

NEW ISSUE

In the opinion of Bond Counsel, interest on the Series 2004 C 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 2004 C 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.



\$541,000,000
New York City Transitional Finance Authority
Future Tax Secured Bonds
Fiscal 2004 Series C

Dated: Date of Delivery

Due: As shown on inside cover

The Future Tax Secured Bonds, Fiscal 2004 Series C (the "Series 2004 C Bonds") are being issued by the New York City Transitional Finance Authority (the "Authority") pursuant to Chapter 16, Laws of New York, 1997, 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 U.S. Bank Trust National Association, New York, New York, as trustee (the "Trustee").

The Series 2004 C Bonds will be on a parity with the Authority's Outstanding Future Tax Secured Bonds. Provided the statutory and contractual conditions are met, Other Series of Bonds on a parity with or subordinate to the Series 2004 C Bonds may be issued. See "SECTION IV: THE BONDS—Other Series."

Pursuant to the Act, the Bonds are payable from the Revenues of the Authority derived from collections of personal income taxes imposed by the City and of sales and compensating use taxes imposed within the City. Such taxes are imposed pursuant to statutes enacted by the State. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

The Series 2004 C Bonds will be issued only as fully registered bonds, registered in the nominee name of The Depository Trust Company ("DTC"). Purchasers will not receive physical delivery of the Series 2004 C Bonds. Principal, redemption price and interest will be payable to DTC by the Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursements to the purchasers of the Series 2004 C Bonds are the responsibility of the DTC Participants.

Purchases of the Series 2004 C Bonds will be made in book-entry form in denominations of \$5,000 and whole multiples thereof. Interest on the Series 2004 C Bonds accrues from the dated date, and is payable on each February 1 and August 1, commencing August 1, 2004.

The Series 2004 C Bonds are subject to redemption prior to maturity as described herein.

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

The Series 2004 C 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 2004 C 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 US LLP, New York, New York. It is expected that the Series 2004 C Bonds will be available for delivery to DTC in New York, New York, on or about February 5, 2004.

JPMorgan

Lehman Brothers

Merrill Lynch & Co.

Morgan Stanley

**Advest/Lebenthal
RBC Dain Rauscher Inc.
Ramirez & Co., Inc.**

**Bear, Stearns & Co., Inc.
First Albany Capital Inc.**

**Citigroup
Goldman, Sachs & Co.
UBS Financial Services Inc.**

**CIBC World Markets
Jackson Securities
Quick & Reilly
Siebert Brandford Shank**

**Commerce Capital Markets, Inc.
Legg Mason Wood Walker, Incorporated
Raymond James & Associates, Inc.**

**A.G. Edwards & Sons, Inc.
Loop Capital Markets, LLC
Roosevelt & Cross Incorporated
Wachovia Bank, National Association**

January 28, 2004

\$541,000,000 Future Tax Secured Bonds, Fiscal 2004 Series C

| <u>February 1</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> |
|------------------------------|-------------------------|----------------------|--------------|
| 2005..... | \$ 9,635,000 | 2% | 1.00% |
| 2006..... | 9,545,000 | 2 | 1.38 |
| 2007..... | 9,735,000 | 2¼ | 1.75 |
| 2008..... | 4,860,000 | 2½ | 2.20 |
| 2008..... | 5,090,000 | 5 | 2.20 |
| 2009..... | 7,735,000 | 2½ | 2.51 |
| 2009..... | 4,300,000 | 5 | 2.51 |
| 2010..... | 7,475,000 | 2½ | 2.78 |
| 2010..... | 4,960,000 | 5¼ | 2.78 |
| 2011..... | 1,875,000 | 2¾ | 3.03 |
| 2011..... | 11,005,000 | 5¼ | 3.03 |
| 2012..... | 4,830,000 | 3 | 3.29 |
| 2012..... | 8,680,000 | 5¼ | 3.29 |
| 2013..... | 2,475,000 | 3¼ | 3.51 |
| 2013..... | 11,640,000 | 5¼ | 3.51 |
| 2014..... | 2,560,000 | 3.40 | 3.66 |
| 2014..... | 12,245,000 | 5¼ | 3.66 |
| 2015..... | 1,200,000 | 3.60 | 3.79 |
| 2015 ⁽¹⁾ | 14,335,000 | 5¼ | 3.79 |
| 2016..... | 1,680,000 | 3.70 | 3.92 |
| 2016 ⁽¹⁾ | 14,650,000 | 5¼ | 3.92 |
| 2017 ⁽¹⁾ | 17,160,000 | 5¼ | 4.01 |
| 2018 ⁽¹⁾ | 18,060,000 | 5¼ | 4.08 |
| 2019..... | 4,210,000 | 4 | 4.25 |
| 2019 ⁽¹⁾⁽²⁾ | 14,800,000 | 5 | 4.20 |
| 2020..... | 1,170,000 | 4½ | 4.32 |
| 2020 ⁽¹⁾⁽³⁾ | 18,750,000 | 5 | 4.22 |
| 2021 ⁽¹⁾⁽³⁾ | 10,000,000 | 5 | 4.28 |
| 2021 ⁽¹⁾ | 10,905,000 | 5¼ | 4.26 |
| 2022..... | 1,405,000 | 4¾ | 4.44 |
| 2022 ⁽¹⁾ | 20,570,000 | 5 | 4.44 |
| 2023 ⁽¹⁾ | 23,070,000 | 4¾ | 4.62 |
| 2024 ⁽¹⁾ | 24,165,000 | 4¾ | 4.67 |
| 2025 ⁽¹⁾ | 25,310,000 | 4¾ | 4.71 |
| 2026 ⁽¹⁾ | 26,515,000 | 4¾ | 4.72 |
| 2028 ⁽⁴⁾ | 6,110,000 | 4½ | 4.63 |
| 2028 ⁽¹⁾⁽⁴⁾ | 43,235,000 | 5 | 4.63 |
| 2033 ⁽⁴⁾ | 2,210,000 | 4.55 | 4.67 |
| 2033 ⁽¹⁾⁽⁴⁾ | 122,845,000 | 5 | 4.67 |

- (1) Priced to the first call on February 1, 2014.
(2) Insured by XL Capital Assurance Inc.
(3) Insured by MBIA Insurance Corporation.
(4) Term Bonds.

Certain of the information in this Offering Circular has been provided by the City and other sources considered by the Authority to be reliable. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized. No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation with respect to the Series 2004 C 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 2004 C Bonds, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

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

THE SERIES 2004 C 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 2004 C BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY OF TERMS

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

- Issuer The New York City Transitional Finance Authority (the "Authority") is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State") created by Chapter 16 of the Laws of 1997 (as amended, the "Act").
- Securities Offered..... \$541,000,000 Future Tax Secured Bonds, Fiscal 2004 Series C (the "Series 2004 C 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 2004 C Bonds will be issued as fixed rate bonds. The Series 2004 C Bonds (along with Other Series of Bonds heretofore or hereafter issued, the "Bonds") will be payable from the Statutory Revenues which the Act requires to be paid to the Authority as described herein. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."
- Trustee..... U.S. Bank Trust National Association, 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 in such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds. Payment of Sales Tax collections to MAC and the Authority is subject to appropriation by the State Legislature. For information regarding payment of Sales Tax Collections to MAC, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax—MAC Funding Requirements."

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

Purpose of Issue The proceeds of the Series 2004 C Bonds will be used, along with other funds of the Authority, for the payment of principal and accrued interest on the Authority’s \$555,000,000 Fiscal 2003 Series 2 Bond Anticipation Notes, the proceeds of which have been used to finance City capital expenditures. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 2004 C Bonds will be paid from the proceeds of the Series 2004 C Bonds.

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

The term “Personal Income Tax Revenues” means the collections from the Personal Income Tax less overpayments and administrative costs. The term “Personal Income Tax” means the tax imposed by the City, as authorized by the State, on the income of City residents and, while applicable, on nonresident earnings in the City.

Since its adoption in 1966, Personal Income Tax Revenues have risen from approximately \$130 million to approximately \$4.5 billion in fiscal year 2003. Personal Income Tax Revenues are projected to be approximately \$5.3 billion, \$5.4 billion, \$5.4 billion, \$5.5 billion and \$5.9 billion in fiscal years 2004 through 2008, 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 ½% tax currently imposed by the State on the sale and use of tangible personal property and services in the City, until (i) all MAC Funding Requirements (as defined herein) have been paid in full or (ii) July 1, 2008, whichever is later, and thereafter means the similar tax imposed by the City. Almost all of

the Sales Tax collections are subject to appropriation by the State until all MAC Funding Requirements have been paid in full. Approximately 4% of Sales Tax collections are from a sales and compensating use tax imposed by the City which is not subject to the prior pledge to MAC or State or City appropriation. Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Bonds if Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds. Since the inception of the Sales Tax in fiscal year 1934, Sales Tax Revenues have increased to approximately \$3.3 billion in fiscal year 2003. Sales Tax Revenues are projected to be approximately \$3.4 billion, \$3.4 billion, \$3.5 billion, \$3.7 billion and \$3.9 billion in fiscal years 2004 through 2008, respectively. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax—*MAC Funding Requirements.*"

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 bonds and notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("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, 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; 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.

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.

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. The Act was amended in September 2001 to permit the Authority to have outstanding an additional \$2.5 billion of bonds and notes (“Recovery Obligations”) to pay Recovery Costs. The City is seeking legislation amending the Act to eliminate the \$11.5 billion statutory cap on the Authority’s bonds. If the Act were so amended, the Authority would continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein. See “APPENDIX A— SUMMARY OF INDENTURE AND AGREEMENT.”

The Authority has previously issued \$11.5 billion of Senior Bonds and Bond Anticipation Notes for capital purposes. The Authority currently has Outstanding \$10,553,519,143 of Senior Bonds (excluding accrued interest on capital appreciation bonds) and \$555 million of Bond Anticipation Notes. Such Bond Anticipation Notes are expected to be paid with the proceeds of the Series 2004 C Bonds. The Authority also has Outstanding approximately \$2 billion of Recovery Obligations. The Authority expects that it will issue other Bonds and Notes for capital purposes if the Act is amended to permit such issuance and may issue Bonds for refunding purposes from time to time.

Other Series of Recovery Obligations and debt issued on a parity with such Recovery Obligations (“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.

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

See “SECTION IV: THE BONDS—Other Series” and “SECTION V: THE AUTHORITY—Other Authority Indebtedness” and “—Plan of Finance.”

Interest and Principal..... Interest on the Series 2004 C Bonds will accrue from their dated date at the rates set forth on the inside cover page hereof and will be payable semiannually on February 1 and August 1 of each year, commencing August 1, 2004. The record date for payment of interest on the Series 2004 C Bonds is the fifteenth day of the calendar month preceding the interest payment date.

Principal will be due as shown on the inside cover page and herein.

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

Optional Redemption The Series 2004 C Bonds maturing on or before February 1, 2014, are not subject to redemption prior to maturity. The Series 2004 C Bonds maturing after February 1, 2014 are subject to redemption prior to maturity on 30 days notice, beginning on February 1, 2014 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

Form and Denomination..... The Series 2004 C 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 2004 C Bonds will be denominated in principal amounts of \$5,000 and integral multiples thereof.

Indenture The Indenture provides for the issuance of the Bonds and Notes 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. See “APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT.”

Financing Agreement The Financing Agreement, dated October 1, 1997, as amended and supplemented, between the Authority and the City, provides for the application of proceeds of the Authority's Bonds and Notes to fund capital expenditures of the City and Recovery Costs and to refund the Authority's Bonds and includes covenants of the City and the City's agreement to hold the Authority harmless against claims related to the Projects.

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

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

Bond Account..... The Bond Account is held by the Trustee in accordance with the terms of the Indenture. The Trustee shall deposit amounts from the Collection Account into the Bond Account in accordance with the Retention Procedures described below for the payment of Senior Debt Service including Notes and Senior Agreements that are to be paid out of the Bond Account on a parity with the Senior Bonds.

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

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

Period is the "Quarterly Payment Requirement." On the first business day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers until the Quarterly Payment Requirement is held in the Bond Account. During the third month of each Collection Quarter, if there is less than the Quarterly Payment Requirement on deposit in the Bond Account, or the Redemption Account, as the case may be, the Trustee will continue to transfer Statutory Revenues from the Collection Account to the Bond Account until there is on deposit therein the Quarterly Payment Requirement. The payment obligations of the Trustee for payments to be made from the Collection Account to the Bond Account shall be cumulative so that any shortage in the first month of the Collection Quarter will become part of the funding obligation in the second month of the Collection Quarter, and, if necessary, the third month of the Collection Quarter. The Authority expects that the Quarterly Payment Requirement will be provided from Statutory Revenues during the applicable Collection Quarter. However, in the event collections from the Statutory Revenues are insufficient during any Collection Quarter to completely provide for the Quarterly Payment Requirement, the Trustee is required to withhold additional Statutory Revenues in subsequent Collection Quarters. To the extent the Quarterly Payment Requirement includes principal, interest or premium on the 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 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 the Bonds or Notes to be purchased or redeemed prior to maturity, or Revenues are available to pay principal of notes of the Authority, 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 covenants in the Series 2004 C 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 2004 C 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 2004 C Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION VII: TAX MATTERS."

Ratings..... The Series 2004 C Bonds, except for the Insured Bonds (as defined herein), have been rated "AA+" by Fitch Ratings ("Fitch"), "AA+" by Standard & Poor's Ratings Services ("Standard & Poor's") and "Aa2" by Moody's Investors Service, Inc. ("Moody's") (each a "Rating Agency" and, collectively, the "Rating Agencies"). The Insured Bonds are expected to be rated "AAA" by Fitch, "AAA" by Standard & Poor's and "Aaa" by Moody's. See "SECTION VIII: RATINGS."

Authority Contact..... Mr. Raymond Orlando
Phone Number: (212) 788-5875
Email: orlandor@omb.nyc.gov

SECTION I: INTRODUCTION

General

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 \$541,000,000 Future Tax Secured Bonds, Fiscal 2004 Series C (the “Series 2004 C Bonds” and, together with the Other Series of Bonds, the “Bonds”).

The Series 2004 C Bonds are being issued pursuant to the Act (as defined below) and an Indenture dated as of October 1, 1997, as amended and supplemented (the “Indenture”), by and between the Authority and U.S. Bank Trust National Association, 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 amended and 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 2004 C Bonds are payable from the Revenues of the Authority which are derived from the Personal Income Tax Revenues and Sales Tax Revenues (each as defined herein). See “SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS.”

The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the “State”) created by Chapter 16 of the Laws of 1997 (as amended, the “Act”). The 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 Bonds and Notes (“Recovery Obligations”) to pay costs related to or arising from the September 11 attack on the World Trade Center (“Recovery Costs”). The Authority has Outstanding approximately \$2 billion of Recovery Obligations, of which the Authority has used \$1.5 billion in proceeds to compensate the City for revenue losses that are Recovery Costs. The City is seeking legislation amending the Act to eliminate the \$11.5 billion statutory cap on the Authority’s bonds. If the Act were so amended, the Authority would continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein. See “APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT.”

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

The factors affecting the Authority and the Bonds described throughout this Offering Circular are complex and are not intended to be described in this Introduction. This Offering Circular should be read

in its entirety. Capitalized terms not otherwise defined in this Offering Circular are defined in “APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT.”

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. Trading on the major New York stock exchanges was suspended until September 17, 2001, and business in the financial district was interrupted. Recovery, clean up and repair efforts have resulted in substantial expenditures. The City has largely been reimbursed by the federal government for all of its direct costs for response and remediation of the World Trade Center site. In addition, the State authorized the Authority to have outstanding \$2.5 billion of Recovery Obligations to pay Recovery Costs. It is not possible to quantify at present with any certainty the long-term impact of the September 11 attack on the City and the Statutory Revenues.

SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

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

The Authority does not have any significant assets or sources of funds other than the Statutory Revenues and amounts on deposit pursuant to the Indenture. The Bonds will not be insured or guaranteed by the City, the State or the Trustee. Consequently, Bondholders must rely for repayment solely upon collection of the Statutory Revenues and accounts held by the Trustee pursuant to the Indenture.

The Authority’s only authorized activity is the issuance of debt and the use of the proceeds thereof to fund a portion of the City’s capital program and to pay Recovery Costs. *The Authority’s debt is not debt of the State or the City and neither the State nor the City shall be liable thereon.*

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

Statutory Revenues

The Bonds are payable from the Statutory Revenues, which consist of Personal Income Tax Revenues and Sales Tax Revenues. Personal Income Tax Revenues are the revenues collected from the Personal Income Tax less overpayments and costs of administration. The Personal Income Tax is the tax imposed by the City as authorized by the State on the income of City residents and, while applicable, on nonresident earnings in the City as described below. Sales Tax Revenues are the revenues collected from the Sales Tax less costs of administration and amounts paid to The Municipal Assistance Corporation For The City of New York (“MAC”) for the payment of the MAC Funding Requirements. For information

regarding the MAC Funding Requirements, see “Sales Tax—MAC Funding Requirements” below. The Sales Tax is the 4 ½% tax currently imposed by the State on the sale and use of tangible personal property and services in the City. The term “Sales Tax” also includes certain amounts collected from a sales and compensating use tax imposed by the City as authorized by the State. Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Bonds if Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority’s Outstanding Bonds. For a description of the Personal Income Tax Revenues and the Sales Tax Revenues, including assumptions relating thereto and the expiration and reduction of certain portions thereof, 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 2003, the average annual compound growth rate for Statutory Revenues was approximately 6.9%. However, Statutory Revenues decreased in fiscal years 2002 and 2003 primarily due to the September 11 attack and the effects of the national recession. Historical collections of Statutory Revenues for fiscal years 1980 to 2003 and forecasted collections of Statutory Revenues for fiscal years 2004 through and including 2008 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 | 1994 | \$5,702 |
| 1981 | 1,962 | 1995 | 6,202 |
| 1982 | 2,182 | 1996 | 6,533 |
| 1983 | 2,414 | 1997 | 7,048 |
| 1984 | 2,669 | 1998 | 7,816 |
| 1985 | 2,998 | 1999 | 8,704 |
| 1986 | 3,490 | 2000 | 8,961 |
| 1987 | 3,691 | 2001 | 9,485 |
| 1988 | 3,916 | 2002 | 7,908 |
| 1989 | 4,273 | 2003 | 7,785 |
| 1990 | 4,475 | 2004 ⁽¹⁾ | 8,734 |
| 1991 | 4,720 | 2005 ⁽¹⁾ | 8,802 |
| 1992 | 5,028 | 2006 ⁽¹⁾ | 8,934 |
| 1993 | 5,444 | 2007 ⁽¹⁾ | 9,192 |
| | | 2008 ⁽¹⁾ | 9,810 |

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

⁽¹⁾ As forecasted by NYC OMB in the City’s financial plan dated June 30, 2003 as modified in January 2004 (the “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 Indenture provides for the issuance of Senior Bonds of up to \$12 billion (excluding Bonds for refunding purposes). In addition, the Indenture includes the Quarterly Senior Debt Service Covenant which provides that the maximum Quarterly Senior Debt Service may not exceed \$330 million. The maximum Quarterly Senior Debt Service would total \$1.32 billion on an annual basis, which corresponds to the cost of debt service on \$12 billion of Authority debt outstanding at a maximum interest rate of 9% (the “Covenanted Maximum Annual Debt Service”). See “SECTION IV: THE BONDS—Other Series” and “SECTION V: THE AUTHORITY—Other Authority Indebtedness.”

The following table shows the coverage of Covenanted Maximum Annual Debt Service by Statutory Revenues. For information regarding projection assumptions and the expiration and reduction of portions of the Personal Income Tax, see “—Personal Income Tax” below.

DEBT SERVICE COVERAGE BY HISTORICAL AND FORECASTED STATUTORY REVENUES

| Fiscal Year Ending June 30 | Statutory Revenues (\$ millions) | Coverage of Covenanted Maximum Annual Debt Service ⁽¹⁾ |
|-------------------------------|-------------------------------------|---|
| 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 | 7,908 | 5.99x |
| 2003 | 7,785 | 5.90x |
| 2004 ⁽²⁾ | 8,734 | 6.62x |
| 2005 ⁽²⁾ | 8,802 | 6.67x |
| 2006 ⁽²⁾ | 8,934 | 6.77x |
| 2007 ⁽²⁾ | 9,192 | 6.96x |
| 2008 ⁽²⁾ | 9,810 | 7.43x |

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

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

⁽²⁾ As forecasted by NYC OMB in the 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.”

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

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

| Year Ending July 31 | August through October | | November through January | | February through April | | May through July | |
|--------------------------------|-----------------------------------|-----------------|-------------------------------------|-----------------|-----------------------------------|-----------------|-----------------------------|-----------------|
| | Revenue | Coverage | Revenue | Coverage | Revenue | Coverage | Revenue | Coverage |
| 1988 | \$1,091 | 3.3x | \$1,108 | 3.4x | \$935 | 2.8x | \$777 | 2.4x |
| 1989 | 1,105 | 3.3x | 1,102 | 3.3x | 1,159 | 3.5x | 998 | 3.0x |
| 1990 | 1,007 | 3.1x | 1,270 | 3.8x | 1,150 | 3.5x | 1,062 | 3.2x |
| 1991 | 1,160 | 3.5x | 1,311 | 4.0x | 1,263 | 3.8x | 933 | 2.8x |
| 1992 | 1,233 | 3.7x | 1,273 | 3.9x | 1,463 | 4.4x | 1,083 | 3.3x |
| 1993 | 1,308 | 4.0x | 1,652 | 5.0x | 1,419 | 4.3x | 1,041 | 3.2x |
| 1994 | 1,293 | 3.9x | 1,618 | 4.9x | 1,558 | 4.7x | 1,307 | 4.0x |
| 1995 | 1,444 | 4.4x | 1,755 | 5.3x | 1,683 | 5.1x | 1,361 | 4.1x |
| 1996 | 1,480 | 4.5x | 1,745 | 5.3x | 1,798 | 5.4x | 1,533 | 4.6x |
| 1997 | 1,587 | 4.8x | 1,909 | 5.8x | 2,064 | 6.3x | 1,532 | 4.6x |
| 1998 | 1,619 | 4.9x | 2,156 | 6.5x | 2,398 | 7.3x | 1,698 | 5.1x |
| 1999 | 1,903 | 5.8x | 2,442 | 7.4x | 2,462 | 7.5x | 1,853 | 5.6x |
| 2000 | 1,919 | 5.8x | 2,676 | 8.1x | 2,563 | 7.8x | 1,884 | 5.7x |
| 2001 | 2,038 | 6.2x | 2,779 | 8.4x | 2,653 | 8.0x | 1,944 | 5.9x |
| 2002 | 1,870 | 5.7x | 2,385 | 7.2x | 1,923 | 5.8x | 1,319 | 4.0x |
| 2003 | 1,751 | 5.3x | 2,369 | 7.2x | 1,957 | 5.9x | 1,131 | 3.4x |

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

Servicing

Personal Income Tax Collection

The New York State Department of Taxation and Finance collects the Personal Income Tax from employers and individual taxpayers and reports the amount of such funds to the State Comptroller, who holds such collections net of overpayments and administrative costs in trust for the Authority. The amount of overpayments and administrative costs paid by the State Comptroller out of gross Personal Income Tax collections has averaged 12.4% 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, 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. 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 or July 1, 2008, whichever is later, 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.

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 was imposed on residents according to a schedule with a maximum rate of 3.2% (the "Base Rate") and was subject to a 14% surcharge (the "14% Surcharge"). The 14% Surcharge was imposed on the Base Rate and was authorized by the State and enacted by the City. The Base Rate plus the 14% Surcharge ranged from 2.907% to 3.648% of taxable income for 2002.

Recent legislation replaced both the Base Rate and the 14% Surcharge with a new temporary rate schedule for tax years 2003 through 2005. The top rate under this new temporary schedule is 4.45%. The new temporary schedule, the Base Rate and the 14% Surcharge are scheduled to expire on January 1, 2006, at which time, unless legislation is passed which re-imposes the Base Rate and the 14% Surcharge, 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, 2007 so that the maximum rate would be 1.48%. The 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 Base Rate was extended.

The forecasts of Personal Income Tax Revenues contained herein assume the expiration of the temporary rate schedule for tax years 2003-2005 and the extension of the 14% Surcharge and the Base Rate after 2005. If the 14% Surcharge is not extended prior to its expiration, Personal Income Tax Revenues (and Statutory Revenues) will be reduced by an estimated \$236 million in fiscal year 2006,

\$739 million in fiscal year 2007 and \$781 million in fiscal year 2008. In the event that both the Base Rate and the 14% Surcharge are not extended prior to their expiration and the Reduced Base Rate becomes effective, Statutory Revenues would be reduced by an estimated \$1.0 billion in fiscal year 2006, \$2.9 billion in fiscal year 2007 and \$3.1 billion in fiscal year 2008, but would exceed Covenanted Maximum Annual Debt Service by an estimated \$6.6 billion, \$5.0 billion and \$5.4 billion, respectively, in such years.

In the past, various components of the Personal Income Tax have been reduced or have expired. For example, a State rebate program called the School Tax Relief Program lowered the Base Rate starting in 1999 and was fully implemented in 2001. 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. The State previously authorized, and the City imposed, a Personal Income Tax surcharge of approximately 12.5% which expired January 1, 1999.

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 2003 was approximately 7.4%. However, Personal Income Tax Revenues have decreased from fiscal year 2001 levels primarily due to the September 11 attack and the effects of the national recession. The following table shows Personal Income Tax Revenues for fiscal years 1980 through 2003 and forecasted Personal Income Tax Revenues for fiscal years 2004 through 2008.

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

| Fiscal Year Ending June 30 | Personal Income Tax Revenues | Fiscal Year Ending June 30 | Personal Income Tax Revenues |
|---------------------------------------|---|---------------------------------------|---|
| 1980 | \$ 879 | 1994..... | \$3,564 |
| 1981 | 1,018 | 1995..... | 3,585 |
| 1982 | 1,159 | 1996..... | 3,907 |
| 1983 | 1,331 | 1997..... | 4,376 |
| 1984 | 1,547 | 1998..... | 5,147 |
| 1985 | 1,740 | 1999..... | 5,462 |
| 1986 | 1,816 | 2000..... | 5,528 |
| 1987 | 2,160 | 2001..... | 5,771 |
| 1988 | 2,092 | 2002..... | 4,500 |
| 1989 | 2,448 | 2003..... | 4,495 |
| 1990 | 2,551 | 2004 ⁽¹⁾ | 5,291 |
| 1991 | 2,784 | 2005 ⁽¹⁾ | 5,385 |
| 1992 | 3,232 | 2006 ⁽¹⁾ | 5,430 |
| 1993 | 3,477 | 2007 ⁽¹⁾ | 5,492 |
| | | 2008 ⁽¹⁾ | 5,869 |

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

⁽¹⁾ As forecasted by NYC OMB in the Financial Plan.

For fiscal years 1996 through 2003, an average of 79% of Personal Income Tax Revenues was collected through mandatory withholding by employers as a percentage of wage income paid to employees. For fiscal year 2003, \$3.9 billion of the Personal Income Tax Revenues was collected through withholding. 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 2003, approximately 16% of Personal Income Tax Revenues was collected from taxpayers through quarterly, installment payments on non-wage income and self-employment earnings, and approximately 5% 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 ½% tax on the sale and use of tangible personal property and services in the City currently imposed by the State until all MAC Funding Requirements (as defined below) have been paid in full or July 1, 2008, whichever is later, and thereafter means the similar tax imposed by the City. Effective June 4, 2003 through May 31, 2005, the Sales Tax includes a temporary ½% (which increased the rate from 4% to 4 ½%). The term "Sales Tax" also includes a sales and compensating use tax imposed by the City as authorized by the State. Sales Tax Revenues do not include that portion of the Sales Tax collections required for the MAC Funding Requirements. The Sales Tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. In addition, the Sales Tax includes a 6% tax on receipts from parking, garaging or storing motor vehicles in the City.

The Sales Tax on clothing and footwear under \$110 is scheduled to expire on May 31, 2004. The Governor has proposed that such tax be extended permanently, with the exception of four weeks per year during which clothing and footwear under \$500 would be exempt from Sales Tax. If the Governor's proposal were enacted into law, Sales Tax Revenues would increase by an estimated \$23 million, \$157 million, \$159 million, \$166 million and \$181 million in fiscal years 2004 through 2008, respectively. No assurances can be given that the Governor's proposal will become law.

Sales Tax Revenues (except for the collections derived from the Sales Tax imposed by the City) are subject to appropriation by the State Legislature. Sales Tax Revenues 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 the later of July 1, 2008, or when all MAC Funding Requirements are met, 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 the later of July 1, 2008 or the date when all MAC Funding Requirements are met. The projections herein assume the renewal of the City's authority to impose an additional 1% sales tax so that the Sales Tax will be imposed at the rate of 4%. There can be no assurance that the City will receive such authorization.

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 \$2.15 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.

In May 2003, the State Legislature passed legislation requiring the New York Local Government Assistance Corporation (“LGAC”) to pay the City \$170 million annually from its appropriated revenues. The City has created the Sales Tax Asset Receivable Corporation (“STAR Corp.”), a local development corporation that intends to issue debt secured by this annual payment. Proceeds of the STAR Corp. financing may be used to defease MAC bonds, pay MAC debt service or reimburse the City for Sales Taxes taken by MAC for its debt service that would otherwise have been paid to the City. The proposed financing is the subject of litigation between LGAC, its Chairperson, the State Division of the Budget and its Director as plaintiffs, and the City and STAR Corp. as defendants. Although the State Supreme Court ruled in favor of the City and STAR Corp., the Appellate Division has temporarily ordered STAR Corp. to refrain from marketing or selling its bonds pending the appeal. If STAR Corp. is able to issue its bonds in the future and the proceeds of such bonds are used to pay MAC debt service or defease MAC bonds, MAC Funding Requirements would be reduced.

On the later of (i) payment in full of all of the MAC Funding Requirements or (ii) July 1, 2008, 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 2003 was 6.3%. However, Sales Tax Revenues decreased in fiscal years 2002 and 2003 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 2003 and forecasted Sales Tax collections, projected MAC Funding Requirements and Sales Tax Revenues for fiscal years 2004 through 2008.

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⁽¹⁾</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 | 3,413 | 5 | 3,408 |
| 2003 | 3,514 | 225 | 3,289 |
| 2004 | 3,932 ⁽²⁾ | 489 | 3,443 |
| 2005 | 3,907 ⁽²⁾ | 490 | 3,417 |
| 2006 | 3,996 ⁽²⁾ | 492 | 3,504 |
| 2007 | 4,194 ⁽²⁾ | 494 | 3,700 |
| 2008 | 4,416 ⁽²⁾ | 470 | 3,946 |

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

⁽¹⁾ MAC Funding Requirements for fiscal years 1999 through 2002 reflect the prepayment of MAC debt service by the City from its General Fund during the fiscal year preceding the fiscal year in which such debt service is due. For a description of circumstances under which MAC Funding Requirements could be reduced in the future, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax—*MAC Funding Requirements.*"

⁽²⁾ As forecasted by NYC OMB in the Financial Plan.

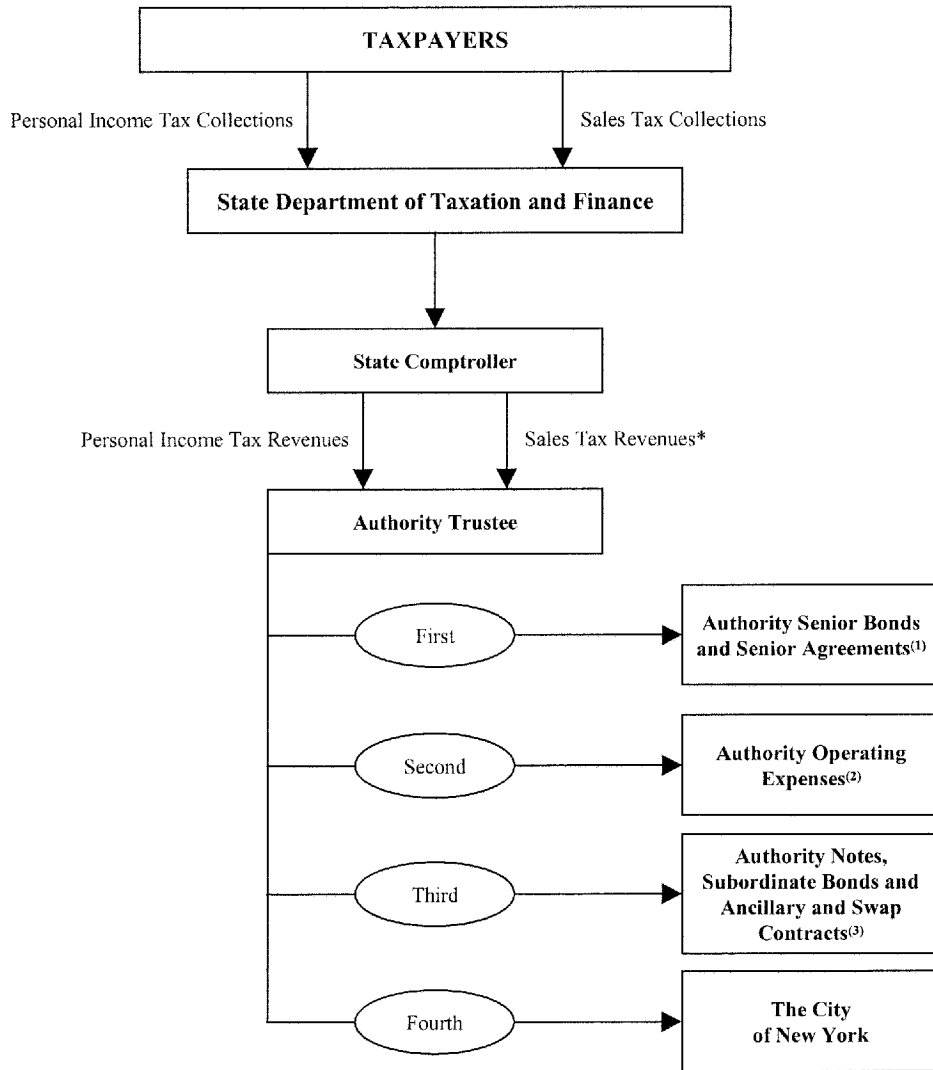
Application of Revenues

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

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

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

SUMMARY OF COLLECTION AND APPLICATION OF STATUTORY REVENUES



* Sales Tax Revenues are available to the Authority only in the event that projected Personal Income Tax Revenues are less than 150% of maximum annual debt service on Outstanding Bonds 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 payments, if any, pursuant to 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 (for interest only), Subordinate Bondholders and parties to ancillary and swap contracts.

Retention Procedures

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

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

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 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 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. As soon as practicable, but not later than the last day of each month, money on deposit in the Collection Account will be transferred to the City free and clear of the lien of the Indenture. Before the beginning of each fiscal year and each month during such fiscal year, the City will provide the Authority with a schedule of forecasted collections of Statutory Revenues. The Authority expects that the Quarterly Payment Requirement and payment requirement for Quarterly Subordinate Debt Service will be provided from Statutory Revenues during the applicable Collection Quarter. However, in the event projected collections from the Statutory Revenues are anticipated to be insufficient during any Collection Quarter to completely provide for the Quarterly Payment Requirement or Quarterly Subordinate Debt Service, the Trustee is required to withhold additional Statutory Revenues in subsequent Collection Quarters. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT—Application of Revenues." 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 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; provided, however, that such amounts are subject to State appropriation until (i) the MAC Funding Requirements are paid in full or (ii) July 1, 2008, whichever is later. 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.

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.

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 Bond.

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 believed to be 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 missions to the United Nations and the 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. 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, which was followed by an expansion that lasted until 2001. The economic slowdown that began in 2001 as a result of the September 11 attack, a national recession and a downturn in the securities industry has largely ended. With the job market outlook remaining sluggish, the Financial Plan assumes a moderate recovery of the City's economy in calendar year 2004, gaining momentum in 2005.

Population

The City has been the most populous city in the United States since 1790. 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 | 7,322,564 |
| 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 over the past 13 years has had a growth rate averaging over 4%. It is projected that total taxable sales will increase in 2003 after having increased in 2000 and 2001 and decreased in 2002.

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)

| <u>Year</u> ⁽¹⁾ | <u>Retail</u> ⁽²⁾ | <u>Utility & Communication</u> | | <u>Manufacturing</u> | <u>Other</u> ⁽⁵⁾ | <u>Total</u> |
|----------------------------|------------------------------|------------------------------------|--------------------------------|----------------------|-----------------------------|--------------|
| | | <u>Sales</u> ⁽³⁾ | <u>Services</u> ⁽⁴⁾ | | | |
| 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, 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, 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) Other includes 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 1991 to 2001 (the most recent year for which City personal income data are available). From 1991 to 2001, personal income in the City averaged 5.2% growth compared to 5.5% for the nation. Based on NYC OMB estimates, after falling in 2002, total personal income is projected to increase in 2003 and 2004. The following table sets forth information regarding personal income in the City from 1991 to 2001.

PERSONAL INCOME IN NEW YORK CITY⁽¹⁾

| <u>Year</u> | <u>Total NYC</u> | <u>Per Capita</u> | <u>Per Capita</u> | <u>Per Capita</u> |
|-------------|------------------------|------------------------|------------------------|-------------------|
| | <u>Personal Income</u> | <u>Personal Income</u> | <u>Personal Income</u> | <u>NYC as a</u> |
| | <u>(\$ billions)</u> | <u>NYC</u> | <u>U.S.</u> | <u>Percent of</u> |
| | | <u>U.S.</u> | | <u>U.S.</u> |
| 1991..... | \$186.8 | \$25,334 | \$19,923 | 127.2% |
| 1992..... | 199.7 | 26,875 | 20,870 | 128.8 |
| 1993..... | 202.9 | 27,025 | 21,356 | 126.5 |
| 1994..... | 208.7 | 27,556 | 22,176 | 124.3 |
| 1995..... | 221.9 | 29,071 | 23,078 | 126.0 |
| 1996..... | 236.7 | 30,738 | 24,176 | 127.1 |
| 1997..... | 245.3 | 31,558 | 25,334 | 124.6 |
| 1998..... | 263.6 | 33,549 | 26,880 | 124.8 |
| 1999..... | 277.0 | 34,854 | 27,933 | 124.8 |
| 2000..... | 302.4 | 37,715 | 29,842 | 126.4 |
| 2001..... | 311.5 | 38,643 | 30,511 | 126.7 |

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

(1) 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 service producing sectors provided approximately 2.8 million jobs and accounted for approximately 77% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2001, the employment share for the financial activities and professional and business services sectors was approximately 29% while the earnings share for those same sectors was approximately 50%. In the nation, those same service producing sectors accounted for only approximately 18% of employment and 24% of earnings in 2001. Due to the earnings distribution in the City, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

The City and the nation's employment and earnings by sector for 2001 are set forth in the following table.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS IN 2001⁽¹⁾

| | Employment | | Earnings ⁽²⁾ | |
|---|------------|-------------|-------------------------|-------------|
| | NYC | U.S. | NYC | U.S. |
| Goods Producing Sectors | | | | |
| Mining..... | 0.0% | 0.5% | 0.1% | 0.8% |
| Construction..... | 3.3 | 5.2 | 3.0 | 6.3 |
| Manufacturing..... | <u>4.2</u> | <u>12.5</u> | <u>2.5</u> | <u>13.4</u> |
| Total Goods Producing | 7.5 | 18.1 | 5.6 | 20.6 |
| Service Producing Sectors | | | | |
| Trade, Transportation and Utilities | 15.1 | 19.7 | 8.5 | 16.5 |
| Information | 5.4 | 2.8 | 8.2 | 4.6 |
| Financial Activities | 12.8 | 5.9 | 31.6 | 9.3 |
| Professional and Business Services..... | 15.8 | 12.5 | 18.5 | 15.4 |
| Education and Health Services..... | 17.0 | 11.9 | 9.4 | 10.1 |
| Leisure & Hospitality..... | 7.0 | 9.1 | 4.2 | 4.4 |
| Other Services..... | <u>4.0</u> | <u>4.0</u> | <u>2.1</u> | <u>2.9</u> |
| Total Service Producing | 77.2 | 65.9 | 82.5 | 63.0 |
| Total Private Sector | 84.7 | 84.0 | 89.9 | 84.0 |
| Government⁽³⁾ | 15.3 | 16.0 | 10.1 | 16.0 |

Note: Data may not add due to rounding or restrictions on reporting earnings data. Data are presented using the North American Industry Classification System ("NAICS").

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

- (1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
- (2) Includes the sum of wage and salary disbursements, other labor income and proprietor's income. The latest information available is 2001 data.
- (3) Excludes military establishments.

The comparison of employment and earnings in 1980 and 2000 set forth below is presented using the industry classification system which was in use until the adoption of NAICS in the late 1990's.

Though NAICS has been implemented for most government industry statistical reporting, most historical earnings data have not been converted. Furthermore, it is not possible to compare data from the two classification systems except in the general categorization of government, private and total employment. The table below reflects the overall increase in the service producing sectors and the declining manufacturing base in the City from 1980 to 2000.

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

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS⁽¹⁾

| | Employment | | | | Earnings ⁽²⁾ | | | |
|--|-------------|------------|------------|------------|-------------------------|------------|------------|------------|
| | 1980 | | 2000 | | 1980 | | 2000 | |
| | NYC | U.S. | NYC | U.S. | NYC | U.S. | NYC | U.S. |
| Private Sector | | | | | | | | |
| Non-Manufacturing: | | | | | | | | |
| Services..... | 27.0% | 19.8% | 39.1% | 30.7% | 25.9% | 18.5% | 31.8% | 29.5% |
| Wholesale and Retail Trade | 18.6 | 22.5 | 16.8 | 23.0 | 15.0 | 16.6 | 9.3 | 15.0 |
| Finance, Insurance and Real Estate..... | 13.6 | 5.7 | 13.2 | 5.7 | 17.8 | 5.9 | 34.0 | 9.5 |
| Transportation and Public Utilities..... | 7.8 | 5.7 | 5.7 | 5.3 | 10.1 | 7.5 | 5.4 | 6.9 |
| Contract Construction | 2.3 | 4.8 | 3.3 | 5.1 | 2.6 | 6.3 | 2.8 | 6.0 |
| Mining..... | <u>0.0</u> | <u>1.1</u> | <u>0.0</u> | <u>0.4</u> | <u>0.3</u> | <u>2.1</u> | <u>0.1</u> | <u>0.9</u> |
| Total Non-Manufacturing | 69.3 | 59.6 | 78.1 | 70.3 | 71.7 | 56.9 | 83.3 | 67.7 |
| Manufacturing: | | | | | | | | |
| Durable..... | 4.4 | 13.4 | 1.6 | 8.4 | 3.6 | 15.7 | 1.2 | 10.0 |
| Non-Durable | <u>10.6</u> | <u>9.0</u> | <u>4.9</u> | <u>5.6</u> | <u>9.4</u> | <u>8.8</u> | <u>4.8</u> | <u>5.9</u> |
| Total Manufacturing | 15.0 | 22.4 | 6.5 | 14.0 | 13.0 | 24.5 | 6.0 | 15.9 |
| Total Private Sector | 84.3 | 82.0 | 84.7 | 84.3 | 85.1 | 81.9 | 89.8 | 84.3 |
| Government⁽³⁾ | 15.7 | 18.0 | 15.3 | 15.7 | 14.9 | 18.1 | 10.2 | 15.7 |

Note: Totals may not add due to rounding. Data are presented using the Standard Industrial Classification System.

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

- (1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.
- (2) Includes the sum of wage and salary disbursements, other labor income and proprietor's 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 423,000 new private sector jobs (an average growth rate of approximately 2%). In 2002, average annual employment in the City fell by 117,400 and is projected by NYC OMB to decline by approximately 47,000 jobs in 2003 before increasing in 2004. As of December 2003, total employment in the City was approximately 3,581,500 compared to approximately 3,598,500 in December 2002, a decline of approximately 0.5%.

The table below shows the distribution of employment from 1992 to 2002.

NEW YORK CITY EMPLOYMENT DISTRIBUTION

| | Average Annual Employment (in thousands) | | | | | | | | | | |
|--|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Goods Producing Sectors | | | | | | | | | | | |
| Construction | 86 | 85 | 88 | 90 | 91 | 93 | 101 | 112 | 120 | 122 | 116 |
| Manufacturing | 226 | 219 | 212 | 208 | 200 | 201 | 196 | 187 | 177 | 156 | 140 |
| Service Producing Sectors | | | | | | | | | | | |
| Trade Transportation and Utilities | 534 | 528 | 526 | 533 | 533 | 538 | 542 | 556 | 570 | 557 | 534 |
| Information | 153 | 152 | 152 | 154 | 159 | 163 | 166 | 173 | 187 | 200 | 177 |
| Financial Activities | 471 | 465 | 472 | 467 | 464 | 468 | 477 | 481 | 489 | 474 | 446 |
| Professional and Business Services | 415 | 425 | 437 | 445 | 468 | 494 | 525 | 553 | 587 | 582 | 546 |
| Education and Health Services | 501 | 516 | 536 | 552 | 565 | 576 | 589 | 606 | 620 | 627 | 645 |
| Leisure and Hospitality | 193 | 194 | 201 | 208 | 217 | 228 | 236 | 244 | 257 | 260 | 254 |
| Other Services | 118 | 120 | 121 | 123 | 125 | 129 | 134 | 142 | 147 | 149 | 149 |
| Total Private | 2,697 | 2,704 | 2,744 | 2,779 | 2,823 | 2,890 | 2,966 | 3,053 | 3,154 | 3,127 | 3,006 |
| Government | 585 | 588 | 578 | 560 | 546 | 552 | 561 | 567 | 569 | 565 | 568 |
| Total | 3,282 | 3,291 | 3,322 | 3,339 | 3,369 | 3,442 | 3,528 | 3,621 | 3,723 | 3,692 | 3,575 |

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

Note: Totals may not add due to rounding.

SECTION IV: THE BONDS

General

The Series 2004 C Bonds will be dated, will bear interest at the rates and will mature on the dates as set forth on the inside cover page of this Offering Circular unless redeemed prior to maturity. All of the Series 2004 C Bonds will be issued in book-entry only form.

The Series 2004 C Bonds will be issued in denominations of \$5,000 or any whole multiple thereof, and will bear interest calculated on the basis of a 360-day year of 30-day months.

The Series 2004 C Bonds are subject to defeasance in accordance with the Indenture. See “APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT—The Indenture—*Defeasance*.”

Optional Redemption

The Series 2004 C Bonds maturing on or before February 1, 2014 are not subject to redemption prior to maturity. The Series 2004 C Bonds maturing after February 1, 2014 are subject to redemption prior to maturity on 30 days notice, beginning on February 1, 2014 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

Sinking Fund Redemption

The Series 2004 C Bonds maturing on February 1, 2028 and on February 1, 2033 are subject to mandatory redemption on the dates and in the principal amounts shown below at a Redemption Price of par plus interest accrued to the date fixed for redemption.

| Principal Amount to be Redeemed | | |
|--|----------------------------------|----------------------------------|
| <u>February 1</u> | 4.5% Term | 5.0% Term |
| | <u>Bond Maturing 2028</u> | <u>Bond Maturing 2028</u> |
| 2027..... | \$3,435,000 | \$24,335,000 |
| 2028*..... | 2,675,000 | 18,900,000 |
| | | |
| <u>February 1</u> | 4.55% Term | 5.0% Term |
| | <u>Bond Maturing 2033</u> | <u>Bond Maturing 2033</u> |
| 2029..... | \$400,000 | \$22,235,000 |
| 2030..... | 420,000 | 23,345,000 |
| 2031..... | 440,000 | 24,510,000 |
| 2032..... | 465,000 | 25,735,000 |
| 2033*..... | 485,000 | 27,020,000 |

(*) Stated Maturity

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

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

Notice of Redemption

Upon receipt of notice from the Authority of its election to redeem Bonds or when redemption of Bonds is required pursuant to the Indenture, the Trustee is to give notice of such redemption by mail to the Holders of Bonds to be redeemed at least 30 days prior to the date set for redemption. Failure by a particular Holder to receive notice, or any defect in the notice to such Holder, will not affect the redemption of any other Bond.

Payment of Bonds

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

Other Series

The Bonds and Notes of the Authority may be issued only: (i) as Senior Bonds (or Notes in anticipation thereof) (x) to pay or reimburse Project Capital Costs, but (I) not to exceed \$12 billion in issuance amount, measured by proceeds to the Authority, and (II) subject to a \$330 million limit on Quarterly Debt Service to be payable, or (y) to refund or renew such Bonds or Notes, subject to a \$330 million limit on Quarterly Debt Service to be payable; or (ii) as Subordinate Bonds (or Notes in anticipation thereof), with Rating Confirmation; but (iii) no Series of Senior Bonds shall be authenticated and delivered without Rating Confirmation unless the amount of collections of Statutory Revenues for the twelve consecutive calendar months ended not more than two months prior to the calculation date less the aggregate amount of operating expenses of the Authority for the current fiscal year is at least three times the amount of annual Debt Service, including debt service on the Series of Bonds proposed to be issued, for each fiscal year Bonds will be Outstanding. See “APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT.”

Debt Service Requirements

The following schedule sets forth, for each 12-month period ending June 30 of the years shown, the amounts required to be paid by the Authority for the payment of debt service on all outstanding Senior Bonds (including the Series 2004 C Bonds) during such period.

| Period Ending June 30 | Series 2004 C Bonds Debt Service | | | Outstanding Senior Bonds Debt Service ⁽¹⁾ | Total Senior Bonds Debt Service ⁽¹⁾ |
|--------------------------|---|----------------------|------------|--|--|
| | Principal and Sinking Fund Installments | Interest Payments | Total | | |
| 2004 | \$ — | \$ — | \$ — | \$687,553,357 | \$687,553,357 |
| 2005 | 9,635,000 | 25,121,015 | 34,756,015 | 799,289,608 | 834,045,623 |
| 2006 | 9,545,000 | 25,210,574 | 34,755,574 | 798,673,535 | 833,429,109 |
| 2007 | 9,735,000 | 25,019,674 | 34,754,674 | 798,498,350 | 833,253,024 |
| 2008 | 9,950,000 | 24,800,636 | 34,750,636 | 805,200,554 | 839,951,190 |
| 2009 | 12,035,000 | 24,424,636 | 36,459,636 | 802,288,639 | 838,748,275 |
| 2010 | 12,435,000 | 24,016,261 | 36,451,261 | 829,359,609 | 865,810,870 |
| 2011 | 12,880,000 | 23,568,986 | 36,448,986 | 798,659,468 | 835,108,454 |
| 2012 | 13,510,000 | 22,939,661 | 36,449,661 | 793,979,534 | 830,429,195 |
| 2013 | 14,115,000 | 22,339,061 | 36,454,061 | 808,850,436 | 845,304,497 |
| 2014 | 14,805,000 | 21,647,524 | 36,452,524 | 807,351,741 | 843,804,265 |
| 2015 | 15,535,000 | 20,917,621 | 36,452,621 | 795,636,578 | 832,089,199 |
| 2016 | 16,330,000 | 20,121,834 | 36,451,834 | 780,376,508 | 816,828,342 |
| 2017 | 17,160,000 | 19,290,549 | 36,450,549 | 762,002,862 | 798,453,411 |
| 2018 | 18,060,000 | 18,389,649 | 36,449,649 | 743,846,699 | 780,296,348 |
| 2019 | 19,010,000 | 17,441,499 | 36,451,499 | 723,088,064 | 759,539,563 |
| 2020 | 19,920,000 | 16,533,099 | 36,453,099 | 725,459,312 | 761,912,411 |
| 2021 | 20,905,000 | 15,547,336 | 36,452,336 | 663,053,016 | 699,505,352 |
| 2022 | 21,975,000 | 14,474,824 | 36,449,824 | 622,849,346 | 659,299,170 |
| 2023 | 23,070,000 | 13,384,855 | 36,454,855 | 594,235,963 | 630,690,818 |
| 2024 | 24,165,000 | 12,289,030 | 36,454,030 | 561,549,642 | 598,003,672 |
| 2025 | 25,310,000 | 11,141,193 | 36,451,193 | 541,038,813 | 577,490,006 |
| 2026 | 26,515,000 | 9,938,968 | 36,453,968 | 529,082,970 | 565,536,938 |
| 2027 | 27,770,000 | 8,679,505 | 36,449,505 | 520,276,973 | 556,726,478 |
| 2028 | 21,575,000 | 7,308,180 | 28,883,180 | 486,194,512 | 515,077,692 |
| 2029 | 22,635,000 | 6,242,805 | 28,877,805 | 378,414,235 | 407,292,040 |
| 2030 | 23,765,000 | 5,112,855 | 28,877,855 | 243,357,024 | 272,234,879 |
| 2031 | 24,950,000 | 3,926,495 | 28,876,495 | 158,634,606 | 187,511,101 |
| 2032 | 26,200,000 | 2,680,975 | 28,880,975 | 87,291,819 | 116,172,794 |
| 2033 | 27,505,000 | 1,373,068 | 28,878,068 | 48,301,669 | 77,179,737 |
| 2034 | — | — | — | 7,671,675 | 7,671,675 |

⁽¹⁾ Totals may not add due to rounding. 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 Fiscal 2003 Series A Bonds maturing after 2014 is assumed to be 5% after November 1, 2011. Interest on Fiscal 2003 Series B Bonds maturing after 2015 is assumed to be 5% after February 1, 2011. Figures exclude amounts which may be payable under the Senior Agreements described under "SECTION V: THE AUTHORITY—Other Authority Indebtedness."

Use of Proceeds

The proceeds of the Series 2004 C Bonds will be used, along with other funds of the Authority, for the payment of principal and accrued interest on the Authority's \$555,000,000 Fiscal 2003 Series 2 Bond Anticipation Notes, the proceeds of which have been used to finance City capital expenditures. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 2004 C Bonds will be paid from the proceeds of the Series 2004 C Bonds.

Bond Insurance

Principal of and interest on the Series 2004 C Bonds maturing in 2020 (5% coupon) and 2021 (5% coupon) are insured by MBIA Insurance Corporation ("MBIA"). Principal of and interest on the Series 2004 C Bonds maturing in 2019 (5% coupon) are insured by XL Capital Assurance Inc. ("XLCA"). Information about MBIA and XLCA is set forth in Appendix D. Specimen insurance policies are set forth in Appendix E.

Book-Entry Only System

Beneficial ownership interests in the Authority's bonds and notes (the "Securities") will be available in book-entry only form. Purchasers of beneficial ownership interests in the Securities will not receive certificates representing their interests in the Securities purchased.

DTC, New York, New York, will act as securities depository for the Securities. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered bond certificates will be issued for each principal amount of Securities of each series maturing on a specified date and bearing interest at a specified interest rate, each in the aggregate principal amount of such quantity of Securities, and will be deposited with DTC.

DTC, the world's largest depository, 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 and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. 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, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. 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"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable

to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of such Securities ("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. Beneficial Owners are, however, 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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bond certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts the Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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 Securities of a series, rate and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each installment to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's procedures. 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. 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 Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of

such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

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 2004 C Bonds and the Indenture including the events of default under the Indenture and the remedies available thereunder, see "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

SECTION V: THE AUTHORITY

Purpose and Operations

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

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

The Authority does not have any significant assets or sources of funds other than the Statutory Revenues and amounts on deposit pursuant to the Indenture. The Series 2004 C Bonds will not be insured or guaranteed by the City, the State or the Trustee. Consequently, holders of the Series 2004 C Bonds must rely for repayment solely upon the sources of payment described herein.

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 |
| David Burney | — | 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 the 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 L. 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 to 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, CTP, 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. He is a certified treasury professional.

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.

Other Authority Indebtedness

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. See “SECTION IV: THE BONDS—Other Series.” The City is seeking legislation amending the Act to eliminate the \$11.5 billion statutory cap on the Authority’s bonds. If the Act were so amended, the Authority would continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein. See “APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT.”

The Authority has previously issued \$11.5 billion of Senior Bonds and Bond Anticipation Notes for capital purposes. The Authority currently has Outstanding \$10,553,519,143 of Senior Bonds (excluding interest on capital appreciation bonds) and \$555 million of Bond Anticipation Notes. Such Bond Anticipation Notes are expected to be paid with the proceeds of the Series 2004 C Bonds. The Authority has Outstanding approximately \$2 billion of Recovery Obligations.

The Authority also entered into three Senior Agreements (“Interest Rate Cap Agreements”) with HDC, with respect to a notional amount of approximately \$330 million, under which the Authority, in exchange for an upfront payment from HDC, has agreed to pay to HDC an amount equal to the product of such notional amount multiplied by the amount by which 3-month LIBOR exceeds 7.35%. The Authority will not be liable for amounts by which LIBOR exceeds 14.85%. With respect to a notional amount of approximately \$135 million of the \$330 million, until spring 2007, the Authority will pay amounts to HDC should 3-month LIBOR exceed 4.85% (but not in excess of 14.85%). Notional amounts will amortize over the life of the Interest Rate Cap Agreements.

Plan of Finance

The Authority expects that it will issue other Bonds and Notes for capital purposes if the Act is amended to permit such issuance and may issue Bonds for refunding purposes from time to time.

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 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 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's authority to impose a Control Period is scheduled to terminate not earlier than July 1, 2008.

SECTION VI: LITIGATION

There is not now pending any litigation (i) restraining or enjoining the issuance or delivery of the Series 2004 C Bonds or questioning or affecting the validity of the Series 2004 C 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 2004 C Bonds will not be includable in the gross income of the owners of the Series 2004 C Bonds for purposes of federal income taxation under existing law. Interest on the Series 2004 C Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2004 C 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 2004 C 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 2004 C Bonds for federal income tax purposes on or after the date on which any action is taken under the Indenture or related proceedings upon the approval of counsel other than such firm.

In the opinion of Bond Counsel, interest on the Series 2004 C 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 2004 C 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 2004 C 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 2004 C Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

The excess, if any, of the stated redemption price at maturity of any maturity of the Series 2004 C Bonds over the issue price thereof constitutes original issue discount. The amount of original issue

discount that has accrued and is properly allocable to an owner of any maturity of the Series 2004 C Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for federal, State and City income tax purposes to the same extent as interest on the Series 2004 C Bonds. In general, the issue price of a maturity of the Series 2004 C Bonds is the first price at which a substantial amount of Series 2004 C Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed below. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Discount Bond that is subject to redemption prior to its stated maturity, or a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such Bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

The excess, if any, of the tax basis of Series 2004 C Bonds to a purchaser (other than a purchaser who holds such Series 2004 C Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Series 2004 C Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of such Series 2004 C Bonds are required to decrease their adjusted basis in such Series 2004 C Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2004 C Bonds are held. The amortizable bond premium on such Series 2004 C Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium on such Series 2004 C Bonds is treated as an offset to qualified stated interest received on such Series 2004 C Bonds. Owners of such Series 2004 C Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Series 2004 C Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2004 C Bonds.

Ownership of tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or railroad retirement benefits, taxpayers eligible for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2004 C 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 2004 C Bonds will not have an adverse effect on the status of the Series 2004 C Bonds. Legislative or regulatory actions and proposals may also affect the economic value of the tax exemption or the market price of the Series 2004 C Bonds.

SECTION VIII: RATINGS

The Series 2004 C Bonds, except for the Series 2004 C Bonds insured by MBIA (the “MBIA Insured Bonds”) and the Series 2004 C Bonds insured by XLCA (the “XLCA Insured Bonds” and together with the MBIA Insured Bonds, the “Insured Bonds”) have been rated “AA+” by Fitch, “AA+” by Standard & Poor’s and “Aa2” by Moody’s. The ratings on the Insured Bonds will be based on the insurance policies to be issued by MBIA and XLCA, respectively. Bonds insured by MBIA and XLCA are rated “AAA” by Fitch, “AAA” by Standard & Poor’s and “Aaa” by Moody’s. Such ratings reflect only the views of Moody’s, Standard & Poor’s and Fitch from which an explanation of the significance of such ratings may be obtained. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of the Rating Agency originally establishing the rating, circumstances so warrant. A downward revision or withdrawal of such ratings, or any of them, may have an effect on the market price of the Series 2004 C Bonds.

SECTION IX: APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance and delivery of the Series 2004 C 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 US LLP, New York, New York, counsel to the Underwriters.

SECTION X: FINANCIAL ADVISOR

Public Resources Advisory Group, New York, New York, is acting as financial advisor to the Authority in connection with the issuance of the Series 2004 C Bonds.

SECTION XI: FINANCIAL STATEMENTS

The Authority’s financial statements for the fiscal years ended June 30, 2002 and June 30, 2003 included in Appendix B to this Offering Circular have been audited by Grant Thornton LLP, independent certified public accountants, to the extent and for the periods indicated in their report thereon.

SECTION XII: CONTINUING DISCLOSURE UNDERTAKING

To the extent that Rule 15c2-12 (the “Rule”) of the Securities and Exchange Commission (“SEC”) promulgated under the Securities Exchange Act of 1934, as amended (the “1934 Act”), requires underwriters (as defined in the Rule) to determine, as a condition to purchasing the Securities, that the Authority will make such covenants, the Authority will covenant as follows:

The Authority shall provide

(a) within 185 days after the end of each fiscal year, to each nationally recognized municipal securities information repository and to any State information depository, core financial information and

operating data for the prior fiscal year, including (i) the Authority's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the Authority's revenues, expenditures, financial operations and indebtedness, generally of the types found under "Section II" and "Section III" herein; and

(b) in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to any New York State information depository, notice of any of the following events with respect to the Securities, if material:

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

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

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

An amendment to the Undertaking may only take effect if: (a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of award of

a series of Securities, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of Holders of Securities, as determined by parties unaffiliated with the Authority (such as, but without limitation, the Authority's financial advisor or bond counsel) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the SEC staff to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

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

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

SECTION XIII: UNDERWRITING

The Series 2004 C Bonds are being purchased for reoffering by the Underwriters, for whom J.P. Morgan Securities Inc., Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated are acting as Lead Managers. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2004 C Bonds from the Authority at an aggregate underwriters' discount of \$3,023,109.03 and to make an initial public offering of the Series 2004 C Bonds at prices that are not in excess of the initial public offering prices set forth on the inside cover page of this Offering Circular, plus accrued interest, if any. The Underwriters will be obligated to purchase all the Series 2004 C Bonds if any Series 2004 C Bonds are purchased.

The Series 2004 C Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriters.

SECTION XIV: LEGAL INVESTMENT

Pursuant to the Act, the Bonds and Notes 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 and Notes may be deposited with and may be received by all public officers and bodies of the State and all municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

SECTION XV: MISCELLANEOUS

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

The agreements of the Authority with holders of the Bonds are fully set forth in the Indenture. Neither any advertisement of the Bonds nor this Offering Circular is to be construed as a contract with purchasers of the Series 2004 C 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 U.S. Bank Trust National Association, 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 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 described above 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, 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.

Covenant. The City 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, interentity 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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FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**NEW YORK CITY TRANSITIONAL
FINANCE AUTHORITY**

June 30, 2003 and 2002

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the governmental activities, the capital projects fund and the debt service fund of the New York City Transitional Finance Authority (the "Authority"), a component unit of the City of New York, New York, as of and for the years ended June 30, 2003 and 2002, which collectively comprise the Authority's basic financial statements 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 audits 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the capital projects fund and the debt service fund of the Authority as of June 30, 2003 and 2002, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 required supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

New York, New York
September 5, 2003

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 (the "Authority") provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

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 Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion & Analysis for State and Local Governments*. 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. All revenues and expenses are taken into account regardless of when cash is paid or received.

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

The reconciliations of the statements of revenues, expenditures and changes in fund balances of governmental funds to the statements of activities are presented to assist the reader in understanding the differences between entity-wide and governmental funds financial statements.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements

Total assets increased by \$119 million. Restricted cash and cash equivalents decreased by \$587 million, restricted investments increased by \$117 million, unrestricted cash and cash equivalents increased by \$624 million and other assets decreased by \$35 million.

\$479 million of the \$587 million decrease in restricted cash and cash equivalents is due to the timing of the issuance of bonds or bond anticipation notes by the Authority and the timing of the Authority's payments to New York City for capital projects and for recovery costs relating to and arising from the events on September 11, 2001. Thus, at June 30, 2003, the amount available to transfer to New York City was \$479 million less than at June 30, 2002. \$108 million of the decrease represents debt service funds which were cash and cash equivalents at June 30, 2002, but at June 30, 2003 the debt service funds were in restricted investments having an original maturity date of more than three months.

New York City Transitional Finance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements (continued)

An unrestricted \$624 million grant from New York City on June 30, 2003 is in unrestricted cash and cash equivalents.

Total liabilities increased by \$2.6 billion (24%). Long-term bonds payable increased by \$3.7 billion and short-term bonds payable decreased by \$1.1 billion. The increase in long-term bonds payable is from issuance of \$5.8 billion of bonds during the fiscal year ended June 30, 2003, of which \$2.2 billion was used to pay off bond anticipation notes, \$2.0 billion was issued to advance refund bonds and \$1.6 billion was issued for reimbursement to New York City for capital project costs and recovery costs. The decrease in short-term debt was comprised of repayment of \$2.2 billion of bond anticipation notes and the issuance of \$1.1 billion of new bond anticipation notes for reimbursement to New York City for capital projects.

Total general revenues increased by \$706 million (150%). \$624 million of the increase was from an unrestricted grant from New York City, \$86 million was an increase of personal income taxes retained for increased costs, investment earnings decreased by \$13 million and income from sale of rate cap increased by \$9 million. The decrease in investment earnings is from lower interest rates during the year ended June 30, 2003 and less investments during 2003.

Total program expenses increased by \$617 million (20%). The distributions to New York City for its capital program decreased by \$594 million, and the distribution for recovery costs increased by \$1.107 billion. Interest expense increased by \$85 million due to the increased debt outstanding, general and administrative expenses increased by \$5 million mainly for liquidity and remarketing fees, and other expenses increased by \$14 million.

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements

Total assets increased by \$104 million. Restricted cash and cash equivalents decreased by \$587 million, restricted investments increased by \$117 million, unrestricted cash and cash equivalents increased by \$624 million and other assets decreased by \$49 million.

Total liabilities decreased by \$1.149 billion (50%), of which \$1.090 billion was the reduction in bond anticipation notes that were paid with the proceeds from the issuance of long-term debt and other liabilities decreased by \$59 million.

Total revenues increased by \$697 million (148%). \$624 million of the increase was from an unrestricted grant from New York City, \$86 million was an increase of personal income taxes retained for increased costs, and investment earnings decreased by \$13 million.

New York City Transitional Finance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements (continued)

Expenditures increased by \$633 million (20%). The distributions to New York City for its capital program decreased by \$594 million, and the distribution for recovery costs increased by \$1.107 billion. Interest expense increased by \$101 million, general and administrative expenses increased by \$5 million and other expenses increased by \$14 million.

Other financing sources increased by \$2.8 billion primarily due to the principal amount of bonds issued in fiscal year 2003.

New York City Transitional Finance Authority

STATEMENTS OF NET ASSETS (DEFICIT)

June 30,
(in thousands)

| | <u>2003</u> | <u>2002</u> |
|--|-----------------------|----------------------|
| ASSETS | | |
| Restricted cash and cash equivalents | \$ 137,543 | \$ 724,843 |
| Restricted investments | 116,702 | - |
| Unrestricted cash and cash equivalents | 624,000 | - |
| Personal income tax receivable | 15,949 | 65,011 |
| Unamortized bond issuance costs | <u>59,777</u> | <u>45,325</u> |
| Total assets | <u>953,971</u> | <u>835,179</u> |
| LIABILITIES | | |
| Distributions payable to New York | | |
| City capital program | 2,695 | 17,025 |
| Personal income tax payable to New York City | 15,949 | 62,136 |
| Accrued expenses | 2,541 | 963 |
| Accrued interest payable | 129,680 | 124,334 |
| Bond anticipation notes payable | 1,110,000 | 2,200,000 |
| Deferred interest rate cap revenue | 13,720 | 23,092 |
| Bonds payable | | |
| Portion due within one year | 184,925 | 178,185 |
| Portion due after one year | 11,839,335 | 8,110,480 |
| Unamortized deferred bond refunding costs | (137,214) | - |
| Unamortized bond premium | <u>204,754</u> | <u>50,197</u> |
| Total liabilities | <u>13,366,385</u> | <u>10,766,412</u> |
| NET ASSETS (DEFICIT) | | |
| Restricted for capital program | 134,754 | 599,805 |
| Deficit | <u>(12,547,168)</u> | <u>(10,531,038)</u> |
| Total deficit | <u>\$(12,412,414)</u> | <u>\$(9,931,233)</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>2003</u> | <u>2002</u> |
|---|-----------------------|----------------------|
| Expenses | | |
| General and administrative expenses | \$ 9,390 | \$ 4,038 |
| Distributions to New York City for | | |
| Capital program | 1,592,932 | 2,186,665 |
| Recovery costs | 1,564,884 | 457,832 |
| Amortization of deferred bond refunding costs | 12,529 | - |
| Interest expense | 471,420 | 386,670 |
| Amortization of debt issuance expense | <u>5,953</u> | <u>4,940</u> |
| Total program expenses | <u>3,657,108</u> | <u>3,040,145</u> |
| General revenues | | |
| Personal income tax revenue | 4,455,749 | 4,444,921 |
| Less remittances to New York City | <u>(3,918,947)</u> | <u>(3,994,374)</u> |
| Personal income tax revenue retained | 536,802 | 450,547 |
| Unrestricted grant from New York City | 624,000 | - |
| Income from sale of rate cap | 9,372 | - |
| Investment earnings | <u>5,753</u> | <u>19,239</u> |
| Total general revenues | <u>1,175,927</u> | <u>469,786</u> |
| Change in net assets | (2,481,181) | (2,570,359) |
| Deficit - beginning of year | <u>(9,931,233)</u> | <u>(7,360,874)</u> |
| Deficit - end of year | <u>\$(12,412,414)</u> | <u>\$(9,931,233)</u> |

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2003
(in thousands)

| | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Total Governmental Funds</u> |
|--|-----------------------------|-------------------------|---|
| ASSETS | | | |
| Restricted cash and cash equivalents | \$ 137,449 | \$ 94 | \$ 137,543 |
| Unrestricted cash and cash equivalents | - | 624,000 | 624,000 |
| Restricted investments | - | 116,702 | 116,702 |
| Personal income tax receivable | <u>-</u> | <u>15,949</u> | <u>15,949</u> |
| Total assets | <u>\$ 137,449</u> | <u>\$756,745</u> | <u>\$ 894,194</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Bond anticipation notes payable | \$1,110,000 | \$ - | \$1,110,000 |
| Distributions payable to New York | | | |
| City capital program | 2,695 | - | 2,695 |
| Accrued expenses | 2,541 | - | 2,541 |
| Personal income tax payable to New York City | <u>-</u> | <u>15,949</u> | <u>15,949</u> |
| Total liabilities | <u>1,115,236</u> | <u>15,949</u> | <u>1,131,185</u> |
| Fund balances | | | |
| Deficit | (977,787) | - | (977,787) |
| Reserved for debt service | - | 116,796 | 116,796 |
| Unrestricted funds | <u>-</u> | <u>624,000</u> | <u>624,000</u> |
| Total fund balance (deficit) | <u>(977,787)</u> | <u>740,796</u> | <u>(236,991)</u> |
| Total liabilities and fund balances | <u>\$ 137,449</u> | <u>\$756,745</u> | <u>\$ 894,194</u> |

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2002
(in thousands)

| | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Total Governmental Funds</u> |
|---|-----------------------------|-------------------------|---|
| ASSETS | | | |
| Restricted cash and cash equivalents | \$ 616,830 | \$108,013 | \$ 724,843 |
| Personal income tax receivable | <u>-</u> | <u>65,011</u> | <u>65,011</u> |
| Total assets | <u>\$ 616,830</u> | <u>\$173,024</u> | <u>\$ 789,854</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Bond anticipation notes payable | \$ 2,200,000 | \$ - | \$ 2,200,000 |
| Distributions payable to New York City capital program | 17,025 | - | 17,025 |
| Accrued expenses | 963 | - | 963 |
| Personal income tax payable to New York City | - | 46,136 | 46,136 |
| Deferred personal income tax revenue | <u>-</u> | <u>16,000</u> | <u>16,000</u> |
| Total liabilities | <u>2,217,988</u> | <u>62,136</u> | <u>2,280,124</u> |
| Fund balances | | | |
| Deficit | (1,601,158) | - | (1,601,158) |
| Reserved for debt service | <u>-</u> | <u>110,888</u> | <u>110,888</u> |
| Total fund balance (deficit) | <u>(1,601,158)</u> | <u>110,888</u> | <u>(1,490,270)</u> |
| Total liabilities and fund balances | <u>\$ 616,830</u> | <u>\$173,024</u> | <u>\$ 789,854</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, 2003
(in thousands)

| | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Total Governmental Funds</u> |
|---|-----------------------------|-------------------------|---|
| Revenues | | | |
| Personal income tax revenue | \$ - | \$ 4,489,749 | \$ 4,489,749 |
| Less remittances to New York City | <u>-</u> | <u>(3,952,947)</u> | <u>(3,952,947)</u> |
| Personal income tax revenue retained | - | 536,802 | 536,802 |
| Unrestricted grant from New York City | - | 624,000 | 624,000 |
| Investment earnings | <u>3,155</u> | <u>2,598</u> | <u>5,753</u> |
| Total revenues | <u>3,155</u> | <u>1,163,400</u> | <u>1,166,555</u> |
| Expenditures | | | |
| Interest expense | - | 467,803 | 467,803 |
| Principal amount of bonds retired | - | 107,875 | 107,875 |
| Costs of debt issuance | 20,460 | - | 20,460 |
| Refunding bond issuance costs | - | 11,658 | 11,658 |
| Distributions to New York City for | | | |
| Capital program | 1,592,932 | - | 1,592,932 |
| Recovery costs | 1,564,884 | - | 1,564,884 |
| General and administrative expenses | <u>9,390</u> | <u>-</u> | <u>9,390</u> |
| Total expenditures | <u>3,187,666</u> | <u>587,336</u> | <u>3,775,002</u> |
| Excess of expenditures over revenues | <u>3,184,511</u> | <u>(576,064)</u> | <u>2,608,447</u> |
| Other financing sources (uses) | | | |
| Principal amount of bonds issued | 3,772,565 | - | 3,772,565 |
| Bond premium, net of discount | 75,765 | - | 75,765 |
| Refunding bond proceeds | - | 2,142,187 | 2,142,187 |
| Payments to refunded bond escrow holder | - | (2,128,791) | (2,128,791) |
| Transfers in (out) | <u>(40,448)</u> | <u>40,448</u> | <u>-</u> |
| Total other financing sources | <u>3,807,882</u> | <u>53,844</u> | <u>3,861,726</u> |
| Net change in fund balances | 623,371 | 629,908 | 1,253,279 |
| Fund balances (deficit) - beginning of year | <u>(1,601,158)</u> | <u>110,888</u> | <u>(1,490,270)</u> |
| Fund balances (deficit) - end of year | <u>\$ (977,787)</u> | <u>\$ 740,796</u> | <u>\$ (236,991)</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, 2002
(in thousands)

| | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Total Governmental Funds</u> |
|---------------------------------------|-----------------------------|-------------------------|---|
| Revenues | | | |
| Personal income tax revenue | \$ - | \$ 4,529,921 | \$ 4,529,921 |
| Less remittances to New York City | <u>-</u> | <u>(4,079,374)</u> | <u>(4,079,374)</u> |
| Personal income tax revenue retained | - | 450,547 | 450,547 |
| Investment earnings | <u>16,460</u> | <u>2,779</u> | <u>19,239</u> |
| Total revenues | <u>16,460</u> | <u>453,326</u> | <u>469,786</u> |
| Expenditures | | | |
| Interest expense | - | 367,029 | 367,029 |
| Principal amount of bonds retired | - | 117,535 | 117,535 |
| Costs of debt issuance | 8,754 | - | 8,754 |
| Distributions to New York City for | | | |
| Capital program | 2,186,665 | - | 2,186,665 |
| Recovery costs | 457,832 | - | 457,832 |
| General and administrative expenses | <u>4,038</u> | <u>-</u> | <u>4,038</u> |
| Total expenditures | <u>2,657,289</u> | <u>484,564</u> | <u>3,141,853</u> |
| Excess of expenditures over revenues | <u>2,640,829</u> | <u>31,238</u> | <u>2,672,067</u> |
| Other financing sources (uses) | | | |
| Principal amount of bonds issued | 1,020,190 | - | 1,020,190 |
| Bond premium, net of discount | 42,736 | - | 42,736 |
| Income from sale of interest rate cap | - | 23,092 | 23,092 |
| Transfers in (out) | <u>(26,154)</u> | <u>26,154</u> | <u>-</u> |
| Total other financing sources | <u>1,036,772</u> | <u>49,246</u> | <u>1,086,018</u> |
| Net change in fund balances | (1,604,057) | 18,008 | (1,586,049) |
| Fund balances - beginning of year | <u>2,899</u> | <u>92,880</u> | <u>95,779</u> |
| Fund balances (deficit) - end of year | <u>\$(1,601,158)</u> | <u>\$ 110,888</u> | <u>\$(1,490,270)</u> |

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

**RECONCILIATIONS OF THE GOVERNMENTAL FUNDS
BALANCE SHEETS TO THE STATEMENTS OF NET ASSETS (DEFICIT)**

June 30,
(in thousands)

| | <u>2003</u> | <u>2002</u> |
|---|-----------------------|----------------------|
| Total fund balance (deficit) - governmental funds | \$ (236,991) | \$ (1,490,270) |
| Amounts reported for governmental activities in the statements of net assets (deficit) are different because: | | |
| Costs of debt issuance are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), the costs of debt issuance are reported as capitalized assets and amortized over the lives of the debt. | 59,777 | 45,325 |
| Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), bond premiums are reported as a component of bonds payable and amortized over the lives of the related debt. | (204,754) | (50,197) |
| Proceeds from interest rate cap agreements are currently available financial resources and are recognized as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), this amount is considered deferred revenue and is reported at fair value. | (13,720) | (23,092) |
| Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements but are reported in the statements of net assets (deficit). Those liabilities consist of: | | |
| Bonds payable | (12,024,260) | (8,288,665) |
| Accrued interest on bonds | (129,680) | (124,334) |
| Costs of bond refunding are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. | 137,214 | - |
| Personal income taxes due to the Authority at year-end but not collected within sixty days of year-end are recognized as deferred revenue in the governmental funds balance sheets. In the statements of net assets (deficit) and changes in net assets, all personal income tax receivables are recognized as revenue and are included in net assets. The corresponding amount of personal income taxes payable to the City of New York is higher in the statements of net assets (deficit) for this reason. | | |
| Personal income tax payable to New York City | - | (16,000) |
| Deferred personal income tax revenue | <u>-</u> | <u>16,000</u> |
| Net assets (deficit) of government activities | <u>\$(12,412,414)</u> | <u>\$(9,931,233)</u> |

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

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

Years ended June 30,
(in thousands)

| | <u>2003</u> | <u>2002</u> |
|--|-----------------------|-----------------------|
| Net change in fund balances - total governmental funds | \$ 1,253,279 | \$ (1,586,049) |
| Amounts reported for governmental activities in the statements of activities are different because: | | |
| Bond refunding proceeds and payments to refunding bond escrow holder are reported as other financing sources and uses in the governmental funds, but increase and decrease long-term liabilities in the statements of net assets (deficit). | (13,396) | - |
| Governmental funds report costs of bond refundings as expenditures. However, in the statements of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to advance refund the bonds. | (871) | - |
| Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statements of net assets (deficit). | (3,772,565) | (1,020,190) |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statements of net assets (deficit). | 107,875 | 117,535 |
| Governmental funds report costs of debt issuance as expenditures. However, in the statements of activities, the cost of debt issuance is amortized over the lives of the debt. | 14,507 | 3,814 |
| Governmental funds report bond premiums/discounts as other financing sources/uses. However, in the statements of activities, bond premiums/discounts are amortized over the lives of the debt as interest expense. | (47,132) | (23,287) |
| Governmental funds report revenue received from the sale of rate cap as other financing sources. However, in the statements of activities, this amount is considered deferred revenue until valuations allow for reporting of income. | 9,372 | (23,092) |
| Interest expense is reported in the statements of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required. | <u>(32,250)</u> | <u>(39,090)</u> |
| Change in net assets of governmental activities | <u>\$ (2,481,181)</u> | <u>\$ (2,570,359)</u> |

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

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 City Comptroller and the Speaker of the City 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. 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 payable solely from State or Federal aid received on account of the disaster that is not limited in principal amount.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Governmental Accounting Standards Board Statement 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. Certain reclassifications have been made to the 2002 amounts to conform with the classifications in the statement of net assets for 2003.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized 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 Recovery Costs and supports the operations of the Authority, and consist of 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.

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE B (continued)

Bond and Bond Anticipation Note 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 the premiums, discounts, as well as debt 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.

Deferred bond refunding costs represent the accounting loss incurred in advance refundings of outstanding bonds. The deferred bond refunding costs are amortized over the lesser of the remaining life of the old debt or the life of the new debt.

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

Deferred revenue from sales of interest rate cap agreements reported in the statements of net assets (deficit) are adjusted to their fair value at June 30 each year and the change in their fair value is reported as revenue or expense in the statements of activities. Any amounts paid under the agreements will be reported as an expense/expenditure in the statements of activities and the governmental funds statements of revenues, expenditures and changes in fund balances.

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 bond 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, 2003 and 2002

NOTE C - BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), the Authority is authorized to issue and have outstanding \$11.5 billion of bonds and notes for capital purposes ("Future Tax Secured Bonds" and "Bond Anticipation Notes," respectively). As of June 30, 2003, the Authority has outstanding debt of \$11.1 billion comprised of \$10 billion of Future Tax Secured Bonds and \$1.1 billion of Bond Anticipation Notes.

In addition, the Act permits the Authority to have outstanding \$2.5 billion of bonds ("Recovery Bonds") and notes ("Recovery Notes") for costs related to or arising from the September 11, 2001 attack on the World Trade Center. As of June 30, 2003, the Authority has outstanding \$2 billion of Recovery Bonds. As of June 30, 2002, the Authority had outstanding \$1 billion of Recovery Notes.

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 2003 and 2002.

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE C (continued)

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

| | Balance at June 30, 2002 | Issued | Retired | Balance at June 30, 2003 |
|---|-----------------------------------|-----------|--------------|-----------------------------------|
| | ----- (in thousands) ----- | | | |
| 1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023 | \$ 601,195 | \$ - | \$ (357,455) | \$ 243,740 |
| 1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027 | 613,730 | - | (13,075) | 600,655 |
| 1998 Fiscal Series C 4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026 | 634,540 | - | (34,625) | 599,915 |
| 5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014 | 69,580 | - | - | 69,580 |
| Variable rate tax-exempt bonds due in 2028 (a) | 100,000 | - | - | 100,000 |
| 1999 Fiscal Series A 4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2016 | 340,035 | - | (10,595) | 329,440 |
| 5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006 | 30,540 | - | (5,105) | 25,435 |
| 5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026 (b) | - | 222,500 | - | 222,500 |
| Variable rate tax-exempt bonds due in 2028 (a) (b) | 500,000 | (222,500) | - | 277,500 |

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE C (continued)

| | Balance at June 30, 2002 | <u>Issued</u> | <u>Retired</u> | Balance at June 30, 2003 |
|--|-----------------------------------|---------------|----------------|-----------------------------------|
| | ----- (in thousands) ----- | | | |
| 1999 Fiscal Series B | | | | |
| 3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024 | \$ 399,030 | \$ - | \$ (6,640) | \$ 392,390 |
| 5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006 | 32,775 | - | (3,305) | 29,470 |
| 5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027 (b) | - | 100,000 | - | 100,000 |
| Variable rate tax-exempt bonds due in 2028 (a) (b) | 150,000 | (100,000) | - | 50,000 |
| 1999 Fiscal Series C | | | | |
| 3.5% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2028 | 449,285 | - | (138,885) | 310,400 |
| 5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011 | 36,270 | - | (3,850) | 32,420 |
| 2000 Fiscal Series A | | | | |
| 4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017 | 560,000 | - | (462,770) | 97,230 |
| 6.00% to 6.75% serial taxable bonds maturing in varying installments through 2003 | 28,865 | - | (28,865) | - |
| 2000 Fiscal Series B | | | | |
| 4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021 | 560,000 | - | (354,765) | 205,235 |
| 5.90% to 7.125% serial taxable bonds maturing in varying installments through 2003 | 30,245 | - | (29,290) | 955 |
| 2000 Fiscal Series C | | | | |
| 4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024 | 568,470 | - | (148,140) | 420,330 |
| 6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005 | 35,955 | - | (28,480) | 7,475 |

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE C (continued)

| | Balance at June 30, 2002 | Issued | Retired | Balance at June 30, 2003 |
|---|-----------------------------------|-----------|--------------|-----------------------------------|
| | ----- (in thousands) ----- | | | |
| 2001 Fiscal Series A | | | | |
| 4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020 | \$ 408,800 | \$ - | \$ (180,185) | \$ 228,615 |
| 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 | - | (129,235) | 285,765 |
| 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 | - | (72,205) | 331,955 |
| Variable rate tax-exempt bonds due in 2032 (a) | 100,000 | - | - | 100,000 |
| 2002 Fiscal Series A | | | | |
| 4% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2031 | 150,000 | - | (2,245) | 147,755 |
| 2002 Fiscal Series B | | | | |
| 3.5% to 5% serial and term tax-exempt bonds maturing in varying installments through 2031 | 419,235 | - | (8,090) | 411,145 |
| 3.4% serial taxable bonds maturing in 2003 | 955 | - | (955) | - |
| Variable rate taxable bonds due in 2030 (a) | 200,000 | - | (5,495) | 194,505 |
| 2002 Fiscal Series C | | | | |
| 4.25% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2032 | 250,000 | - | - | 250,000 |
| 2003 Fiscal Series A | | | | |
| 3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (c) | - | 1,277,260 | (22,985) | 1,254,275 |

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE C (continued)

| | Balance at June 30, 2002 | <u>Issued</u> | <u>Retired</u> | Balance at June 30, 2003 |
|--|-----------------------------------|----------------|----------------|-----------------------------------|
| | ----- (in thousands) ----- | | | |
| 2003 Fiscal Series B | | | | |
| 3.00% to 5.375% serial and term tax-exempt bonds maturing in Varying installments through 2029 (d) | \$ - | \$ 673,830 | \$ (3,600) | \$ 670,230 |
| 1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008 | - | 76,170 | (13,390) | 62,780 |
| 2003 Fiscal Series C | | | | |
| 2.50% to 5.250% serial tax-exempt bonds maturing in varying installments through 2025 | - | 441,735 | - | 441,735 |
| Variable rate tax-exempt bonds due in 2031 (a) | - | 150,000 | - | 150,000 |
| 2003 Fiscal Series D | | | | |
| 2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031 | - | 500,910 | - | 500,910 |
| 2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013 | - | 103,215 | - | 103,215 |
| 2003 Fiscal Series E | | | | |
| 2.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2033 | - | <u>550,000</u> | <u>-</u> | <u>550,000</u> |
| Total bonds payable, excluding Recovery Bonds | 8,288,665 | 3,773,120 | (2,064,230) | 9,997,555 |
| 2003 Series 1 Recovery Bonds | | | | |
| Variable rate tax-exempt bonds due in 2022 (a) | - | 480,000 | - | 480,000 |
| 2003 Series 2 Recovery Bonds | | | | |
| Variable rate tax-exempt bonds due in 2022 (a) | - | 520,000 | - | 520,000 |

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE C (continued)

| | Balance At June 30, 2002 | Issued | Retired | Balance at June 30, 2003 |
|--|-----------------------------------|--------------------|----------------------|-----------------------------------|
| | ----- (in thousands) ----- | | | |
| 2003 Series 3 Recovery Bonds | | | | |
| 2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007 | \$ - | \$ 143,505 | \$ - | \$ 143,505 |
| Variable rate tax-exempt bonds due in 2022 (a) | <u>-</u> | <u>883,200</u> | <u>-</u> | <u>883,200</u> |
| Total Recovery Bonds payable | <u>-</u> | <u>2,026,705</u> | <u>-</u> | <u>2,026,705</u> |
| Total bonds payable | 8,288,665 | <u>\$5,799,825</u> | <u>\$(2,064,230)</u> | 12,024,260 |
| Less current portion of bonds payable | <u>178,185</u> | | | <u>184,925</u> |
| Bonds payable due after one year | <u>\$8,110,480</u> | | | <u>\$11,839,335</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 9%.
- (b) On July 11, 2002, the Authority reoffered \$222,500,000 of the fiscal 1999 Series A and \$100,000,000 of the fiscal 1999 Series B Tax-Exempt Adjustable Rate Bonds, converting them to Tax-Exempt Fixed Rate Bonds.
- (c) Fiscal 2003 Series A bonds include bonds callable on November 1, 2011. The callable term bonds are \$659,770,000 maturing on November 1, 2026 and \$122,500,000 maturing on November 1, 2028. Capital appreciation bonds (accrued value of \$112,365,000 on November 1, 2011), maturing on November 1, 2029, are also callable. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 14% per annum. The callable bonds are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning November 1, 2011 at the option of the Authority in whole or in part at anytime, at a price of 100% of their principal amount plus accrued interest to the redemption date.
- (d) \$482,490,000 of Fiscal 2003 Series B term bonds maturing on February 1, 2029 are callable on February 1, 2011. If these bonds are not called on February 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 10% per annum. Other bonds in this series callable on February 1, 2012 or later are those that mature on February 1, 2013, 2014 and 2015 with no change to the interest rate if not called. The fiscal 2003 Series B Bonds maturing on February 1, 2029 are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning on February 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE C (continued)

On July 2, 2002, the Authority issued \$1,277,260,000 of Fiscal 2003 Series A Bonds to advance refund \$1,229,090,000 of its outstanding bonds. On August 28, 2002, the Authority issued \$750,000,000 of Fiscal 2003 Series B Bonds and used \$3,790,378 of current revenue to advance refund \$727,265,000 of outstanding bonds and to retire \$5,495,000 of outstanding bonds. In each refunding, the proceeds, net of costs of issuance, were invested in U.S. Government securities and were deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the bonds advance refunded.

The refunded bonds of \$1,956,355,000 are considered defeased, and the liability has been removed from the debt of the Authority. As of June 30, 2003, \$1,845,770,000 of the defeased bonds are still outstanding. These advance refundings resulted in an accounting loss of \$149 million. The Authority in effect reduced the aggregate debt service by \$226 million and obtained an economic benefit of \$148 million.

Debt service requirements at June 30, 2003, for bonds payable to maturity are as follows:

| | <u>Principal</u> | <u>Interest (a)</u> | <u>Total</u> |
|---------------------|---------------------------|---------------------|---------------------|
| | ------(in thousands)----- | | |
| Year ended June 30, | | | |
| 2004 | \$ 184,925 | \$ 477,302 | \$ 662,227 |
| 2005 | 335,990 | 475,302 | 811,292 |
| 2006 | 346,185 | 462,747 | 808,932 |
| 2007 | 360,675 | 448,870 | 809,545 |
| 2008 | 382,990 | 433,886 | 816,876 |
| 2009 to 2013 | 2,220,555 | 2,076,593 | 4,297,148 |
| 2014 to 2018 | 2,688,630 | 1,875,637 | 4,564,267 |
| 2019 to 2023 | 2,834,225 | 1,163,024 | 3,997,249 |
| 2024 to 2028 | 1,987,470 | 502,853 | 2,490,323 |
| 2029 to 2033 | <u>682,615</u> | <u>49,743</u> | <u>732,358</u> |
| | <u>\$12,024,260</u> | <u>\$7,965,957</u> | <u>\$19,990,217</u> |

(a) Actual variable rates at June 30, 2003 averaged approximately 1.23%, which is the rate used in this table. If variable interest is calculated at 5% per annum (which is the rate utilized for retention), the interest would be increased to a total of \$10,088,577 from the \$7,965,958. Interest on the callable fiscal 2003 Series A and fiscal 2003 Series B term bonds which would convert to 14% and 10%, respectively, on the callable date if not called and interest on the callable fiscal 2003 Series A capital appreciation bonds which would convert to 14% per annum if not called are computed in this table at the 14% or 10% rates as if those bonds were not called.

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE C (continued)

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, 2003 and 2002, the Authority maintained its required debt service accounts totaling \$116,413,000 and \$106,013,000, respectively, of which \$18,855,000 and \$29,415,000 were for principal retirement, respectively, and \$97,558,000 and \$76,598,000 were for interest payments, respectively.

In addition, at June 30, 2002, \$2,000,000 was retained for cost of issuance expenditures.

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>2002</u> | <u>Issued</u> | <u>Retired</u> | Balance at June 30, <u>2003</u> |
|--|--|--------------------|----------------------|--|
| | ------(in thousands)----- | | | |
| 2002 Series A Recovery Notes | | | | |
| 3.25% tax-exempt bond anticipation notes maturing October 2, 2002 | \$1,000,000 | \$ | \$(1,000,000) | \$ - |
| 2002 Fiscal Series 3 | | | | |
| 2.75% tax-exempt bond anticipation notes maturing November 13, 2002 | 600,000 | - | (600,000) | - |
| 2002 Fiscal Series 4 | | | | |
| 2.5% tax-exempt bond anticipation notes maturing February 26, 2003 | 500,000 | - | (500,000) | - |
| 2002 Fiscal Series 5 | | | | |
| 3% taxable bond anticipation notes maturing February 26, 2003 | 100,000 | - | (100,000) | - |
| 2003 Fiscal Series 1 | | | | |
| 2.5% tax-exempt bond anticipation notes maturing November 6, 2003 | - | 555,000 | - | 555,000 |
| 2003 Fiscal Series 2 | | | | |
| 2.0% tax-exempt bond anticipation notes maturing February 19, 2004 | <u>-</u> | <u>555,000</u> | <u>-</u> | <u>555,000</u> |
| Total bond anticipation notes payable | <u>\$2,200,000</u> | <u>\$1,110,000</u> | <u>\$(2,200,000)</u> | <u>\$1,110,000</u> |

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE E - CASH AND CASH EQUIVALENTS

At June 30, 2003, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately \$1,534,000 and commercial paper of approximately \$136,009,000. At June 30, 2002, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately \$280,000 and commercial paper of approximately \$724,563,000. At June 30, 2003, unrestricted cash and cash equivalents consisted of a reverse repurchase agreement of \$624,000,000. The Authority's investments classified as cash and cash equivalents have an original maturity date of three months or less. The Authority values those investments at cost plus accrued interest, which approximates market.

The Authority's investments in commercial paper and reverse repurchase agreement are held by the Authority's agent in the Authority's name. At June 30, 2003 and 2002, the carrying amounts of bank deposits were approximately \$1,534,000 and \$280,000, respectively, and the bank balances were approximately \$1,556,000 and \$370,000, respectively. At June 30, 2003 and 2002, \$194,000 and \$100,000, respectively, of the bank deposits were insured by the Federal Deposit Insurance Corporation. The remaining balances were not collateralized.

NOTE F - RESTRICTED INVESTMENTS

The Authority's restricted investments were in commercial paper having an original maturity date of more than three months (maturities are in August 2003). The Authority values those investments at cost plus accrued interest, which approximates market. The commercial paper held had a rating of A-1 and P-1 or better at June 30, 2003.

NOTE G - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority received an unrestricted grant of \$624,000,000 from New York City on June 30, 2003.

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE H - DEFERRED INTEREST RATE CAP REVENUE

On June 20, 2002, the Authority entered into three interest rate cap agreements with the New York City Housing Development Corporation ("HDC") (a component unit of the City of New York) relating to certain variable rate bonds issued by HDC. Under the agreements, the Authority will pay to HDC the amount by which the three-month LIBOR rate exceeds 7.35%, up to 14.85% (a maximum exposure of 7.50%), on a notional amount of \$198,995,000 at June 30, 2003 and 2002. The Authority will also pay to HDC the amount by which the three-month LIBOR rate exceeds 4.85% through April 30, 2007 and 7.35% thereafter (but not in excess of 14.85%), on a notional amount of \$135,400,000 at June 30, 2003 and 2002. Notional amounts will amortize over the life of the interest rate cap agreements by scheduled principal payments on the bonds. The bonds covered by the agreements mature serially through November 2032.

At June 30, 2003, the Rate Cap Agreements were estimated to have a market value of \$13.72 million by the Authority's swap advisor (a reduction of \$9.372 million). The valuation was based on an option valuation model using market interest rates and volatilities as at June 30, 2003.

This valuation at June 30, 2003 reduced deferred interest rate cap revenue in the statement of net assets (deficit) and is shown as revenue in the statement of activities. At June 30, 2002, the \$23.092 million received from HDC for these agreements was reported as deferred revenue in the Authority's statement of net assets and as other financing source in the governmental funds statement of revenues, expenditures and changes in fund balances.

In future years, the carrying amounts of these agreements reported in the statement of net assets will continue to be adjusted to their fair value and the change will be reported as revenue or expense in the statement of activities. Any amounts paid under the agreements will be reported as an expense/expenditure in the statement of activities and the governmental funds statement of revenues, expenditures and changes in fund balances.

NOTE I - ADMINISTRATIVE COSTS

The Authority's salaries, rent and expenditures related to carrying out the Authority's duties, including remarketing and liquidity fees not funded from cost of issuance, are funded from the personal income taxes flowing through the Authority's accounts.

New York City Transitional Finance Authority

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003 and 2002

NOTE J - SUBSEQUENT EVENTS

On September 4, 2003, the Authority issued \$145,000,000 of its 2004 Series A bonds.

Subsequent to June 30, 2003, the Authority used a portion of the unrestricted grant from the City to fund debt service and administrative expenses, rather than retaining personal income tax revenues for that purpose.

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PROPOSED FORM OF BOND COUNSEL OPINION

February 5, 2004

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

We have acted as bond counsel to the New York City Transitional Finance Authority (the "Authority"), a public benefit corporation organized under the laws of the State of New York (the "State"), in the Authority's issuance of its Future Tax Secured Bonds, Fiscal 2004 Series C (the "New Bonds"). The New Bonds are being issued 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 U.S. Bank Trust National Association, as Trustee, and to a Financing Agreement dated October 1, 1997, as supplemented (the "Agreement"), between the Authority and The City of New York (the "City").

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

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

1. The Authority is a public benefit corporation duly organized and existing under the laws of the State, and is authorized under the laws of the State, particularly the Act, to enter into the Indenture and the Agreement and to issue the New Bonds. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matter of this opinion letter.

2. The New Bonds have been duly authorized, executed, and delivered by the Authority and are valid and binding obligations of the Authority payable from the Revenues pledged and the other collateral provided therefor in the Indenture. The 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.

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

4. 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.

5. 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.

6. The lien of the Indenture on the Revenues for the security of the Bonds (and other instruments to the extent specified in the Indenture) is, and pursuant to the covenant of the Authority in the Indenture will be, prior to all other liens thereon. The 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.

7. 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.

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

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

10. Except as provided in the following sentence, interest on the New Bonds is not includable in the gross income of the owners of the New Bonds for purposes of federal income taxation under existing law. Interest on the New Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the New Bonds in the event of a failure by the Authority or the City to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code"), and their respective covenants regarding use, expenditure and investment of Authority bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and we render no opinion as to the exclusion from gross income of interest on the New Bonds for federal income tax purposes on or after the date on which any action is taken under the Indenture or related proceedings upon the approval of counsel other than ourselves.

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

12. The excess, if any, of the stated redemption price at maturity of any maturity of the New Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the New Bonds with original issue discount is excluded from gross income for federal income tax purposes to the same extent as interest on the New Bonds. In general, the issue price of a maturity of the New Bonds is the first price at which a substantial amount of New Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). The Tax Code provides that such original issue discount excluded as interest accrues in accordance with a constant yield method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of the New Bonds with original issue discount will be increased by the amount of such accrued interest.

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

The following information has been furnished by MBIA Insurance Corporation (“MBIA”) for use in this Offering Circular. Reference is made to Appendix E for a specimen of MBIA’s policy.

MBIA has made a commitment to issue a financial guaranty insurance policy (the “Policy”) relating to the Series 2004 C Bonds maturing in 2020 (5% coupon) and 2021 (5% coupon) (the “MBIA Insured Bonds”) effective as of the date of issuance of the MBIA Insured Bonds. MBIA’s policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the MBIA Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA’s policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the MBIA Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a “Preference”).

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

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a MBIA Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA Insured Bonds or presentment of such other proof of ownership of the MBIA Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such MBIA Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

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

MBIA does not accept any responsibility for the accuracy or completeness of this Offering Circular or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth this Appendix D or in Appendix E. Additionally, MBIA makes no representation regarding the MBIA Insured Bonds or the advisability of investing in the MBIA Insured Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii)

over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2003 MBIA had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.4 billion (unaudited), and total capital and surplus of \$3.5 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

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

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

Fitch Ratings rates the financial strength of MBIA "AAA."

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

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

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

XL Capital Assurance Inc.

The following information has been supplied by XL Capital Assurance Inc. ("XLCA") for inclusion in this Offering Circular. Reference is made to Appendix E for a specimen of XLCA's policy.

XLCA has made a commitment to issue a financial guaranty insurance policy (the "Policy") relating to the Series 2004 C Bonds maturing in 2019 (5% coupon). XLCA accepts no responsibility for the accuracy or completeness of this Offering Circular or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding XLCA and its affiliates set forth under this heading. In addition, XLCA makes no representation regarding the Series 2004 C Bonds or the advisability of investing in the Series 2004 C Bonds.

General

XLCA is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. XLCA is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-eight other states, the District of

Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. XLCA has a license application pending with the State of Wyoming, the only state in which it is not currently licensed.

XLCA is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). *XL Capital Ltd is not obligated to pay the debts of or claims against XLCA.*

XLCA was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

XLCA has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of XLCA. Pursuant to this reinsurance agreement, XLCA expects to cede up to 90% of its business to XLFA. XLCA may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by XLCA as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XLCA's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2002, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$611,791,000, \$245,750,000, \$39,000,000 and \$327,041,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to XLCA under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's insurance financial strength rating is "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Series 2004 C Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to XLCA described in this section, the Bondholders will have direct recourse against XLCA only, and neither XLFA nor XLI will be directly liable to the Bondholders.

Financial Strength and Financial Enhancement Ratings of XLCA

XLCA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of XLCA's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Series 2004 C Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series 2004 C Bonds. XLCA does not guaranty the market price of the Series 2004 C Bonds nor does it guaranty that the ratings on the Series 2004 C Bonds will not be revised or withdrawn.

Capitalization of XLCA

Based on the audited statutory financial statements for XLCA as of December 31, 2001, XLCA had total admitted assets of \$158,442,157, total liabilities of \$48,899,461 and total capital and surplus of \$109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$180,993,189, total liabilities of \$58,685,217 and total capital and surplus of \$122,307,972 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Offering Circular. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Offering Circular, or after the date of this Offering Circular but prior to termination of the offering of the Series 2004 C Bonds, shall be deemed incorporated by reference in this Offering Circular. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of XLCA

XLCA is regulated by the Superintendent of Insurance of the State of New York. In addition, XLCA is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, XLCA is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. XLCA is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY XLCA, INCLUDING THE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of XLCA are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

SPECIMEN INSURANCE POLICIES

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FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to

or its successor (the "Paying Agent ") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]

[LEGAL NAME OF ISSUE]

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

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

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

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

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

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

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

SPECIMEN

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XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: []

Policy No: []

BONDS: []

Effective Date: []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any acts of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:
Title:

Name:
Title:

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\$541,000,000
Future Tax Secured Bonds
Fiscal 2004 Series C

OFFERING CIRCULAR

January 28, 2004
