NEW ISSUE

In the opinion of Bond Counsel, interest on the Auction Rate 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 Auction Rate Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "Section III: Other Information—Tax Matters" herein for further information.

$222,400,000
New York City Transitional Finance Authority
Future Tax Secured Subordinate Bonds
Fiscal 2007 Subseries C-2 and C-3
Auction Rate Bonds

Dated: Date of Delivery | Due: As shown on inside cover

The Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-2 and C-3 (collectively the "Auction Rate Bonds") are being issued as auction rate bonds by the New York City Transitional Finance Authority (the "Authority") pursuant to Chapter 16 of the Laws of 1997 of the State of New York, as amended (the "Act"), and the Amended and Restated Original Indenture, dated as of November 16, 2006, as supplemented (the "Indenture"), by and between the Authority and The Bank of New York, New York, New York, as trustee (the "Trustee").

The Auction Rate Bonds will be issued as Parity Debt (defined herein). Interest on and principal of the Auction Rate Bonds are payable from Tax Revenues of the Authority subordinate to Senior Debt Service and operating expenses of the Authority. See "Section II: Sources of Payment and Security for the Bonds" included herein by specific reference. Provided the statutory and contractual conditions are met, other Series of Bonds senior to or on a parity with the Auction Rate Bonds may be issued. See "Section V: The Authority—Other Authority Indebtedness" included herein by specific reference.

Pursuant to the Act, the Auction Rate Bonds are payable from the Tax 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" included herein by specific reference.

The scheduled payment of principal of and interest on the Auction Rate Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Auction Rate Bonds by Financial Security Assurance Inc.

The Auction Rate Bonds will be issued only as fully registered bonds, and registered in the nominee name of The Depository Trust Company. Purchases of beneficial interests in the Auction Rate Bonds will be made in book-entry form in denominations of $25,000 principal amount or any integral multiple thereof. Purchasers will not be entitled to receive physical delivery of the Auction Rate Bonds. Other terms of the Auction Rate Bonds including interest rate modes, interest payment dates, mandatory and optional redemption and tender provisions are described herein.

THE AUCTION RATE BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A LIEN ON TAX REVENUES OF THE AUTHORITY AND CERTAIN ACCOUNTS HELD BY THE TRUSTEE. THE AUCTION RATE 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 AUCTION RATE BONDS BE PAYABLE OUT OF ANY FUNDS OTHER THAN TAX REVENUES OF THE AUTHORITY AND CERTAIN ACCOUNTS HELD BY THE TRUSTEE.

The Auction Rate Bonds are being offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of legality of the Auction Rate Bonds and certain other matters by Sidley Austin 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, Winston & Strawn LLP, New York, New York. It is expected that the Auction Rate Bonds will be available for delivery to DTC in New York, New York, on or about June 21, 2007.

Fiscal 2007 Subseries C-2 | *Fiscal 2007 Subseries C-3*

Goldman, Sachs & Co. | **JPMorgan**

Banc of America Securities LLC | **Morgan Stanley** | **Lehman Brothers** | **RBC Capital Markets**

June 11, 2007

$222,400,000
New York City Transitional Finance Authority
Future Tax Secured Subordinate Bonds
Fiscal 2007 Subseries C-2 and C-3
Auction Rate Bonds
Consisting of

Subseries of Bonds	Principal Amount	Maturity Date November 1	Last Day of Initial Interest Period	Initial Interest Payment Date	Initial Auction Date	Auction Period	Auction Generally Held On	Interest Payment Date Generally
Subseries C-2[(1)] . .	$111,200,000	2027	June 27, 2007	June 28, 2007	June 27, 2007	Seven-Day	Wednesday	Thursday
Subseries C-3[(2)] . .	$111,200,000	2027	June 28, 2007	June 29, 2007	June 28, 2007	Seven-Day	Thursday	Friday

(1) Goldman, Sachs & Co., Morgan Stanley & Co., Incorporated and Banc of America Securities LLC act as Broker-Dealers with respect to the Subseries C-2 Bonds. The Bank of New York acts as the Auction Agent with respect to the Subseries C-2 Bonds.

(2) J.P. Morgan Securities Inc., Lehman Brothers Inc. and RBC Capital Markets act as Broker-Dealers with respect to the Subseries C-3 Bonds. The Bank of New York acts as the Auction Agent with respect to the Subseries C-3 Bonds.

WHILE THE AUCTION RATE BONDS MAY IN THE FUTURE BE CONVERTED TO AN INTEREST RATE MODE OTHER THAN THE AUCTION RATE MODE, THIS OFFERING CIRCULAR DOES NOT DESCRIBE ANY INTEREST RATE PERIOD OTHER THAN AN AUCTION RATE MODE OR OTHER TERMS SPECIFICALLY APPLICABLE TO SUBSERIES 2007 C-2 AND C-3 BONDS BEARING INTEREST AT A RATE OTHER THAN AN AUCTION PERIOD RATE. INVESTORS SHOULD NOT RELY ON THIS OFFERING CIRCULAR IN CONNECTION WITH THE REMARKETING OF THE SUBSERIES 2007 C-2 OR C-3 BONDS UPON A CONVERSION OF THE INTEREST RATE MODE FROM AN AUCTION RATE MODE TO A DIFFERENT INTEREST RATE MODE.

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

The information in Appendices C and D has been provided by the Bond Insurer and has not been independently confirmed or verified by the Underwriters or the Authority. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material changes in such information subsequent to the date hereof, or that such information incorporated herein by reference is correct as of any time subsequent to its date.

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.

Other than with respect to information concerning Financial Security Assurance Inc. contained in Appendices C and D herein, none of the information in this Offering Circular has been supplied or verified by Financial Security Assurance Inc. and Financial Security Assurance Inc. makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Auction Rate Bonds; or (iii) the tax exempt status of the interest on the Auction Rate Bonds.

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

OFFERING CIRCULAR
OF THE
NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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 $111,200,000 aggregate principal amount of Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-2 (the "Subseries 2007 C-2 Bonds") and its $111,200,000 Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-3 (the "Subseries 2007 C-3 Bonds" and collectively with the Subseries 2007 C-2 Bonds, the "Auction Rate Bonds"). The Auction Rate Bonds, together with the $366,970,000 Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-l, offered by a separate Offering Circular and not offered hereby, are herein collectively called the "Series 2007 C 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"). Capitalized terms not otherwise defined in this Offering Circular are defined in "Appendix A—Definitions."

INTRODUCTORY STATEMENT

The Auction Rate Bonds are being issued pursuant to the Act and the Amended and Restated Original Indenture, dated as of November 16, 2006, as supplemented (the "Indenture") by and between the Authority and The Bank of New York, 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, providing for the application of Bond proceeds to fund City capital expenditures and Recovery Costs (as defined in the Indenture).

The Auction Rate Bonds are payable from Tax Revenues of the Authority which consist of Personal Income Tax Revenues and Sales Tax Revenues (each as defined herein) and certain Accounts held by the Trustee. "See Section II: Sources of Payment and Security for the Bonds" included herein by specific reference.

The factors affecting the Authority and the Auction Rate Bonds described throughout this Offering Circular are complex and are not intended to be summarized in this Introductory Statement. This Offering Circular (including the information referred to in "Section I: Inclusion by Specific Reference") should be read in its entirety.

SECTION I: INCLUSION BY SPECIFIC REFERENCE

Portions of the Authority's Offering Circular, dated June 6, 2007, delivered herewith relating to the fixed rate portion of the Series 2007 C Bonds, subject to the information contained elsewhere herein, are included herein by specific reference, namely the information under the captions:

SECTION I:	Introduction
SECTION II:	Sources of Payment and Security for the Future Tax Secured Bonds
SECTION III:	Economic and Demographic Information
SECTION IV:	The Series 2007 C Bonds —Use of Proceeds, —Book-Entry Only System, and —Debt Service Requirements
SECTION V:	The Authority
SECTION VI:	Litigation
SECTION IX:	Approval of Legality
SECTION X:	Financial Advisors
SECTION XI:	Financial Statements
SECTION XII:	Continuing Disclosure Undertaking
SECTION XIV:	Legal Investment
SECTION XV:	Miscellaneous
APPENDIX A:	Summary of Indenture and Agreement
APPENDIX B:	Financial Statements and Report of Independent Certified Public Accountants

SECTION II: THE AUCTION RATE BONDS

General

The Auction Rate Bonds will be issued pursuant to the Indenture. The Auction Rate Bonds of each subseries will be issued initially as bonds in an Auction Rate Mode but may be converted, subject to certain restrictions, to bonds in a mode that provides for the accrual of interest at a rate other than the Auction Period Rate (each such mode, including the Auction Rate Mode, an "Interest Rate Mode"). The Indenture requires that all Auction Rate Bonds of a subseries be in the same Interest Rate Mode at one time. The Auction Rate Bonds of each subseries will be dated their date of first authentication and delivery. Each subseries of the Auction Rate Bonds will bear interest from its date of delivery for the applicable Initial Period set forth on the inside front cover of this Offering Circular at the rates established by Goldman, Sachs & Co., Banc of America Securities LLC and Morgan Stanley & Co. Incorporated as underwriters for the Subseries 2007 C-2 Bonds and J. P. Morgan Securities Inc., Lehman Brothers and RBC Capital Markets as underwriters for the Subseries 2007 C-3 Bonds prior to the date of delivery, and thereafter at the applicable Auction Period Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the applicable Initial Period, each subseries of the Auction Rate Bonds will bear interest for Auction Periods set forth on the inside front cover of the Offering Circular but can be converted, at the option of the Authority, to a daily, seven-day, 28-day, 35-day, three-month or six-month or a Flexible Auction Period. For a description of the Flexible Auction Period see "APPENDIX A—DEFINITIONS."

Interest on each subseries of Auction Rate Bonds shall be computed on the basis of a 360-day year for the actual number of days elapsed except that interest on Auction Rate Bonds in an Auction Period of more than 180 days shall be computed on the basis of a 360-day year consisting of twelve 30-day months. See "—Auction Procedures" herein and "APPENDIX B—AUCTION RATE BONDS."

The Auction Rate Bonds of each subseries will be issued as fully registered bonds without coupons and in denominations of $25,000 or any integral multiple thereof. The Auction Rate Bonds of each subseries will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Auction Rate Bonds of each subseries will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Auction Rate Bonds of a subseries, the Auction Rate Bonds of such subseries will be exchangeable for other fully registered certificated Auction Rate Bonds of the same subseries in any authorized denominations. See "SECTION IV: THE SERIES 2007 C BONDS—Book-Entry Only System" included herein by specific reference. The Trustee may impose a charge sufficient to reimburse the Authority, or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of an Auction Rate Bond. The cost, if any, of preparing each new Auction Rate Bond issued upon such exchange or transfer, and any other expenses of the Authority, or the Trustee incurred in connection therewith, will be paid by the Authority.

Interest on the Auction Rate Bonds will be paid to any owner of $1,000,000 or more in aggregate principal amount of the Auction Rate Bonds by wire transfer upon the written request of such owner received by the Trustee prior to the Record Date. As long as the Auction Rate Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See "SECTION IV: THE SERIES 2007 C BONDS—Book-Entry Only System" included herein by specific reference.

Auction Procedures

The Auction Procedures are included as Appendix B to this Offering Circular and should be read in their entirety. The following is a brief summary of some of the provisions of the Auction Procedures.

On each Auction Date the Auction Agent will calculate the Auction Period Rate for the next Auction Period in accordance with the Auction Procedures.

"Auction Period Rate" means the rate of interest to be borne by each subseries of the Auction Rate Bonds during each Auction Period determined in accordance with Appendix B hereto; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

"Maximum Rate" has the meaning set forth in Schedule I to Appendix B hereof.

"Interest Payment Date" means with respect to each subseries of the Auction Rate Bonds, for the applicable Initial Period the date set forth on the inside front cover of this Offering Circular, and thereafter: (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of each month immediately succeeding the first day of such Auction Period; (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Auction Rate Bonds would be payable if such Auction Rate Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period; and (d) the date when the principal of an Auction Rate Bond becomes due and payable (whether at mandatory tender, redemption, maturity or otherwise).

"Auction Date" means with respect to each subseries of Auction Rate Bonds, the first Auction Date which will be the date shown on the inside front cover of this Offering Circular and thereafter will be:

(a) *Daily Auction Period.* If a subseries of Auction Rate Bonds is in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) *Flexible Auction Period.* If a subseries of Auction Rate Bonds is in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) *Other Auction Periods.* If a subseries of Auction Rate Bonds is in any other Auction Period, the Business Day next preceding each Interest Payment Date for each such subseries of Auction Rate Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to a subseries of Auction Rate Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such subseries of Auction Rate Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for such subseries of Auction Rate Bonds; and

provided, further, that if a subseries of Auction Rate Bonds is in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for such subseries of Auction Rate Bonds and (y) the Business Day next preceding the final maturity date for such subseries of Auction Rate Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

"Auction Period" means with respect to a subseries of Auction Rate Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a subseries of the Auction Rate Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven-day Auction Period.* With respect to a subseries of the Auction Rate Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A) When Auctions Occur on this Day	**(B) Auction Periods Generally Begin this Day**	**(C) Auction Periods Generally End this Day**
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a subseries of the Auction Rate Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a subseries of the Auction Rate Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a subseries of the Auction Rate Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a subseries of the Auction Rate Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding April 30 or October 31.

Provided, however, that if there is a conversion of a subseries of the Auction Rate Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

Auction Agent. The Trustee will enter into the Auction Agreement initially with The Bank of New York, pursuant to which The Bank of New York, as Agent for the Trustee, will perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Period Rate for each Auction in accordance with the Auction Procedures. The Auction Agent will enter into Broker-Dealer Agreements with Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated and Banc of America Securities LLC with respect to the Subseries 2007 C-2 Bonds and with J.P. Morgan Securities Inc., Lehman Brothers Inc. and RBC Capital Markets with respect to the Subseries 2007 C-3 Bonds as the initial Broker-Dealers for the Auction Rate Bonds.

Orders by Existing Owners and Potential Owners. The procedure for submitting orders prior to the Broker-Dealer Deadline on each Auction Date is described in Appendix B, as are the particulars with regard to the determination of the Auction Period Rate and the allocation of the Auction Rate Bonds bearing interest at Auction Rates (collectively, the "Auction Procedures").

Amendment of Auction Procedures. The provisions of the Indenture concerning the Auction Procedures including without limitation the definitions of All Hold Rate, Maximum Rate, Index, Interest Payment Date, Auction Period Rate, Auction Rate, Broker-Dealer Deadline, Submission Deadline and Error Correction Deadline, may be amended by obtaining the consent of the owners and the Bond Insurer of any subseries of Auction Rate Bonds affected by the amendment. All owners will be deemed to have consented if, on the first Auction Date occurring at least 20 days after the Auction Agent mailed notice to such owners, the Auction Period Rate of the affected Auction Rate Bonds determined for such date is the Winning Bid Rate or the All Hold Rate and there is delivered to the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Auction Rate Bonds or any exemption from federal income tax to which the interest on the Auction Rate Bonds would otherwise be entitled.

Conversion of Auction Rate Bonds to Another Interest Rate Mode; Mandatory Tender. The Interest Rate Mode on each subseries of the Auction Rate Bonds may be converted from the Auction Rate Mode to another Interest Rate Mode on the Interest Payment Date following an Auction Period. On the Conversion Date for a subseries of Auction Rate Bonds, such Auction Rate Bonds will be subject to mandatory tender for purchase in accordance with the terms of the Indenture at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any. The purchase price of such subseries of Auction Rate Bonds so tendered will be payable solely from the proceeds of the remarketing of such subseries. If any of the conditions to a conversion from an Auction Rate Mode to a different Interest Rate Mode is not met, including the failure to remarket such subseries of Auction Rate Bonds on the Conversion Date, such Auction Rate Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate. It is currently anticipated that, should any of the Auction Rate Bonds be converted to an Interest Rate Mode other than the Auction Rate Mode, a remarketing memorandum or remarketing circular will be distributed describing the new Interest Rate Mode.

Conversion from One Auction Period to Another. On the conversion date for a subseries of Auction Rate Bonds selected for conversion from one Auction Period to a different Auction Period, except to the extent any Existing Owner submits an Order with respect to such Auction Rate Bonds of such subseries, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Rate Bonds of such subseries if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, such Auction Rate Bonds will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures; however, the Auction Rate Bonds to be converted will not be subject to mandatory tender on such conversion date.

Redemption

Optional Redemption. During any Auction Rate Period, the Auction Rate Bonds of any subseries will be subject to redemption upon the written direction of the Authority on the Interest Payment Date immediately following the end of an Auction Period, at a price of 100% of their principal amount plus accrued interest, if any, to the date fixed for redemption.

Mandatory Redemption The Auction Rate Bonds of each subseries are subject to mandatory redemption, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, without premium, on the dates and in the amounts set forth below:

	Principal Amount to be Redeemed	
November 1	**Subseries 2007 C-2**	**Subseries 2007 C-3**
2018	$ 7,500,000	$ 7,500,000
2019	8,175,000	8,175,000
2020	8,875,000	8,900,000
2021	17,125,000	17,150,000
2022	17,875,000	17,875,000
2023	11,500,000	11,450,000
2024	11,950,000	11,975,000
2025	12,425,000	12,425,000
2026	10,300,000	10,275,000
2027[(1)]	5,475,000	5,475,000

(1) Stated Maturity

If the Auction Rate Bonds are subject to mandatory redemption and the scheduled redemption date is not an Interest Payment Date, the Auction Rate Bonds shall be redeemed on the Interest Payment Date immediately succeeding the scheduled mandatory redemption date.

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

Defeased Auction Rate 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 Auction Rate Bonds or when redemption of Auction Rate Bonds is required pursuant to the Indenture, the Trustee is to give notice of such redemption by mail to the Existing Owners of the Auction Rate Bonds to be redeemed at least 30 days prior to the date set for redemption. Failure by a particular Existing Owner of Auction Rate Bonds to receive notice, or any defect in the notice to such Existing Owners of the Auction Rate Bonds, will not affect the redemption of any other Auction Rate Bond.

Certain Considerations Affecting Auction Rate Bonds

Role of Broker-Dealers. Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated and Banc of America Securities LLC have each been appointed by the Authority in a Broker-Dealer Agreement to serve as Broker-Dealers in the Auctions for the Subseries 2007 C-2 Bonds. J.P. Morgan Securities Inc., Lehman Brothers and RBC Capital Markets have each been appointed by the Authority in a Broker-Dealer Agreement to serve as Broker-Dealers in the Auctions for Subseries 2007 C-3 Bonds. Each of the Broker-Dealers has agreed to contact Existing Owners and Potential Owners and solicit Bids for the Subseries 2007 C-2 Bonds and the Subseries 2007 C-3 Bonds respectively. The Broker-Dealers are paid by the Authority for their respective services and are sometimes collectively referred to herein as the "Broker-Dealers."

Each of the Broker-Dealers has been appointed by the issuers of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by those issuers for its services. The Broker-Dealers receive broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through the Broker-Dealers in auctions.

Each of the Broker-Dealers as applicable will receive a Broker-Dealer fee from the Authority with respect to the Subseries 2007 C-2 Bonds and the Subseries 2007 C-3 Bonds respectively sold or successfully placed through it in Auctions for such subseries of Auction Rate Bonds. The Broker-Dealers may share a portion of such fees with other dealers that submit Orders through them that are filled in the Auction for such Auction Rate Bonds.

Bidding by Broker-Dealers. The Broker-Dealers are permitted, but not obligated, to submit Orders in Auctions for the Auction Rate Bonds for their own accounts either as buyers or sellers and routinely do so in the auction rate securities market in their sole discretion. If a Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because such Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Auction Rate Bonds and thus, could determine the rate and size of its Orders so as to increase the likelihood that (i) its Orders will be accepted in the Auction for the Auction Rate Bonds and (ii) the Auction for the Auction Rate Bonds will clear at a particular rate. For this reason, and because the Broker-Dealers are appointed and paid by the Authority to serve as Broker-Dealers in the Auctions for the Auction Rate Bonds, the Broker-Dealers' interests in serving as Broker-Dealers in Auctions for the Auction Rate Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Auction Rate Bonds. *See* "*Role of Broker-Dealers*." No Broker-Dealer would have knowledge of Orders submitted to the

Auction Agent by any other firm that is, or may in the future be, appointed to submit Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealers routinely place bids in auctions including auctions for securities other than the Auction Rate Bonds for their own accounts to acquire securities for their inventories, to prevent an "Auction Failure" (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent auctions from clearing at a rate that the Broker-Dealers believe does not reflect the market for such securities. Each Broker-Dealer may place one or more Bids in an Auction for the Auction Rate Bonds for its own account to acquire the Auction Rate Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Auction Rate Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Auction Rate Bonds. Each Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Auction Rate Bonds for its own account, a Broker-Dealer also may Bid inside or outside the range of rates that they post in their Price Talk. *See* "*Price Talk*."

The Broker-Dealers routinely encourage bidding by others in auctions generally for which they serve as broker-dealers, including auctions for securities other than Auction Rate Bonds. The Broker-Dealers also may encourage Bidding by others in Auctions for the Auction Rate Bonds, including to prevent an Auction Failure or to prevent an Auction for the Auction Rate Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Auction Rate Bonds. Each Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealers or by those they may encourage to place Bids are likely to affect (i) the Auction Rate including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealers not Bid or not encouraged others to Bid and (ii) the allocation of the Auction Rate Bonds being auctioned including displacing some Bidders who may have their Bids rejected or receive fewer Auction Rate Bonds than they would have received if the Broker-Dealers had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction for the Auction Rate Bonds clears successfully does not mean that an investment in the Auction Rate Bonds involves no significant liquidity or credit risk. None of the Broker-Dealers is obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Auction Rate Bonds to prevent an Auction Failure or an Auction for the Auction Rate Bonds from clearing at a rate such Broker-Dealer believes does not reflect the market for the Auction Rate Bonds. Investors should not assume that the Broker-Dealers will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealers or by those they may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding bidding by a Broker-Dealer apply only to a Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Auction Rate Bonds, if all outstanding Auction Rate Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If the Broker-Dealers hold any Auction Rate Bonds for their own accounts on an Auction Date, it is the Broker-Dealers' practice to submit Sell Orders into the Auction for the Auction Rate Bonds with respect to such Auction Rate Bonds, which would prevent that Auction for the Auction Rate Bonds from being an All Hold Auction. Each Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Auction Rate Bonds, as set forth above.

Price Talk. Before the start of an Auction for the Auction Rate Bonds, a Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners such Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the Auction Rate Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the Auction Rate Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. Such Broker-Dealer occasionally may update and change the Price Talk based on changes in the Authority's or Bond Insurer's credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Owners should confirm with their Broker-Dealer the manner by which their Broker-Dealer will communicate Price Talk and any changes to Price Talk.

"All-or-Nothing" Bids. The Broker-Dealers will not accept "all-or-nothing" Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Auction Rate Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealers provide no assurance as to the outcome of any Auction. The Broker-Dealers also do not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Auction Rate Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Auction Rate Bonds purchased or retained in the Auction for the Auction Rate Bonds may be lower than the market rate for similar investments.

The Broker-Dealers will not agree before an Auction to buy Auction Rate Bonds from or sell Auction Rate Bonds to a customer after the Auction.

Deadlines. Each particular Auction for the Auction Rate Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealers impose an earlier deadline for all customers—called the "Broker-Dealers Deadline"—by which Bidders must submit Bids to the Broker-Dealers. The Broker-Dealer Deadline is subject to change by the Broker-Dealers. Potential Owners should consult with their Broker-Dealer as to their Broker-Dealer Deadline. The Broker-Dealers may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. A Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition, until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw Orders submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Orders contained clerical errors. In the event of such a submission, modification or withdrawal, the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner's Ability to Resell Auction Rate Securities May Be Limited. An Existing Owner may sell, transfer or dispose of Auction Rate Bonds (i) in an Auction for the Auction Rate Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Auction Rate Bonds, only to or through Broker-Dealers.

Existing Owners will be able to sell all of the Auction Rate Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Auction Rate Bonds in the Auction for the Auction Rate Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Auction Rate Bonds all, and may not be able to sell any, of the Auction Rate Bonds subject to such Submitted Sell Orders. As discussed above (*see* "Bidding by Broker-Dealers"), the Broker-Dealers may submit Bids in an Auction for the Auction Rate Bonds to avoid an Auction Failure, but they are not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealers Bidding in the Auction for the Auction Rate Bonds for their own accounts or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Authority's or the Bond Insurer's credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealers were unable or unwilling to Bid.

Between Auctions for the Auction Rate Bonds, there can be no assurance that a secondary market for the Auction Rate Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Auction Rate Bonds on the terms or at the times desired by an Existing Owner. A Broker-Dealer, in its own discretion, may decide to buy or sell the Auction Rate Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Auction Rate Bonds. However, the Broker-Dealer is not obligated to make a market in the Auction Rate Bonds and may discontinue trading in the Auction Rate Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the Auction Rate Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased Auction Rate Bonds through a dealer which is not one of the Broker-Dealers for the Auction Rate Bonds, such Existing Owner's ability to sell its Auction Rate Bonds may be affected by the continued ability of its dealer to transact trades for the Auction Rate Bonds through the Broker-Dealer.

The ability to resell the Auction Rate Bonds will depend on various factors affecting the market for the Auction Rate Bonds, including news relating to the Authority or the Bond Insurer, the attractiveness of alternative investments, investor demand for short term Auction Rate Bonds, the perceived risk of owning the Auction Rate Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Auction Rate Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate bonds), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Settlements" *below*) or press reports, financial reporting cycles and market conditions generally. Demand for the Auction Rate Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealers Could Impact the Ability to Hold Auctions. The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least sixty (60) days notice to the Authority and the Trustee provided a replacement Auction Agent has been appointed and does not require, as a condition to the effectiveness of resignation, that a replacement Auction Agent be in place if its fee has not been paid in which case only thirty (30) days notice of such resignation is required. The Broker-Dealer Agreements provide that the Broker-Dealers thereunder may resign upon thirty (30) days notice or immediately, in certain circumstances, and do not require, as a condition to the effectiveness of such resignation, that replacement Broker-Dealers be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Auction Rate Bonds, with the result that the interest rate on the Auction Rate Bonds will be determined as described in the Indenture. See "APPENDIX B—AUCTION RATE BONDS."

Securities and Exchange Commission Settlements

On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation of fifteen firms, including the Broker Dealers (the "Settling Broker-Dealers"), that participate in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Settling Broker-Dealers agreed to pay civil penalties. In addition, each Settling Broker-Dealer, without admitting or denying the SEC's allegations, agreed to provide to customers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Auction Rate Bonds.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including The Bank of New York (the "Settling Auction Agents"), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC's allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Auction Rate Bonds.

Other Information

For additional information regarding the Auction Rate Bonds and the Indenture, see "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT" included herein by specific reference.

SECTION III: OTHER INFORMATION

Tax Matters

In the opinion of Sidley Austin LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Auction Rate Bonds will not be includable in the gross income of the owners of the Auction Rate Bonds for purposes of federal income taxation under existing law. Interest on the Auction Rate Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Auction Rate 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 Auction Rate Bonds and the timely payment of certain investment earnings to the United States Treasury; and no opinion is rendered by Sidley Austin LLP as to the exclusion from gross income of the interest on the Auction Rate 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 Auction Rate 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 Auction Rate 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 LLP renders no opinion, as a result of ownership of such Auction Rate 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 Auction Rate Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

Collateral Consequences. 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 Auction Rate Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Future Developments Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Auction Rate Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. On May 21, 2007, the United States Supreme Court agreed to review a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States Constitution prohibits Kentucky from exempting interest on bonds issued by Kentucky and its localities and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State to eliminate the disparity between the tax treatment of out-of-state bonds and tax treatment of in-state bonds including bonds issued by the Authority. The impact of this decision may also affect the market price for, or the marketability of, the Auction Rate Bonds.

Prospective purchasers of the Auction Rate Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

Backup Withholding The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for Federal income tax purposes, the reporting requirement causes the payment of interest on the Auction Rate Bonds made after March 31, 2007 to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

Bond Insurance

The scheduled payment of principal of and interest on the Auction Rate Bonds when due will be guaranteed under an insurance policy to be issued by Financial Security Assurance Inc. (the "Bond Insurer"). Information about the Bond Insurer is set forth in Appendix C. A specimen insurance policy of the Bond Insurer is set forth in Appendix D.

Ratings

The Authority expects that the Auction Rate Bonds will be rated “AAA” by Standard & Poor’s, “AAA” by Fitch and “Aaa” by Moody’s based on the municipal bond insurance policy to be issued by the Bond Insurer. The Auction Rate Bonds are expected to receive an unenhanced rating of “AAA” from Standard & Poor’s, “AA+” from Fitch and “Aa2” from Moody’s. Such ratings reflect only the views of Standard & Poor’s, Fitch and Moody’s, 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 Auction Rate Bonds.

Underwriting

Subseries 2007 C-2 Bonds are being purchased for reoffering by Goldman, Sachs & Co., on behalf of itself and as representative of Morgan Stanley & Co. Incorporated and Banc of America Securities LLC (the “Subseries 2007 C-2 Underwriters”). The Subseries 2007 C-2 Underwriters have agreed, subject to certain conditions, to purchase such Auction Rate Bonds from the Authority at an aggregate underwriters’ discount of $297,184 and to make an initial public offering of such Auction Rate Bonds at prices that are not in excess of the initial public offering price set forth on the inside cover page of this Offering Circular. The Subseries 2007 C-2 Underwriters will be obligated to purchase all the Subseries 2007 C-2 Bonds if any Subseries 2007 C-2 Bonds are purchased.

Subseries 2007 C-3 Bonds are being purchased for reoffering by J.P. Morgan Securities Inc., on behalf of itself and as representative of Lehman Brothers Inc. and RBC Capital Markets (the “Subseries 2007 C-3 Underwriters”). The Subseries 2007 C-3 Underwriters have agreed, subject to certain conditions, to purchase such Auction Rate Bonds from the Authority at an aggregate underwriters’ discount of $297,184 and to make an initial public offering of such Auction Rate Bonds at prices that are not in excess of the initial public offering price set forth on the inside cover page of this Offering Circular. The Subseries 2007 C-3 Underwriters will be obligated to purchase all the Subseries 2007 C-3 Bonds if any Subseries 2007 C-3 Bonds are purchased.

The purchase of the Auction Rate Bonds by the Subseries 2007 C-2 Underwriters and the Subseries 2007 C-3 Underwriters is conditioned upon the issuance and delivery by the Authority of its Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-1.

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

APPENDIX A

Both the Definitions in this Appendix A and the Auction Procedures set forth in Appendix B are subject to modification or amendment pursuant to Schedule I to Appendix B. In the event of any conflict between the provisions of Appendix A or B and Schedule I, Schedule I shall prevail.

In addition to the words and terms defined elsewhere in this Offering Circular and in the Authorizing Document, the following words and terms as used herein and in Appendix B and elsewhere in this Offering Circular have the following meanings with respect to Auction Rate Bonds unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

"Agent Member" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"All Hold Rate" has the meaning set forth in Schedule I.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

"Auction Agreement" means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in Appendix B with respect to the Auction Rate Bonds while such Auction Rate Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means with respect to any subseries of Auction Rate Bonds:

(a) Daily Auction Period. If a subseries of Auction Rate Bonds is in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) Flexible Auction Period. If a subseries of Auction Rate Bonds is in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) Other Auction Periods. If a subseries of Auction Rate Bonds is in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Auction Rate Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to a subseries of Auction Rate Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such subseries of Auction Rate Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for such subseries Auction Rate Bonds; and

provided, further, that if a subseries of Auction Rate Bonds is in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for such subseries of Auction Rate Bonds and (y) the Business Day next preceding the final maturity date for such subseries of Auction Rate Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The initial Auction Date for each subseries of Auction Rate Bonds is set forth in Schedule I.

"Auction Desk" means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Auction Rate Bonds, and units of the Broker-Dealer which are not separated by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

"**Auction Period**" means with respect to a subseries of Auction Rate Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a subseries of Auction Rate Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to a subseries of Auction Rate Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A) When Auctions Occur on this Day	(B) Auction Periods Generally Begin this Day	(C) Auction Periods Generally End this Day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a subseries of Auction Rate Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a subseries of Auction Rate Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a subseries of Auction Rate Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a subseries of Auction Rate Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in Schedule I;

Provided, however, that if there is a conversion of a subseries of Auction Rate Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

"Auction Period Rate" means the rate of interest to be borne by the Auction Rate Bonds during each Auction Period determined as provided under the heading "Determination of Auction Period Rate" as set forth in Appendix B; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

"Auction Procedures" means the procedures for conducting Auctions for Auction Rate Bonds in an Auction Rate Mode as set forth in Appendix B.

"Auction Rate" means for each subseries of Auction Rate Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Auction Rate Bonds are the subject of Submitted Hold Orders, the All Hold Rate for such subseries of Auction Rate Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such subseries of Auction Rate Bonds.

"Auction Rate Bonds" has the meaning set forth in Schedule I.

"Auction Rate Mode" means the mode in which the Auction Rate Bonds bear interest at an Auction Period Rate.

"Authorized Denominations" means $25,000, or such other amount specified in Schedule I, and integral multiples thereof so long as the Auction Rate Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

"Authorizing Document" has the meaning set forth in Schedule I.

"Authority" means the New York City Transitional Finance Authority.

"Available Auction Rate Bonds" means, for a subseries of Auction Rate Bonds on each Auction Date, the number of Units of such Auction Rate Bonds that are not the subject of Submitted Hold Orders.

"Bid" has the meaning specified in subparagraph (a) of the heading "Orders by Existing Owners and Potential Owners" set forth in Appendix B.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in Appendix B, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Authority and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Authority.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Authority and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from to time be amended or supplemented.

"Broker-Dealer Deadline" means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

"Business Day" in addition to any other definition of "Business Day" included in the Authorizing Document, while Auction Rate Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Auction Rate Bonds.

"Clerical Error" means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a "Clerical Error" is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

"Conversion Date" means the date on which any subseries of the Auction Rate Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

"Electronic Means" means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"Error Correction Deadline" means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker- Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

"Existing Owner" means a Person who is listed as the beneficial owner of Auction Rate Bonds in the records of the Auction Agent; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

"Flexible Auction Period" means with respect to a subseries of Auction Rate Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a subseries of Auction Rate Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a subseries of Auction Rate Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a subseries of Auction Rate Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a subseries of Auction Rate Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a subseries of Auction Rate Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such subseries of Auction Rate Bonds.

"Hold Order" means an Order to hold the Auction Rate Bonds as described on such an order deemed to have been submitted as described under the heading "Orders by Existing Owners and Potential Owners" set forth in Appendix B.

"Indenture" means the Amended and Restated Original Indenture entered into October 1, 1997, as supplemented, and as amended and restated November 16, 2006.

"Index" has the meaning set forth in Schedule I.

"Initial Period" has the meaning set forth in Schedule I.

"Interest Payment Date" with respect to Auction Rate Bonds bearing interest at Auction Period Rates, means, notwithstanding anything else in the Authorizing Document to the contrary, the first Interest Payment Date for each subseries of Auction Rate Bonds as set forth in Schedule A and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first day of such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Auction Rate Bonds would be payable if such Auction Rate Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the principal of an Auction Rate Bond becomes due and payable (whether at mandatory tender, maturity, redemption or otherwise).

"Maximum Rate" has the meaning set forth in Schedule I.

"Order" means a Hold Order, Bid or Sell Order.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Auction Rate Bonds in addition to the Auction Rate Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

"Record Date" means, notwithstanding anything else in the Authorizing Document, while the Auction Rate Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

"Schedule I" means Schedule I to Appendix B.

"Securities Depository" means, notwithstanding anything else in the Authorizing Document to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Authority.

"Sell Order" has the meaning specified in subparagraph (a) under the heading "Orders by Existing Owners and Potential Owners" set forth in Appendix B.

"Submission Deadline" means, unless changed by Schedule I, 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the Authority pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the Auction Rate Bond markets (the "SIFMA Recommendation") unless the Auction Agent is instructed otherwise in writing by the Trustee or the Authority. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

"Submitted Bid" has the meaning specified in subparagraph (b) under the heading "Determination of Auction Period Rate" set forth in Appendix B.

"Submitted Hold Order" has the meaning specified in subparagraph (b) under the heading "Determination of Auction Period Rate" set forth in Appendix B.

"Submitted Order" has the meaning specified in subparagraph (b) under the heading "Determination of Auction Period Rate" set forth in Appendix B.

"Submitted Sell Order" has the meaning specified in subparagraph (b) under the heading "Determination of Auction Period Rate" set forth in Appendix B.

"Sufficient Clearing Bids" means for each subseries of Auction Rate Bonds, an Auction for which the number of Units of such Auction Rate Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Auction Rate Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

"Units" has the meaning set forth in subparagraph (a)(iii) under the heading "Submission of Orders by Broker-Dealers to Auction Agent" set forth in Appendix B.

"Winning Bid Rate" means for each Series or subseries of Auction Rate Bonds, the lowest rate specified in any Submitted Bid of such subseries which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Auction Rate Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Auction Rate Bonds of such subseries.

APPENDIX B

AUCTION RATE BONDS

Orders by Existing Owners and Potential Owners

(a) Prior to the Broker-Dealer Deadline for each subseries of Auction Rate Bonds on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Auction Rate Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Auction Rate Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Bid (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) below), and/or

(C) the principal amount of Auction Rate Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Auction Rate Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Auction Rate Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Auction Rate Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Auction Rate Bonds to be determined as described in paragraph (a)(v) under the heading "Allocation of Auction Rate Bonds" if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Auction Rate Bonds to be determined as described in subparagraph (b)(iv) under the heading "Allocation of Auction Rate Bonds" if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Auction Rate Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Auction Rate Bonds as described in subparagraph (b)(iv) under the heading "Allocation of Auction Rate Bonds" if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Auction Rate Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Auction Rate Bonds as described in subparagraph (a)(vi) under the heading "Allocation of Auction Rate Bonds" if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Auction Rate Bonds of a particular subseries held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Auction Rate Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Auction Rate Bonds of a particular subseries to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Auction Rate Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in paragraphs (e)(ii) and (f) under the heading "Submission of Orders by Broker-Dealers to Auction Agent"; and

(iii) for purposes of any Auction other than during a Daily Auction Period, any Auction Rate Bonds sold or purchased pursuant to subparagraph (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a Daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Submission of Orders by Broker-Dealers to Auction Agent

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders accepted by such Broker-Dealer in accordance with heading "Orders by Existing Owners and Potential Owners" above and specifying with respect to each Order or aggregation of Orders pursuant to paragraph (b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Auction Rate Bonds of a subseries, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Auction Rate Bonds;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units of Auction Rate Bonds of a subseries, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of Auction Rate Bonds of a subseries, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units of Auction Rate Bonds of a subseries, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Auction Rate Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Authority, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Auction Rate Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this paragraph (f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this paragraph (f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Auction Rate Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m., New York City time on the first day of the next applicable Auction Period with respect to such Auction at the Securities Depository, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Auction Rate Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Auction Rate Bonds, provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline, provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Treatment of Orders by the Auction Agent

Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subparagraphs (b), (c) or (d) of this heading "Treatment of Orders by the Auction Agent" and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Auction Rate Bonds of a particular subseries are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Auction Rate Bonds of such subseries for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Auction Rate Bonds of such subseries for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Auction Rate Bonds of such subseries subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Auction Rate Bonds of such subseries for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Auction Rate Bonds of such subseries for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Auction Rate Bonds of such subseries for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Auction Rate Bonds of such subseries for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in paragraph (i) above; and

(D) the number of Units, if any, of such Auction Rate Bonds of such subseries subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Auction Rate Bonds of such subseries equal to the excess of the number of Units of Auction Rate Bonds of such subseries for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Auction Rate Bonds of such subseries considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of Auction Rate Bonds of such subseries considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to paragraph (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee or the Authority that any portion of an Order by a Broker-Dealer relates to an Auction Rate Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of an Auction Rate Bond which the Auction Agent has been notified by the Trustee or the Authority has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Auction Rate Bonds for such Auction.

(g) If an Order or Orders covering all of the Auction Rate Bonds of a particular subseries is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Auction Rate Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Auction Rate Bonds of a particular subseries to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Auction Rate Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Determination of Auction Period Rate

(a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each subseries of Auction Rate Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each subseries of Auction Rate Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Auction Rate Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under "Determination of Auction Period Rate" if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under "Determination of Auction Period Rate" if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the

Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Auction Rate Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

Allocation of Auction Rate Bonds

(a) In the event of Sufficient Clearing Bids for a subseries of Auction Rate Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such subseries of Auction Rate Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Auction Rate Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Auction Rate Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Auction Rate Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Auction Rate Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Auction Rate Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Auction Rate Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Auction Rate Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Auction Rate Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or

(v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Auction Rate Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Auction Rate Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a subseries of Auction Rate Bonds, Submitted Orders for such subseries of Auction Rate Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Auction Rate Bonds obtained by multiplying (A) the aggregate number of Units of Auction Rate Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Auction Rate Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Auction Rate Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Auction Rate Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the undertakings described in (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Auction Rate Bonds that is not an integral multiple of an Authorized Denomination on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Auction Rate Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Auction Rate Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Auction Rate Bonds on such Auction Date.

(d) If, as a result of the undertakings described in (a) above, any Potential Owner would be required to purchase less than an Authorized Denomination in principal amount of the Auction Rate

Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Auction Rate Bonds for purchase among Potential Owners so that the principal amount of the Auction Rate Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing the Auction Rate Bonds on such Auction Date.

Notice of Auction Period Rate

(a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each subseries of Auction Rate Bonds for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units of Auction Rate Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of Auction Rate Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units of the Auction Rate Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Auction Rate Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Auction Rate Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids;

(vi) the amount of interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and

(vii) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each subseries of Auction Rate Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of Auction Rate Bonds to be purchased pursuant to such Bid (including, with respect to the Auction Rate Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Auction Rate Bond) against receipt of such Auction Rate Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a

Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units of Auction Rate Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Authority and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Index

(a) If for any reason on any Auction Date the Index shall not be determined as provided in Schedule I, the Index shall be the Index for the Auction Period ending on such Auction Date.

(b) The determination of the Index as provided in Schedule I shall be conclusive and binding upon the Authority, the Trustee, the Broker-Dealers, the Auction Agent, the Bond Insurer and the Owners of the Auction Rate Bonds.

Miscellaneous Provisions Regarding Auctions

(a) In this Appendix, each reference to the purchase, sale or holding of Auction Rate Bonds shall refer to beneficial interests in Auction Rate Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period with respect to each subseries of Auction Rate Bonds, the provisions of the Authorizing Document and the definitions contained therein and described in this Appendix, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Authorizing Document by obtaining the consent of the Bond Insurer and the owners of all affected Outstanding Auction Rate Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Auction Rate Bonds as required by the Authorizing Document, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Authority and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Auction Rate Bonds or any exemption from federal income tax to which the interest on the Auction Rate Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Auction Rate Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Authority that it is unwilling or unable to continue as registered owner of the Auction Rate Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Auction Rate Bonds. Such Auction Rate Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

During an Auction Rate Period, so long as the ownership of the Auction Rate Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of an Auction Rate Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Auction Rate Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Auction Rate Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Auction Rate Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Changes in Auction Period or Auction Date

Changes in Auction Period.

(i) During any Auction Rate Period, the Authority may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Auction Rate Bonds of a subseries among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Auction Rate Bonds. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described in the Indenture are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Auction Rate Bonds of such subseries.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent such Existing Owner submits an Order with respect to such Auction Rate Bonds each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Rate Bonds of such subseries if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

Changes in Auction Date. During any Auction Rate Period, the Auction Agent, at the direction of the Authority, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Auction Rate Bonds. The Auction Agent shall provide notice of the Authority's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Authority, the Broker-Dealers and the Securities Depository. In the event that Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly.

Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

SCHEDULE I

Definitions

"All Hold Rate" means, as of any Auction Date, 55% of the Index in effect on such Auction Date for any Auction Rate Bond the interest on which is not includable in gross income of the beneficial owner of such Auction Rate Bond for federal income tax purposes and 90% of the Index in effect on such Auction Date for any Auction Rate Bond the interest on which is includable in gross income of the beneficial owner of such Auction Rate Bond for federal income tax purposes.

"Auction Agent" shall initially be The Bank of New York.

"Auction Date" shall include as part of the definition the first Auction Date which shall be June 27, 2007 for the Subseries 2007 C-2 Bonds and June 28, 2007 for the Subseries 2007 C-3 Bonds.

"Auction Period" shall include in the Six-month Auction Period either April 30 or October 31.

"Auction Rate Bonds" means the Authority's Future Tax Secured Subordinate Auction Rate Bonds, Fiscal 2007 Subseries C-2 and C-3.

"Authority" means the New York City Transitional Finance Authority.

"Authorized Denomination" means $25,000 unless another amount is specified herein.

"Authorizing Document" means the Amended and Restated Original Indenture entered into October 1, 1997, by and between the Authority and the Bank of New York as supplemented and as amended and restated.

"Broker-Dealers" means Goldman, Sachs & Co., Banc of America Securities LLC and Morgan Stanley & Co. Incorporated with respect to the Subseries 2007 C-2 Bonds and J. P. Morgan Securities Inc., Lehman Brothers and RBC Capital Markets with respect to the Subseries 2007 C-3 Bonds.

"Index" means on any Auction Date with respect to Auction Rate Bonds in any Auction Period of 35 days or less, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBORO1 Page at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market. The Index with respect to Auction Rate Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the Authority and all the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Authority and the Bond Insurer. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

"Initial Period" means the period from the Closing Date to but not including June 27, 2007 with respect to the Subseries 2007 C-2 Bonds, and June 28, 2007 with respect to the Subseries 2007 C-3 Bonds.

"Interest Payment Date" includes the first Interest Payment Date which shall be June 28, 2007, for the Subseries 2007 C-2 Bonds and June 29, 2007 for the Subseries 2007 C-3 Bonds.

"Maximum Rate" means for any Auction Rate Bond the lesser of (i) 12% if the interest on such Auction Rate Bond is not includable in gross income of the beneficial owner of such Auction Rate Bond for federal income tax purposes or (ii) such Maximum Rate not exceeding 25% as fixed by Officer's Certificate if the interest on such Auction Rate Bond is includable in gross income of the beneficial owner of such Auction Rate Bond for federal income tax purposes.

Auction Procedures

Determination of Auction Rate. The percentage of the Index in subparagraph (c) of the heading "Determination of Auction Rate Period" is 75% for any Auction Rate Bond the interest on which is not includable in gross income of the beneficial owner of such Auction Rate Bond for federal income tax purposes and 110% for any Auction Rate Bond the interest on which is includable in gross income of the beneficial owner of such Auction Rate Bond for federal income tax purposes.

APPENDIX C

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Auction Rate Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Auction Rate Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Auction Rate Bonds when due as set forth in the form of the Policy included as an exhibit to this Offering Circular.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,601,527,000 and its total net unearned premium reserve was approximately $2,089,989,000 in accordance with statutory accounting principles. At March 31, 2007, Financial Security's consolidated shareholder's equity was approximately $2,753,483,000 and its total net unearned premium reserve was approximately $1,649,524,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Offering Circular. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Offering Circular and before the termination of the offering of the Auction Rate Bonds shall be deemed incorporated by reference into this Offering Circular. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Auction Rate Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Auction Rate Bonds or the advisability of investing in the Auction Rate Bonds. Financial Security makes no representation regarding this Offering Circular, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in this Offering Circular.

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: –N

BONDS: Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration, received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest of the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment on the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owners 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 Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day, otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or 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 Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of 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" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "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 Financial Security 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.

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

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. 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, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 500NY (5/90)

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

June 21, 2007

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 Subordinate Bonds, Fiscal 2007 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 the Amended and Restated Original Indenture, dated November 16, 2006, as supplemented (the "Indenture"), between the Authority and The Bank of New York, New York, New York, as Trustee, and to a Financing Agreement dated October 1, 1997, as supplemented (the "Agreement"), between the Authority and The City of New York (the "City"). Terms not defined herein are used as defined in the Indenture.

The New Bonds are dated, bear interest, mature, are subject to redemption and are secured as set forth in the Indenture. The New Bonds are secured on a parity with the Authority's Recovery Bonds and Parity Debt, subordinate to Senior Debt Service and operating expenses. The Authority is authorized to issue additional bonds (together with such 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 benefit, protection and security of the Indenture in the order of priority set forth therein. 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 in all respects material to the security and sources of payment for the New Bonds.

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 Tax 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 purposes 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 Tax 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 Tax Revenues for the security of the Senior 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 Tax 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 New Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

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

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

12. The excess, if any, of the amount payable at maturity of any maturity of the New Bonds over the initial offering price of such bonds to the public at which price a substantial amount of such maturity

is sold, which is excluded from gross income for federal income tax purposes to the same extent as interest on the New Bonds. 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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New York City TRANSITIONAL FINANCE AUTHORITY

$222,400,000
New York City
Transitional Finance Authority
Future Tax Secured Subordinate Bonds
Fiscal 2007 Subseries C-2 and C-3
Auction Rate Bonds

OFFERING CIRCULAR

June 11, 2007

NEW ISSUE

In the opinion of Bond Counsel, interest on the Series 2007 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 2007 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.

New York City TRANSITIONAL FINANCE AUTHORITY

$366,970,000
New York City Transitional Finance Authority
Future Tax Secured Subordinate Bonds
Fiscal 2007 Subseries C-1

Dated: Date of Delivery — Due: November 1, as shown on inside cover page

The Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-1 (the "Subseries 2007 C-1 Bonds") are being issued by the New York City Transitional Finance Authority (the "Authority") as fixed rate bonds. In addition to the Subseries 2007 C-1 Bonds, the Authority expects to issue its Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-2 and its Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-3 in the aggregate principal amount of $222,400,000 (collectively, the "Subseries 2007 C-2 and C-3 Bonds") as auction rate bonds. The Subseries 2007 C-2 and C-3 Bonds will be offered by a separate offering circular. The Subseries 2007 C-1 Bonds and the Subseries 2007 C-2 and C-3 Bonds are collectively referred to herein as the "Series 2007 C Bonds." The Series 2007 C Bonds are being issued pursuant to Chapter 16, Laws of New York, 1997, as amended (the "Act"), and the Amended and Restated Original Indenture, dated November 16, 2006, as supplemented (the "Indenture"), by and between the Authority and The Bank of New York, New York, New York as Trustee (the "Trustee").

The Series 2007 C Bonds will be issued as Parity Debt (defined herein). Interest on and principal of the Series 2007 C Bonds are payable from Tax Revenues of the Authority subordinate to Senior Debt Service and operating expenses of the Authority. See "Section II: Sources of Payment and Security for the Future Tax Secured Bonds." Provided the statutory and contractual conditions are met, other Series of Bonds senior to or on a parity with the Series 2007 C Bonds may be issued. See "Section V: The Authority—Other Authority Indebtedness."

Pursuant to the Act, the Series 2007 C Bonds are payable from the Tax 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 Future Tax Secured Bonds."

The Series 2007 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 2007 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 2007 C Bonds are the responsibility of the DTC Participants.

Purchases of the Subseries 2007 C-1 Bonds will be made in book-entry form in denominations of $5,000 and whole multiples thereof. Interest on the Subseries 2007 C-1 Bonds accrues from the dated date, and is payable on each May 1 and November 1, commencing November 1, 2007.

The Series 2007 C Bonds are subject to redemption prior to maturity as described herein.

THE SERIES 2007 C BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A LIEN ON TAX REVENUES OF THE AUTHORITY AND CERTAIN ACCOUNTS HELD BY THE TRUSTEE. THE SERIES 2007 C 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 SERIES 2007 C BONDS BE PAYABLE OUT OF ANY FUNDS OTHER THAN TAX REVENUES OF THE AUTHORITY AND CERTAIN ACCOUNTS HELD BY THE TRUSTEE.

The Series 2007 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 2007 C Bonds and certain other matters by Sidley Austin 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, Winston & Strawn LLP, New York, New York. It is expected that the Series 2007 C Bonds will be available for delivery to DTC in New York, New York, on or about June 21, 2007.

	Ramirez & Co., Inc.	
Goldman, Sachs & Co.	**JPMorgan**	**Lehman Brothers**
	Morgan Stanley	
Banc of America Securities LLC	**Bear, Stearns & Co. Inc**	**Citi**
First Albany Capital Inc.	**Loop Capital Markets LLC**	**M.R. Beal & Company**
Merrill Lynch & Co.	**UBS Investment Bank**	**Roosevelt & Cross Incorporated**
Siebert Brandford Shank & Co. LLC		**Wachovia Bank, National Association**
A.G. Edwards & Sons, Inc.	**Cabrera Capital Markets, Inc.**	**Commerce Capital Markets, Inc.**
Jackson Securities	**Raymond James & Associates, Inc.**	**RBC Capital Markets**
	Ryan Beck & Co., Inc.	

June 6, 2007

$366,970,000 Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-1

November 1,	Principal Amount	Interest Rate	Price or Yield
2008	$12,930,000	3.60%	100%
2008	4,635,000	4	3.60
2009	15,015,000	3.65	3.66
2009	3,200,000	4	3.66
2010	18,890,000	3.70	3.71
2011	13,860,000	5	3.87
2011	7,870,000	4	3.87
2012	18,840,000	5	3.93
2012	3,895,000	4½	3.93
2013	6,865,000	4¼	3.96
2013	16,990,000	5	3.96
2014	6,030,000	4	100
2014	18,965,000	5	4.00
2015	5,080,000	4	4.03
2015	21,105,000	5	4.03
2016	11,090,000	4	4.06
2016	16,355,000	5	4.06
2017	17,255,000	4	4.11
2017	11,450,000	5	4.11
2018(1)	15,000,000	5	4.17
2019(1)	15,000,000	5	4.21
2020(1)	14,995,000	5	4.25
2023	14,330,000	4¼	4.44
2024(1)	14,990,000	5	4.34

$62,335,000 5% Fiscal 2007 Subseries C-1 Term Bond due November 1, 2027 — Yield 4.36%(1)

(1) Priced to first call on November 1, 2017

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 2007 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 2007 C Bonds, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The Underwriters have reviewed the information in this Offering Circular in accordance with their responsibilities to investors under the securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guaranty the accuracy or completeness of such information.

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 Tax 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 2007 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 2007 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 Offering Circular 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	$366,970,000 Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-1 (the "Subseries 2007 C-1 Bonds") are to be issued pursuant to the Amended and Restated Original Indenture, dated November 16, 2006 (as supplemented, the "Indenture"), by and between the Authority and The Bank of New York, New York, New York, as trustee (the "Trustee"). The Subseries 2007 C-1 Bonds will be issued as fixed rate bonds. In addition to the Subseries 2007 C-1 Bonds, the Authority expects to issue its Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-2 and its Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-3 in the aggregate principal amount of $222,400,000 (collectively, the "Subseries 2007 C-2 and C-3 Bonds") as auction rate bonds. The Subseries 2007 C-2 and C-3 Bonds will be offered by a separate offering circular. The Subseries 2007 C-1 Bonds and the Subseries 2007 C-2 and C-3 Bonds are collectively referred to herein as the "Series 2007 C Bonds." The Series 2007 C Bonds, along with other series of bonds secured by Tax Revenues, are referred to herein as "Future Tax Secured Bonds." Future Tax Secured Bonds, together with all other series of bonds heretofore or hereafter issued under the Indenture, are referred to herein as the "Bonds." The Series 2007 C Bonds will be issued on a parity with the Authority's Recovery Obligations and Future Tax Secured Subordinate Bonds issued on a parity with Recovery Obligations (together, "Parity Debt"). Interest on and principal of the Series 2007 C Bonds will be payable from the Tax Revenues subordinate to the payment of Senior Debt Service and operating expenses of the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE FUTURE TAX SECURED BONDS."
Trustee	The Bank of New York, New York, New York, acts as the Authority's trustee.
Servicer	The New York State Department of Taxation and Finance collects the Tax 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 FUTURE TAX SECURED BONDS—Servicing."
Disbursement Agent	The State Comptroller holds Personal Income Tax Revenues in trust for the Authority and deposits such Tax 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 then transfers Sales Tax Revenues 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 Outstanding Bonds. Payment of almost all Sales Tax collections to the Authority is subject to appropriation by the State Legislature until July 1, 2008.
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 Tax Revenues equal or prior to the rights of the Holders of Future Tax Secured Bonds, such assertion would not succeed.
Purpose of Issue	The proceeds of the Series 2007 C Bonds will be used to pay at maturity the Authority's $600,000,000 General Capital Purpose Bond Anticipation Notes, Fiscal 2007 Series 1 (the "Series 1 Notes") dated November 29, 2006 and maturing June 29, 2007. The Series 1 Notes were issued to finance general City capital expenditures. Certain expenses of the Authority incurred in connection with the issuance of the Series 2007 C Bonds will be paid from the proceeds of the Series 2007 C Bonds.
Tax Revenues	The Series 2007 C Bonds are payable from the Tax Revenues, which consist of Personal Income Tax Revenues and Sales Tax Revenues. The Act provides that the Authority's Tax 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 the adoption of the Personal Income Tax in 1966, Personal Income Tax Revenues have risen from approximately $130 million to approximately $7.3 billion in fiscal year 2006. Personal Income Tax Revenues are projected to be approximately $7.6 billion, $7.7 billion, $7.8 billion, $8.2 billion and $8.6 billion in fiscal years 2007 through 2011, respectively. The projections herein do not reflect certain proposals by the Mayor which, if enacted, would reduce Personal Income Tax Revenues. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE FUTURE TAX SECURED BONDS—Personal Income Tax." 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 (i) MAC Funding Requirements (as defined herein) and (ii) State administrative costs. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE FUTURE TAX SECURED BONDS—Sales Tax—*MAC Funding Requirements*." The term "Sales Tax" means the tax currently imposed by the State at a rate of 4% on the sale and use of tangible personal property and services in the City, until July 1, 2008 and thereafter means the sales and use tax imposed by the City. Almost all of the Sales Tax collections are subject to appropriation by the State until July 1, 2008. Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Future Tax Secured 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 $4.4 billion in fiscal year 2006. Sales Tax Revenues are projected to be approximately $4.5 billion, $4.7 billion, $4.8 billion, $5.0 billion and $5.3 billion in fiscal years 2007 through 2011, respectively. The projections herein assume that the Sales Tax is imposed at a rate of 4% after July 1, 2008, which will require legislation, and do not reflect certain proposals by the Mayor which, if enacted, would reduce Sales Tax Revenues. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE FUTURE TAX SECURED BONDS—SALES TAX."

Enabling Legislation . . . . The Act, which became effective March 5, 1997, provides for the issuance of the Bonds and Notes, the payment of the Bonds and Notes from Revenues and the statutory and contractual covenants of the Authority, the City and the State. The Act was amended in 2000 to increase the debt-incurring capacity of the Authority. The Act was again amended in 2001 to permit the Authority to have outstanding $2.5 billion of Future Tax Secured Bonds and Notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Costs"). The Act was further amended in 2006 to increase the

Authority's statutory capacity to issue Future Tax Secured Bonds by $2 billion to $13.5 billion. In 2006, the Act was additionally amended pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act") to authorize the Authority to issue Bonds in an amount outstanding of up to $9.4 billion to finance a portion of the City's educational facilities capital plan (the "Building Aid Revenue Bonds"). The School Financing Act also authorized the City to assign to the Authority State aid payable to the City or its school district pursuant to subdivision 6 of Section 3602 of the State Education Law, or any successor provision of State Law ("State Building Aid"). The Building Aid Revenue Bonds are secured by State Building Aid and are not secured by Tax Revenues. The Series 2007 C Bonds are not payable from or secured by the State Building Aid.

Additional Authority Indebtedness . . . . Bonds and Notes of the Authority may be issued only: (i) as Senior Bonds (or Notes in anticipation thereof) to pay or reimburse Project Capital Costs, or refund or renew such Bonds or Notes, but not to exceed $12 billion in Outstanding principal amount and 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 no Series of Senior Bonds shall be authenticated and delivered without Rating Confirmation unless the amount of collections of Tax 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 Senior Debt Service, including debt service on the Series of Bonds proposed to be issued, for each fiscal year such bonds will be Outstanding. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

Parity Debt or Notes in anticipation thereof may be issued, provided that collections of Tax 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 Parity Debt is 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 Parity Debt, together with the Series proposed to be issued. See "SECTION V: THE AUTHORITY—Other Authority Indebtedness."

Other Authority Indebtedness . . . . . . The Authority has issued $13.5 billion of Future Tax Secured Bonds and Notes for general City capital purposes. The Authority currently has Outstanding $9,253,570,000 of Senior Bonds (including Bonds that have been economically defeased and the maturity value of capital appreciation bonds). The Authority also has Outstanding $1,765,060,000 of Recovery Obligations and $2,236,120,000 of other Parity Debt. In addition, the Authority has issued the Series 1 Notes, the principal of which is expected to be paid with the proceeds of the Series 2007 C Bonds. Parity Debt is subordinate to the Authority's Senior Bonds. The City is seeking legislation amending the Act to increase the statutory cap on the Authority's Future Tax Secured Bonds for general City capital purposes to $16 billion, which is expected to be sufficient to enable the Authority to finance approximately half of the City's capital program in fiscal year 2008. The City is expected to seek additional increases to the Authority's statutory bond cap so that the Authority may continue to provide financing for the City's capital program after fiscal year 2008. If the Act is so amended, the Authority expects to issue such bonds from time to time, but will continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein.

The Authority has also issued $1.3 billion of Building Aid Revenue Bonds, all of which are currently Outstanding. The Authority expects to issue additional Building Aid Revenue Bonds in the future. Building Aid Revenue Bonds are not secured by Tax Revenues. In addition, the Authority expects that it will issue Bonds for refunding purposes from time to time. Currently, the Authority has no Senior Agreements. See "SECTION V: THE AUTHORITY—Other Authority Indebtedness" and "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

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 Outstanding Bonds; provided, however, that almost all of such amounts are subject to State appropriation until July 1, 2008. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE FUTURE TAX SECURED BONDS—Sales Tax." The State is not obligated to make any additional payments or impose any taxes to satisfy the debt service obligations of the Authority.

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 Tax Revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration is not less than 150% of maximum annual debt service on Outstanding Bonds.

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

Interest and Principal .... Interest on the Subseries 2007 C-1 Bonds will accrue from their dated date at the rates set forth on the inside cover page hereof and will be payable semiannually on May 1 and November 1 of each year, commencing November 1, 2007. The record date for payment of interest on the Subseries 2007 C-1 Bonds is the fifteenth day of the calendar month immediately preceding the interest payment date.

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

Interest and principal on the Series 2007 C Bonds will be paid from Tax Revenues on deposit in the Recovery and Parity Debt Account or Redemption Account, if applicable. Tax Revenues shall be deposited into the Recovery and Parity Debt Account in accordance with the retention schedule as described in "Retention Procedures" below.

Optional Redemption .... The Subseries 2007 C-1 Bonds maturing on or before November 1, 2017 are not subject to optional redemption prior to maturity. The Subseries 2007 C-1 Bonds maturing after November 1, 2017 are subject to redemption prior to maturity on 30 days notice, beginning on November 1, 2017 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. See "SECTION IV: THE SERIES 2007 C BONDS—Optional Redemption."
Mandatory Redemption	The Subseries 2007 C-1 Bonds maturing on November 1, 2027 are subject to mandatory redemption, in part, prior to maturity as described herein. See "SECTION IV: THE SERIES 2007 C BONDS—Mandatory Redemption."
Form and Denomination	The Series 2007 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 Subseries 2007 C-1 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. Two subaccounts are established in the Bond Account: the Pre-07 S-1 Senior Subaccount and the Post-07 S-1 Senior Subaccount. The Trustee shall deposit amounts from the Tax Revenue Subaccount of the Collection Account into the

	appropriate subaccount of the Bond Account in accordance with the Retention Procedures described below for the payment of Senior Debt Service.
Recovery and Parity Debt Account	The Recovery and Parity Debt Account is held by the Trustee in accordance with the terms of the Indenture. Two subaccounts are established in the Recovery and Parity Debt Account: a Pre-07 S-1 Parity Subaccount and a Post-07 S-1 Parity Subaccount. Following required deposits to the appropriate subaccounts of the Bond Account for Senior Debt Service and payment of Authority operating expenses in accordance with the terms of the Indenture, the Trustee shall transfer all Tax Revenues to the appropriate subaccount of the Recovery and Parity Debt Account in accordance with the Retention Procedures described below for the payment of debt service on Recovery Obligations and other Parity Debt, including among other obligations, the Series 2007 C Bonds.
Application of Tax Revenues	All Tax Revenues in the Tax Revenue Subaccount of the Collection Account shall be applied upon receipt by the Trustee in the following order of priority: *first*, to the Bond Account to pay Senior Debt Service in accordance with the Retention Procedures described in the paragraph below; *second*, to the Authority's operating expenses, including deposits to the Redemption Account for optional redemption, and any reserves held by the Authority for payment of operating expenses; *third*, pursuant to Supplemental Indentures, to the Recovery and Parity Debt Account or otherwise for the benefit of holders of Parity Debt (including Series 2007 C Bondholders), Subordinate Bondholders, and parties to ancillary and swap contracts, to the extent such Supplemental Indentures may require application of Tax Revenues to pay items after payments of Senior Debt Service and operating expenses; *fourth*, pursuant to each Officer's Certificate making reference to this level of priority in accordance with the Indenture; and *fifth*, to the City as soon as available but not later than the last day of each month, excess Tax 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 Tax Revenues from the Tax Revenue Subaccount of the Collection Account in proportion to the unfunded balance with respect to each subaccount of the Bond Account in an amount equal to one-half of the Senior Debt Service payable from each subaccount of the Bond Account 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 in proportion to the unfunded balance of the Quarterly Payment Requirement until the Quarterly Payment Requirement is held in each subaccount of 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 Tax Revenues from the Tax Revenue Subaccount of the Collection Account to each subaccount of the Bond Account in proportion to the unfunded balance of the Quarterly Payment Requirement until there is on deposit therein the Quarterly Payment Requirement. The payment obligations of the Trustee for payments to be made from the Tax Revenue Subaccount of the Collection Account to each subaccount of 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. (To the extent collections from the Tax Revenues are insufficient during the first month or during the Collection Quarter to provide for payment requirements in the Pre-07 S-1 Senior Subaccount of the Bond Account, the Trustee will transfer State Building Aid from the Building Aid Subaccount in the amount of any such deficiency.) The Authority expects that the Quarterly Payment Requirement will be provided from Tax Revenues during the applicable Collection Quarter. However, in the event collections from the Tax Revenues are insufficient during any Collection Quarter to completely provide for the Quarterly Payment Requirement, the Trustee is required to withhold additional Tax Revenues in subsequent Collection Quarters. To the extent the Quarterly Payment Requirement includes principal, interest or premium on Future Tax Secured 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 Tax 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 Tax Revenues in proportion to the unfunded balance with respect to each subaccount of the Recovery and Parity Debt Account, equal to one-half of Quarterly Subordinate Debt Service payable from each subaccount of the Recovery and Parity Debt Account; and on the first business day of the second

	month of each Collection Quarter, the Trustee shall resume or continue such transfers in proportion to the unfunded balance of Quarterly Subordinate Debt Service in each subaccount of the Recovery and Parity Debt Account until the full amount of Quarterly Subordinate Debt Service is held in each subaccount of the Recovery and Parity Debt Account. (To the extent collections from Tax Revenues are insufficient during the first month or during the Collection Quarter to provide for payment requirements in the Pre-07 S-1 Parity Subaccount of the Recovery and Parity Debt Account, the Trustee will transfer State Building Aid from the Building Aid Subaccount in the amount of any such deficiency.) To the extent that Quarterly Subordinate Debt Service includes principal, interest or premium on Future Tax Secured 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 and the Authority may direct the Trustee to transfer Revenues thereto.
Defeasance	The Authority will have the ability to defease any Bonds under the Indenture 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 LLP, Bond Counsel to the Authority, interest on the Series 2007 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 2007 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 2007 C Bonds are rated "AAA" by Standard & Poor's Ratings Services ("Standard & Poor's"), "AA+" by Fitch Ratings ("Fitch") and "Aa2" by Moody's Investors Services, Inc. ("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 $366,970,000 Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-1 (the "Subseries 2007 C-1 Bonds"). The Authority also expects to issue its Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-2 and its Future Tax Secured Subordinate Bonds, Fiscal 2007 Subseries C-3 in the aggregate principal amount of $222,400,000 (collectively, the "Subseries 2007 C-2 and C-3 Bonds") as auction rate bonds. The Subseries 2007 C-2 and C-3 Bonds will be offered by a separate offering circular. The Subseries 2007 C-1 Bonds and the Subseries 2007 C-2 and C-3 Bonds are collectively referred to as the "Series 2007 C Bonds." The Series 2007 C Bonds, along with other series of bonds secured by Tax Revenues, are referred to herein as "Future Tax Secured Bonds." Future Tax Secured Bonds, together with all other series of bonds heretofore or hereafter issued under the Indenture (defined below), are collectively referred to as the "Bonds." The Series 2007 C Bonds will be issued on a parity with the Authority's Recovery Obligations and Subordinate Bonds issued on a parity with Recovery Obligations (together, "Parity Debt"). Interest on and principal of the Series 2007 C Bonds will be payable from the Tax Revenues subordinate to the payment of Senior Debt Service and operating expenses of the Authority. The interest on and principal of the Series 2007 C Bonds are payable solely from Tax Revenues on the subordinate basis described herein.

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 of New York (the "City"). The Act was amended in 2001 to permit the issuance of Future Tax Secured Bonds and Notes to pay costs relating to or arising from the September 11 attack on the World Trade Center ("Recovery Costs"). In 2006, the Act was amended pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act") which authorizes the Authority to issue Bonds to finance a portion of the City's educational facilities capital plan ("Building Aid Revenue Bonds") and authorizes the City to assign to the Authority all or any portion of the State aid payable to the City or its school district pursuant to subdivision 6 of Section 3602 of the State Education Law, or any successor provision of State Law ("State Building Aid"). The Building Aid Revenue Bonds are not secured by Tax Revenues described below. The Series 2007 C Bonds are not payable from or secured by State Building Aid.

The Series 2007 C Bonds are being issued pursuant to the Act and the Amended and Restated Original Indenture dated November 16, 2006, as supplemented (the "Indenture"), by and between the Authority and The Bank of New York, New York, New York, as Trustee (the "Trustee"). The Authority and the City entered a Financing Agreement (the "Agreement"), dated October 1, 1997, as amended, supplemented and in effect from time to time, which provides for the application of the Authority's Bond proceeds to fund capital expenditures of the City and Recovery Costs and includes various covenants of the City.

The factors affecting the Authority and the Series 2007 C 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. 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."

SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE FUTURE TAX SECURED BONDS

General

The Series 2007 C Bonds are to be issued as Parity Debt. Interest on and principal of the Series 2007 C Bonds are payable from Tax Revenues, subordinate to payment of Senior Debt Service, including principal of and interest on Senior Bonds, Outstanding and to be issued, and to operating expenses of the Authority. See "—Application of Revenues" herein.

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. A portion of the Authority's Revenues are derived from the amounts payable to it from the Tax Revenues which are the only source of payment pledged to the holders of the Series 2007 C Bonds. See "—Tax Revenues" below. The balance of the Authority's Revenues are derived primarily from State Building Aid which is not pledged to the holders of the Series 2007 C Bonds. Pursuant to the Act and the Indenture, the Authority has pledged the Tax Revenues to the Trustee for payment of the principal of and the interest on the Series 2007 C Bonds on a subordinate basis. The Act provides that the Authority's pledge of its Tax Revenues represents a perfected security interest on behalf of the holders of the Future Tax Secured Bonds.

The Authority does not have any significant assets or sources of funds to pay the Series 2007 C Bonds other than the Tax Revenues. The Series 2007 C Bonds will not be guaranteed by the City or the State. Consequently, the holders of the Series 2007 C Bonds must rely for repayment solely upon collection of the Tax Revenues and certain accounts held by the Trustee pursuant to the Indenture.

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 Tax Revenues equal or prior to the rights of the holders of the Future Tax Secured Bonds, such assertion would not succeed.

Tax Revenues

The Series 2007 C Bonds are payable from the Tax Revenues on a subordinate basis as described above. 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 (i) the MAC Funding Requirements (as defined below), and (ii) State administrative costs. See "—Sales Tax—*MAC Funding Requirements*" below. The Sales Tax is the tax currently imposed by the State on the sale and use of tangible personal property and services in the City until July 1, 2008 and thereafter means the sales and use tax imposed by 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 Future Tax Secured 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.

Historical collections of Tax Revenues for fiscal years 1991 to 2006 and forecasted collections of Tax Revenues for fiscal years 2007 through and including 2011 are shown in the following table. Forecasted collections of Tax Revenues included in this Offering Circular are as forecasted by the New York City Office of Management and Budget ("NYC OMB") as set forth in the City Financial Plan Modification dated April 26, 2007 (the "City Financial Plan").

HISTORICAL AND FORECASTED AMOUNTS OF TAX REVENUES
($ millions)

Fiscal Year	Tax Revenues	Fiscal Year	Tax Revenues
1991	$4,720	2002	$ 7,908
1992	5,028	2003	7,785
1993	5,444	2004	9,037
1994	5,702	2005	10,873
1995	6,202	2006	11,756
1996	6,533	2007(1)	12,122
1997	7,048	2008(1)	12,355
1998	7,816	2009(2)	12,585
1999	8,639	2010(2)	13,165
2000	8,961	2011(2)	13,849
2001	9,485		

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

(1) Forecast. Figures do not reflect deductions for MAC Funding Requirements. For information regarding MAC Funding Requirements, 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."

(2) Forecast. Amounts shown assume that the City will be authorized to impose the Sales Tax after July 1, 2008 at the rate of 4%, which will require legislation.

The amount of future Tax Revenues to be collected depends upon various factors including the economic conditions in the City. The forecasts of Tax 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."

For information concerning certain proposals by the Mayor which, if enacted, are expected to reduce both Personal Income Tax Revenues and Sales Tax Revenues, see "—Sales Tax" and "—Personal Income Tax." The amounts set forth above do not reflect the enactment of the Mayor's proposals.

Debt Service Coverage

The Indenture includes the Quarterly Senior Debt Service Covenant which provides that the maximum Quarterly Senior Debt Service may not exceed $330 million. Annually, this would total $1.32 billion, which corresponds to the cost of debt service on $12 billion of Authority debt outstanding at an interest rate of 9% (the "Covenanted Maximum Annual Debt Service for Senior Bonds"). See "SECTION V: THE AUTHORITY—Other Authority Indebtedness."

The Indenture provides that other Series of Recovery Obligations and other Parity Debt, in addition to the Series 2007 C Bonds, may be issued, provided that collections of Tax 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 other Parity Debt including annual debt service on the Series proposed to be issued, as estimated in accordance with the Indenture.

The following table shows debt service coverage by historical and forecasted Tax Revenues on Outstanding Senior Bonds and Parity Debt. For information regarding projection assumptions and the expiration and reduction of portions of the Personal Income Tax, see "—Statutory Revenues" and "—Personal Income Tax."

DEBT SERVICE COVERAGE BY HISTORICAL AND FORECASTED TAX REVENUES

Fiscal Year	Tax Revenues ($ millions)	Pro Forma Coverage[1]
1991	$ 4,720	3.23x
1992	5,028	3.45
1993	5,444	3.73
1994	5,702	3.91
1995	6,202	4.25
1996	6,533	4.48
1997	7,048	4.83
1998	7,816	5.36
1999	8,639	5.92
2000	8,961	6.14
2001	9,485	6.50
2002	7,908	5.42
2003	7,785	5.33
2004	9,037	6.19
2005	10,873	7.45
2006	11,756	8.06
2007[2]	12,122	8.31
2008[2]	12,355	8.47
2009[3]	12,585	8.62
2010[3]	13,165	9.02
2011[3]	13,849	9.49

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

(1) Calculated based on maximum annual debt service of approximately $1,459 million on Senior Bonds and Parity Debt (assumes that variable rate bonds bear interest at their maximum rate of 9% and that auction rate bonds bear interest at their maximum rate of 12%, and excludes debt service on Series 1 Notes and includes debt service on the Series 2007 C Bonds).

(2) Forecast. Figures do not reflect deductions for MAC Funding Requirements. For information regarding MAC Funding Requirements, projection assumptions and the expiration and reduction of portions of the Personal Income Tax and Sales Tax, see "—Personal Income Tax" and "—Sales Tax."

(3) Forecast. Amounts shown assume that the City will be authorized to impose the Sales Tax after July 1, 2008 at the rate of 4%, which will require legislation.

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 16.3% 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 (as defined below) (the "MAC pledge"). Sales Tax collections subject to the MAC pledge are subject to State appropriation but not City appropriation. 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 State 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 Outstanding Bonds. In the event Personal Income Tax Revenues are projected to provide coverage of at least 150% of maximum annual debt service on the Outstanding Bonds, no Sales Tax Revenues will be paid by the State Comptroller to the Authority. See "Agreements of the State and the City" below. Commencing July 1, 2008, Sales Tax collections, if required, 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.

In the past, various components of the Personal Income Tax have been reduced or have expired. The Personal Income Tax for 2002 was imposed on residents according to a schedule of rates (the "Base Rate") and was subject to an additional 14% surcharge (the "14% Surcharge") with a resulting maximum rate of 3.648%. The Base Rate and the 14% Surcharge were replaced with a temporary rate schedule for 2003 through 2005. The top rate under this temporary schedule was 4.45%. For 2006, the temporary schedule was replaced with the Base Rate and the 14% Surcharge. The Base Rate and the 14% surcharge are scheduled to remain in effect until their scheduled expiration on January 1, 2009. At that time, unless legislation is passed which extends the Base Rate and the 14% Surcharge, a lower rate schedule (the "Reduced Base Rate") with a maximum rate of 1.48% is to become effective. 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 extension of the 14% Surcharge and the Base Rate after 2008. If the 14% Surcharge is not extended prior to its expiration, Personal Income Tax Revenues (and Tax Revenues) will be reduced by an estimated $348 million in fiscal year 2009. 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, Personal Income Tax Revenues (and Tax Revenues) would be reduced by an estimated $1.7 billion in fiscal year 2009, $5.0 billion in fiscal year 2010 and $5.3 billion in fiscal year 2011. In such an event, Tax Revenues are projected to exceed maximum annual debt service on Outstanding Senior Bonds and Parity Debt by an estimated $9.4 billion in fiscal year 2009, $6.7 billion in fiscal year 2010 and $7.1 billion in fiscal year 2011. The Personal Income Tax Revenues do not include the effect of the Mayor's proposed child care credit effective for calendar year 2007 and thereafter. If this credit were enacted, Personal Income Tax Revenues would be reduced by an estimated $42 million, $43 million, $44 million and $45 million in fiscal years 2008 through 2011, respectively.

Personal Income Tax Revenues were approximately $130 million in fiscal year 1967. The following table shows Personal Income Tax Revenues for fiscal years 1991 through 2006 and forecasted Personal Income Tax Revenues for fiscal years 2007 through 2011.

HISTORICAL AND FORECASTED PERSONAL INCOME TAX REVENUES
($ millions)

Fiscal Year	Personal Income Tax Revenues	Fiscal Year	Personal Income Tax Revenues
1991	$2,784	2002	$4,500
1992	3,232	2003	4,495
1993	3,477	2004	5,552
1994	3,564	2005	6,503
1995	3,585	2006	7,329
1996	3,907	2007(1)	7,580
1997	4,376	2008(1)	7,691
1998	5,147	2009(1)	7,800
1999	5,397	2010(1)	8,150
2000	5,528	2011(1)	8,582
2001	5,771		

Source: NYC OMB. All figures are calculated on a cash basis.
(1) Forecast.

For fiscal years 1996 through 2006, an average of 76.1% of Personal Income Tax Revenues was collected through mandatory withholding by employers as a percentage of wage income paid to employees. For fiscal year 2006, $5.1 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 2006, approximately 15.8% of Personal Income Tax Revenues was collected from taxpayers through quarterly installment payments on non-wage income and self-employment earnings, and approximately 8.1% of Personal Income Tax Revenues was collected from taxpayers following the end of each calendar year based on the filing of final tax returns.

Sales Tax

For purposes of this Offering Circular the term "Sales Tax" means the tax on the sale and use of tangible personal property and services in the City currently imposed by the State until July 1, 2008, and thereafter means the similar tax imposed by the City. The Sales Tax is currently imposed at a rate of 4%. 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 or for State administrative costs. 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. Clothing and footwear under $110 is currently exempt from Sales Tax. The Sales Tax Revenues for fiscal 2008 through 2011 do not include the effect of the Mayor of the City's proposed sales tax exemption for clothing and footwear purchases costing $110 and above, effective July 1, 2007. This proposal would require approval of the State Legislature and the City Council. If this exemption were enacted, Sales Tax Revenues would be reduced by an estimated $110 million, $117 million, $119 million and $122 million in fiscal years 2008 through 2011, respectively. Additionally, Sales Tax Revenues for fiscal years 2008 through 2011 do not include the effect of the Mayor's proposed Sales Tax exemption for the purchase of hybrid vehicles. If this exemption were enacted, Sales Tax Revenues would be reduced by an estimated $2 million in each of fiscal years 2008 through 2011.

Prior to July 1, 2008 as described below, 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 MAC pledge and are not subject to State or City appropriation.

On July 1, 2008, the Sales Tax imposed by the State will expire, and the Sales Tax imposed by the City will again be in effect. At such time, under current law, Sales Tax Revenues payable to the Authority will no longer be subject to State appropriation and will not be subject to appropriation by the City. Due to the expiration of certain State legislation, the City-imposed Sales Tax would, under current law, take effect at the rate of 3% on July 1, 2008. The projections herein assume that the City receives authorization 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 the Municipal Assistance Corporation for The City of New York ("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 money 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. All of MAC's outstanding debt matures on or before July 1, 2008, and has been defeased. MAC has no authority to issue additional debt. MAC Funding Requirements for fiscal year 2007 are expected to be $10 million. Commencing 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 Revenues

The table below shows historical Sales Tax Revenues for fiscal years 1991 through 2006 and forecasted Sales Tax Revenues for fiscal years 2007 through 2011.

HISTORICAL AND FORECASTED SALES TAX REVENUES
($ millions)

Fiscal Year	Sales Tax Revenues	Fiscal Year	Sales Tax Revenues
1991	$1,936	2002	$3,408
1992	1,795	2003	3,289
1993	1,968	2004	3,485
1994	2,138	2005	4,370
1995	2,617	2006	4,427
1996	2,627	2007(1)	4,542
1997	2,671	2008(1)	4,664
1998	2,669	2009(2)	4,785
1999	3,242	2010(2)	5,015
2000	3,433	2011(2)	5,267
2001	3,714		

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

(1) Forecast. Figures do not reflect deductions for MAC Funding Requirements. For information on MAC Funding Requirements, see "—*MAC Funding Requirements*."

(2) Forecast. Amounts shown assume that the City will be authorized to impose the Sales Tax after July 1, 2008 at the rate of 4%, which will require legislation.

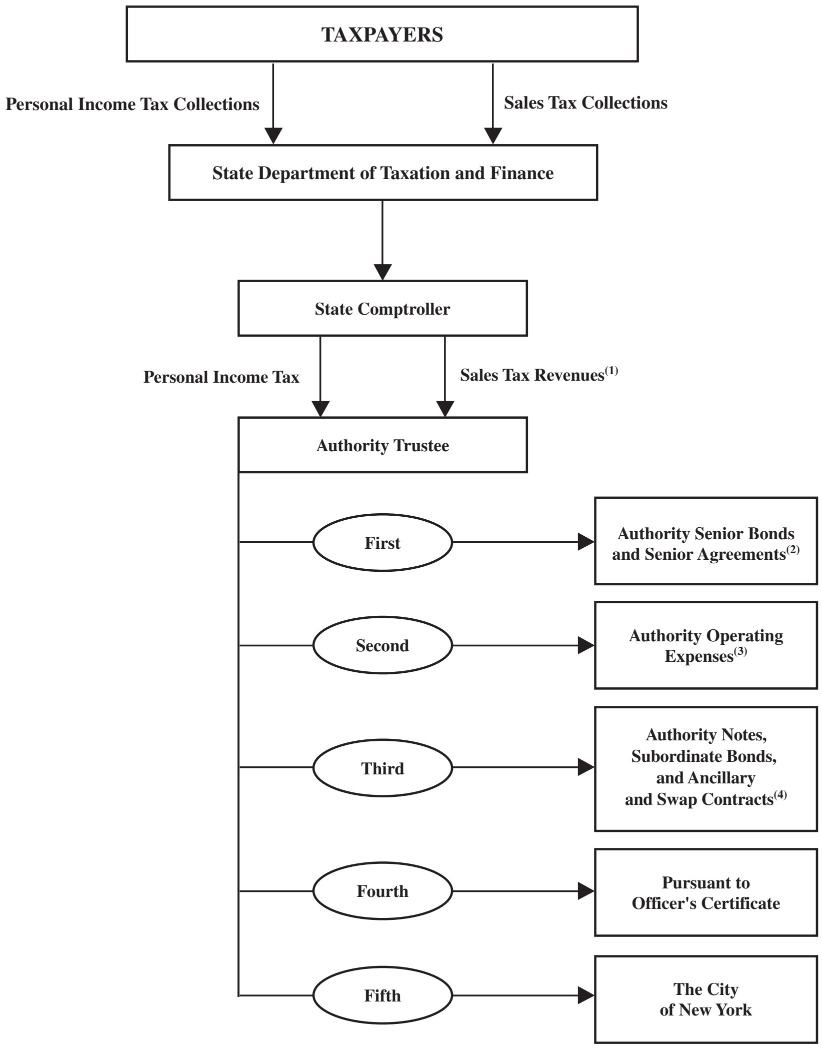
Application of Revenues

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 within which there is created a Tax Revenue Subaccount and a Building Aid Subaccount. Any Tax Revenues received by the Authority shall be promptly deposited into the Tax Revenue Subaccount.

All Tax Revenues in the Tax Revenue Subaccount of the Collection Account shall be applied upon receipt by the Trustee in the following order of priority: *first,* to the Bond 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,* pursuant to Supplemental Indentures, to the Recovery and Parity Debt Account or otherwise for the benefit of holders of Parity Debt (including holders of Series 2007 C Bonds), Subordinate Bondholders and parties to ancillary and swap contracts (other than Senior Agreements), to the extent such Supplemental Indentures may require application of Tax Revenues to pay items after payments of Senior Debt Service and operating expenses; *fourth,* pursuant to each Officer's Certificate making reference to this level of priority in accordance with the Indenture; and *fifth,* to the City as soon as available but not later than the last day of each month, excess Tax Revenues, free and clear of the lien of the Indenture.

The following chart illustrates the collection and flow of Tax Revenues under the Indenture, as described below.

SUMMARY OF COLLECTION AND APPLICATION OF TAX REVENUES



(1) 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. For further information, see "—Sales Tax."

(2) Tax Revenues will be retained by the Trustee for the payment of Senior Debt Service, in accordance with the Retention Procedures detailed below.

(3) After Tax Revenues are retained by the Trustee for the payment of Senior Debt Service, such Tax Revenues are paid to the Authority for its operating expenses.

(4) Excluding all items payable from State Building Aid. After payment of Authority operating expenses, Tax 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 on the Future Tax Secured Bonds.

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 all Tax Revenues from the Tax Revenue Subaccount of the Collection Account in proportion to the unfunded balance with respect to each subaccount of the Bond Account in an amount equal to one-half of Quarterly Senior Debt Service payable from each subaccount of the Bond Account 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 all Tax Revenues in proportion to the unfunded balance of the Quarterly Payment Requirement from the Collection Account to each subaccount of the Bond Account until there is on deposit in each subaccount of 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 Tax Revenues from the Tax Revenue Subaccount of the Collection Account to each subaccount of the Bond Account in proportion to the unfunded balance of the Quarterly Payment Requirement until there is on deposit therein the Quarterly Payment Requirement. The obligations of the Trustee for payments to be made from the Tax Revenue Subaccount of the Collection Account to each subaccount of 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. To the extent collections from the Tax Revenues are insufficient during the first month or during the Collection Quarter to provide for payment requirements in the Pre-07 S-1 Senior Subaccount of the Bond Account, the Trustee will transfer State Building Aid from the Building Aid Subaccount in the amount of any such deficiency.

After all payments are made to the Bond 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 other Parity Debt. At the beginning of each Collection Quarter, the Trustee shall begin to transfer Tax Revenues in proportion to the unfunded balance with respect to each subaccount of the Recovery and Parity Debt Account, equal to one-half of the Quarterly Subordinate Debt Service payable from each subaccount of the Recovery and Parity Debt Account; and on the first day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers in proportion to the unfunded balance of Quarterly Subordinate Debt Service in each subaccount of the Recovery and Parity Debt Account until the full amount of the Quarterly Subordinate Debt Service is held in each subaccount of the Recovery and Parity Debt Account. To the extent collections from the Tax Revenues are insufficient during the first month or during the Collection Quarter to provide for payment requirements in the Pre-07 S-1 Parity Subaccount of the Recovery and Parity Debt Account, the Trustee will transfer State Building Aid from the Building Aid Subaccount in the amount of any such deficiency. The obligation of the Trustee for payments to be made from the Tax Revenue Subaccount of the Collection Account to each subaccount of 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 Tax Revenue Subaccount of 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 almost all of such amounts are subject to State appropriation until July 1, 2008. 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 Tax Revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration is not less than 150% of maximum annual debt service on Outstanding Bonds of the Authority.

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 Tax 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. The City is also the location of many major securities, banking, law, accounting, news 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, professional and business services, 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 came to an end in 2003. Since then, Wall Street activity, tourism, and the real estate market have driven a broad-based economic recovery. The Financial Plan assumes slower growth in calender year 2007, corresponding to a weakening national economy.

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

Year	Total Population
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.

The following table illustrates the volume of sales and purchases subject to the Sales Tax from 1994 to 2004.

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

Year[1]	Retail[2]	Utility & Communication Sales[3]	Services[4]	Manufacturing	Other[5]	Total
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
2000[6]	29.9	9.8	19.4	2.1	15.4	76.6
2001[6]	25.2	11.3	21.5	2.2	19.0	79.2
2002[6]	25.6	11.9	20.7	2.0	15.2	75.5
2003[6]	26.1	11.4	21.0	1.8	14.8	75.2
2004[6]	32.3	11.6	21.7	1.9	14.8	82.3

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

Note: Totals may not add due to rounding.

(1) For 1994 through 1999, 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. For 2000 through 2004, the yearly data is for the period from March 1 of the year prior to the listed year through the last day of February of the listed year.

(2) Retail sales include building materials, general merchandise, food, auto dealers/gas stations, apparel, furniture, eating and drinking and miscellaneous retail.

(3) Utility and Communication sales include electric, gas and communication.

(4) Services include business services, hotels, personal services, auto repair and other services.

(5) Other sales include construction, wholesale trade and others. Beginning in 2000, Other sales also include arts, entertainment and recreation.

(6) Prior to 2000, the sectors were classified according to the Standard Industrial Classification System. Beginning in 2000, the sectors are classified according to the North Atlantic Industry Classification System ("NAICS"). The definitions of certain categories have changed.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1995 to 2005 (the most recent year for which City personal income data are available). From 1995 to 2005, personal income in the City averaged 4.5% growth compared to 5.2% for the nation. After increasing by 7.7% in 2004, total personal income has increased by 4.2% in 2005. The following table sets forth information regarding personal income in the City from 1995 to 2005.

PERSONAL INCOME IN NEW YORK CITY[1]

Year	Total City Personal Income ($ billions)	City Per Capita Personal Income	U.S. Per Capita Personal Income	City Per Capita Personal Income as a Percent of U.S.
1995	$221.2	$28,981	$23,078	125.6%
1996	234.1	30,407	24,176	125.8
1997	245.5	31,579	25,334	124.7
1998	262.0	33,341	26,880	124.0
1999	275.4	34,658	27,933	124.1
2000	296.0	36,910	29,855	123.6
2001	302.7	37,481	30,572	122.6
2002	299.8	36,987	30,805	120.1
2003	306.1	37,592	31,469	119.5
2004	329.6	40,300	33,102	121.7
2005	343.4	41,803	34,493	121.2

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 2006, the City's service producing sectors provided approximately 2.9 million jobs and accounted for approximately 79% 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 2005, the employment share for the financial activities and professional and business services sectors was approximately 28% while the earnings share for those same sectors was approximately 48%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2005. 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 2005 are set forth in the following table.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS IN 2005[(1)]

	Employment		Earnings[(2)]	
	NYC	U.S.	NYC	U.S.
Private Sector				
Goods-Producing Sectors				
Mining	0.0%	0.5%	0.3%	1.2%
Construction	3.1	5.5	2.9	6.5
Manufacturing	3.2	10.6	2.7	12.8
Total Goods-Producing	6.3	16.6	5.9	20.4
Service-Producing Sectors				
Trade, Transportation and Utilities	15.2	19.4	9.1	16.0
Information	4.5	2.3	7.5	3.6
Financial Activities	12.4	6.1	28.7	10.1
Professional and Business Services	15.4	12.6	20.0	15.4
Education and Health Services	18.8	13.0	10.5	10.8
Leisure & Hospitality	7.7	9.6	3.8	3.8
Other Services	4.3	4.0	2.5	2.9
Total Service-Producing	78.3	67.0	82.0	62.6
Total Private Sector	84.6	83.7	89.2	83.4
Government[(3)]	15.4	16.3	10.8	16.6

Note: Data may not add due to rounding or disclosure limitations. Data are presented using the NAICS.

Sources: The two primary sources of employment and earnings information are the U.S. Department 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 is 2005 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 the NAICS in the late 1990s. Though the 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%	26.0%	18.4%	30.2%	28.7%
Wholesale and Retail Trade	18.6	22.5	16.8	23.0	15.1	16.6	9.3	14.9
Finance, Insurance and Real Estate	13.6	5.7	13.2	5.7	17.6	5.9	35.5	10.0
Transportation and Public Utilities	7.8	5.7	5.7	5.3	10.1	7.6	5.2	6.8
Contract Construction	2.3	4.8	3.3	5.1	2.6	6.3	2.9	5.9
Mining	0.0	1.1	0.0	0.4	0.4	2.1	0.1	1.0
Total Non-Manufacturing	69.3	59.6	78.1	70.3	71.8	56.9	83.2	67.3
Manufacturing:								
Durable	4.4	13.4	1.6	8.4	3.7	15.9	1.3	10.5
Non-Durable	10.6	9.0	4.9	5.6	9.5	8.9	4.8	6.1
Total Manufacturing	15.0	22.4	6.5	14.0	13.2	24.8	6.1	16.6
Total Private Sector	84.3	82.0	84.7	84.3	85.2	82.1	89.8	84.6
Government[3]	15.7	18.0	15.3	15.7	14.8	17.9	10.3	15.4

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. Department 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.

(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 and 2003, average annual employment in the City fell by approximately 108,600 and 51,800 jobs, respectively. In 2004, the City's economy began to rebound, adding 17,500 jobs in 2004, 52,900 in 2005, and 62,200 jobs in 2006. As of April 2007, total employment in the City was approximately 3,693,400 compared to approximately 3,645,300 in April 2006, an increase of approximately 1.3%.

The table below shows the distribution of employment from 1996 to 2006.

NEW YORK CITY EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Goods-Producing Sectors											
Construction	91	93	101	112	120	122	116	113	112	113	118
Manufacturing	200	201	196	187	177	156	139	127	121	114	106
Service-Producing Sectors											
Trade Transportation and Utilities	533	538	542	556	570	557	536	534	539	547	557
Information	159	163	166	173	187	200	177	164	160	163	165
Financial Activities	464	468	477	481	489	474	445	434	435	445	458
Professional and Business Services	468	494	525	553	587	582	550	537	541	555	571
Educational and Health services	565	576	589	606	620	627	646	658	665	679	695
Leisure and Hospitality	217	228	236	244	257	260	255	260	270	277	283
Other Services	125	129	134	142	147	149	150	149	151	153	154
Total Private Sector	2,823	2,890	2,966	3,053	3,154	3,127	3,015	2,975	2,995	3,047	3,109
Government	546	552	561	567	569	565	569	557	554	556	555
Total	3,369	3,442	3,528	3,621	3,723	3,692	3,584	3,532	3,549	3,602	3,664

Source: U.S. Department of Labor, Bureau of Labor Statistics. Data are presented using NAICS.
Note: Totals may not add due to rounding.

SECTION IV: THE SERIES 2007 C BONDS

General

The Subseries 2007 C-1 Bonds will be dated the date of delivery, 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 if subject to redemption. All of the Series 2007 C Bonds will be issued in book-entry only form. Interest on and principal of Series 2007 C Bonds are payable from Tax Revenues of the Authority subordinate to Senior Debt Service and operating expenses of the Authority and on a parity with the Authority's Recovery Bonds and other Parity Debt. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE FUTURE TAX SECURED BONDS."

The Subseries 2007 C-1 Bonds will be issued in denominations of $5,000 or any integral multiple thereof, and will bear interest calculated on the basis of a 360-day year of 30-day months.

The Series 2007 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 Subseries 2007 C-1 Bonds maturing on or before November 1, 2017 are not subject to redemption prior to maturity. The Subseries 2007 C-1 Bonds maturing after November 1, 2017 are subject to redemption prior to maturity on 30 days' notice, beginning on November 1, 2017 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.

Mandatory Redemption

The Subseries 2007 C-1 Bonds maturing on November 1, 2027 are subject to mandatory redemption, by lot within such maturity, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, without premium, on the dates and in the amounts set forth below.

November 1	Principal Amount to be Redeemed
2025	$15,845,000
2026	21,995,000
2027(1)	24,495,000

(1) Stated maturity

At the option of the Authority, there shall be applied to or credited against any of the required amounts subject to mandatory redemption, the principal amount of any Subseries 2007 C-1 Bonds that have been defeased, purchased or redeemed and not previously so applied or credited.

Defeased Subseries 2007 C-1 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 Series 2007 C 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.

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 Future Tax Secured Bonds (including the Series 2007 C Bonds) during such period.

	Series 2007 C Bonds Debt Service				
Fiscal Year	Principal and Sinking Fund Installments	Interest	Total	Outstanding Future Tax Secured Bonds Debt Service(1)	Total Future Tax Secured Bonds Debt Service(1)
2007	$ —	$ —	$ —	$ 987,294,230	$ 987,294,230
2008	—	24,205,119	24,205,119	766,228,727	790,433,845
2009	17,565,000	27,783,730	45,348,730	1,124,945,259	1,170,293,989
2010	18,215,000	27,120,266	45,335,266	1,124,039,006	1,169,374,272
2011	18,890,000	26,432,777	45,322,777	1,120,411,053	1,165,733,830
2012	21,730,000	25,579,412	47,309,412	1,155,080,614	1,202,390,027
2013	22,735,000	24,516,875	47,251,875	1,184,605,257	1,231,857,132
2014	23,855,000	23,387,606	47,242,606	1,160,433,539	1,207,676,146
2015	24,995,000	22,222,250	47,217,250	1,137,764,131	1,184,981,381
2016	26,185,000	20,998,300	47,183,300	1,115,542,303	1,162,725,603
2017	27,445,000	19,738,400	47,183,400	1,095,727,441	1,142,910,841
2018	28,705,000	18,476,375	47,181,375	1,073,848,270	1,121,029,645
2019	30,000,000	17,095,025	47,095,025	1,055,593,540	1,102,688,565
2020	31,350,000	15,561,275	46,911,275	1,034,929,380	1,081,840,655
2021	32,770,000	13,958,275	46,728,275	968,997,690	1,015,725,965
2022	34,275,000	12,282,150	46,557,150	931,143,748	977,700,898
2023	35,750,000	10,531,525	46,281,525	906,967,999	953,249,524
2024	37,280,000	8,759,512	46,039,512	710,296,298	756,335,811
2025	38,915,000	6,908,375	45,823,375	621,779,517	667,602,892
2026	40,695,000	4,918,125	45,613,125	599,927,245	645,540,370
2027	42,570,000	2,836,500	45,406,500	591,683,416	637,089,916
2028	35,445,000	886,125	36,331,125	552,424,611	588,755,736
2029	—	—	—	439,747,003	439,747,003
2030	—	—	—	307,067,642	307,067,642
2031	—	—	—	222,292,833	222,292,833
2032	—	—	—	116,172,794	116,172,794
2033	—	—	—	77,179,736	77,179,736
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, on taxable adjustable rate bonds at an assumed rate of 7% per annum and on auction rate bonds at an assumed rate of 5% 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 C Bonds maturing after 2015 is assumed to be 5% after February 1, 2011. Figures include debt service on economically defeased Bonds.

Use of Proceeds

The proceeds of the Series 2007 C Bonds will be used to pay at maturity the Series 1 Notes. The Series 1 Notes were issued to finance general City capital expenditures. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 2007 C Bonds will be paid from the proceeds of the Series 2007 C Bonds.

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.

The Depository Trust Company, New York, New York ("DTC"), 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 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, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, 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 and www.dtc.org.

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 nor its nominee, 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 securities 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 securities 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-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

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 2007 C Bonds and the Indenture 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 does not have any significant assets or sources of funds available for payment of the Series 2007 C Bonds other than the Tax Revenues. The Bonds will not be insured or guaranteed by the City or the State. Consequently, holders of the 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 serves 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
Christine Quinn	—	Speaker of the City Council

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

Alan L. Anders, Executive Director

Mr. Anders was appointed Treasurer in April 1997 and subsequently was appointed Executive Director in June 2006. 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 Harvard Law School.

F. Jay Olson, CTP, Treasurer

Mr. Olson was appointed Assistant Treasurer in October 2000 and subsequently was appointed Treasurer in June 2006. 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.

Prescott D. Ulrey, General Counsel

Mr. Ulrey was appointed Assistant Secretary in 1998 and subsequently was appointed General Counsel in 2000. He 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.

Michele Mark Levine, Assistant Comptroller

Ms. Levine was appointed Assistant Comptroller in March 2005. She is a graduate of the State University of New York at Binghamton and the Maxwell School of Citizenship and Public Administration at Syracuse University.

Sanna Wong-Chen, Assistant Treasurer

Ms. Wong-Chen was appointed Assistant Treasurer in June 2006. She is a graduate of Cornell University.

Albert F. Moncure, Jr., Assistant Secretary

Mr. Moncure is a graduate of Dartmouth College and 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 Future Tax Secured Bonds for general City capital purposes (up to $13.5 billion) and for refunding of Bonds. The Act also permits the Authority to have outstanding an additional $2.5 billion of its Recovery Obligations. The School Financing Act authorizes the issuance of Building Aid Revenue Bonds of the Authority in an amount outstanding of up to $9.4 billion to finance portions of the City's educational facilities capital plan. The Building Aid Revenue Bonds will be secured by State Building Aid assigned by the City to the Authority. The Building Aid Revenue Bonds will not be secured by Tax Revenues.

The Authority has previously issued an aggregate par amount of $13.5 billion of Future Tax Secured Bonds and Notes for general City capital purposes. The Authority currently has Outstanding $9,253,570,000 of Senior Bonds (including Bonds that have been economically defeased and the maturity value of capital appreciation bonds). The Indenture permits up to $12 billion of Senior Bonds to be Outstanding. The Authority has Outstanding $1,765,060,000 of Recovery Obligations and $2,236,120,000 of other Parity Debt. In addition, the Authority has issued the Series 1 Notes, the principal of which is expected to be paid with the proceeds of the Series 2007 C Bonds. The Authority has also issued, and there is currently outstanding, $1.3 billion of Building Aid Revenue Bonds. Currently, the Authority has no Senior Agreements.

The Authority expects that it will issue Bonds for refunding purposes from time to time. In addition, the City is seeking legislation amending the Act to increase the statutory cap on the Authority's Future Tax Secured Bonds for general City capital purposes to $16 billion, which is expected to be sufficient to enable the Authority to finance approximately half of the City's capital program in fiscal year 2008. The City is expected to seek additional increases to the Authority's statutory bond cap so that the Authority may continue to provide financing for the City's capital program after fiscal year 2008. If the Act is so amended, the Authority expects to issue such Bonds from time to time, but will 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."

Future Tax Secured Bonds of the Authority may be issued only: (i) as Senior Bonds (or Notes in anticipation thereof) to pay or reimburse Project Capital Costs or refund or renew such Bonds or Notes, but not to exceed $12 billion in Outstanding principal amount, and 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 no Series of Senior Bonds shall be authenticated and delivered without Rating Confirmation unless the amount of collections of Tax 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 Senior Debt Service, including debt service on the Series of Bonds proposed to be issued, for each fiscal year such Bonds will be Outstanding. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

Parity Debt (or Notes in anticipation thereof) may be issued, provided that collections of Tax 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 Parity Debt is 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 Parity Debt, together with the Series proposed to be issued, as estimated in accordance with the Indenture.

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 Tax 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 terminates July 1, 2008.

SECTION VI: LITIGATION

There is not now pending any litigation (i) restraining or enjoining the issuance or delivery of the Series 2007 C Bonds or questioning or affecting the validity of the Series 2007 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

Tax-Exempt Bonds

In the opinion of Sidley Austin LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Series 2007 C Bonds will not be includable in the gross income of the owners of the Series 2007 C Bonds for purposes of federal income taxation under existing law. Interest on the Series 2007 C Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2007 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 2007 C Bonds and the timely payment of certain investment earnings to the United States Treasury; and no opinion is rendered by Sidley Austin LLP as to the exclusion from gross income of the interest on the Series 2007 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 2007 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 2007 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 LLP renders no opinion, as a result of ownership of such Series 2007 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 2007 C Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

Original Issue Discount. The excess, if any, of the amount payable at maturity of any maturity of the Series 2007 C Bonds purchased as part of the initial public offering 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 2007 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 2007 C Bonds. In general, the issue price of a maturity of the Series 2007 C Bonds is the first price at which a substantial amount of Series 2007 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.

Premium. The excess, if any, of the tax basis of Series 2007 C Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such Series 2007 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 2007 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 2007 C Bonds are required to decrease their adjusted basis in such Series 2007 C Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2007 C Bonds are held. The amortizable bond premium on such Series 2007 C Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, U.S. Treasury regulations provide that bond premium is treated as an offset to qualified stated interest received on such Series 2007 C Bonds. Owners of such Series 2007 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 2007 C Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2007 C Bonds.

Collateral Consequences. 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 2007 C Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Future Developments. Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2007 C Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. On May 21, 2007, the United States Supreme Court agreed to review a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States Constitution prohibits Kentucky from exempting interest on bonds issued by Kentucky and its localities and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State to eliminate the disparity between the tax treatment of out-of-state bonds and tax treatment of in-state bonds including bonds issued by the Authority. The impact of this decision may also affect the market price for, or the marketability of, the Series 2007 C Bonds.

Prospective purchasers of the Series 2007 C Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

Backup Withholding

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Series 2007 C Bonds made after March 31, 2007 to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner’s federal income tax liability provided the required information is furnished to the IRS.

SECTION VIII: RATINGS

The Series 2007 C Bonds are rated “AAA” by Standard & Poor’s, “AA+” by Fitch and “Aa2” by Moody’s. Such ratings reflect only the views of Standard & Poor’s, Fitch and Moody’s 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 2007 C Bonds.

SECTION IX: APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance and delivery of the Series 2007 C Bonds are subject to the approval of Sidley Austin 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 Winston & Strawn LLP, New York, New York, counsel to the Underwriters.

SECTION X: FINANCIAL ADVISORS

Public Resources Advisory Group, New York, New York, and A.C. Advisory, Inc., Chicago, Illinois are acting as financial advisors to the Authority in connection with the issuance of the Series 2007 C Bonds.

SECTION XI: FINANCIAL STATEMENTS

The Authority's financial statements for the fiscal years ended June 30, 2006 and June 30, 2005, 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 Series 2007 C Bonds, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the Series 2007 C Bonds;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Series 2007 C Bonds;

(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 (1) credit enhancement if the credit enhancement is added after the primary offering of the Series 2007 C Bonds, the Authority does not apply for or participate in obtaining the enhancement and the enhancement is not described in the applicable Offering Circular; (2) a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (a) the terms, dates and amounts of redemption are set forth in detail in the applicable offering circular, (b) the only open issue is which securities will be redeemed in the case of a partial redemption, (c) notice of redemption is given to the Holders as required under the terms of the Indenture and (d) public notice of the redemption is given pursuant to Release No. 23856 of the SEC under the 1934 Act, even if the originally scheduled amounts may be reduced by prior optional redemptions or purchases; or (3) tax exemption other than pursuant to the Act or § 103 of the Code.

No Holder 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 shall have filed with the Authority evidence of ownership and a written notice of and request to cure such breach, the Authority shall have refused to comply within a reasonable time and such Holder stipulates that (a) no challenge is made to the adequacy of any information provided in accordance with the Undertaking and (b) no remedy is sought other than substantial performance of the Undertaking. All Proceedings shall be instituted only as specified herein, in the federal or State courts located in the Borough of Manhattan, State and City of New York, and for the equal benefit of all holders of the outstanding bonds 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 bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of Holders of bonds, 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 bonds ceases to be in effect for any reason, and the Authority elects that the Undertaking shall be deemed terminated or amended (as the case may be) accordingly.

For purposes of the Undertaking, a beneficial owner of a bond 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 bond, 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 Subseries 2007 C-1 Bonds are being purchased for reoffering by the Underwriters, for whom Samuel A. Ramirez & Co., Inc., Lehman Brothers Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated are acting as Lead Managers. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Subseries 2007 C-1 Bonds from the Authority at an aggregate underwriters' discount of $2,020,029 and to make an initial public offering of the Subseries 2007 C-1 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 Subseries 2007 C-1 Bonds if any Subseries 2007 C-1 Bonds are purchased.

The Subseries 2007 C-1 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 are to be construed as a contract with purchasers of the Series 2007 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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Appendix A

SUMMARY OF INDENTURE AND AGREEMENT

This summary of the Indenture and the Agreement, each as proposed to be in effect upon the delivery of the Series 2007 S-1 Bonds, 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, the Assignment or the Agreement:

"Accounts" means the School Bond Account, the Recovery and Parity Debt Account, the Collection Account, the Bond Account, the Redemption Account and such other Accounts as may be established and so designated pursuant to the Indenture.

"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 New York 1997, as amended, and the School Financing Act.

"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.

"Annual School Bond Debt Service" means the total amount required to be paid from the School Bond Account in a Fiscal Year, based on School Bonds Outstanding and to be issued.

"Assignment" means the Assignment of State Aid dated October 19, 2006, as amended, and includes each further assignment of State aid by the City to the Authority pursuant to the School Financing Act.

"Beneficiaries" means Bondholders and, to the extent specified in the Indenture, Noteholders and the parties to and beneficiaries of 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.

"Building Aid" means the State school building aid described in the Assignment.

"Building Aid Subaccount" means the subaccount of the Collection Account so designated and held by the Trustee pursuant to the Indenture.

"Capital Financing Need" means a period during which and only the extent to which the issuance of Bonds or Notes in accordance with the Act would assist the City in meeting its capital needs as determined by the Mayor pursuant to the Act.

"Chapter 297" means Chapter 297 of the Laws of 2001 of the State, 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.

"Competing Claims" include all claims to, and diversions, reductions and withholdings of, Education Aid adverse to the Authority, such as: (x) claims of (i) holders of general obligation bonds of the City issued for school purposes; (ii) holders of the State of New York Municipal Bond Bank Agency Special School Purpose Revenue Bonds (Prior Year Claims), 2003 Series C; and (iii) holders of the New York City Educational Construction Fund Revenue Bonds, 2005 Series A; and (y) State withholdings or recoveries of Education Aid for the City's failure to provide certain educational services (e.g., courses in special areas, certain number of instructional days, certain health services, services for handicapped students, administrative practices or willful disobedience of certain laws or directives) or to otherwise correct errors or omissions in apportionments of Education Aid pursuant to Subdivision 5 of Section 3604 of the Education Law, as statutorily mandated.

"Confirmed Building Aid" means Building Aid statutorily required to be paid to the Authority with respect to approved projects, subject to appropriation, but not to any other statutory or administrative conditions or approvals, and which shall be calculated in accordance with the State Covenant and with the building aid ratios applicable to such projects at the date of calculation.

"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.

"Deductions" refers to (i) the practice in effect at the date hereof under which, pursuant to the Education Law, the State Comptroller deducts from Education Aid amounts required to reimburse the State for certain expenditures made by the State for the education of blind, deaf and handicapped children resident in the City and (ii) withholdings, disallowances or recoveries of Education Aid as a result of administrative reviews, audits or other procedures relating to such Education Aid, other than administrative reviews, audits or other procedures relating to Building Aid.

"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;

(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), (C) or (E) which fund may be applied only to the payment when due of such bonds or other obligations; and

(E) with respect to Bonds issued on and after March 24, 2004, obligations described in clause (ii) of the definition of Eligible Investments.

"Defeased Bonds" means legally defeased Bonds or Notes and other Bonds or Notes that remain in the hands of their Holders but are no longer deemed Outstanding.

"Education Aid" means all State aid that may be forwarded to the Paying Agent for the benefit of the Holders of School Bonds and School Notes pursuant to § 99-b of the State Finance Law.

"Eligible Investments" means the following obligations to the extent they are legal for investment of money under the Indenture 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;

(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;

(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 prepayable 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.

"First-Month Requirement" means, for any subaccount funded by Tax Revenues, one-half of Quarterly Senior Debt Service or one-half of Quarterly Subordinate Debt Service payable therefrom, plus any amount payable therefrom in the current Payment Period.

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

"Fiscal Year" means each 12-month period beginning July 1.

"FNMA" means the Federal National Mortgage Association.

"Full Requirement" means, for any subaccount funded by Tax Revenues, the Quarterly Senior Debt Service or Quarterly Subordinate Debt Service payable therefrom, plus any amount payable therefrom in the current Payment Period.

"HYIC" means the Hudson Yards Infrastructure Corporation, a local development corporation organized under the Not-For-Profit Corporation Law of the State.

"Indenture" means the Amended and Restated Original Indenture entered into as of October 1, 1997, as supplemented, and as amended and restated November 16, 2006.

"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.

"MOU" means the Memorandum of Understanding relating to the Education Aid, dated as of October 26, 2006, among the Authority, the City, the State Comptroller and the State Education Department.

"Net Building Aid" means Confirmed Building Aid, net of any Competing Claims that the Authority expects to be applied against the Building Aid.

"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 provisions 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 Recovery Obligations and 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.

"Post-07 S-1 Parity Debt" means Parity Debt issued after November 16, 2006, or so identified pursuant to a Series Resolution.

"Post-07 S-1 Parity Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Post-07 S-1 Parity Debt.

"Post-07 S-1 Senior Debt" means obligations payable from the Bond Account that are either incurred after November 16, 2006, or identified as Post-07 S-1 Senior Debt pursuant to a Series Resolution.

"Post-07 S-1 Senior Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Post-07 S-1 Senior Debt.

"Pre-07 S-1 Parity Debt" means Parity Debt that is not Post-07 S-1 Parity Debt.

"Pre-07 S-1 Parity Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Pre-07 S-1 Parity Debt.

"Pre-07 S-1 Senior Bonds" means Senior Bonds that are not Post-07 S-1 Senior Debt.

"Pre-07 S-1 Senior Subaccount" means the subaccount so designated and held by the Trustee pursuant to the Indenture, which subaccount shall be applied to the payment of Pre-07 S-1 Senior Bonds.

"Prior Claims" means the Competing Claims to which the Authority's right to the Building Aid is subordinated by the School Financing Act.

"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), but (vi) to the extent financed by School Bonds or School Notes, only School Capital Costs.

"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.

"Qualified Swap" means an ancillary or swap contract with a counterparty (i) the debt securities of which are rated in one of the two highest long-term debt rating categories by S&P or (ii) the obligations of which under the contract are either guaranteed or insured by an entity the debt securities or insurance policies of which are so rated or (iii) the debt securities of which are rated in the third highest long-term debt rating category by S&P or whose obligations are guaranteed or insured by an entity so rated, in either case the obligations of which under the contract are continuously and fully secured by Eligible Investments meeting criteria provided by S&P to the Authority and then in effect.

"Quarterly Debt Service" or **"Quarterly Senior Debt Service"** 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 Category" means one of the generic rating categories of any Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

"Rating Confirmation" means 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" or "Recovery 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.

"Remaining Building Aid" means the Authority's projection of the balance of Net Building Aid to be received in the current Fiscal Year, based on the latest estimates from the State and such other information as the Authority deems relevant.

"Revenues" means the Tax Revenues (including Alternative Revenues paid or payable to the Authority), the Building Aid 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.

"School Bond Account" means the account so designated and held by the Trustee pursuant to the Indenture.

"School Bond Rating Confirmation" means evidence that no School Bond rating in effect at the request of the Authority from a nationally recognized statistical rating organization will be withdrawn or reduced in Rating Category solely as a result of an action to be taken under the Indenture.

"School Bonds" means School Obligations issued as Bonds.

"School Capital Costs" means Costs referred to in the School Financing Act.

"School Financing Act" means part A-3 of chapter 58 of the laws of New York, 2006, as it may be amended and in effect from time to time.

"School Notes" means School Obligations issued as Notes, which shall mature within 13 months from their date of issue.

"School Obligations" means bonds, notes, swaps and ancillary contracts payable from the School Bond Account.

"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.

"Series Fiscal Year" means each Fiscal Year in which School Bonds of a Series are scheduled to be Outstanding; in which, unless otherwise specified by Series Resolution, each payment of principal or interest shall be made on July 15 or January 15.

"Standard & Poor's" or **"S&P"** 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.

"Statutory Revenues" means Personal Income Taxes and Sales Taxes.

"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"** or **"swap"** 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 Revenue Subaccount" means the subaccount of the Collection Account so designated and held by the Trustee pursuant to the Indenture.

"Tax Revenues" means the Personal Income Taxes and such other revenues, including Sales Taxes (but excluding Building Aid), 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.

"Unfunded Balance", with respect to the Building Aid, means Annual School Bond Debt Service remaining to be paid in a Fiscal Year, plus Annual School Bond Debt Service for the following Fiscal Year, minus the amount held in the School Bond Account, but not less than zero.

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, and all Revenues, including the Building Aid, shall be applied in accordance with the Indenture. 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 of the Indenture. 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.

Legal Defeasance of Particular Bonds. If (a) any Bonds or Notes are identified as legally defeased in a Series Resolution pursuant to the Indenture, (b) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing fixed interest at such rates and with such maturities as will provide sufficient funds to pay or redeem all obligations to the Holders of such Bonds in full (to be verified by a nationally recognized firm of independent certified public accountants), (c) the Authority has taken all action necessary to redeem any such Bonds or Notes to be redeemed prior to maturity and notice of such redemption has been duly given or irrevocable instructions to give notice have been given to the Trustee, and (d) unless otherwise specified by Series Resolution at issuance of the Bonds or Notes to be defeased, the Authority has delivered to the Trustee an opinion of Counsel to the effect that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such legal defeasance and will be subject to federal income tax on the same amounts (if any), in the same manner and at the same times as would have been the case if such legal defeasance had not occurred, *then* the Authority's obligations under the Indenture with respect to such Bonds or Notes shall terminate, the debt represented thereby shall be legally satisfied, and the Holders 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 until such Bonds or Notes are actually paid. Upon such defeasance, the funds and investments required to pay or redeem the Bonds or Notes shall be irrevocably set aside for that purpose, and money held for defeasance shall be invested only as described above and applied to the retirement of the Bonds or Notes.

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) to pay or reimburse Project Capital Costs or refund or renew such Bonds or Notes, but not to exceed $12 billion in Outstanding principal amount, and 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:

  (w) 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

  (x) 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 (w) after deducting the operating expenses set forth pursuant to clause (x)(II), will be at least three times such aggregate amount set forth in clause (x)(I) for each Fiscal Year set forth pursuant to clause (x)(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, from the School Bond 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 Other Parity Debt. The Authority may from time to time request the authentication and delivery of a Series of Recovery Obligations or other 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).

School Bonds and School Notes. The Authority may from time to time request the authentication and delivery of a Series of School Bonds or School Notes by providing to the Trustee (among other things) the following at the delivery of such Bonds or of Notes in anticipation thereof (but not both) an Officer's Certificate setting forth:

(i) Annual School Bond Debt Service, including debt service on such Series of Bonds (assumed, at the delivery of Notes, to be issued at or prior to the Note maturity and to amortize and bear interest as specified in such Officer's Certificate) in each Series Fiscal Year, and

(ii) the Confirmed Building Aid payable in the Fiscal Year preceding each Series Fiscal Year, which shall be at least equal to the amount set forth in clause (i) for each Series Fiscal Year.

Each interest rate on Outstanding and proposed variable-rate Bonds or Notes (if not offset or economically fixed by a Qualified Swap, a liquidity account, or otherwise with School Bond Rating Confirmation), shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

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 Building Aid or Tax 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. Provision is made in the Act for the payment to the Authority of the 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. Two subaccounts are established in the Collection Account: the Tax Revenue Subaccount and the Building Aid Subaccount. Building Aid transferred to the Bond Account or the Recovery Account may be treated as an interfund advance and transferred to the School Bond Account or restored to the Building Aid Subaccount through an Officer's Certificate directing the transfer of Tax Revenues at the *fourth* level of priority. The transfers and payments of Revenues shall be appropriately adjusted by Officer's Certificate 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.

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. Two subaccounts are hereby established in the Bond Account: the Pre-07 S-1 Senior Subaccount and the Post-07 S-1 Senior Subaccount. 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 either subaccount exceeds the Full Requirement, the Trustee shall transfer such excess to the Collection Account as Tax Revenues. The Trustee shall pay, or transfer money from the applicable subaccount of 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 the Indenture and any appropriate provisions of the LFL, 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.

No Bonds or Notes may be optionally redeemed from the Building Aid unless the Unfunded Balance is zero.

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).

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 Pre-07 S-1 Parity Subaccount and the Post-07 S-1 Parity Subaccount are established as subaccounts in the Recovery Account. 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 either subaccount exceeds the Full Requirement, the Trustee shall transfer such excess to the Collection Account as Tax Revenues. The Trustee shall pay, or transfer money from the applicable subaccount of 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.

School Bond Account. A School Bond 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 School Bond Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of School Obligations. If at any time the Unfunded Balance is zero, the Trustee shall transfer any amount in the School Bond Account to the Collection Account as Building Aid. The Trustee shall pay, or transfer money from the School Bond Account to a Paying Agent in time for such Paying Agent to pay, School Obligations when due in same-day funds.

Application of Tax 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. Any Tax Revenues received by the Authority or the Trustee shall be promptly deposited in the Tax Revenue Subaccount and 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 the Indenture; *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 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 Tax Revenues to pay items after payment of Debt Service and operating expenses; *fourth* pursuant to each Officer's Certificate making reference to this level of priority in accordance with the Indenture; and *fifth* 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 Tax Revenues from the Tax Revenue Subaccount to each subaccount of the Bond Account in proportion to the unfunded balance of each First-Month Requirement, and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement. On the first day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount. 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 in writing to transfer Revenues thereto, rather than to the Bond Account.

(c) Pursuant to the *third* level of priority: at the beginning of each Collection Quarter, the Trustee shall begin to transfer all Tax Revenues to each subaccount of the Recovery Account in proportion to the unfunded balance of each First-Month Requirement, and shall continue such transfers until the amount in each subaccount is equal to the First-Month Requirement; and on the first Business Day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers, in proportion to the unfunded balance of each Full Requirement, until the Full Requirement is held in each subaccount. 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.

(d) The Authority may by Officer's Certificate estimate interest payable at a variable rate; or treat anticipated receipts from a Qualified Swap as offsets thereto.

Application of Building Aid. (A) Provision is made by the Act and the Assignment for the payment to the Authority of the Building Aid, and the Authority has requested the State Comptroller to make such payments to the Collection Account. Any Building Aid received by the Authority or the Trustee shall be promptly deposited in the Building Aid Subaccount and shall be applied by the Trustee pursuant hereto, in the following order of priority, as implemented in part by provisions described below: *first* to Pre-07 S-1 Senior Bonds; *second* to the Authority's operating expenses, which may include reserves to be held by the Authority for payment of operating expenses, in such amounts as may be determined by Officer's Certificate, but excluding operating expenses properly allocable to Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt; *third* to Pre-07 S-1 Parity Debt and then to School Obligations; 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 hereof.

(B) To provide for the timely payment of School Obligations subject to the rights of the Holders of Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt, money in the Building Aid Subaccount shall be retained therein until transferred as follows:

(1) at any time, to the Pre-07 S-1 Senior Subaccount or the Pre-07 S-1 Parity Subaccount, in that order of priority, to pay Pre-07 S-1 Senior Bonds or Pre-07 S-1 Parity Debt then due and not otherwise provided for;

(2) in the first month of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the month and (y) the day when

the Unfunded Balance is zero; and (b) to the order of the City, if no transfer to the School Bond Account is required, beginning the first day when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their First-Month Requirements and continuing until the end of the month; and

(3) in the second and third months of each Collection Quarter, (a) to the School Bond Account beginning the first day when (i) the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount have been funded to their Full Requirements and (ii) the Remaining Building Aid is not more than 110% of the Unfunded Balance, and continuing until the earlier of (x) the end of the Collection Quarter and (y) the day when the Unfunded Balance is zero; (b) to the order of the City, if no transfer to the School Bond Account is required, beginning when both the Pre-07 S-1 Senior Subaccount and the Pre-07 S-1 Parity Subaccount are funded to their Full Requirements and continuing until the end of the Collection Quarter; and (c) on the last Business Day of the Collection Quarter, to the Pre-07 S-1 Senior Subaccount and then the Pre-07 S-1 Parity Subaccount until both of them have been funded to their Full Requirements; then to the School Bond Account, if the Remaining Building Aid is not more than 110% of the Unfunded Balance, until the Unfunded Balance is zero; and then to the order of the City.

Purchase of HYIC Obligations. The Authority may apply Tax Revenues available at the *fourth* level of priority to the purchase of obligations of HYIC (not exceeding the amounts specified by Supplemental Indentures approved by unanimous vote of the Directors of the Authority), which HYIC obligations shall be held by the Authority.

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, including the Assignment and the related provisions of the School Financing Act.

The Authority shall (1) protect and defend, as an operating expense, its and the Trustee's claim to every material portion of the Building Aid, and the Fiduciaries shall cooperate therein at the Authority's expense;

(2) with the Fiduciaries, as aforesaid, and the City pursuant to the Assignment (a) contest any Competing Claim to any material portion of the Building Aid that (i) it deems factually or legally unfounded, or (ii) is based on constitutional, statutory or regulatory ambiguity, on any provision of the Education Law, or on any action or failure to act of the City;

(b) and cooperate with the Holders in filing and prosecuting any claim made by Holders under § 99-b of the State Finance Law and in opposing any Competing Claim;

(3) provide the calculations contemplated by the MOU; and

(4) not agree to any modification of the MOU that is materially adverse to the Holders of the School Bonds. Without limitation, a modification that receives School Bond Rating Confirmation is not materially adverse to such Holders.

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 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; of Remaining Building Aid, and of amounts payable from the Recovery Account and the School 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 Accounts, 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 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 and each Rating Agency, 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 and the School 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 Covenants 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 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; (c) subdivision 4 of § 2799-tt of the Act (added by the School Financing Act) to the effect that: The State Covenant shall be fully applicable to School Bonds and School Notes and may be included in any agreement with the Holders thereof. Nothing contained in this covenant shall be deemed to restrict the right of the State to amend, modify, repeal or otherwise alter statutes relating to the Building Aid, but such Building Aid shall in all events (i) continue to be so payable, as assigned, so long as any such Building Aid is paid and (ii) continue to be calculated in accordance with the same formula used for such calculation, and otherwise on the same basis as such aid is calculated, on the date that the applicable project is approved for reimbursement; (d) the last paragraph of § 99-b of the State Finance Law (as amended by the School Financing Act) to the effect that: The State hereby covenants with the Holders of the School Bonds and School Notes that it will not repeal, revoke or rescind the provisions of this section or amend or modify the same so as to limit, impair or impede the rights and remedies granted hereby;

provided, however, that nothing in this section shall be deemed or construed as requiring the State to continue the payment of aid or assistance to any city, city school district or school district or as limiting or prohibiting the State from repealing or amending any law heretofore or hereafter enacted relating to aid or assistance, the manner and time of payment or apportionment thereof, or the amount thereof; and (e) 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 specified 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 of the Trustee. 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. Each Paying Agent shall act as paying agent with respect to any allotments, apportionments or payments forwarded to it by the State pursuant to § 99-b of the State Finance Law.

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 or conveyance.

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 of issuance of the first Series of Bonds 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 claim 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, other Beneficiaries or a Fiduciary appointed for them, may enforce the provisions of the Indenture for their benefit by appropriate legal proceedings.

School Bond Remedies. To the extent not inconsistent with the Act or the Indenture as in effect prior to the issuance of the first Series of School Bonds: if (i) there occurs and is continuing any Event of Default, or (ii) the State shall amend, alter, repeal or fail to comply with its covenant respecting the Building Aid, or (iii) the City shall fail to observe or perform any of its agreements, covenants or obligations under the Assignment 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, then:

(a) The Trustee may, and upon written request of the Holders of 25% in principal amount of the School Bonds Outstanding shall, in its own name by action or proceeding in accordance with the Civil Practice Law and Rules;

(1) 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;

(2) sue upon such Bonds and Notes;

(3) require the Authority to account as if it were the trustee of an express trust for the Holders of such Bonds and Notes; and

(4) enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds and Notes.

(b) The Trustee shall 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 of School Bonds and School Notes in the enforcement and protection of their rights.

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 Beneficiaries 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 and to the priorities established by the Indenture) shall be applied *first* to the Trustee's fees and other costs of collecting and applying the Revenues and administering the accounts, *second* 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 *third* 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 *fourth* 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, in accordance with the priorities established by the Indenture but otherwise 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 Recovery Bonds and Bonds issued as Parity Debt, the School Bonds, the Senior Bonds and the Notes of each category (each acting as a separate class) 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. If their interests differ materially, the Holders of the Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt shall vote as separate classes from the Holders of Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt.

(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. 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 Building Aid or Tax Revenues, or otherwise applied in accordance with the Tax Code pursuant to an Officer's Certificate.

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 in accordance with the Act.

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 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 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 the first Series of School 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 Senior Bonds, the Recovery Bonds and Bonds issued as Parity Debt, the School Bonds and the Notes of each category (each acting as a separate class) 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. If their interests differ materially, the Holders of the Pre-07 S-1 Senior Bonds and Pre-07 S-1 Parity Debt shall vote as separate classes from the Holders of Post-07 S-1 Senior Debt and Post-07 S-1 Parity Debt.

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

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

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

June 30, 2006 and 2005

C O N T E N T S

Grant Thornton

Accountants and Business Advisors

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, 2006 and 2005, 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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, 2006 and 2005, 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
October 17, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

The annual financial statements of the New York City Transitional Finance Authority (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 Authority provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

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,* as amended. 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.

The Authority is a component unit of New York City (the "City") and, accordingly, is included in the City's financial statements. The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for general City capital purposes ("Future Tax Secured Bonds") to $11.5 billion as of June 30, 2006, which limit was reached during the fiscal year ended June 30, 2004. In July 2006, legislation increased the limit by $2 billion to $13.5 billion.

In addition, legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system, which have not been issued as of June 30, 2006.

The Authority is also authorized to have outstanding $2.5 billion of bonds and notes ("Recovery Bonds") to pay costs related to or arising from the World Trade Center attack. The Authority had as of June 30, 2006 and 2005, $1.84 billion and $1.96 billion, respectively, of Recovery Bonds outstanding.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements

During fiscal year 2006, total assets decreased by $459 million. Restricted cash and cash equivalents decreased by $126 million, restricted investments increased by $361 million, unrestricted cash and cash equivalents decreased by $1,147 million, restricted investments held for economic defeasance decreased by $40 million, personal income taxes receivable increased by $499 million and other assets decreased by $6 million.

At June 30, 2006, a decrease of $126 million in restricted cash and cash equivalents from the June 30, 2005 balance reflects the longer term of securities held for restricted purposes, and is offset by an increase of $361 million in restricted investments, resulting in a net increase of $235 million in restricted assets. This net increase in restricted assets has occurred because the grant funds received at June 30, 2005 and remaining on hand at June 30, 2006 are restricted for debt service payments, whereas grant proceeds on hand at June 30, 2005 were unrestricted.

The $1,147 million decrease in unrestricted cash and cash equivalents reflects the decrease in unrestricted grant proceeds from the City held at year-end. The $40 million decrease in restricted investments held in the economic defeasance escrow resulted primarily from the payment of debt service on the economically defeased bonds.

Income taxes receivable at each fiscal year-end are based on estimates of taxable personal income earned during the fiscal year, including during the period January 1 to June 30, for which taxes will be collected after year-end. The $499 million increase in personal income taxes receivable at June 30, 2006 compared to 2005 is the result of higher estimated total taxable personal income for the fiscal year ended June 30, 2006 to be subsequently collected than was estimated as of the prior year-end.

Total liabilities decreased by $252 million in fiscal year 2006. The primary changes were that the long-term portion of bonds payable decreased by $739 million, the current portion of bonds payable decreased by $5 million and personal income taxes payable to the City increased by $505 million. The decrease in bonds payable reflects the principal payments of $724 million made on Future Tax Secured Bonds by the Authority during the fiscal year 2006 and the issuance of $597 million of Future Tax Secured Bonds during the fiscal year ended June 30, 2006 which was used for defeasance of Future Tax Secured Bonds totaling $617 million.

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

Total general revenues decreased by $1,286 million in fiscal 2006. The primary components of this decrease were a decrease of $1,147 million as no unrestricted grant was received from the City in fiscal 2006 and a $147 million decrease in personal income taxes retained by the Authority. The $147 million decrease in personal income taxes is primarily due to a $1,320 increase in personal income tax revenue and an increase of $1,467 of personal income taxes remitted to the City during the fiscal year ended 2006 As discussed above, personal income tax revenues include estimates of amounts earned during the period to be received after year-end. The Authority paid its debt service during the year ended June 30, 2006, using the unrestricted grant received from the City at June 30, 2005, and retained $350 million of personal income taxes to defease bonds on June 26, 2006.

Total program expenses increased by $35 million in fiscal 2006, primarily from increased variable rate interest expense.

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements

Total assets decreased by $453 million in fiscal 2006. Restricted cash and cash equivalents decreased by $126 million, restricted investments increased by $361 million, unrestricted cash and cash equivalents decreased by $1,147 million, restricted investments held for economic defeasance decreased by $40 million and personal income tax receivable increased by $499 million.

Total liabilities increased by $499 million in fiscal year 2006, which reflects the increase of $467 million of deferred personal income tax revenue and an increase of personal income taxes payable of $32 million at June 30, 2006.

Total revenues decreased by $1,275 million in fiscal year 2006. The primary components of the decrease was the $1,147 million unrestricted grant received from the City in fiscal 2005 but not in fiscal 2006, and a $147 million decrease in personal income taxes retained.

Expenditures increased by $352 million in fiscal year 2006. The primary components of this increase were interest expense increased by $20 million and principal amount of debt retired increased by $335 million.

New York City Transitional Finance Authority

STATEMENTS OF NET ASSETS (DEFICIT)

June 30,
(in thousands)

	2006	2005
ASSETS		
Restricted cash and cash equivalents	$ 4,041	$ 130,637
Restricted cash escrow for economic defeasance	681	681
Restricted investments	367,477	5,985
Restricted investments escrow for economic defeasance	266,351	306,332
Unrestricted cash and cash equivalents	-	1,147,242
Personal income tax receivable	505,475	-
Personal income tax receivable from New York City - net	-	6,301
Unamortized bond issuance costs	52,914	58,767
Total assets	1,196,939	1,655,945
LIABILITIES		
Personal income tax payable to New York City	505,475	-
Personal income tax refunds payable - net	-	6,301
Accrued expenses	1,657	2,034
Accrued interest payable	130,853	135,500
Interest rate cap obligation	-	6,140
Bonds payable		
Portion due within one year	368,660	373,245
Portion due after one year	11,863,885	12,603,370
Unamortized deferred bond refunding costs	(172,928)	(193,717)
Unamortized bond premium	301,735	318,406
Total liabilities	12,999,337	13,251,279
NET ASSETS (DEFICIT)		
Restricted for economic defeasance	1,640	11,484
Deficit	(11,804,038)	(11,606,818)
Total deficit	$(11,802,398)	$(11,595,334)

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)

	2006	2005
EXPENSES		
General and administrative expenses	$ 9,595	$ 11,509
Amortization of deferred bond refunding costs	31,198	30,677
Interest expense	544,379	507,636
Amortization of debt issuance costs	4,979	5,376
Total program expenses	590,151	555,198
GENERAL REVENUES		
Personal income tax revenue	7,800,813	6,480,398
Less remittances to New York City	(7,450,813)	(5,983,304)
Personal income tax revenue retained	350,000	497,094
Unrestricted grant from New York City	-	1,147,242
Unrealized loss on economic defeasance investments	(4,384)	(1,182)
Cost of rate cap termination	(1,135)	-
Change in value of interest rate cap obligation	-	9,920
Investment earnings	38,606	16,157
Total general revenues	383,087	1,669,231
Change in net assets	(207,064)	1,114,033
DEFICIT - beginning of year	(11,595,334)	(12,709,367)
DEFICIT - end of year	$(11,802,398)	$(11,595,334)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2006
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ -	$ 4,041	$ 4,041
Restricted cash escrow for economic defeasance	-	681	681
Unrestricted cash and cash equivalents	-	-	-
Restricted investments	-	367,477	367,477
Restricted investments escrow for economic defeasance	-	266,351	266,351
Personal income tax receivable	-	505,475	505,475
Total assets	$ -	$1,144,025	$1,144,025
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ -	$ 1,657	$ 1,657
Personal income tax payable to New York City	-	38,475	38,475
Deferred personal income tax revenue	-	467,000	467,000
Total liabilities	-	507,132	507,132
Fund balances			
Reserved for debt service	-	369,861	369,861
Reserved for economic defeasance	-	267,032	267,032
Unreserved funds	-	-	-
Total fund balances	-	636,893	636,893
Total liabilities and fund balances	$ -	$1,144,025	$1,144,025

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2005
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ -	$ 130,637	$ 130,637
Restricted cash escrow for economic defeasance	-	681	681
Unrestricted cash and cash equivalents	-	1,147,242	1,147,242
Restricted investments	-	5,985	5,985
Restricted investments escrow for economic defeasance	-	306,332	306,332
Personal income tax receivable from New York City - net	-	6,301	6,301
Total assets	$ -	$1,597,178	$1,597,178
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ -	$ 2,034	$ 2,034
Personal income tax refunds payable - net	-	6,301	6,301
Total liabilities	-	8,335	8,335
Fund balances			
Reserved for debt service	-	134,588	134,588
Reserved for economic defeasance	-	307,013	307,013
Unreserved funds	-	1,147,242	1,147,242
Total fund balances	-	1,588,843	1,588,843
Total liabilities and fund balances	$ -	$1,597,178	$1,597,178

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, 2006
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ -	$ 7,333,813	$ 7,333,813
Less remittances to New York City	-	(6,983,813)	(6,983,813)
Personal income tax revenue retained	-	350,000	350,000
Investment earnings	-	38,606	38,606
Unrealized loss on economic defeasance investments	-	(4,384)	(4,384)
Total revenues	-	384,222	384,222
EXPENDITURES			
Interest expense	-	572,723	572,723
Principal amount of bonds retired	-	724,015	724,015
Refunding bond issuance costs	-	4,083	4,083
General and administrative expenses	-	9,595	9,595
Total expenditures	-	1,310,416	1,310,416
Excess of revenues over expenditures	-	(926,194)	(926,194)
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	-	627,984	627,984
Payments to refunded bond escrow holder	-	(646,465)	(646,465)
Cost of termination of rate cap obligation	-	(7,275)	(7,275)
Total other financing sources and uses	-	(25,756)	(25,756)
Net change in fund balances	-	(951,950)	(951,950)
FUND BALANCES - beginning of year	-	1,588,843	1,588,843
FUND BALANCES - end of year	$ -	$ 636,893	$ 636,893

The accompanying notes are an integral part of this statement.

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

Year ended June 30, 2005
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ -	$ 6,521,398	$ 6,521,398
Less remittances to New York City	-	(6,024,304)	(6,024,304)
Personal income tax revenue retained	-	497,094	497,094
Unrestricted grant from New York City	-	1,147,242	1,147,242
Investment earnings	-	16,157	16,157
Unrealized loss on economic defeasance investments	-	(1,182)	(1,182)
Total revenues	-	1,659,311	1,659,311
EXPENDITURES			
Interest expense	-	552,283	552,283
Principal amount of bonds retired	-	389,260	389,260
Refunding bond issuance costs	-	5,601	5,601
General and administrative expenses	-	11,509	11,509
Total expenditures	-	958,653	958,653
Excess of revenues over expenditures	-	700,658	700,658
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	-	980,239	980,239
Payments to refunded bond escrow holder	-	(974,638)	(974,638)
Gain from restructure of 2004 defeasance escrow	-	1,435	1,435
Transfers in (out)	(2,539)	2,539	-
Total other financing sources and uses	(2,539)	9,575	7,036
Net change in fund balances	(2,539)	710,233	707,694
FUND BALANCES - beginning of year	2,539	878,610	881,149
FUND BALANCES - end of year	$ -	$ 1,588,843	$ 1,588,843

The accompanying notes are an integral part of this statement.

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

June 30,
(in thousands)

	2006	2005
Total fund balance - governmental funds	$ 636,893	$ 1,588,843
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.	52,914	58,767
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.	(301,735)	(318,406)
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 a liability and is reported at fair value.	-	(6,140)
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	(12,232,545)	(12,976,615)
Accrued interest on bonds	(130,853)	(135,500)
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.	172,928	193,717
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	(467,000)	-
Deferred personal income tax revenue	467,000	-
Net assets (deficit) of government activities	$(11,802,398)	$(11,595,334)

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

Year ended June 30,
(in thousands)

	2006	2005
Net change in fund balances - total governmental funds	$(951,950)	$ 707,694
Amounts reported for governmental activities in the statements of activities are different because:		
Refunding bond proceeds and payments to refunded 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).	18,480	(5,601)
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.	(27,115)	(26,510)
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).	724,015	389,260
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.	(4,979)	(5,376)
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.	29,929	32,316
Governmental funds report the cost of termination of the interest rate cap as other financing uses. However, the statements of activities report cost of the termination net of carrying fair value of the agreement.	6,140	9,920
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.	(1,584)	12,330
Change in net assets of governmental activities	$(207,064)	$1,114,033

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

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 ("Future Tax Secured Bonds") 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 to $11.5 billion the Authority's capacity to issue bonds and notes for general City capital purposes. In June 2000, the State Legislature also increased the amount of Future Tax Secured Bonds which may be issued as variable rate debt from $750 million to $2.3 billion. As of June 30, 2004, the Authority had issued its statutory limit of $11.5 billion of Future Tax Secured Bonds. Subsequent to June 30, 2006, the capacity limit to issue bonds and notes for general City capital purposes was increased by $2 billion to $13.5 billion and the limit on Future Tax Secured Bonds that may be issued as variable rate debt was increased to $2.7 billion.

On September 13, 2001, the State Legislature authorized the Authority to have outstanding an additional $2.5 billion of bonds and notes ("Recovery Bonds") to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center.

Legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system; none of those obligations have been issued as of June 30, 2006.

The Authority does not have any employees; its affairs are administered by employees of the City and another component unit of the City, for which the Authority pays a management fee based on its allocated share of personnel and overhead costs.

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

NOTE B (continued)

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.

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 interest on bonds payable, which is recognized when due. For the years ended June 30, 2006 and 2005, since the Authority issued its statutory limit of bonds and notes for general City capital purposes in 2004, the governmental fund consists only of the Debt Service Fund. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt and is used for the operations of the Authority.

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 and premium received are 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 refunding 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 governmental fund financial statements.

Interest rate cap obligations, which originated from the sale of interest rate cap agreements, were terminated during the year ended June 30, 2006. The amount paid, net of the obligation at June 30, 2005 in the statement of net assets (deficit), is reported in the statements of activities and is shown as an expenditure in the governmental funds statements of revenues, expenditures, and changes in fund balances. In years prior to June 30, 2006, the interest rate cap obligations were reported in the statements of net assets (deficit) and were adjusted to their fair value at June 30 each year and the change in their fair value was reported as revenue or expense in the statements of activities.

NOTE B (continued)

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 its administrative expenses. Funds for bond debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City. During the year ended June 30, 2006, debt service was funded by an Unrestricted Grant received from the City on June 30, 2005. The Authority retained $350,000,000 of personal income taxes for a cash defeasance on June 26, 2006.

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 date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), as amended subsequent to June 30, 2006, the Authority is authorized to issue $13.5 billion Future Tax Secured Bonds. The Authority had issued $11.5 billion Future Tax Secured Bonds as of June 30, 2004. As of June 30, 2006 and 2005, the Authority had outstanding debt of $10.4 billion and $11.0 billion of Future Tax Secured Bonds, respectively, including $260 million and $292 million of economically defeased Future Tax Secured Bonds, respectively. The Authority includes the escrow funds for the economically defeased bonds in its assets and those funds provide for all future debt service on the economically defeased bonds.

In addition, the Act permits the Authority to have outstanding $2.5 billion of Recovery Bonds. As of June 30, 2006 and 2005, the Authority had outstanding $1.84 billion and $1.96 billion of Recovery Bonds, respectively.

The Authority funds its debt service requirements for Future Tax Secured Bonds and Recovery Bonds and certain 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 for the City of New York are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. No sales tax revenues were received or required during fiscal years 2006 and 2005.

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 Future Tax Secured Bonds and Recovery Bonds. The Authority retains personal income taxes in an amount sufficient to pay debt service on its Future Tax Secured Bonds and Recovery Bonds and pay certain operating expenditures, and remits the difference to the City. The Authority has no taxing power.

NOTE C (continued)

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

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	---------------------------(in thousands)---------------------------			
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 226,190	$ -	$ (35,705)	$ 190,485
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	483,665	-	(42,270)	441,395
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	357,675	-	(75,010)	282,665
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	63,000	-	-	63,000
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	91,850	-	(20,865)	70,985
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	12,710	-	(5,445)	7,265
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	222,500	-	(33,320)	189,180

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	--------------------------(in thousands)--------------------------			
1999 Fiscal Series A (continued)				
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	$ 277,500	$ -	$ -	$ 277,500
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	292,600	-	(22,050)	270,550
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	14,315	-	(11,760)	2,555
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	100,000	-	-	100,000
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	50,000	-	-	50,000
1999 Fiscal Series C				
3.50% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2028	188,820	-	(106,505)	82,315
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	28,125	-	-	28,125
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	55,005	-	(19,140)	35,865
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	15,815	-	(6,345)	9,470

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	---------------------------	(in thousands)	---------------------------	
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 127,055	$ -	$ (98,655)	$ 28,400
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005	1,650	-	(1,650)	-
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	187,685	-	(138,400)	49,285
Variable rate tax-exempt bonds maturing in varying installments through 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	264,475	-	(36,355)	228,120
Variable rate tax-exempt bonds maturing in varying installments through 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	308,815	-	(34,120)	274,695
Variable rate tax-exempt bonds maturing in varying installments through 2032 (a)	100,000	-	-	100,000
2002 Fiscal Series A				
4.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2031	139,490	-	(31,905)	107,585

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	---------------------------	(in thousands)	---------------------------	
2002 Fiscal Series B				
3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 360,950	$ -	$ (34,515)	$ 326,435
Variable rate taxable bonds maturing in varying installments through 2030 (a)	181,350	-	(4,185)	177,165
2002 Fiscal Series C				
4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	230,190	-	(30,955)	199,235
2003 Fiscal Series A				
3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,208,215	-	(56,975)	1,151,240
2003 Fiscal Series B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	662,630	-	(12,270)	650,360
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	39,575	-	(23,675)	15,900
2003 Fiscal Series C				
2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	368,665	-	(12,315)	356,350
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	150,000	-	-	150,000

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance at June 30, 2006
	(in thousands)			
2003 Fiscal Series D				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 475,695	$ -	$ (8,635)	$ 467,060
2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013	103,215	-	(19,030)	84,185
2003 Fiscal Series E				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	537,965	-	(39,375)	498,590
2004 Fiscal Series A				
3.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	145,000	-	(6,040)	138,960
2004 Fiscal Series B				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2032	535,255	-	(39,120)	496,135
2004 Fiscal Series C				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	531,365	-	(39,045)	492,320
2004 Fiscal Series D				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2017	662,010	-	(103,600)	558,410
2005 Fiscal Series A				
2.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2024	913,110	-	(53,305)	859,805

NOTE C (continued)

	Balance at June 30, 2005	Issued	Retired\ Defeased	Balance At June 30, 2006
	(in thousands)			
2005 Fiscal Series B				
2.50% to 4.125% serial tax-exempt bonds maturing in varying installments through 2020	$ 7,535	$ -	$ (725)	$ 6,810
2006 Fiscal Series A				
3.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	-	597,235	(23,980)	573,255
Total bonds payable, excluding Recovery Bonds	11,021,665	597,235	(1,227,245)	10,391,655
2003 Series 1 Recovery Bonds				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	462,100	-	(37,500)	424,600
2003 Series 2 Recovery Bonds				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	500,200	-	(41,400)	458,800
2003 Series 3 Recovery Bonds				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	109,450	-	(35,160)	74,290
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	883,200	-	-	883,200
Total Recovery Bonds payable	1,954,950	-	(114,060)	1,840,890
Total bonds payable	12,976,615	$597,235	$(1,341,305)	12,232,545
Less current portion of bonds payable	373,245			368,660
Bonds payable due after one year	$12,603,370			$11,863,885

NOTE C (continued)

(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) 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 (accreted 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 any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

(c) $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 November 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.

Included as outstanding on June 30, 2006 and 2005 were $260,655,000 and $292,755,000, respectively, of Future Tax Secured Bonds that were economically defeased on March 24, 2004, and included as an asset is the escrow account that is held by the Authority's Trustee, funded from the proceeds of the sale of Fiscal 2004 Series D Future Tax Secured Bonds.

On November 3, 2005, the Authority issued $597,235,000 of Fiscal 2006 Series A Future Tax Secured Bonds and made an equity contribution from current revenue of $22,560,000 to advance refund $617,290,000 of its outstanding Future Tax Secured Bonds. This advance refunding resulted in an accounting loss of $24.4 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by $31.5 million and obtained an economic benefit of $20.6 million. In this defeasance, the proceeds, net of costs of issuance, were invested in Defeasance Collateral (as defined in the Authority's indenture) that was deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the defeased

NOTE C (continued)

bonds. Refundings using Defeasance Collateral result in the refunded bonds being removed from bonds outstanding.

On June 26, 2006, the Authority advance refunded $310,270,000 of outstanding Future Tax Secured Bonds with current revenue of $311,473,000. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral. This refunding resulted in an accounting gain of $14 million.

On April 1, 2005, the Authority issued $913,111,000 and $7,535,000 of Fiscal 2005 Series A and B Future Tax Secured Bonds to advance refund $918,655,000 of its outstanding Future Tax Secured Bonds. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral. This advance refunding resulted in an accounting loss of $59.2 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by $34.7 million and obtained an economic benefit of $29.1 million.

Bonds economically defeased remain a liability and the escrow deposited with the Authority's Trustee is an asset on the Authority's records. The bonds refunded with Defeasance Collateral have been removed from the financial statements as a liability of the Authority. As of June 30, 2006 and 2005, the Authority had bonds refunded with Defeasance Collateral totaling $4,224,295,000 and $3,296,735,000, respectively, of which $3,885,205,000 and $3,041,695,000, respectively, are still to be paid from the Defeasance Collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

Debt service requirements at June 30, 2006, for bonds payable to their maturity are as follows:

	Principal	Interest (a)	Total
	(in thousands)		
Year ended June 30,			
2007	$ 368,660	$ 544,722	$ 913,382
2008	105,905	534,936	640,841
2009	425,175	526,165	951,340
2010	460,815	506,911	967,726
2011	462,285	485,756	948,041
2012 to 2016	2,875,890	2,529,911	5,405,801
2017 to 2021	3,102,540	1,785,078	4,887,618
2022 to 2026	2,546,940	961,393	3,508,333
2027 to 2031	1,694,795	265,344	1,960,139
2032 to 2034	189,540	11,011	200,551
	$12,232,545	$8,151,227	$20,383,772

NOTE C (continued)

(a) 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 call 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. Actual variable rates at June 30, 2006 averaged approximately 2.928% on tax-exempt bonds and 4.291% on taxable bonds, which are the rates used in this table. If variable interest is calculated at 5.00% on tax-exempt and 7.00% on taxable per annum (which are the rates utilized for retention), total interest would be increased to $8,971,560 from the $8,151,227 in the above table.

Debt service accounts have been established under the Authority's indenture 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 applicable debt service account in the quarter preceding the payment due date. During the year ended June 30, 2006, debt service was funded by the Unrestricted Grant received from the City on June 30, 2005.

At June 30, 2006 and 2005, the Authority maintained its required debt service accounts totaling $123,480,000 and $133,285,000, respectively, of which $13,350,000 and $13,060,000 were for principal retirement, respectively, and $110,130,000 and $120,225,000 were for interest payments, respectively. The Authority held approximately $243,997,000 in excess of required retention at June 30, 2006.

NOTE D - CASH AND CASH EQUIVALENTS

The Authority's restricted cash and cash equivalents consisted of bank deposits, commercial paper and U.S Government securities held by the Authority's Trustee in the Authority's name. The Authority's restricted cash escrow was cash held by the escrow agent in the economic defeasance account.

NOTE D (continued)

	June 30,	
	2006	2005
	(in thousands)	
Restricted cash and cash equivalents		
Cash	$ 16	$ 2,852
Commercial paper	-	127,785
U.S. Government securities	4,025	-
	$4,041	$ 130,637
Restricted cash in escrow for economic defeasance	$ 681	$ 681
Unrestricted cash	$ -	$1,147,242

All of the commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

At June 30, 2006 and 2005, the carrying amounts of bank deposits were $16,000 and $2,852,000, respectively, and the bank balances were $19,000 and $2,815,000, respectively. At June 30, 2006 and 2005, $19,000 and $100,000, respectively, of the bank deposits were insured by the Federal Deposit Insurance Corporation. The remaining balances were not collateralized.

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. See Note E below for the Authority's investment policy.

NOTE E - RESTRICTED INVESTMENTS

Pursuant to its Indenture and Investment Guidelines, the Authority is generally permitted to invest in obligations of, or guaranteed by, the U.S. Government; certain highly rated certificates of deposit (or similar instruments); certain highly rated obligations of, or guaranteed by, a state; certain highly rated commercial paper (or similar instruments); certain investment agreements with highly rated institutions; certain repurchase obligations with highly rated institutions; certain highly rated corporate securities (that do not exceed 20% of its investments); and certain highly rated taxable money market funds. The

NOTE E (continued)

Authority is also authorized to make certain other investments authorized pursuant to a supplemental indenture and to enter into the interest rate cap agreement described below. All holdings having an original maturity of more than three months are carried as investments.

For an investment, custodial credit risk is that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are not collateralized. All investments are held in the Authority's name by the trustee.

The Authority values commercial paper at cost plus accrued interest, which approximates market. At June 30, 2005, the below-referenced commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

The Authority's restricted investments in the economic defeasance escrow account at the Authority's trustee were valued at market, which resulted in an unrealized loss of approximately $4,384,000 at June 30, 2006 and an unrealized loss of approximately $1,182,000 at June 30, 2005. The investments included purchases of securities at a premium, resulting in higher interest-bearing investments and this was included in the verification agent's computations to assure that the escrow fund provides for all future debt service on the economically defeased bonds.

The Authority's restricted investments are as follows:

	June 30,	
	2006	2005
	(in thousands)	
Restricted investments		
Commercial paper	$ -	$ 5,985
U.S. Government securities	367,477	-
	$367,477	$ 5,985
Restricted investments for economic defeasance		
Federal Home Mortgage Corporation and Federal National Mortgage Association bonds, notes and STRIPS; United States bonds, notes and STRIPS	$266,351	$306,332

NOTE F - INTEREST RATE CAP OBLIGATIONS

In June 2002, the Authority entered into three interest rate cap agreements (the "Interest Rate Cap Agreements") with the New York City Housing Development Corporation ("HDC") (a component unit of the City) relating to certain variable rate bonds issued by HDC. In December 2005, the Authority paid $7,274,400 to HDC to terminate three Interest Rate Cap Agreements. The cost of termination of $1,135,000 included in the statement of activities for the year ended June 30, 2006 consists of the $7,274,400 termination payment reduced by the elimination of the interest rate cap obligation liability of $6,140,000. The termination payment of $7,274,400 is shown as an expenditure in the governmental funds statement of revenues, expenditures, and changes in fund balances.

At June 30, 2005, the Interest Rate Cap Agreements were estimated by the Authority's Swap Advisor to have a market value of $6.14 million. The valuation was based on an option valuation model using market interest rates and volatilities as of June 30, 2005. The valuation at June 30, 2005 reduced the interest rate cap obligation in the statement of net assets (deficit) and was reported as revenue in the statement of activities.

NOTE G - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority did not receive a grant from the City during the year ended June 30, 2006.

The Authority received an unrestricted grant from the City of $1,147,242,000 on June 30, 2005. These funds were received by the Authority's Trustee too late on June 30 to be invested on June 30, 2005; thus, the funds were held as cash overnight. Those funds were invested in July 2005 and were used to fund debt service requirements and administrative expenses during the year ended June 30, 2006 and into the year ended June 30, 2007.

The Authority received an unrestricted grant from the City of $400,000,000 on June 29, 2004. The Authority used the entire unrestricted grant received from the City on June 29, 2004 to fund debt service and administrative expenses during the year ended June 30, 2005, rather than retaining personal income tax revenues for those purposes.

NOTE H - 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 or investment earnings, are funded from the personal income taxes flowing through the Authority's accounts.

NOTE I - SUBSEQUENT EVENT

On October 16, 2006, the Authority issued $500,000,000 of Future Tax Secured Bonds, Series 2007 A-1, tax-exempt fixed rate; $200,000,000 Future Tax Secured Bonds, Series 2007 A-2, taxable fixed rate; and $100,000,000 Future Tax Secured Bonds, Series 2007 A-3, tax-exempt variable rate.

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APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

June 21, 2007

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 Subordinate Bonds, Fiscal 2007 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 the Amended and Restated Original Indenture, dated November 16, 2006, as supplemented (the "Indenture"), between the Authority and The Bank of New York, New York, New York, as Trustee, and to a Financing Agreement dated October 1, 1997, as amended (the "Agreement"), between the Authority and The City of New York (the "City"). Terms not defined herein are used as defined in the Indenture.

The New Bonds are dated, bear interest, mature, are subject to redemption and are secured as set forth in the Indenture. The New Bonds are secured on a parity with the Authority's Recovery Bonds and Parity Debt, subordinate to Senior Debt Service and operating expenses. The Authority is authorized to issue additional bonds (together with such 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 benefit, protection and security of the Indenture in the order of priority set forth therein. 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 in all respects material to the security and sources of payment for the New Bonds.

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 Tax 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 purposes 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 Tax 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 Tax Revenues for the security of the Senior 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 Tax 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 New Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

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

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

12. The excess, if any, of the amount payable at maturity of any maturity of the New Bonds over the initial offering price of such bonds to the public at which price a substantial amount of such maturity is sold, which is excluded from gross income for federal income tax purposes to the same extent as interest on the New Bonds. 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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$366,970,000
New York City Transitional Finance Authority
Future Tax Secured Subordinate Bonds
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OFFERING CIRCULAR

June 6, 2007

New York City Transitional Finance Authority Future Tax Secured Subordinate Bonds Fiscal 2007 Series C