of the Recovery Bonds to finance or refinance Recovery Costs.

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 Senior Bonds (and the Recovery Bonds and other instruments to the extent specified in the Indenture) is, and pursuant to the covenant of the Authority in the Indenture will be, prior to all other liens thereon. The 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. 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.

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

9. Except as provided in the following sentence, interest on the New Bonds is not includable in the gross income of the owners of the New Bonds for purposes of Federal income taxation under existing law. Interest on the New Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the New Bonds in the event of a failure by the Authority or the City to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the “Tax Code”), and their respective covenants regarding use, expenditure

and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and we render no opinion as to the exclusion from gross income of interest on the New Bonds for Federal income tax purposes on or after the date on which any action is taken under the bond proceedings upon the approval of counsel other than ourselves.

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

11. 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. 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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**\$480,000,000**  
**New York City Recovery Bonds**  
**Fiscal 2003 Series 1**

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**OFFERING CIRCULAR**  
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**July 1, 2002**