NEW ISSUE

In the opinion of Bond Counsel, interest on the Series 2009 S-3 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 2009 S-3 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.

NYC TFA Building Aid Revenue Bonds

$650,000,000
New York City Transitional Finance Authority
Building Aid Revenue Bonds
Fiscal 2009 Series S-3

Dated: Date of Delivery | Due: January 15, as shown on inside cover page

The Building Aid Revenue Bonds, Fiscal 2009 Series S-3 (the "Series 2009 S-3 Bonds"), are being issued by the New York City Transitional Finance Authority (the "Authority") pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act") and Chapter 16 of the Laws of New York, 1997, as amended (together with the School Financing Act, 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 Mellon, New York, New York, as trustee (the "Trustee").

Provided certain statutory and contractual conditions are met, other Bonds of the Authority on a parity with the Series 2009 S-3 Bonds may be issued. The Series 2009 S-3 Bonds together with all other series of Building Aid Revenue Bonds issued under the Indenture are referred to as "Building Aid Revenue Bonds." See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

Pursuant to the School Financing Act, the Building Aid Revenue Bonds are payable from the State Building Aid (as defined herein) payable by the State to the City and assigned to the Authority. The payment of State Building Aid and any other State education aid to the City or the Authority is subject to annual appropriation by the State, is subject and subordinate to certain prior statutory and State constitutional claims and is dependent in part upon the financial condition of the State. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State."

The application of State Building Aid to the payment of the Building Aid Revenue Bonds is subordinate to the payment of (i) obligations of the Authority issued prior to the issuance of the Authority's Building Aid Revenue Bonds Fiscal 2007 Series S-1 dated November 16, 2006 and (ii) certain operating expenses of the Authority (collectively, the "Pre-07 S-1 Obligations"). State Building Aid shall only be applied to payment of the Pre-07 S-1 Obligations in the event that other revenues of the Authority, consisting primarily of Personal Income Taxes and Sales Taxes, are insufficient to pay the Pre-07 S-1 Obligations and other Authority obligations payable from Tax Revenues. The Authority expects that Personal Income Taxes and Sales Taxes will be sufficient to pay the Pre-07 S-1 Obligations and other obligations payable from Tax Revenues. The Building Aid Revenue Bonds are not secured by Personal Income Taxes or Sales Taxes. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS."

Pursuant to Section 99-b of the State Finance Law, as amended by the School Financing Act, the State Comptroller shall deduct and withhold State education aid or assistance due to the City in an amount required to pay the principal of and interest on any Building Aid Revenue Bonds in default.

The Series 2009 S-3 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 2009 S-3 Bonds.

Interest on the Series 2009 S-3 Bonds accrues from their dated date, and is payable on each January 15 and July 15, commencing July 15, 2009.

The Series 2009 S-3 Bonds are subject to redemption prior to maturity as described herein.

THE BUILDING AID REVENUE BONDS ARE PAYABLE FROM AND SECURED BY A LIEN ON STATE BUILDING AID SUBORDINATE TO PAYMENT OF THE PRE-07 S-1 OBLIGATIONS. THE BUILDING AID REVENUE BONDS ARE NOT A DEBT OF EITHER THE STATE OR THE CITY, AND NEITHER THE STATE NOR THE CITY SHALL BE LIABLE THEREON. PAYMENT OF STATE BUILDING AID AND ANY OTHER STATE EDUCATION AID TO THE CITY OR THE AUTHORITY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE. THE BUILDING AID REVENUE BONDS DO NOT CONSTITUTE "STATE SUPPORTED DEBT" (COMMONLY KNOWN AS "STATE APPROPRIATION DEBT") WITHIN THE MEANING OF THE STATE FINANCE LAW. THEREFORE, THE STATE WILL NOT BE ENTERING INTO ANY FINANCING AGREEMENT OR SERVICE CONTRACT IN CONNECTION WITH THE BUILDING AID REVENUE BONDS.

The Series 2009 S-3 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 2009 S-3 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 and the City 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 2009 S-3 Bonds will be available for delivery to DTC in New York, New York, on or about January 21, 2009.

Citi **Goldman, Sachs & Co**

Banc of America Securities LLC
Barclays Capital
DEPFA First Albany Securities LLC
J.P. Morgan
Loop Capital Markets LLC
M.R. Beal & Company
Merrill Lynch & Co.
Morgan Stanley
Prager, Sealy & Co., LLC
Ramirez & Co., Inc.
Roosevelt and Cross Incorporated
Siebert Brandford Shank & Co., LLC
Wachovia Bank, National Association

Jackson Securities Inc.
Raymond James & Associates, Inc.
RBC Capital Markets
Stifel Nicolaus
Southwest Securities

January 14, 2009

$650,000,000
New York City Transitional Finance Authority
Building Aid Revenue Bonds,
Fiscal 2009 Series S-3

Due January 15	Principal Amount	Interest Rate	Yield
2011	$ 9,395,000	3%	2.05%
2012	9,675,000	3	2.25
2013	4,745,000	3	2.50
2013	5,220,000	5	2.50
2014	4,855,000	3	2.75
2014	7,600,000	5	2.75
2015	10,160,000	3	3.02
2015	2,820,000	5	3.02
2016	10,505,000	4	3.21
2016	2,925,000	5	3.21
2017	13,995,000	5	3.42
2018	14,695,000	5	3.64
2019	7,735,000	4	3.88
2019	7,695,000	5	3.88
2020	4,125,000	4	4.20
2020(1)	12,000,000	5	4.20
2021	6,190,000	4⅜	4.45
2021(1)	10,695,000	5	4.45
2022	4,830,000	4½	4.61
2022(1)	12,865,000	5	4.61
2023	4,115,000	4¾	4.77
2023(1)	14,440,000	5	4.77
2024(1)	19,470,000	5	4.90
2025(1)	20,445,000	5¼	5.00
2026(1)	21,520,000	5¼	5.09
2027(1)	22,650,000	5¼	5.18
2028	23,835,000	5⅛	5.25
2029	25,060,000	5⅛	5.30
2030	26,345,000	5¼	5.37

(1) Priced to first call on January 15, 2019.

$56,685,000 5⅜% Fiscal 2009 Series S-3 Term Bonds due January 15, 2034 — yield 5.50%
$63,365,000 5¼% Fiscal 2009 Series S-3 Term Bonds due January 15, 2034 — yield 5.50%
$189,345,000 5¼% Fiscal 2009 Series S-3 Term Bonds due January 15, 2039 — yield 5.55%

Certain of the information in this Official Statement has been provided by the City and other sources considered by the Authority to be reliable, and includes by specific reference publicly available information concerning the State. 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 2009 S-3 Bonds, other than those contained in this Official Statement, 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 Official Statement 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 Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Series 2009 S-3 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 Official Statement 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 guarantee the accuracy or completeness of such information.

This Official Statement 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 State and the amount of State Building Aid and Tax Revenues (as defined herein), the inclusion in this Official Statement 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 Official Statement, 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 Official Statement. 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.

ALTHOUGH CERTAIN INFORMATION RELATING TO THE FINANCIAL CONDITION OF THE STATE IS INCLUDED BY SPECIFIC REFERENCE IN THIS OFFICIAL STATEMENT, THE STATE HAS NOT REVIEWED OR APPROVED THIS OFFICIAL STATEMENT, NOR IS IT PASSING UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT.

THE SERIES 2009 S-3 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.

MARKS PANETH & SHRON LLP, THE AUTHORITY'S INDEPENDENT AUDITOR, HAS NOT REVIEWED, COMMENTED ON OR APPROVED, AND IS NOT ASSOCIATED WITH, THIS OFFICIAL STATEMENT. THE REPORT OF MARKS PANETH & SHRON LLP RELATING TO THE AUTHORITY'S FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007, WHICH IS A MATTER OF PUBLIC RECORD, IS INCLUDED IN THIS OFFICIAL STATEMENT. HOWEVER, MARKS PANETH & SHRON LLP HAS NOT PERFORMED ANY PROCEDURES ON ANY FINANCIAL STATEMENTS OR OTHER FINANCIAL INFORMATION OF THE AUTHORITY,

INCLUDING WITHOUT LIMITATION ANY OF THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT, SINCE THE DATE OF SUCH REPORT AND HAS NOT BEEN ASKED TO CONSENT TO THE INCLUSION OF ITS REPORT IN THIS OFFICIAL STATEMENT.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009 S-3 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

SUMMARY OF TERMS

The following is qualified in its entirety by reference to the information appearing elsewhere in this Official Statement. Terms used in this Official Statement 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").
Statutory Authorization	The Authority was created by Chapter 16 of the Laws of New York, 1997 (the "Enabling Act"). The Enabling Act became effective March 5, 1997, and provided for the issuance of bonds for general capital purposes of The City of New York (the "City"), the payment of bonds from Tax Revenues (which consist of Personal Income Taxes and Sales Taxes (to the extent required)), and statutory and contractual covenants of the Authority, the City and the State. The Enabling Act was amended in 2000 and 2006 to, among other things, increase the debt-incurring capacity of the Authority for general City capital purposes to a total of $13.5 billion. Under current law, the Authority has no additional capacity to issue bonds for general City capital purposes, except for refunding bonds. The City is seeking State legislation which would increase the Authority's statutory capacity to issue bonds for general City capital purposes. In 2001, the Enabling Act was amended to permit the Authority to have outstanding up to $2.5 billion of bonds and notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Obligations").
	In 2006, the Enabling Act was also amended pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act"). The School Financing Act authorizes the Authority to issue Bonds, Notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's five-year educational facilities capital plan (the "Five-Year Plan") 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").
Purpose of Issue	The proceeds of the $650,000,000 Building Aid Revenue Bonds, Fiscal 2009 Series S-3 (the "Series 2009 S-3 Bonds") will be used to pay a portion of the costs of one or more of the Five-Year Plans approved in accordance with Section 2590-p of the State Education Law, as amended (the "Education Law").
Securities Offered	The Series 2009 S-3 Bonds are being issued by the Authority pursuant to the School Financing Act and the Enabling Act, as amended (collectively, the "Act"), and the Amended and Restated Original Indenture, dated November 16, 2006, as supplemented (the "Indenture"), by and between the Authority and the Trustee. The Series 2009 S-3 Bonds (along with all other Building Aid Revenue Bonds issued under the Indenture, the "Building Aid Revenue

Bonds") are payable by the Authority from the State Building Aid, subject to annual appropriation by the State, assigned by the City to the Authority and by the Authority to the Trustee. The Indenture permits the Authority to issue Notes and to enter into other obligations on a parity with the Building Aid Revenue Bonds (the "School Obligations"). See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS."

Not Debt of State or City .... The Series 2009 S-3 Bonds are not a debt of either the State or the City, and neither the State nor the City shall be liable thereon. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State supported debt" (commonly known as "State appropriation debt") within the meaning of the State Finance Law. Therefore, the State will not be entering into any financing agreement or service contract, the principal terms of which would require the State to seek an annual appropriation and govern payments pursuant to such appropriation, in connection with the Building Aid Revenue Bonds.

Based on State and federal constitutional, statutory and case law and the terms of the Indenture, the Assignment and the Agreement (herein defined), Bond Counsel is of the opinion that the Authority is not eligible for protection from its creditors pursuant to Title II (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 State Building Aid equal or prior to the rights of the Bondholders, such assertion would not succeed.

Security for Authority Indebtedness .... Recovery Obligations and Subordinate Bonds issued on a parity with Recovery Obligations (together, "Parity Debt"), Senior Bonds and other series of bonds and notes issued by the Authority secured by Tax Revenues are referred to herein as "Future Tax Secured Bonds." Pursuant to the Indenture, Future Tax Secured Bonds issued prior to the date of issuance of the Authority's Building Aid Revenue Bonds Fiscal 2007 Series S-1 dated November 16, 2006 (the "Series 2007 S-1 Bonds") will be payable in the first instance from Tax Revenues (which consist of Personal Income Taxes and (to the extent required) Sales Taxes) and, to the extent that Tax Revenues are insufficient, from State Building Aid. Future Tax Secured Bonds issued after the date of issuance of the Series 2007 S-1 Bonds, operating expenses allocable thereto and ancillary and swap contracts related thereto ("Post-07 S-1 Obligations") are secured only by Tax Revenues and will have no claim to State Building Aid. The payment of the Building Aid Revenue Bonds is subordinate to (i) the payment of debt service on Future Tax Secured Bonds issued prior to the date of issuance of the Series 2007 S-1 Bonds and (ii) operating expenses allocable thereto (collectively, the "Pre-07 S-1 Obligations").

Building Aid Revenue Bonds do not constitute Future Tax Secured Bonds, are not secured by Tax Revenues and are payable from State Building Aid subordinate to the payment of the Pre-07 S-1 Obligations. If Tax Revenues were not sufficient to pay the Pre-07 S-1 Obligations as well as Post-07 S-1 Obligations, State Building Aid would be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for payment of the

Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and Post-07 S-1 Obligations. See "SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS—Debt Service Coverage."

The Authority has Outstanding $11,317,330,000 of Future Tax Secured Bonds issued as Pre-07 S-1 Obligations (including bonds that have been economically defeased and the maturity value of capital appreciation bonds), $1,417,150,000 of Future Tax Secured Bonds issued as Post-07 S-1 Obligations and $2,610,595,000 of Building Aid Revenue Bonds.

The Authority has no source of payment for the Building Aid Revenue Bonds other than State Building Aid, which is subject to annual appropriation of the State.

State Building Aid .... The Series 2009 S-3 Bonds (along with all other Building Aid Revenue Bonds) are payable from the State Building Aid subject to annual appropriation by the State, assigned by the City to the Authority, and by the Authority to the Trustee. State Building Aid is paid in support of education facilities in the State for the benefit of elementary and/or secondary school students.

Under the Assignment (herein defined), the City has assigned to the Authority all State Building Aid payable to the City since the date of the Assignment and all State Building Aid to be received in the future by the City. Under the Indenture, State Building Aid consists of Confirmed Building Aid and Incremental Building Aid. "Confirmed Building Aid" consists of State Building Aid statutorily required to be paid to the Authority with respect to projects approved by the New York State Education Department (the "SED"), subject to appropriation, but not to any other statutory or administrative conditions or approvals (other than annual State appropriation). Confirmed Building Aid is required to be calculated in accordance with the State Covenant and with the building aid ratios applicable to such projects at the date of calculation. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—State Building Aid." "Incremental Building Aid" consists of State Building Aid to be received in the future by the Authority for City educational building projects that are approved by the SED in the future. Requests for Incremental Building Aid are made on behalf of the City by application of the New York City School Construction Authority ("SCA") to the SED. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—State Building Aid."

State Appropriation .... Payment of State Building Aid is subject to annual appropriation by the State. If there is not sufficient money appropriated by the State to enable the Authority to pay the Building Aid Revenue Bonds on a timely basis, the State will not be liable to the Authority, the City or the Bondholders for any deficiency. There is no contractual relationship between the Authority and the State. The State has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State."

Financial Condition of the State	The payment of State Building Aid to the Authority is dependent in part upon the financial condition of the State. Future State budgetary restrictions could result in delays in the payment of or reductions in the amount of State Building Aid payable to the Authority. In the event that State education aid or assistance is reduced by the State in the future, such reduction could result in a diminished flow of State Building Aid to the Authority. In addition, State Building Aid is payable by the State from amounts held in the State's General Fund, upon which there are potential prior constitutional and statutory claims. Intercept of amounts held in the State's General Fund could result in a diminished flow of State Building Aid to the Authority. For information on the State, including the impact on the State of reduced projections of cash receipts resulting from recent economic developments, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State."
Assignment	Under an Assignment of State Aid (the "Assignment") dated October 19, 2006 as amended, the City, acting through the Mayor, has assigned to the Authority all of the State Building Aid. Pursuant to the School Financing Act, the State Building Aid and the right to receive the State Building Aid are now the property of the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Assignment of State Building Aid."
Competing Claims to State Aid	The Authority's receipt of State Building Aid is expressly subject and subordinate under the School Financing Act to prior statutory claims on State education aid and assistance (1) under Section 99-b of the State Finance Law for the benefit of the holders of any defaulted bonds of the City issued for school purposes, (2) for the Municipal Bond Bank Agency for the payment of its bonds issued to satisfy prior claims of the City for amounts owed to the City under the Education Law and (3) for the New York City Educational Construction Fund to restore its Debt Service Reserve Fund relating to its outstanding bonds. In addition, the State may withhold or recover State education aid or assistance payable to the City 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 State education aid or assistance pursuant to subdivision 5 of Section 3604 of the Education Law as statutorily mandated. The foregoing statutory claims to State education aid and assistance and withholding or recovery of State education aid or assistance payable to the City are collectively referred to as "Competing Claims." The Authority does not expect that any such Competing Claims will materially reduce State Building Aid payable to the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Competing Claims to State Aid."

Memorandum of Understanding	Each year the State annually appropriates money to the City to pay for educational needs of the City's students ("Education Aid") pursuant to Section 3602 of the Education Law. A portion of such Education Aid constitutes State Building Aid apportioned pursuant to subdivision 6 of Section 3602 of the Education Law which is paid, together with certain other Education Aid, pursuant to Section 3609-a of the Education Law (the "General Education Aid Payments"). The City, the Authority, the SED and the New York State Comptroller (the "State Comptroller") entered into a Memorandum of Understanding dated as of October 26, 2006 (the "MOU") to determine the amount included in each General Education Aid Payment that is attributable to State Building Aid (the "Building Aid Payment"). Under the MOU, prior to each General Education Aid Payment, the Authority will calculate and certify to the SED, the State Comptroller and the Director of the Division of the Budget of the State the amount of the Building Aid Payment included in each General Education Aid Payment. In addition, the MOU provides that if permitted by applicable law, the State Comptroller shall satisfy any Competing Claims to Education Aid from Education Aid other than State Building Aid ("Other School Aid") first and, thereafter, from State Building Aid if the expected sources of funds for the payment of the Competing Claims from Other School Aid are unavailable or insufficient. Although the MOU sets forth the understanding of the City, the Authority, the SED and the State Comptroller as to the payment of State Building Aid and Other School Aid, the MOU will not be assigned to the Trustee or pledged as security for the Building Aid Revenue Bonds. While no assurance can be given that the MOU will be legally enforceable, the School Financing Act authorizes the assignment of State Building Aid by the City to the Authority and requires the payment of State Building Aid to the Authority following such assignment. See "— Competing Claims to State Aid" and "SECTION II—SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Memorandum of Understanding" and "—Competing Claims to State Aid."
99-b State Aid Intercept	Section 99-b of the State Finance Law, as amended by the School Financing Act, provides that in the event a holder or owner of any Building Aid Revenue Bond, or other bond or note issued by the Authority or the City for school purposes, shall file with the State Comptroller a verified statement describing such bond or note and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and serve a copy thereof by registered mail upon the Comptroller of the City, the Chancellor of the school district of the City (the "Chancellor") and the chief fiscal officer of the Authority. Upon the filing of such a certificate in the office of the State Comptroller, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of Education Aid due to the City or its school district such amount thereof as may be required to pay the principal of and interest on the bonds or notes then in default. Education Aid so withheld shall

be transferred by the State Comptroller to the paying agents for the bonds or notes so in default.

Education Aid so applied pursuant to State Finance Law Section 99-b secures only bonds or notes issued for school purposes and does not secure other obligations of the Authority or the City.

Section 99-b of the State Finance Law contains the covenant of the State with the Bondholders (among others) that it will not repeal, revoke or rescind the provisions of Section 99-b of the State Finance Law or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby; but nothing in Section 99-b of the State Finance Law shall be deemed or construed as requiring the State to continue the payment of Education Aid or as limiting or prohibiting the State from repealing or amending any law relating to such State education aid or assistance, the manner and timing of payment or apportionment thereof, or the amount thereof. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—99-b State Aid Intercept."

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 relating to State Building Aid subject to the Assignment. However, the State, under the School Financing Act and under the Indenture, covenants that State Building Aid shall in all events (i) continue to be so payable, as assigned to the Authority, so long as the State 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 an applicable project is approved for reimbursement from State Building Aid.

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

Additional Building Aid Revenue Bonds . . . . The Authority expects that it will issue other Building Aid Revenue Bonds in the future. The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds by providing to the Trustee, among other documents, an Officer's Certificate setting forth:

(i) Annual School Bond Debt Service, including debt service on such Series of Building Aid Revenue Bonds 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.

For purposes of the above certificate, each interest rate on Outstanding and proposed variable-rate Building Aid Revenue Bonds (if not economically fixed or otherwise offset by a Qualified Swap, a liquidity account, or otherwise with Rating Confirmation) shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

Interest and Principal . . . . Interest on the Series 2009 S-3 Bonds will accrue from their dated date at the rates set forth on the inside cover page hereof and will be payable semiannually on January 15 and July 15 of each year, commencing July 15, 2009. The record date for payment of interest on the Series 2009 S-3 Bonds is the last business 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 on and principal of the Building Aid Revenue Bonds will be paid by the Authority from State Building Aid on deposit in the School Bond Account. State Building Aid shall be deposited into the School Bond Account in accordance with the retention schedule as described in "Retention Procedures" below.

Optional Redemption . . . . The Series 2009 S-3 Bonds maturing on or before January 15, 2019 are not subject to optional redemption prior to maturity. The Series 2009 S-3 Bonds maturing after January 15, 2019 are subject to optional redemption prior to maturity on 30 days' notice beginning on January 15, 2019 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 2009 S-3 BONDS—Optional Redemption."

Mandatory Redemption . . . . The Series 2009 S-3 Bonds maturing on January 15, 2034 and January 15, 2039 are subject to mandatory redemption, in part, prior to maturity as described herein. See "SECTION IV: THE SERIES 2009 S-3 BONDS—Mandatory Redemption."

Collection Account . . . . All Revenues (consisting primarily of Tax Revenues and State Building Aid) received by the Authority shall be promptly deposited into the Collection Account within which there are 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. Tax Revenues do not secure the Building Aid Revenue Bonds. The City has assigned all of the State Building Aid to the Authority pursuant to the Assignment, and the Authority and the City have requested the State Comptroller to make payments of State Building Aid to the Trustee. Any State Building Aid received by the Authority or the Trustee shall be promptly deposited in the Building Aid Subaccount.

Application of State Building Aid . . . . . . State Building Aid in the Building Aid Subaccount of the Collection Account shall be applied in the following order of priority, as implemented in part by the Retention Procedures: first, to Pre-07 S-1 Senior Debt (to the extent that Tax Revenues are insufficient); second, to the Authority's operating expenses (to the extent that Tax Revenues are insufficient), which may include reserves 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 (to the extent that Tax Revenues are insufficient) and then to the payment of Building Aid Revenue Bonds and other School Obligations; and fourth, daily or as soon as practicable but no later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.

Retention Procedures . . . . To provide for the timely payment of School Obligations (including the Series 2009 S-3 Bonds) subject to the rights of the Holders of Pre-07 S-1 Obligations, 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 (as defined below), 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.

"Unfunded Balance," with respect to the State 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.
Tax Matters	In the opinion of Sidley Austin LLP, Bond Counsel to the Authority, interest on the Series 2009 S-3 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 2009 S-3 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 2009 S-3 Bonds are rated "AA-" by Standard & Poor's Ratings Services ("Standard & Poor's"), "A1" by Moody's Investors Services, Inc. ("Moody's") and "A+" by Fitch Ratings ("Fitch").
Trustee	The Bank of New York Mellon, New York, New York, acts as the Authority's trustee.
Authority Contact	Mr. Raymond Orlando Phone Number: (212) 788-5875 Email: Orlandor@omb.nyc.gov

SECTION I: INTRODUCTION

General

This Official Statement of the New York City Transitional Finance Authority (the "Authority") sets forth information concerning the Authority, The City of New York (the "City") and the State of New York (the "State") in connection with the sale of the Authority's $650,000,000 Building Aid Revenue Bonds, Fiscal 2009 Series S-3 (the "Series 2009 S-3 Bonds").

Provided certain statutory and contractual conditions are met, other series of Bonds on a parity with the Series 2009 S-3 Bonds may be issued. The Series 2009 S-3 Bonds together with other series of Building Aid Revenue Bonds issued under the Indenture are referred to as "Building Aid Revenue Bonds." In addition, the Indenture permits the Authority to issue Notes and to enter into other obligations on a parity with the Building Aid Revenue Bonds (collectively, the "School Obligations"). See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State. The Authority was created by Chapter 16 of the Laws of New York, 1997 (the "Enabling Act"). The Enabling Act became effective March 5, 1997, and provided for the issuance of Bonds for general capital purposes of the City, the payment of such Bonds from the Tax Revenues (which consist of Personal Income Taxes and, to the extent required, Sales Taxes), and statutory and contractual covenants of the Authority, the City and the State. The Enabling Act was amended in June 2000 and September 2001 to, among other things, increase the capacity of the Authority to issue Bonds for general City capital purposes. The amendment in September 2001 permitted the Authority to issue Bonds and Notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Obligations"). The Enabling Act was further amended in 2006 to increase the Authority's $11.5 billion statutory capacity to issue Bonds for general City capital purposes by $2 billion to $13.5 billion. Under current law, the Authority has no additional capacity to issue bonds for general City capital purposes, except for refunding bonds. The City is seeking State legislation which would increase the Authority's statutory capacity to issue bonds for general City capital purposes.

In 2006, the Enabling Act was further amended pursuant to Part A-3 of Chapter 58 of the Laws of New York, 2006 (the "School Financing Act"). The School Financing Act authorizes the Authority to issue bonds, notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's five-year educational facilities capital plan (the "Five-Year Plan") 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 City has assigned all the State Building Aid to the Authority.

The Series 2009 S-3 Bonds are being issued by the Authority pursuant to the School Financing Act and the Enabling Act, as amended (collectively, 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 Mellon, New York, New York, as Trustee (the "Trustee"). The Series 2009 S-3 Bonds (along with all other Building Aid Revenue Bonds hereafter issued under the Indenture) are payable from the State Building Aid, subject to annual appropriation by the State, assigned by the City to the Authority and by the Authority to the Trustee. The payment of State education aid of which State Building Aid is a part is subject and subordinate to certain prior statutory claims. Payment of State revenues of which State education aid is a part is also subject and subordinate to State constitutional claims. The payment of State Building Aid is dependent in part upon the financial condition of the State. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State."

Recovery Obligations and Subordinate Bonds issued on a parity with Recovery Obligations (together, "Parity Debt"), Senior Bonds and other series of bonds and notes issued by the Authority secured by Tax Revenues are referred herein as "Future Tax Secured Bonds." Pursuant to the Indenture, Future Tax Secured Bonds issued prior to the date of issuance of the Authority's Building Aid Revenue Bonds Fiscal Series 2007 S-1 dated November 16, 2006 (the "Series 2007 S-1 Bonds") will be payable in the first instance from Tax Revenues (which consist of Personal Income Taxes and (to the extent required) Sales Taxes) and to the extent that Tax Revenues are insufficient, from State Building Aid. Future Tax Secured Bonds issued after the date of issuance of the Series 2007 S-1 Bonds, operating expenses allocable thereto and ancillary and swap contracts related thereto ("Post-07 S-1 Obligations") are secured only by Tax Revenues and will have no claim on State Building Aid. The payment of the Building Aid Revenue Bonds is subordinate to (i) the payment of debt service on Future Tax Secured Bonds issued prior to the date of issuance of the Series 2007 S-1 Bonds and (ii) operating expenses allocable thereto (collectively, the "Pre-07 S-1 Obligations"). A summary of certain provisions of the Indenture and the Agreement, including defined terms used therein and in this Official Statement, is contained in "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

Pursuant to an Assignment of State Aid (the "Assignment") dated October 19, 2006, as amended, the City, acting through the Mayor, has assigned to the Authority all of the State Building Aid, and, pursuant to the School Financing Act, State Building Aid and the right to receive the State Building Aid are now the property of the Authority. State Building Aid constitutes a portion of State education aid and assistance annually appropriated by the State of New York (the "State") to the City. Pursuant to a Memorandum of Understanding (the "MOU") dated as of October 26, 2006, among the City, the Authority, the New York State Education Department (the "SED") and the New York State Comptroller (the "State Comptroller"), the Authority will calculate and certify to the SED the amount of each payment of State education aid and assistance that is attributable to State Building Aid. In addition, the State Comptroller has agreed under the MOU, if permitted under applicable law, to pay competing claims from State education aid and assistance other than State Building Aid.

The factors affecting the Authority and the Building Aid Revenue Bonds described throughout this Official Statement are complex and are not intended to be described in this Introduction. This Official Statement should be read in its entirety. Capitalized terms not otherwise defined in this Official Statement are defined in "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS

General

The Series 2009 S-3 Bonds are to be issued by the Authority as Building Aid Revenue Bonds. Interest on and principal of the Building Aid Revenue Bonds are payable from the State Building Aid assigned to the Authority, subordinate to the payment of the Pre-07 S-1 Obligations. State Building Aid shall only be applied to make payment of the Pre-07 S-1 Obligations in the event that Tax Revenues consisting of Personal Income Taxes and Sales Taxes are insufficient therefor. Building Aid Revenue Bonds are not secured by Tax Revenues. If Tax Revenues were not sufficient to pay Pre-07 S-1 Obligations as well as Post-07 S-1 Obligations, State Building Aid would be applied to the payment of Pre-07 S-1 Obligations and the amount of State Building Aid available for the payment of the Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and Post-07 S-1 Obligations. See "SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS—Tax Revenues and Debt Service Coverage."

The Authority has Outstanding $11,317,330,000 of Future Tax Secured Bonds issued as Pre-07 S-1 Obligations (including bonds that have been economically defeased and the maturity value of capital appreciation bonds), $1,417,150,000 of Future Tax Secured Bonds issued as Post-07 S-1 Obligations and $2,610,595,000 of Building Aid Revenue Bonds.

The Authority does not have any significant assets or sources of funds other than Tax Revenues and State Building Aid and amounts on deposit pursuant to the Indenture. The Authority has no other source of payment for the Building Aid Revenue Bonds other than State Building Aid. See "— Financial Condition of the State."

Payment of State Building Aid is subject to annual appropriation by the State. If there is not sufficient money appropriated to enable the Building Aid Revenue Bonds to be paid on a timely basis, the State will not be liable to the Authority, the City or the Bondholders for any deficiency. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State Supported Debt" (commonly known as "State Appropriation Debt") within the meaning of the State Finance Law, therefore, the State

will not be entering into any financing agreement or service contract in connection with the Building Aid Revenue Bonds.

Bonds of the Authority are not guaranteed by the City or the State. The Authority's bonds are not debt of the State or the City and neither the State nor the City shall be liable thereon.

Pursuant to Section 99-b of the State Finance Law, as amended by the School Financing Act, in the event a holder or owner of any Building Aid Revenue Bond, or other bond or note issued by the Authority or the City for school purposes, shall file with the State Comptroller a verified statement describing such bond or note and alleging default in its payment, the State Comptroller shall immediately investigate the default and prepare and file in his office a certificate setting forth his determinations with respect thereto. Upon the filing of such a certificate, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of State education aid or assistance due to the City or its school district such amount thereof as may be required to make the payment of the principal of and interest on the bonds or notes then in default. State education aid or assistance so withheld shall be transferred by the State Comptroller to the Authority's or the City's paying agent. See "—99-b State Aid Intercept."

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, the Assignment 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 State Building Aid equal or prior to the rights of the Bondholders, such assertion would not succeed.

Assignment of State Building Aid

Pursuant to the School Financing Act, the State authorized the Authority to issue bonds, notes and other obligations in an amount outstanding up to $9.4 billion to finance a portion of the Five-Year Plan and authorized the City to assign to the Authority all or any portion of the State Building Aid. The City, acting through the Mayor, pursuant to the Assignment has assigned to the Authority all of the State Building Aid and, pursuant to the School Financing Act, the State Building Aid and the right to receive the State Building Aid are now the property of the Authority.

Under the provisions of the Assignment, the City has covenanted to preserve, protect and confirm the interest of the Authority and the Trustee (for the benefit of Bondholders) in the State Building Aid. Furthermore, under the Assignment, the City has covenanted to comply and cause the SCA (herein defined) to comply with the State Education Law (the "Education Law") in all respects material to State Building Aid, or in the event of a claim by Bondholders pursuant to Section 99-b of the State Finance Law, to State education aid or assistance. See "—State Building Aid" and "—99-b State Aid Intercept," herein. The City has also agreed under the Assignment to file or cause to be filed timely and appropriate claims of State Building Aid in respect of all material aidable outlays and diligently prosecute such claims on behalf of the Authority. Furthermore, under the Assignment, the City has agreed to cooperate with the Authority and the Trustee in contesting any competing claim to any portion of the State Building Aid, or the Bondholders (if proceeding under Section 99-b of the State Finance Law) against any competing claim based (i) under the Education Law, (ii) on disallowance regarding prior aid funds distributed to the City or (iii) the City's failure to make any payments or comply with other constitutional or statutory mandate. The City has also agreed to promptly pay over to the Trustee any State Building Aid received by the City, including any material amount of State Building Aid diverted from the Authority on account of certain competing claims. See "— Competing Claims to State Aid," herein.

Memorandum of Understanding

Each year the State annually appropriates money to pay for educational needs of the City's students ("Education Aid") pursuant to Section 3602 of the Education Law. A portion of such Education Aid constitutes State Building Aid apportioned pursuant to subdivision 6 of Section 3602 of the Education Law which is paid, together with certain other Education Aid, pursuant to Section 3609-a of the Education Law (the "General Education Aid Payments"). The City, the Authority, New York State Education Department (the "SED") and the State Comptroller have entered into the MOU to determine the amount included in each General Education Aid Payment that is attributable to State Building Aid (the "Building Aid Payment").

Under the MOU, the SED shall provide to the Authority, on each date that the SED provides vouchers to the State Comptroller for a General Education Aid Payment to the City (the date of such payment being a "Payment Date"), a schedule (the "Schedule") setting forth the apportionment of Education Aid calculated by the SED pursuant to the opening paragraph of Section 3609-a of the Education Law ("Money Apportioned"), the total apportionment of State Building Aid for the then-current school year and the amount of the General Education Aid Payment payable to the City or the Authority on the Payment Date. Upon receipt of the Schedule, the Authority shall deliver to the SED, the State Comptroller and the Director of the Division of the Budget of the State, a certification (the "TFA Certification") specifying the amount of the Building Aid Payment attributable to the then-current school year to be paid to the Authority on the Payment Date.

For each General Education Aid Payment payable to the City prior to June 1 of the then-current school year, the Authority shall determine the amount of the Building Aid Payment due on any Payment Date by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority during such school year prior to such Payment Date from an amount calculated by multiplying (x) the percentage that total annual State Building Aid bears to the Money Apportioned for such school year by (y) the total of the General Education Aid Payments payable to the City or the Authority for the then-current school year paid and payable to the Authority and the City during such school year up to and including such Payment Date. The calculations described in the previous sentence will be based on the information provided by the SED in the Schedule. For the General Education Aid Payment payable to the City in June of the then-current school year, the Authority shall determine the amount of the Building Aid Payment attributable to the then-current school year due on such Payment Date by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority during such school year prior to such Payment Date from the State Building Aid for such school year.

After the Authority delivers the TFA Certification to the SED, the SED shall deliver to the State Comptroller the Certification together with a written certificate (the "SED Certification") (i) that the sum of the Building Aid Payments attributable to the then-current school year paid or to be paid to the Authority through the Payment Date as set forth in the TFA Certification, does not exceed the total amount of State Building Aid apportioned on account of City educational facilities for the then-current school year and (ii) that the Building Aid Payment has been calculated in a manner consistent with the above paragraph. If the SED is unable to make the SED Certification, it will deliver an alternative written certification (the "SED Alternate Certification") to the State Comptroller specifying the amount of such State Building Aid payable for the then-current school year by deducting the amount of the Building Aid Payments attributable to the then-current school year paid to the Authority prior to such Payment Date from the State Building Aid for such school year (the "Remaining Building Aid Payment").

Upon receipt at least one business day prior to the Payment Date of (i) the TFA Certification and the Adjustment Certification (if any) described below and (ii) the SED Certification or SED Alternative Certification, and if funds are available and payment is authorized by law, such Building Aid Payment or Remaining Building Aid Payment, as the case may be, adjusted in accordance with the Adjustment Certificate, if any, shall be paid by the State Comptroller to the Authority's trustee, and the State Comptroller shall provide notice of such payment to the SED. If the TFA Certification and either the SED Certification or the SED Alternative Certification are not received prior to the Payment Date, then the entire amount of the General Education Aid Payment (less any adjustments unrelated to the MOU) shall be paid to the City.

If at the end of any school year, Building Aid Payments calculated to be payable to the Authority remain unpaid, such Building Aid Payments shall be paid from the next General Education Aid Payment.

After final review by the SED of the City's apportionment for State Building Aid for any school year, the SED shall notify the City and the Authority of the amount of such State Building Aid for such School Year.

If unpaid Building Aid Payments for a school year are payable in the next school year or if the amount specified by the SED pursuant to the preceding paragraph is not equal to the amount of total annual State Building Aid verified to the Authority in June of such school year, the Authority shall deliver a certification to the SED (the "Adjustment Certification") stating the amount of increase or decrease in the next Building Aid Payment calculated for the then-current school year necessary to reflect such change, and shall identify the school year to which each such increase or decrease is attributable. The SED shall deliver to the State Comptroller, at least one business day prior to the next Payment Date, the Adjustment Certification together with a SED Certification that the increase or decrease in the Building Aid Payment set forth in the Adjustment Certification has been calculated in a manner that is consistent with the MOU.

The MOU provides that if permitted by applicable law the State Comptroller shall satisfy any Competing Claims to Education Aid from Education Aid other than State Building Aid ("Other School Aid") first and, thereafter, from State Building Aid if the expected sources of funds for the payment of the competing claims from Other School Aid are unavailable or insufficient. "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; and (iii) holders of the New York City Educational Construction Fund Revenue Bonds; 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, a 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 the apportionments of Education Aid pursuant to subdivision 5 of section 3604 of the Education Law, as statutorily mandated. See "—Competing Claims to State Aid."

Although the MOU sets forth the understanding of the City, the Authority, the SED and the State Comptroller as to the payment of State Building Aid, the MOU will not be assigned to the Trustee or pledged as security for the Building Aid Revenue Bonds. While no assurance can be given that the MOU will be legally enforceable, the School Financing Act authorizes the assignment of State Building Aid by the City to the Authority and requires the payment of State Building Aid to the Authority following such assignment.

State Building Aid

General

Pursuant to Article XI of the New York State Constitution, the State is obligated to provide for maintenance and support of a system of free common schools, wherein all the children of the State may be educated.

State Building Aid is provided, in accordance with subdivision 6 of Section 3602 of the Education Law, as a means for assisting local school districts with the cost of constructing and improving suitable and adequate elementary and/or secondary education facilities. To this end, new facilities, additions and major alterations eligible for State Building Aid must meet specific standards pertaining to functionality, building code requirements, and health and safety regulations.

The following table shows historic State Building Aid received as a result of City education projects for fiscal years 1999 through 2008:

HISTORIC STATE BUILDING AID

Fiscal Year	State Building Aid (millions)
1999	$216.2
2000	249.7
2001	391.5[(1)]
2002	425.2[(1)]
2003	389.7
2004	410.8
2005	440.1
2006	503.4
2007	587.5
2008	696.6

(1) The increase in State Building Aid in fiscal years 2001 and 2002 is largely attributable to the City's use of pay-as-you-go capital in fiscal years 2000 through 2002, the full amount of which was aided in fiscal years 2001 and 2002. Subsequently, the Education Law was changed to provide that projects paid for with pay-as-you-go capital would be aided over a 30-year period rather than in one fiscal year.

Aidable Debt Service

The City, acting through the SCA, submits projects from its educational facilities capital plan to the SED for review and approval on a project-by-project basis. The SED approval process establishes the amount of project costs that qualify for State Building Aid reimbursement and establishes, for approved projects, a schedule of "Aidable Debt Service" based on an assumed amortization schedule. For projects that are funded from bond financing or "pay-as-you-go" capital, the Aidable Debt Service schedule represents an amortization of the qualified project cost over a 30-year period with level annual debt service payments based upon an assumed interest rate. For leased facilities, the Aidable Debt Service schedule represents the actual lease payments for the actual term of the lease. No later than September 1st of each year, the City Comptroller provides to the SED the average interest rate on all capital debt incurred by the City for school purposes (or incurred by the Authority if no such capital debt is incurred by the City) during the prior fiscal year. Upon approval of the Commissioner of SED, this rate serves as the final assumed interest rate used by the SED to recalculate the Aidable Debt Service for projects approved in the prior fiscal year, as well as the preliminary assumed interest rate used to calculate Aidable Debt Service for projects approved in the then-current fiscal year.

The SED determines the amount of State Building Aid apportioned and payable to the City every year for approved projects by multiplying the applicable building aid ratio (the "Selected Building Aid Ratio") for such year, as described below, by such projects' Aidable Debt Service for such year. The Selected Building Aid Ratios vary depending on when particular groups of projects were approved by the Chancellor of Education of the City (the "Chancellor"). Various factors are taken into account by the SED in determining the Selected Building Aid Ratios, including the Calculated Building Aid Ratio and the Incentive Aid Ratio as described below.

Building Aid Ratios

Calculated Building Aid Ratio. Pursuant to subdivision 6 of Section 3602 of the State Education Law, the SED calculates a new building aid ratio for every year for each school district in the State (the "Calculated Building Aid Ratio"). The Calculated Building Aid Ratio determined every year is derived from a statutory formula based largely upon school district wealth factors that are determined based on a school district's property value per pupil in relation to the Statewide property value per pupil. Wealth equalizing features of the formula cause a school district's Calculated Building Aid Ratio to increase as its property value per pupil decreases relative to school districts in the State overall. As detailed in the following table, the City's Calculated Building Aid Ratio has historically been stable, although recently the Calculated Building Aid Ratio has been declining reflecting increased property values per pupil in the City relative to school districts in the State overall.

Fiscal Year	Calculated Building Aid Ratio
2000	52.6%
2001	53.2
2002	52.3
2003	52.2
2004	51.7
2005	50.8
2006	52.2
2007	52.7
2008	50.5
2009	49.8(1)

(1) Projected.

Projects may also qualify each year for additional apportionment of State Building Aid in the form of Incentive Aid and/or through the application of a High Need Building Aid Ratio depending upon when such projects were first approved by the Chancellor.

Incentive Aid Ratio. All projects approved by the Chancellor on or after July 1, 1998 are eligible for an additional apportionment of State Building Aid ("Incentive Aid"). Incentive Aid equals the product of Aidable Debt Service and an incentive decimal computed for use in the year in which a project was approved. The incentive decimal (the "Incentive Aid Ratio") for the City is currently 10%.

High Need Building Aid Ratio. Projects approved by the Chancellor on or after July 1, 2005 qualify for additional apportionment of State Building Aid through the application of a high-need supplemental building aid ratio (the "High Need Building Aid Ratio"). The High Need Building Aid Ratio is equal to the lesser of (i) the product (computed to three decimals without rounding) of the Selected Building Aid Ratio (as described below) multiplied by five percent, or (ii) the positive remainder of ninety-eight one hundredths less the Selected Building Aid Ratio. For the City, the High Need Building Aid Ratio is equal to the product of the Selected Building Aid Ratio multiplied by five percent.

Selected Building Aid Ratio. Although the Calculated Building Aid Ratio is determined by the SED every year, the specific Selected Building Aid Ratio utilized to compute State Building Aid payable to the City in each year for projects is the higher of the Calculated Building Aid Ratio for such year (plus the Incentive Aid Ratio, if applicable) or a prior year building aid ratio applicable to the City (plus the Incentive Aid Ratio, if applicable). The particular prior year building aid ratio applicable to projects is dependent upon the year in which such projects were first approved by the Chancellor.

For projects approved by the Chancellor prior to fiscal year 1999, the Selected Building Aid Ratio applied every year is currently the higher of the City's Calculated Building Aid Ratio and the City's highest Calculated Building Aid Ratio since fiscal year 1982, which is 54.7%. The Selected Building Aid Ratio for such projects for fiscal year 2008 is 54.7%. The projected Selected Building Aid Ratio for such projects for fiscal year 2009 is 54.7%.

Projects approved by the Chancellor on or after July 1, 1998 qualify for an additional State Building Aid apportionment in the form of Incentive Aid, which is currently calculated each year by multiplying the Incentive Aid Ratio by Aidable Debt Service for such projects for such year. The Selected Building Aid Ratio currently applied every year for projects approved by the Chancellor in fiscal years 1999 and 2000 is the higher of (i) the City's Calculated Building Aid Ratio for such year plus the Incentive Aid Ratio and (ii) the City's highest Calculated Building Aid Ratio since fiscal year 1982 plus the Incentive Aid Ratio, which is 64.7%. The Selected Building Aid Ratio for such projects for fiscal year 2008 is 64.7%. The projected Selected Building Aid Ratio for such projects for fiscal year 2009 is 64.7%.

For projects approved by the Chancellor on or after July 1, 2000, the building aid ratio currently applied in each year to such projects is the higher of (i) the City's Calculated Building Aid Ratio for the year plus the Incentive Aid Ratio and (ii) the building aid ratio applied for the City's apportionment in fiscal year 2000, not including the additive Incentive Aid Ratio, which is 54.7%. The Selected Building Aid Ratio for such projects for fiscal year 2008 is 60.5%. The projected Selected Building Aid Ratio for such projects for fiscal year 2009 is 59.8%.

For projects approved by the Chancellor on or after July 1, 2005, the High Needs Building Aid Ratio will be applied to the Selected Building Aid Ratio.

Confirmed Building Aid

State Building Aid for projects not subject to any further statutory or administrative conditions or approvals (other than annual State appropriation), and which shall be calculated in accordance with the State covenant and the building aid ratios applicable to such projects at the date of calculation, constitutes "Confirmed Building Aid."

State Building Aid to be received for projects that are approved by the SED in the future constitutes "Incremental Building Aid." Pursuant to the Assignment, the City has assigned to the Authority Confirmed Building Aid and the right to receive Incremental Building Aid, and both Confirmed Building Aid and the right to receive Incremental Building Aid are now property of the Authority. The Authority receives, subject to annual State appropriation, State Building Aid regardless of the financing mechanism utilized to fund an eligible educational facility project. The City's financing of educational facilities eligible for State Building Aid is not restricted solely to the issuance of Building Aid Revenue Bonds.

The amount of Confirmed Building Aid payable to the Authority will vary from the amounts shown below in the future depending on, among other factors, the Selected Building Aid Ratio for projects approved after July 1, 2000 and the final assumed interest rate for fiscal year 2009. The preliminary assumed interest rate used to calculate Confirmed Building Aid for projects approved in fiscal year 2009 is 3.875%. Confirmed Building Aid projections contained herein reflect the preliminary assumed interest rate. The final assumed interest rate could be lower than the preliminary assumed interest rate which would reduce the Confirmed Building Aid shown below, all other factors remaining the same.

CONFIRMED BUILDING AID

Fiscal Year	Confirmed Building Aid (millions)
2009	$733.31
2010	726.55
2011	721.99
2012	720.10
2013	717.06
2014	715.34
2015	715.09
2016	714.78
2017	712.85
2018	708.78
2019	703.16
2020	699.80
2021	685.28
2022	660.58
2023	639.15
2024	623.06
2025	609.94
2026	597.37
2027	587.65
2028	574.33
2029	547.56
2030	505.63
2031	456.12
2032	393.29
2033	354.84
2034	338.06
2035	322.83
2036	298.68
2037	235.19
2038	145.69

Payment of State Building Aid

State Building Aid for all projects is aggregated by the State and paid to the City in accordance with Section 3609-a of the Education Law. The State does not distinguish payments of State Building Aid from General Education Aid Payments payable to the City. Pursuant to Section 3609-a of the Education Law, 25% of the lesser of (i) the General Education Aid Payments estimated by the SED to be payable to the City at the time of adoption of the State budget or (ii) the General Education Aid Payments estimated by the SED to be payable to the City at the time of payment are required to be paid by the State to the City no later than December 15 of each fiscal year, and the remaining amount of General Education Aid Payments must be paid to the City no later than the first business day of June of such fiscal year. The General Education Aid Payments are conditioned upon the filing by the City of certain reports required under the Education Law. The City has covenanted in the Assignment to comply with the requirements of the Education Law in all respects material to the State Building Aid, which include the requirement to file such reports.

The amount of State Building Aid payable in each year to the Authority will vary depending on, among other factors, the Selected Building Aid Ratio. In addition, although the State has covenanted to continue to calculate State Building Aid in accordance with the formula used on the date an applicable project is approved for reimbursement, no assurance can be given that the Calculated Building Aid Ratio will remain stable in accordance with historic levels or that the Incentive Aid Ratio or the High Need Building Aid Ratio will continue. In addition, payment of State Building Aid is dependent in part upon the financial condition of the State. See "— Financial Condition of the State."

The following table shows debt service coverage for Building Aid Revenue Bonds by Confirmed Building Aid.

DEBT SERVICE COVERAGE FOR BUILDING AID REVENUE BONDS BY CONFIRMED BUILDING AID

Fiscal Year	Confirmed Building Aid (millions)	Debt Service[1] (millions)	Coverage
2009	$733.31	$189.81	3.86x
2010	726.55	209.27	3.47
2011	721.99	213.23	3.39
2012	720.09	215.28	3.34
2013	717.06	219.37	3.27
2014	715.34	219.27	3.26
2015	715.09	219.20	3.26
2016	714.78	219.13	3.26
2017	712.85	219.23	3.25
2018	708.78	219.00	3.24
2019	703.16	218.94	3.21
2020	699.80	216.37	3.23
2021	685.28	216.32	3.17
2022	660.58	216.43	3.05
2023	639.15	216.18	2.96
2024	623.06	216.30	2.88
2025	609.94	216.25	2.82
2026	597.37	216.19	2.76
2027	587.65	216.12	2.72
2028	574.33	216.01	2.66
2029	547.56	215.95	2.54
2030	505.63	215.88	2.34
2031	456.12	215.78	2.11
2032	393.29	214.12	1.84
2033	354.84	214.96	1.65
2034	338.06	214.86	1.57
2035	322.83	214.77	1.50
2036	298.68	214.59	1.39
2037	235.19	130.61	1.80
2038	145.69	85.05	1.71

(1) Reflects debt service on Outstanding Building Aid Revenue Bonds and on the Series 2009 S-3 Bonds. Debt service is shown in the year State Building Aid is retained by the Authority, rather than in the year paid.

Additional Building Aid Revenue Bonds

The School Financing Act authorizes the issuance of Bonds, Notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of one or more of the Five-Year Plans. The Authority expects that it will issue other Building Aid Revenue Bonds in the future. The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds by providing to the Trustee, among other documents, an Officer's Certificate setting forth:

(i) Annual School Bond Debt Service, including debt service on such Series of Building Aid Revenue Bonds in each Series Fiscal Year; and

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

For purposes of the above certificate, each interest rate on Outstanding and proposed variable-rate Building Aid Revenue Bonds (if not economically fixed by a Qualified Swap, a liquidity account, or otherwise with Rating Confirmation) shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

Implementation of the Five-Year Plan is dependent on the City's and the Authority's ability to successfully market their bonds and notes. Recent turmoil in the financial markets has led to constraints in the availability of credit to all borrowers including governmental entities. The success of projected sales of City and Authority bonds and notes will be subject to prevailing market conditions.

Incremental Building Aid

General

Additional Building Aid Revenue Bonds will be payable as described herein from State Building Aid assigned to the Authority by the City under the Assignment. It is anticipated that the City will continue adopting Five-Year Plans and making expenditures thereunder that are eligible for State Building Aid in the future. It is also anticipated that the City, through SCA, will continue to make application to the SED for Incremental Building Aid, and that Incremental Building Aid will be approved by the SED as future projects under the current and future Five-Year Plans are undertaken.

Eligibility for State Building Aid

Projects eligible for State Building Aid must be included in the Five-Year Plan. Eligible projects include, among others, new construction, building additions, major modernizations, rehabilitations, and system replacements. Such projects must relate to educational instructional facilities or facilities otherwise related to educational instruction. Project costs eligible for State Building Aid funding may include direct construction and equipment acquisition costs as well as incidental project costs, including site purchase, preparation and development costs and professional service fees and insurance. Such costs may relate to facilities either owned or leased by the City. In addition, lease payments relating to such facilities are also eligible for State Building Aid.

SED Approval and Calculation of State Building Aid

The SED reviews each project and calculates the maximum amount of project costs that are eligible for State Building Aid (the "Maximum Cost Allowance" or "MCA"). Calculation of the MCA begins with a determination of a preliminary cost allowance, which is the product of the number of students the project will accommodate and State per pupil cost amounts by student type. To account for variations in construction labor costs throughout the State, the SED then applies a regional cost factor to each project. For certain projects in the City started after July 1, 2004, the MCA then receives an additional upward adjustment called the "Urban Cost Factor," which is designed to reflect the higher costs of construction in a dense urban environment, as well as an extraordinary site acquisition cost adjustment. Once the MCA is calculated, the SED determines the aidable cost ("Aidable Cost") of a project as the lesser of the MCA and the approved project cost.

Every year, the SED determines the amount of State Building Aid payable for projects as described above under "State Building Aid."

The Authority expects that it will receive Incremental Building Aid in an amount at least equal to $27.1 million in fiscal year 2009 and $46.5 million in each of fiscal years 2010 through 2038. These amounts are calculated assuming that no new education projects eligible for State Building Aid are authorized in the City after the end of the Current Five-Year Plan covering fiscal years 2005 through 2009 (the "Current Five-Year Plan"). In addition, these amounts are calculated assuming that the final interest rate applicable to the Incremental Building Aid is 3.875%. The Authority and the City expect that additional education projects eligible for State Building Aid will be approved as part of new Five-Year Plans starting in fiscal year 2010, which commences on July 1, 2009. The Authority believes that the actual Incremental Building Aid it receives will be in excess of the amounts specified above because the City is in the last year of the Current Five-Year Plan. Consequently, projections do not include Incremental Building Aid to be derived from projects approved as part of Five-Year Plans starting in fiscal year 2010. The total amount of the Five-Year Plan that starts in fiscal year 2010 is expected to be lower than the total amount of the Current Five-Year Plan.

Five-Year Plan

The Five-Year Plan is the mechanism by which the City plans, funds and manages all capital investments in its public school facilities. The rules governing the preparation and maintenance of each Five-Year Plan are established pursuant to the Education Law. The Current Five-Year Plan totals over $13.4 billion. The next Five-Year Plan is expected to be adopted by July 1, 2009 and is expected to be lower than the total amount of the Current Five-Year Plan.

The school system of the State is divided into school districts. The school district of the City is known as the Department of Education, which is a corporate body separate from the City (the "DOE"). Each Five-Year Plan, which is amended from time to time, is prepared by the Chancellor and contains the following categories of work: new construction; building additions; major modernization and rehabilitation; athletic fields, playgrounds and pools; system replacements; security and educational enhancements; and emergency, unspecified and miscellaneous. The Five-Year Plan must describe each of these categories and estimate the cost of each category, the capital funding required each year and the expected sources of such funding. The Five-Year Plan must also set forth an estimate of the cost of each project identified in the Five-Year Plan and state the year in which each such project is to be initiated.

Each Five-Year Plan is managed and administered by the SCA pursuant to the New York State Public Authorities Law. The SCA has the duty to: design, construct, reconstruct, improve, rehabilitate, maintain, furnish, repair, equip and otherwise provide for educational facilities as defined under State Education Law and acquire property through purchase or condemnation therefor. The three-member SCA Board consists of the Chancellor and two other members appointed by the Mayor.

All State Building Aid is payable by the State, subject to annual appropriation, regardless of how approved project costs are financed. Capital expenditures under the Five-Year Plan may be financed using different obligations, such as (i) general obligation bonds or notes issued by the City, (ii) bonds or notes issued by the Authority for general City capital purposes or (iii) Building Aid Revenue Bonds issued by the Authority. Pursuant to the Assignment, all State Building Aid payable in respect of all approved education projects is payable to the Authority regardless of whether such projects are financed through general obligation bonds of the City, bonds of the Authority for general City capital purposes, Building Aid Revenue Bonds, or any other method.

99-b State Aid Intercept

Section 99-b of the State Finance Law provides that in the event a holder or owner of any Building Aid Revenue Bond, or other bond or note issued by the Authority or the City for school purposes, shall file with the State Comptroller a verified statement describing such bond or note and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and serve a copy thereof by registered mail upon the Comptroller of the City, the Chancellor and the chief fiscal officer of the Authority. Such investigation by the State Comptroller shall cover the current status with respect to the payment of principal of and interest on all outstanding bonds or notes issued for school purposes, and the statement prepared and filed by the State Comptroller pursuant to the foregoing shall set forth a description of all bonds or notes issued for school purposes, found to be in default and the amount of principal and interest thereon past due. Upon the filing of such a certificate in the office of the State Comptroller, the State Comptroller shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of Education Aid due to the City or its school district such amount thereof as may be required to pay the principal of and interest on the bonds or notes issued for school purposes, then in default. Education Aid so withheld shall be transferred by the State Comptroller to the respective paying agents.

In the event such Education Aid so withheld shall be insufficient to pay all of the principal of and interest on the bonds or notes issued for school purposes, so in default, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such Education Aid due the City or its school district, such amount or amounts thereof as may be required to pay all of the principal of and interest on the bonds or notes issued for school purposes, then in default and to cure such default. Allotments, apportionments and payments of such Education Aid so deducted or withheld by the State Comptroller shall be forwarded promptly to each applicable paying agent for the sole purpose of the payment of defaulted principal of and interest on such bonds or notes; provided, however, that in the event any such allotment, apportionment or payment of such Education Aid so deducted or withheld shall be less than the total amount of all principal and interest on the bonds or notes in default with respect to which the same was so deducted or withheld, then the State Comptroller shall forward to the paying agent an amount in the proportion that the amount of such bonds or notes in default bears to the total amount of principal of and interest then in default on such bonds or notes.

Total Education Aid to the City was $7,754,540,824 in fiscal year 2008. Education Aid so applied pursuant to Section 99-b of the State Finance Law secures only the bonds or notes issued for school purposes and does not secure other obligations of the Authority or the City. The payment of Education Aid to the City is subject to annual appropriation by the State. In addition, no assurance can be given that, in the event of the State's failure to appropriate Education Aid in amounts sufficient to pay State Building Aid, that Education Aid would be sufficient to cure a deficiency pursuant to Section 99-b of State Finance Law.

The State covenants with the Holders of the Building Aid Revenue Bonds (among others) that it will not repeal, revoke or rescind the provisions of Section 99-b or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby; but nothing in Section 99-b shall be deemed or construed as requiring the State to continue the payment of Education Aid to the City or as limiting or prohibiting the State from repealing or amending any law relating to Education Aid, the manner and time of payment or apportionment thereof, or the amount thereof.

Set forth is the total amount of Education Aid paid to the City for fiscal years 1999 through 2008.

Fiscal Year	Education Aid (millions)
1999	$4,276.62
2000	4,659.62
2001	5,170.29
2002	5,491.68
2003	5,215.81
2004	5,366.79
2005	5,851.17
2006	6,366.55
2007	6,979.87
2008	7,754.54

Competing Claims to State Aid

Prior Claims Under the Act. The Authority's receipt of Education Aid, of which State Building Aid is a part, is subject and subordinate to the competing claims described below.

Direct Claims

MBBA Bonds. Bonds have been issued by the New York Municipal Bond Bank Agency ("MBBA") pursuant to the State of New York Municipal Bond Bank Agency Act, Title 18 of Article VIII of the Public Authorities Law of the State of New York, as amended (the "MBBA Act"), to fund the cost of making a payment to the City in satisfaction of prior year claims owed to the City under Section 3604 of the Education Law. Pursuant to the MBBA Act, the Chairman of the MBBA is required to deliver annually a certificate to the State Comptroller and the Director of the Budget of the State, certifying the amount of public funds apportioned or otherwise made payable by the State to the City as provided in Article 73 of the Education Law necessary for payment of (i) interest, principal and redemption premium, if any, maturing or otherwise becoming due during the subsequent State fiscal year on the MBBA Bonds; (ii) the amounts required to be deposited to the Debt Service Reserve Fund with respect to the MBBA Bonds; and (iii) any and all amounts required for the purpose of satisfying any rebate obligation to the Federal government. Upon receipt of such certification, the State Comptroller is required to transfer to the MBBA such Education Aid to the extent so stated in such certificate. The payments of Education Aid to the MBBA are not dependent upon annual appropriation by the City. Principal of the MBBA Bonds is amortized over the period beginning June 1, 2006, and ending December 1, 2023. The maximum annual debt service on the MBBA Bonds is approximately $41 million.

Expenses for Handicapped Children. In addition, the State Comptroller deducts from Education Aid to the City amounts required by statute to reimburse the State for certain expenditures made by the State for the education of certain blind, deaf and handicapped children in the City. Such expenditures for the City's 2008 fiscal year were approximately $12 million.

Contingent Claims

City General Obligation Bonds. The State Finance Law Section 99-b provides protection against any default on debt issued for school purposes by the Authority and any city, city school district or school district of the State up to the limits of that entity's Education Aid. If a city, city school district or school district of the State defaults in the payment of the principal of its bonds and notes issued for school purposes, the State is to withhold from the next payment of Education Aid made to such entity, an amount required to cure such default in the payment of such bonds. The City issues bonds for school purposes as part of bond issues that also finance many other purposes of the City. If the City should default on any bond issue that includes financing for school purposes, there would be withheld from the Education Aid payable to the City an amount sufficient to cure such default on the bonds issued for school purposes, and any such amount so withheld could reduce the amount of available Education Aid (of which State Building Aid is a part) to pay the Building Aid Revenue Bonds. Projected debt service for fiscal year 2009 on City bonds issued for school purposes outstanding as of June 30, 2008, is approximately $752 million, without reflecting prepayments by the City.

New York City Educational Construction Fund. Bonds have been issued by the New York City Educational Construction Fund (the "ECF") pursuant to Article 10 of the Education Law (the "ECF Act") to fund the cost of combined occupancy structures consisting of improvements to real property containing school accommodations or other facilities of the DOE with compatible and lawful non-school uses. Bonds of the ECF are secured by a debt service reserve fund (the "ECF Debt Service Reserve Fund") in an amount equal to the maximum amount of principal and sinking fund installments of and interest on outstanding bonds issued by the ECF becoming due in the then-current or any succeeding calendar year.

To further assure maintenance of the ECF Debt Service Reserve Fund, the ECF Act requires the DOE to pay to the ECF for deposit in the ECF Debt Service Reserve Fund such sum, if any, as has been certified by the Chairman of the ECF to the DOE, the Mayor and the Director of Management and Budget of the City as necessary to restore the ECF Debt Service Reserve Fund to the ECF Debt Service Reserve Requirement. Such sum is to be paid from moneys appropriated and paid by the City to the DOE or from moneys otherwise lawfully available to the DOE for such purpose. The Chairman of the ECF annually, not later than February 1 in each calendar year, is to make and deliver to the DOE, the Mayor and the Director of Management and Budget of the City a certificate stating the amount, if any, required to restore the ECF Debt Service Reserve Fund to the required amount, and the amount so stated is to be paid to the ECF by the DOE during the then-current fiscal year of the ECF. In the event of the failure or inability of the DOE to pay over the stated amount to the ECF on or before August 1 of the same calendar year, the Chairman of the ECF is to make and deliver to the State Comptroller a further certificate restating the amount so required and, after the State Comptroller has given written notice to the Commissioner of Education of the State, the Mayor and the Director of Management and Budget of the City, such amount is to be paid over to the ECF by the State Comptroller out of the next payment of Education Aid apportioned to the City for the support of common schools or such other aid or assistance payable in support of common schools as may have superseded or supplemented such State aid for the support of common schools, including federal moneys apportioned by the State to the City for the support of common schools. The maximum annual debt service on outstanding ECF Bonds is approximately $12.4 million.

Other Competing Claims

Certain State programs provide for statutory application or withholding of State aid and local assistance as security for the repayment of obligations of, or the repayment of financial assistance provided to, the City including but not limited to the following relating to: loan agreements with the Environmental Facilities Corporation ("EFC") for water pollution control projects under Section 1285-j(11) of the Public Authorities Law; financing agreements with the EFC with respect to the Drinking Water Revolving Fund program under Section 1285-m of the Public Authorities Law; the MBBA under Section 2436 of the Public Authorities Law; the New York State Sports Authority under Section 2473 of the Public Authorities Law; acquisition, construction or maintenance costs of alternative correctional facilities under Section 89-h of the Corrections Law; and failure of the City to make a payment due to the Design and Construction Account of the Hazardous Waste Remedial Fund under Section 97-b of the State Finance Law. The City does not currently participate in the foregoing programs and does not currently expect to participate in such programs in the future. Also, Section 54-a of the State Finance Law provides that, if the City levies or causes to be levied taxes upon real property in excess of constitutional limitations, the State Comptroller may withhold local assistance by the State to the City to the extent of such excess.

In addition, the State may withhold or reduce Education Aid, and in certain cases must withhold or reduce such aid, upon the City's failure to provide statutorily mandated courses of instruction in a number of special areas, upon the City's failure to provide the statutorily required number of instructional days, upon the City's failure to provide certain health services, upon the City's failure to provide certain statutorily mandated services for handicapped students, upon the City's failure to make any required payment for the maintenance or operation of charter schools in the City, upon the City's noncompliance with certain other statutorily mandated administrative practices or upon the City's willful disobedience of certain laws or directives. During the last 10 years, no Education Aid has been withheld from the City for failure to meet the above-mentioned requirements.

The Authority's receipt of the State Building Aid could also be affected by withholding of Education Aid, of which State Building Aid is a part, in satisfaction of any disallowance regarding prior aid funds distributed to the City. The City and the Authority expect that any assertion of a disallowance that might otherwise materially affect the Education Aid would be satisfied either by the State's withholding of aid payments other than the State Building Aid or by repayment by the City to the State of the amount of the disallowance.

The Office of the Inspector General of the United States Department of Health and Human Services ("HHS") has issued audit reports on claims submitted to the New York State Medicaid program by DOE with respect to services for students with disabilities. The audits state generally that the State improperly billed HHS approximately $800 million in Federal Financial Participation ("FFP") for State Medicaid expenditures for services that were not sufficiently supported by documentation establishing the provision of such services in accordance with applicable standards. Of this $800 million, DOE and the State have each received approximately $400 million, as school districts retain only approximately fifty percent of the federal portion of Medicaid payments. The State Department of Health has formally submitted responses raising objections, based in law and policy, to the audits' findings and requesting no further federal action be taken in response to the audits. The Centers for Medicare and Medicaid Services has not imposed any disallowances of FFP to date. The audits may be the subject of further administrative or judicial review that may result in changes in amounts alleged to be owed by the State. In the event that money is ultimately found to be owed by the State to HHS, the State may in turn seek to collect amounts received by DOE for services that are the subject of such disallowances, or may offset payments of Education Aid, including State Building Aid payable to the City or the Authority.

On November 3, 2006, the inspector general of the United States Department of Education released an audit of the federal Reading First program which found that SED had improperly awarded more than $118 million in federal grants under that program, $106 million of which was awarded to the City. SED is disputing the inspector general's findings. The inspector general recommended that the $118 million be recovered from the State. In the event that such amount is recovered from the State, the State may in turn seek to recover the $106 million received by the City under the Reading First program, or may offset payments of Education Aid, including State Building Aid, payable to the City or the Authority.

Effect of Claims on State Building Aid

Statutory application and intercept of Education Aid for any of the above purposes or any other purpose could have the result of diminishing the amount of State Building Aid paid to the Authority as well as diminishing Education Aid subject to intercept by the State Comptroller under Section 99-b of the State Finance Law. Furthermore, the City may in the future participate in financing programs incorporating procedures for the application or withholding of Education Aid for the repayment of obligations of, or the repayment of financial assistance provided to, the City. In addition, the State may institute, with or without the consent of the City or the Authority, programs for the diversion or withholding of Education Aid otherwise payable to the City. Any such future application or diversion of Education Aid could also affect the flow of State Building Aid to the Authority. Notwithstanding the foregoing, pursuant to the MOU, the State Comptroller has agreed, if permitted by applicable law, to apply Competing Claims, if any are exercised, against Education Aid payable to the City rather than against State Building Aid payable to the Authority. No assurance can be given that the MOU will be legally enforceable. The City has also agreed under the Assignment to promptly pay any material amount of State Building Aid diverted from the Authority on account of the Competing Claims described under the headings "*Direct Claims*" and "*Contingent Claims*" above as well as any amounts resulting from administrative reviews, audits or other procedures relating to Education Aid other than Building Aid, including the audits described in the last two paragraphs under the heading "*Other Competing Claims*." See "—Assignment of State Building Aid."

Financial Condition of the State

Information about the State, including the impact on the State of reduced projections of cash receipts resulting from recent economic developments, is contained in the 2008-09 Annual Information Statement ("AIS") of the State, dated May 12, 2008, and the Updates thereto, dated August 6, 2008 and October 28, 2008, and the Supplement thereto, dated December 23, 2008, which are included herein by specific reference and may be obtained at www.budget.state.ny.us. The Third Quarterly Update to the AIS is expected to be issued in mid to late January 2009.

Financial information relating to the State is also contained in the Comprehensive Annual Financial Report for Fiscal Year Ended March 31, 2008 of the New York State Comptroller dated September 2008 (the "CAFR"). The CAFR is included herein by specific reference. Copies of the CAFR may be obtained from the Office of the New York State Comptroller, 110 State Street, Albany, NY 12236 or from the New York State Comptroller's web site (www.osc.state.ny.us).

The Authority did not prepare the information contained in the AIS, the Updates and the Supplement thereto, or the CAFR. The Authority will not receive a certification from the State as to the accuracy of the information contained or included by specific reference herein.

Agreements of the State and the City

The Act and the Indenture contain the covenant of the State with the Bondholders 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. This covenant does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes relating to State Building Aid subject to the Assignment. However, the State, under the School Financing Act and under the Indenture, covenants that State Building Aid shall in all events (i) continue to be so payable, as assigned to the Authority, so long as the State 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 an applicable project is approved for reimbursement from State Building Aid.

The Bonds are not a debt of either the State or the City, and neither the State nor the City is liable thereon. The State has no contractual relationship with the Authority and has no obligation, contractual or otherwise, to seek an appropriation of State Building Aid. The Building Aid Revenue Bonds do not constitute "State supported debt" within the meaning of the State Finance Law. The State will not be entering into a continuing disclosure agreement with respect to the Building Aid Revenue Bonds.

The covenants of the City and the State described above shall be of no force and effect with respect to any State Building Aid 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, for and interest on, such State Building Aid Bond.

Application of Revenues

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

Tax Revenue shall be deposited in the Tax Revenue Subaccount of the Collection Account and 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 Noteholders, Subordinate Bondholders and parties to ancillary and swap contracts (other than Senior Agreements), to the extent such Supplemental Indentures may require application of Revenues to pay items after payments of 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 Revenues, free and clear of the lien of the Indenture.

State Building Aid shall be deposited in the Building Aid Subaccount of the Collection Account and applied in the following order of priority, as implemented in part by the Retention Procedures (set forth below); first, to Pre-07 S-1 Senior Debt (to the extent that Tax Revenues are insufficient); second, to the Authority's operating expenses (to the extent that Tax Revenues are insufficient), which may include reserves 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 (to the extent that Tax Revenues are insufficient) and then to the payment of Building Aid Revenue Bonds and other 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 of the Indenture.

Retention Procedures

A quarterly retention mechanism has been adopted by the Authority to provide for payment of debt service on 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 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.

After all payments are made to the Bond Account, as described above, and for Authority operating expenses, money on deposit in the Tax Revenue Subaccount will be applied in accordance with a quarterly retention method adopted by the Authority to provide for payment of debt service on Parity Debt. The Pre-07 S-1 Parity Subaccount and the Post-07 S-1 Parity Subaccount are subaccounts in the Recovery Account. At the beginning of each Collection Quarter, the Trustee shall begin to transfer Tax Revenues to each subaccount in 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.

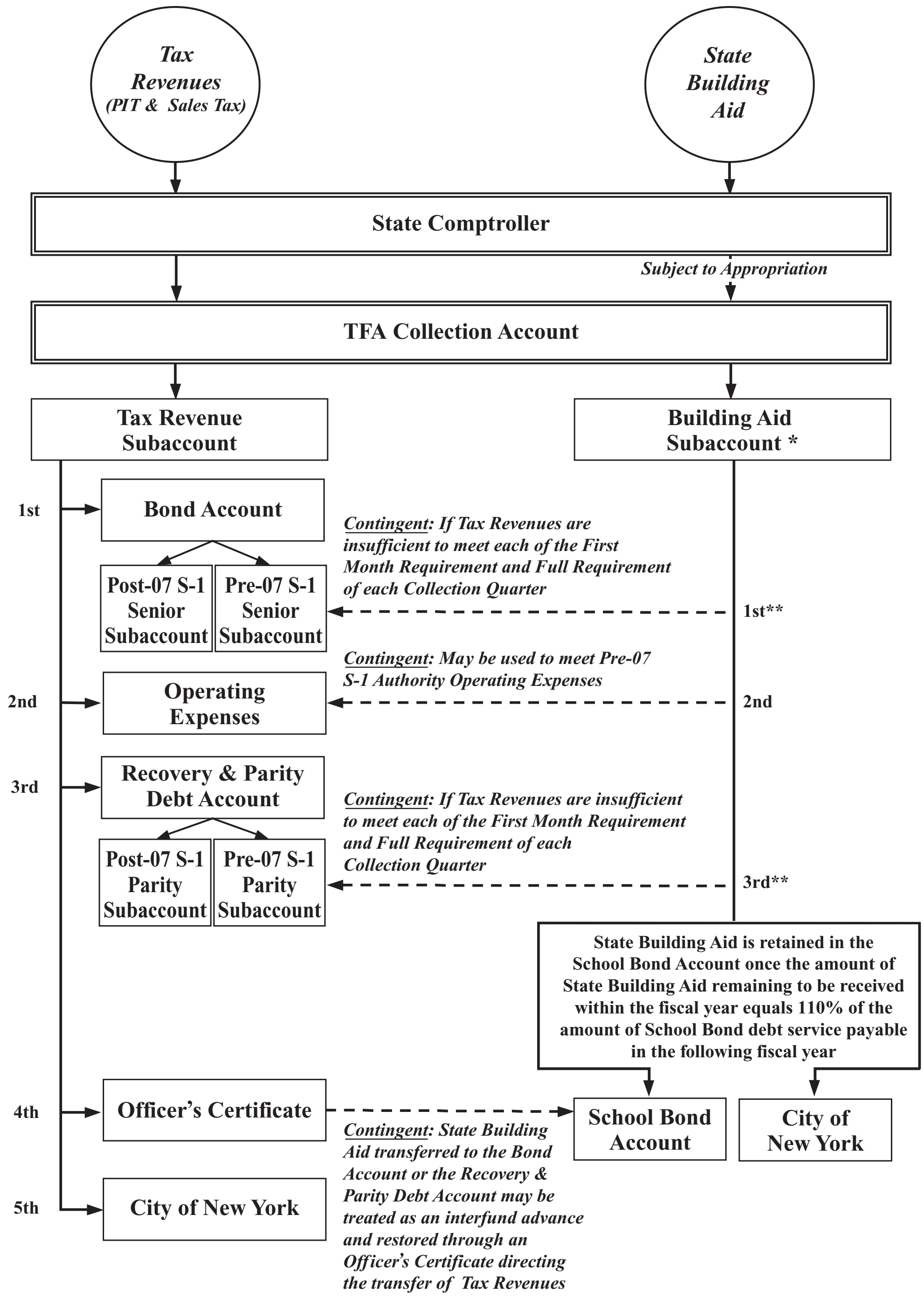
To provide for the timely payment of School Obligations (including the Series 2009 S-3 Bonds) subject to the rights of the Holders of Pre-07 S-1 Senior Debt and Pre-07 S-1 Parity Debt, money in the Building Aid Subaccount shall be retained therein until transferred as follows:

(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 State Aid is not more than 110% of the Unfunded Balance, until the Unfunded Balance is zero; and then to the order of the City.

SUMMARY OF COLLECTION AND APPLICATION OF REVENUES



* State Building Aid is initially available to pay debt service coming due and payable but not already provided for with respect to Senior Bonds and Parity Debt, issued prior to the Fiscal 2007 Series S-1 Building Aid Revenue Bonds.

** Within the respective retention period, once each of the First-Month and Full Requirement is satisfied, State Building Aid flows to either the School Bond Account or the City of New York.

SECTION III: TAX REVENUES AVAILABLE FOR PAYMENT OF PRE-07 S-1 OBLIGATIONS

Tax Revenues

Pursuant to the Indenture, the Building Aid Revenue Bonds are payable only from the State Building Aid and not from the Tax Revenues. Future Tax Secured Bonds are secured by Tax Revenues. The application of State Building Aid to pay the Building Aid Revenue Bonds is subject to priorities under the Indenture in favor of the Pre-07 S-1 Obligations. If Tax Revenues were not sufficient to pay Pre-07 S-1 Obligations, as well as Post-07 S-1 Obligations, State Building Aid on deposit in the Collection Account would be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for payment of the Building Aid Revenue Bonds would be reduced. The Authority expects that Tax Revenues will be sufficient to pay the Pre-07 S-1 Obligations and Post-07 S-1 Obligations. See "Debt Service Coverage" herein.

Tax Revenues consist primarily of Personal Income Tax Revenues and Sales Tax Revenues. Personal Income Tax Revenues are the revenues collected from the Personal Income Tax less overpayments and costs of administration. The Personal Income Tax is the tax imposed by the City as authorized by the State on the income of City residents and, while applicable, on nonresident earnings in the City. The Personal Income Tax is composed of several components, which State law authorizes 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.

Sales Tax Revenues are the revenues collected from the Sales Tax less (i) administrative expenses of the New York State Financial Control Board and the Office of the State Deputy Comptroller ("State Oversight Retention Requirements"), and (ii) State administrative costs. State Oversight Retention Requirements are expected to be approximately $7 million in fiscal year 2009. The Sales Tax is the sales and compensating use tax imposed on the sale and use of tangible personal property and services by the City. Sales Tax Revenues are not subject to City or State appropriation.

Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Pre-07 S-1 Obligations and Post-07 S-1 Obligations 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. Notwithstanding the foregoing, Building Aid Revenue Bonds are not payable from Tax Revenues.

Historical collections of Tax Revenues for fiscal years 1992 to 2008 and forecasted collections of Tax Revenues for fiscal years 2009 through and including 2012 are shown in the following table. Forecasted collections of Tax Revenues included in this Official Statement are as forecasted by the New York City Office of Management and Budget ("NYC OMB") as set forth in the City Financial Plan dated June 30, 2008, as modified November 5, 2008 (the "City Financial Plan"). However, economic forecasts at the national and local levels released since the date of the City Financial Plan indicate that economic conditions have continued to deteriorate. The City expects that this will have a substantial negative impact on Tax Revenues which will be reflected in the City Financial Plan modification to be released in late January 2009. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Financial Condition of the State."

HISTORICAL AND FORECASTED AMOUNTS OF TAX REVENUES

Fiscal Year	Tax Revenues (millions)	Fiscal Year	Tax Revenues (millions)
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	12,375
1997	7,048	2008	13,696
1998	7,816	2009(1)	12,255
1999	8,639	2010(1)	11,266
2000	8,961	2011(1)	12,244
2001	9,485	2012(1)	13,050
2002	7,908		

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

(1) Forecast. Figures include amounts to be deducted for State Oversight Retention Requirements. The City expects to release a modification to the City Financial Plan in late January 2009, which is expected to contain reduced Tax Revenue projections reflecting weakness in the financial services sector and the broader economy.

If Tax Revenues were not sufficient to pay Pre-07 S-1 Obligations and Post-07 S-1 Obligations, State Building Aid on deposit in the Collection Account would be applied to the payment of the Pre-07 S-1 Obligations and the amount of State Building Aid available for the payment of Building Aid Revenue Bonds would be reduced. Under the Indenture, the Authority may issue Bonds 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 Bonds will be Outstanding. 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. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

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.

Debt Service Coverage

The following table shows debt service coverage for Outstanding Future Tax Secured Bonds of the Authority by historical and forecasted Tax Revenues.

DEBT SERVICE COVERAGE FOR FUTURE TAX SECURED BONDS BY HISTORICAL AND FORECASTED TAX REVENUES

Fiscal Year	Tax Revenues (millions)	Pro Forma Coverage[1]
1992	$ 5,028	3.56x
1993	5,444	3.85
1994	5,702	4.03
1995	6,202	4.39
1996	6,533	4.62
1997	7,048	4.98
1998	7,816	5.53
1999	8,639	6.11
2000	8,961	6.34
2001	9,485	6.71
2002	7,908	5.59
2003	7,785	5.51
2004	9,037	6.39
2005	10,873	7.69
2006	11,756	8.31
2007	12,375	8.75
2008	13,696	9.69
2009[2]	12,255	8.67
2010[2]	11,266	7.97
2011[2]	12,244	8.66
2012[2]	13,050	9.23

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

(1) Calculated based on maximum annual debt service of $1,414 million on Outstanding Future Tax Secured Bonds (assuming that variable rate bonds bear interest at their maximum rate).

(2) Forecast. Figures include amounts to be deducted for State Oversight Retention Requirements. The City expects to release a modification to the City Financial Plan in late January 2009, which is expected to contain reduced Tax Revenue projections reflecting weakness in the financial services sector and the broader economy.

SECTION IV: THE SERIES 2009 S-3 BONDS

General

The Series 2009 S-3 Bonds will be dated, will bear interest at the rates and will mature on the dates as set forth on the inside cover page of this Official Statement unless redeemed prior to maturity. All of the Series 2009 S-3 Bonds will be issued in book-entry only form. The Series 2009 S-3 Bonds are payable from State Building Aid, subordinate to payment of the Pre-07 S-1 Obligations. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS."

The Series 2009 S-3 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 2009 S-3 Bonds are subject to defeasance in accordance with the Indenture. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT—The Indenture—*Defeasance of the Indenture*."

Optional Redemption

The Series 2009 S-3 Bonds maturing on or before January 15, 2019 are not subject to optional redemption prior to maturity. The Series 2009 S-3 Bonds maturing after January 15, 2019 are subject to optional redemption prior to maturity on 30 days' notice beginning on January 15, 2019 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 Series 2009 S-3 Bonds maturing on January 15, 2034 and January 15, 2039 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:

	Principal Amount to be Redeemed		
January 15	2034[(1)] Maturity	2034[(2)] Maturity	2039 Maturity
2031	$14,635,000	$13,090,000	$ —
2032	15,410,000	13,785,000	—
2033	16,230,000	14,520,000	—
2034	17,090,000[(3)]	15,290,000[(3)]	—
2035	—	—	34,100,000
2036	—	—	35,890,000
2037	—	—	37,775,000
2038	—	—	39,755,000
2039	—	—	41,825,000[(3)]

(1) Bearing interest at 5¼%.

(2) Bearing interest at 5⅜%.

(3) Final 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 such Series 2009 S-3 Bonds that have been defeased, purchased or redeemed and not previously so applied or credited.

Defeased Series 2009 S-3 Bonds shall at the option of the Authority no longer be entitled, but may be subject, to the provisions thereof for mandatory redemption.

Notice of Redemption

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

Other Series

The Authority may from time to time request the authentication and delivery of an additional Series of Building Aid Revenue Bonds. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BUILDING AID REVENUE BONDS—Additional Building Aid Revenue Bonds."

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 the Series 2009 S-3 Bonds, on all Outstanding Building Aid Revenue Bonds and total debt service on Building Aid Revenue Bonds during such period.

		Series 2009 S-3 Bonds Debt Service			
Fiscal Year	Debt Service on Outstanding Building Aid Revenue Bonds	Principal and Sinking Fund Installments	Interest	Total	Total Debt Service on Building Aid Revenue Bonds[1]
2009	$107,465,762	$ —	$ —	$ —	$107,465,762
2010	157,790,955	—	32,016,829	32,016,829	189,807,784
2011	167,318,380	9,395,000	32,559,488	41,954,488	209,272,868
2012	171,274,261	9,675,000	32,277,638	41,952,638	213,226,899
2013	173,325,724	9,965,000	31,987,388	41,952,388	215,278,111
2014	175,330,748	12,455,000	31,584,038	44,039,038	219,369,785
2015	175,228,794	12,980,000	31,058,388	44,038,388	219,267,181
2016	175,157,381	13,430,000	30,612,588	44,042,588	219,199,969
2017	175,092,606	13,995,000	30,046,138	44,041,138	219,133,744
2018	175,189,073	14,695,000	29,346,388	44,041,388	219,230,460
2019	174,955,156	15,430,000	28,611,638	44,041,638	218,996,794
2020	174,895,434	16,125,000	27,917,488	44,042,488	218,937,921
2021	172,336,443	16,885,000	27,152,488	44,037,488	216,373,930
2022	172,273,611	17,695,000	26,346,925	44,041,925	216,315,536
2023	172,387,650	18,555,000	25,486,325	44,041,325	216,428,975
2024	172,142,355	19,470,000	24,568,863	44,038,863	216,181,218
2025	172,261,732	20,445,000	23,595,363	44,040,363	216,302,094
2026	172,206,341	21,520,000	22,522,000	44,042,000	216,248,341
2027	172,146,866	22,650,000	21,392,200	44,042,200	216,189,066
2028	172,080,334	23,835,000	20,203,075	44,038,075	216,118,409
2029	171,965,040	25,060,000	18,981,531	44,041,531	216,006,571
2030	171,905,000	26,345,000	17,697,206	44,042,206	215,947,206
2031	171,841,925	27,725,000	16,314,094	44,039,094	215,881,019
2032	171,746,325	29,195,000	14,842,169	44,037,169	215,783,494
2033	170,073,331	30,750,000	13,292,200	44,042,200	214,115,531
2034	170,916,997	32,380,000	11,659,675	44,039,675	214,956,672
2035	170,823,353	34,100,000	9,940,613	44,040,613	214,863,966
2036	170,729,459	35,890,000	8,150,363	44,040,363	214,769,822
2037	170,547,128	37,775,000	6,266,138	44,041,138	214,588,266
2038	86,572,216	39,755,000	4,282,950	44,037,950	130,610,166
2039	41,029,847	41,825,000	2,195,813	44,020,813	85,050,659

(1) Totals may not add due to rounding.

Use of Proceeds

The proceeds of the Series 2009 S-3 Bonds will be used to finance a portion of the costs of one or more Five-Year Plans. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 2009 S-3 Bonds will be paid from the proceeds of the Series 2009 S-3 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.

DTC, New York, New York, will act as securities depository for the Securities. The Securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each principal amount of Securities of each series maturing on a specific date and bearing interest at a specific interest rate, each in the aggregate principal amount of such quantity of Security, 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 3.5 million issues of U.S. and non-U.S. equity issues, 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 each 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 interests 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 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 within an issue 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 MMI 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 Participants and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security 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, Security 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 2009 S-3 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 including the Five-Year Plan, as requested by the Mayor.

The Authority does not have any significant assets or sources of funds other than the Tax Revenues and State Building Aid and amounts on deposit pursuant to the Indenture. 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 the 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.

Philip Wasserman, Deputy Treasurer

Mr. Wasserman was appointed Deputy Treasurer in January 2009. He is a graduate of Cornell University, the University of Texas at Austin and Columbia University. He is also a Professional Engineer.

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.

Michele Mark Levine, Comptroller

Ms. Levine was appointed Comptroller in February 2008, after acting as Assistant Comptroller since 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.

Eileen T. Moran, Deputy Comptroller

Ms. Moran was appointed Deputy Comptroller commencing November 2007. She is a graduate of Hunter College and Pace University.

Robert L. Balducci, Assistant Comptroller

Mr. Balducci was appointed Assistant Comptroller in January 2009. He is a graduate of Baruch College of the City University of New York.

Albert F. Moncure, Jr., Assistant Secretary

Mr. Moncure was appointed Assistant Secretary in 1998. He is a graduate of Dartmouth College and the Yale Law School. He also serves as Chief of the Municipal Finance Division of the New York City Law Department, where he has worked since 1986.

Other Authority Obligations

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 Future Tax Secured 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 Five Year Plan. Building Aid Revenue Bonds are secured by State Building Aid assigned by the City to the Authority. The Building Aid Revenue Bonds are not secured by Tax Revenues.

The Authority has Outstanding $11,317,330,000 of Future Tax Secured Bonds issued as Pre-07 S-1 Obligations (including bonds that have been economically defeased and the maturity value of capital appreciation bonds), $1,417,150,000 of Future Tax Secured Bonds issued as Post-07 S-1 Obligations and $2,610,595,000 of Building Aid Revenue Bonds.

Under current law, the Authority has no additional capacity to issue bonds for general City capital purposes, except for refunding bonds. The City is seeking State legislation which would increase the Authority's statutory capacity to issue bonds for general City capital purposes. 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."

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 City financial plans. The New York State Financial Control Board (the "Control Board") has 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 (as defined in the Financial Emergency Act) terminated July 1, 2008. However, the City is seeking legislation extending the Control Board's authority to impose a Control Period. If the Financial Emergency Act were so amended, City financial plans would have to be approved by the Control Board in the event that a Control Period were imposed. During a Control Period, the Tax Revenues would continue to be paid to the Authority and the State and City covenants described herein would remain in full force and effect. 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.

SECTION VI: LITIGATION

There is not now pending any litigation (i) restraining or enjoining the issuance or delivery of the Series 2009 S-3 Bonds or questioning or affecting the validity of the Series 2009 S-3 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, the Assignment or the Agreement and to pledge the State Building Aid 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 and State Building Aid or (iv) questioning or affecting the levy or collection of the Personal Income Tax, Sales Tax and State Building Aid in any material respect, or the application of the Personal Income Tax, Sales Tax and State Building Aid for the purposes contemplated by the Act, or the procedure thereunder.

SECTION VII: TAX MATTERS

In the opinion of Sidley Austin LLP, New York, New York, as Bond Counsel, interest on the Series 2009 S-3 Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

The Authority and the City have convenanted to comply with applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion from gross income of the interest on the Series 2009 S-3 Bonds for purposes of federal income taxation. In the opinion of Bond Counsel, assuming compliance by the Authority and the City with such provisions of the Code, interest on the Series 2009 S-3 Bonds will not be included in the gross income of the owners thereof for purposes of federal income taxation. Failure by the Authority or the City to comply with such applicable requirements may cause interest on the Series 2009 S-3 Bonds to be includable in the gross income of the owners thereof retroactive to the date of the issue of the Series 2009 S-3 Bonds. Further, Bond Counsel will render no opinion as to the effect on the exclusion from gross income of interest on the Series 2009 S-3 Bonds of any action taken or not taken after the date of such opinion without the approval of Bond Counsel.

In the opinion of Bond Counsel, interest on the Series 2009 S-3 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 2009 S-3 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 2009 S-3 Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

The excess, if any, of the stated redemption price at maturity of any maturity of the Series 2009 S-3 Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Series 2009 S-3 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 2009 S-3 Bonds. In general, the issue price of a maturity of the Series 2009 S-3 Bonds is the first price at which a substantial amount of Series 2009 S-3 Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant-yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed below. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

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

The excess, if any, of the tax basis of Series 2009 S-3 Bonds to a purchaser (other than a purchaser who holds such Series 2009 S-3 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 2009 S-3 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 2009 S-3 Bonds are required to decrease their adjusted basis in such Series 2009 S-3 Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2009 S-3 Bonds are held. The amortizable bond premium on such Series 2009 S-3 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 2009 S-3 Bonds. Owners of such Series 2009 S-3 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 2009 S-3 Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2009 S-3 Bonds.

Ownership of tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or railroad retirement benefits, taxpayers eligible for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2009 S-3 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Backup Withholding

Interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such 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 2009 S-3 Bonds 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.

Future Tax Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2009 S-3 Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Further, legislation or regulatory actions and proposals may affect the economic value of the federal tax exemption or the market value of the Series 2009 S-3 Bonds. Prospective purchasers of the Series 2009 S-3 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.

SECTION VIII: RATINGS

The Series 2009 S-3 Bonds are rated "AA-" by Standard & Poor's, "A1" by Moody's and "A+" by Fitch. Such ratings reflect only the views of Standard & Poor's, Moody's and Fitch, from which an explanation of the significance of such ratings may be obtained.

SECTION IX: APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance and delivery of the Series 2009 S-3 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 2009 S-3 Bonds.

SECTION XI: FINANCIAL STATEMENTS

The financial statements of the Authority as of and for the years ended June 30, 2008 and June 30, 2007 included in Appendix B to this Official Statement have been audited by Marks Paneth & Shron LLP, independent certified public accountants, as stated in their report appearing therein. Marks Paneth & Shron LLP, the Authority's independent auditor has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Marks Paneth & Shron LLP relating to the Authority's financial statements for the fiscal years ended June 30, 2008 and 2007, which is a matter of public record, is included in this Official Statement. However, Marks Paneth & Shron LLP has not performed any procedures on any financial statements or other financial information of the Authority, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

SECTION XII: CONTINUING DISCLOSURE UNDERTAKING

To the extent that Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "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 "Sections II and 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 Building Aid Revenue 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 Building Aid Revenue Bonds;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities;

(11) rating changes; and

(12) failure by the Authority to comply with clause (a) above.

The Authority will not undertake to provide any notice with respect to (1) credit enhancement if the credit enhancement is added after the primary offering of the Building Aid Revenue Bonds, the Authority does not apply for or participate in obtaining the enhancement and the enhancement is not described in the applicable Official Statement; (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 Official Statement, (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 of Building Aid Revenue Bonds may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the continuing disclosure undertaking (the "Undertaking") or for any remedy for breach thereof, unless such Holder of Building Aid Revenue Bonds 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 then 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.

The State has not agreed to provide continuing disclosure regarding the Building Aid Revenue Bonds. However, the Authority has agreed to provide continuing disclosure with respect to information relating to the State.

SECTION XIII: UNDERWRITING

The Series 2009 S-3 Bonds are being purchased for reoffering by the Underwriters, for whom Citigroup Global Markets Inc. is acting as Lead Manager. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2009 S-3 Bonds from the Authority at an aggregate underwriters' discount of $4,184,383.22 to make an initial public offering of the Series 2009 S-3 Bonds at prices that are not in excess of the initial public offering prices set forth on the inside cover page of this Official Statement, plus accrued interest, if any. The Underwriters will be obligated to purchase all the Series 2009 S-3 Bonds if any Series 2009 S-3 Bonds are purchased.

The Series 2009 S-3 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.

J.P. Morgan Securities Inc., one of the underwriters of the Series 2009 S-3 Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Series 2009 S-3 Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2009 S-3 Bonds with UBS Financial Services Inc.

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, the Assignment, the MOU 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, the Assignment, the MOU and the Agreement for full and complete statements of such provisions. Copies of the Act, the Indenture, the Assignment, the MOU and the Agreement are available at the offices of the Trustee.

The agreements of the Authority with holders of the Series 2009 S-3 Bonds are fully set forth in the Indenture. Neither any advertisement of the Series 2009 S-3 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2009 S-3 Bonds.

The delivery of this Official Statement has been duly authorized by the Authority.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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SUMMARY OF INDENTURE AND AGREEMENT

This summary of the Indenture and the Agreement, each as proposed to be in effect upon the delivery of the Series 2009 S-3 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;

(v) 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 Amendment 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; and

(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. Interest realized on investments in the Building Aid Subaccount or the School Bond Account and any profits realized upon the sale or other disposition thereof shall be credited to the Building Aid Subaccount.

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).

Interest realized on investments in the Building Aid Subaccount or the School Bond Account and profits realized upon the sale or other disposition thereof shall be credited to the Building Aid Subaccount.

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; and (b) 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.

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APPENDIX B

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**NEW YORK CITY TRANSITIONAL
FINANCE AUTHORITY**

June 30, 2008 and 2007

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2008 AND 2007

CONTENTS

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of New York City Transitional Finance Authority (the "Authority"), a component unit of The City of New York, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of and for the year ended June 30, 2007 were audited by other auditors whose report dated October 29, 2007 expressed an unqualified opinion on those statements. As discussed in Note 8, the Authority has restated its financial statements as of and for the year ended June 30, 2007 during the current year to implement Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues*. The other auditors reported on the financial statements as of and for the year ended June 30, 2007 before the restatement.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the governmental activities of the Authority as of June 30, 2008 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 8 that were applied to restate the 2007 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The accompanying management's discussion and analysis on pages 2 – 6 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.

Marks Paneth + Shron LLP

New York, New York
September 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a narrative overview and analysis of the financial activities of the New York City Transitional Finance Authority (the "Authority") for the fiscal years ended June 30, 2008 and 2007. It should be read in conjunction with the Authority's entity-wide financial statements, governmental fund financial statements and the notes to the financial statements.

The annual financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the entity-wide financial statements; and (3) the governmental fund financial statements.

The entity-wide financial statements of the Authority, which include the statements of net assets (deficits) 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 and Analysis - for State and Local Governments*, as amended.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Authority's governmental fund financial statements (capital and debt service) 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. Revenues are considered available if received within two months after the fiscal year end. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due.

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

Although legally separate from New York City (the "City"), the Authority is a financing instrumentality of the City and accordingly it is included in the City's financial statements as a blended component unit.

The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for general City capital purposes ("Future Tax Secured Bonds") to $13.5 billion as of June 30, 2008. The limit was increased $2.0 billion in fiscal year 2007 and the increased limit was reached during fiscal year 2007. The Authority had future tax secured bonds outstanding, excluding Recovery Bonds, as of June 30, 2008 and 2007 of $11.31 billion and $11.54 billion, respectively.

Legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of Building Aid Revenue Bonds ("BARBs"), notes or other obligations, secured by State Building Aid, subject to State annual appropriation, assigned by the City to the Authority, for purposes of funding costs of the five-year educational facilities capital plan for the City school system, of which $700 million was issued in fiscal year 2008 and $1.3 billion was issued in fiscal year 2007. The Authority had BARBs outstanding as of June 30, 2008 and 2007 of $2.0 billion and $1.3 billion, respectively.

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 Recovery Bonds outstanding as of June 30, 2008 and 2007 of $1.52 billion and $1.77 billion, respectively.

The Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues* ("GASB 48") in fiscal year 2008. GASB 48 establishes accounting and financial reporting standards for governmental entities that have exchanged an interest in expected cash flows from collecting specific receivables or specific future revenues, and established the criteria that are used to determine whether the exchange should be reported as a sale or as a collateralized borrowing.

The implementation of GASB 48 changed the accounting and financial reporting for the Authority's disbursements of BARBs proceeds to the City and receipt of building aid from New York State ("State") to the Authority pursuant to the assignment to the Authority by the City in fiscal year 2007 of building aid payments from the State to the Authority. The Authority retains sufficient building aid revenue to service the BARBs debt and to pay its administrative expenses. Under the criteria established by GASB 48, this assignment of building aid revenue by the City to the Authority is considered a collateralized borrowing due to the City's continuing involvement necessary for collection of the building aid. As a result of the implementation of GASB 48, the Authority's fiscal year 2007 financial statements have been restated, resulting in a increase in the Authority's net assets of $686.13 million as the Authority reports as an asset (Due from New York City—Future Building Aid) the cumulative amount it has distributed to the City for the educational facilities capital plan net of the cumulative amount of building aid it has retained. The effect of the implementation of GASB 48 on the fund financial statements is to report distributions to the City for its educational facilities capital program as an other financing use of funds, rather than as an expenditure, as these distributions are now considered as repayments of a borrowing, which are reported as an other financing use of funds.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - ENTITY-WIDE FINANCIAL STATEMENTS

The following summarizes the activities of the Authority for the years ended June 30,

	2008	2007 (Restated)	2006	Variance 2008/2007	Variance 2007/2006
	(in thousands)			(in thousands)	
Expenses:					
Distributions to New York City for general capital program	$ 412,488	$ 1,635,310	$ -	$(1,222,822)	$1,635,310
Interest expense	592,285	620,580	544,379	(28,295)	76,201
Other	39,727	43,326	46,907	(3,599)	(3,581)
Total expenses	1,044,500	2,299,216	591,286	(1,254,716)	1,707,930
Revenues:					
Personal income tax retained	163,756	684,607	350,000	(520,851)	334,607
Unrestricted grant from New York City	545,747	1,264,215	-	(718,468)	1,264,215
Investment earnings	43,718	69,430	34,222	(25,712)	35,208
Total revenues	753,221	2,018,252	384,222	(1,265,031)	1,634,030
Change in net assets	(291,279)	(280,964)	(207,064)	(10,315)	(73,900)
Net deficit, beginning of year	(12,083,362)	(11,802,398)	(11,595,334)	(280,964)	(207,064)
Net deficit, end of year	$(12,374,641)	$(12,083,362)	$(11,802,398)	$ (291,279)	$ (280,964)

The Authority issued BARBs in the amount of $700 million and $1.30 billion in fiscal years 2008 and 2007, respectively. The bond proceeds are used to finance a portion of the City's educational facilities capital plan. The Authority distributed $1.24 billion and $748 million of the BARBs proceeds to the City in fiscal years 2008 and 2007, respectively. These distributions to the City are reported on the Authority's entity-wide financial statements as due from the City and this receivable is reduced by the amount of building aid revenue retained by the Authority for its BARBs debt service. The remainder of the building aid revenue received by the Authority and not retained for debt service or operations is remitted to the City. Below is a table summarizing the total building aid received, remitted to the City and the balance retained by the Authority for the fiscal years ending June 30,

	2008	2007	2006
		(in thousands)	
Building aid received from New York State	$ 696,566	$ 505,818	$ -
Building aid remitted to the City	(483,519)	(443,645)	-
Total retained for BARBs debt service	$ 213,047	$ 62,173	$ -

The Authority retained $163.76 million of personal income tax ("PIT") in fiscal year 2008 compared to $684.61 million retained in fiscal year 2007 for debt service of its tax secured debt ("TS") and its operations. The decrease in retention of personal income tax was due to the Authority's receipt of an unrestricted grant from the City of $1.26 billion on June 28, 2007, reducing the amount of PIT needed to be retained by the Authority in fiscal year 2008 for its debt service payments on tax secured bonds and its operations. The Authority did not receive a grant from the City in fiscal year 2006, requiring the Authority to fund its debt service payments in fiscal year 2007 through the retention of personal income tax and interest earnings. Below is a table summarizing the personal income tax revenue, remittances to the City and the balance retained by the Authority for fiscal years ending June 30,

	2008	2007	2006
	----------(in thousands)---------		
PIT received from New York State	$ 8,700,965	$8,254,777	$7,800,813
PIT remitted to the City	(8,537,209)	(7,570,170)	(7,450,813)
Total retained for tax secured debt service and operating expenses	$ 163,756	$ 684,607	$ 350,000

In fiscal year 2007 the Authority received an unrestricted grant from the City of $1.26 billion which was used to fund the debt service requirements of the tax secured debt for the year ending June 30, 2008, to fund a cash defeasance escrow of $546.33 million (used to defease $537.30 million of tax secured bonds) on June 28, 2007 and for the early retirement of $170.3 million of tax secured variable rate debt on September 4, 2007.

In fiscal year 2008, the Authority received an unrestricted grant from the City of $545.75 million which may be used for debt service payments on tax secured bonds and to fund the Authority's operations in fiscal year 2009.

The decrease in investment earnings in fiscal year 2008 was due to the distribution of bond proceeds to the City during fiscal year 2008 to fund the City's capital programs, reducing the invested balance. The bond proceeds were obtained through the issuance of $1.30 billion of BARBs and $2.0 billion of tax secured bonds in fiscal year 2007.

The following summarizes the Authority's assets, liabilities, and net assets (deficits) as of June 30,

	2008	2007 (Restated)	2006	Variance 2008/2007	Variance 2007/2006
	----------(in thousands)---------			----------(in thousands)---------	
Assets:					
Total assets	$ 3,473,776	$ 3,821,830	$ 1,196,939	$ (348,054)	$ 2,624,891
Liabilities:					
Current liabilities	924,807	1,127,085	1,006,645	(202,278)	120,440
Non-current liabilities	14,923,610	14,778,107	11,992,692	145,503	2,785,415
Total liabilities	15,848,417	15,905,192	12,999,337	(56,775)	2,905,855
Net assets (deficits):					
Restricted	11,440	1,075,372	1,640	(1,063,932)	1,073,732
Unrestricted	(12,386,081)	(13,158,734)	(11,804,038)	772,653	(1,354,696)
Net deficit, end of year	$(12,374,641)	$ (12,083,362)	$(11,802,398)	$ (291,279)	$ (280,964)

Total assets decreased due to the cash distribution from bond proceeds remitted to the City during fiscal year 2008 for its general capital program of $412.49 million and for its school facilities capital program of $1.24 billion. As previously discussed, under GASB 48, the cumulative amount of transfers to the City from the BARBs proceeds are reported as a receivable from the City, reduced by the cumulative amount of building aid revenue retained by the Authority for its BARBs debt service and operations. Total liabilities decreased due to a reduction in personal income tax payable to the City from $580.15 million in fiscal year 2007 to $446.45 million in fiscal year 2008. This decrease may be an indication of a weakening economy. The amount due to the City for reimbursement of its capital expenses decreased $105.29 million, a result of a timing difference between the City's incurrence of the capital expenditures and billing the Authority.

In fiscal year 2007, liabilities increased primarily due to the issuance of bonds comprised of $2.0 billion of future tax secured bonds and $1.3 billion of BARBs, reduced by the defeasance of approximately $537 million of tax secured bonds on June 28, 2007 using the grant funds received from the City, as well as scheduled principal payments of future tax secured bonds.

In fiscal year 2007 and 2008, the changes in bonds payable were as follows:

	Balance June 30, 2006	Bonds Issued	Retired or Defeased	Balance June 30, 2007	Bonds Issued	Retired or Defeased	Balance June 30, 2008
			(in thousands)				
Future tax secured bonds (excluding recovery bonds)	$ 10,391,655	$2,289,370	$(1,139,260)	$ 11,541,765	$ -	$ (235,835)	$ 11,305,930
Recovery bonds	1,840,890	-	(75,830)	1,765,060	-	(243,160)	1,521,900
Building aid revenue bonds	-	1,300,000	-	1,300,000	700,000	-	2,000,000
Total bonds payable	$ 12,232,545	$3,589,370	$(1,215,090)	$ 14,606,825	$ 700,000	$ (478,995)	$ 14,827,830

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

The Authority reports governmental activity using four funds, comprised of two capital projects funds and two debt service funds: (1) a building aid revenue bonds capital project fund (BARBs CPF), (2) a future tax secured capital project fund (FTS CPF), (3) a building aid revenue bonds debt service fund (BARBs DSF) and (4) a future tax secured debt service fund (FTS DSF).

The following summarizes the BARBs CPF activities of the Authority for the years ended June 30,

	2008	2007 Restated	2006	Variance 2008/2007	Variance 2007/2006
	(in thousands)			(in thousands)	
Fund balance, beginning of year	$ 631,444	$ -	$ -	$ 631,444	$ -
Revenues	11,686	19,028	-	(7,342)	19,028
Expenditures	(4,618)	(15,013)	-	10,395	(15,013)
Other financing sources (uses)	(568,847)	627,429	-	(1,196,276)	627,429
Fund balance, end of year	$ 69,665	$ 631,444	$ -	$ (561,779)	$ 631,444

The Authority's other financing sources (uses) include $1.24 billion in fiscal year 2008 and $748.30 million in fiscal year 2007 distributed to the City to finance its school capital program. The distributions are financed through bond proceeds and interest earnings. Legislation was enacted in fiscal year 2007 which enabled the Authority to have outstanding up to $9.4 million of BARBs. The Authority issued $700 million and $1.30 billion of BARBs in fiscal year 2008 and 2007, respectively. The bond proceeds and distributions to the City are reported as an other financing source (use) in the governmental funds.

The following summarizes the FTS CPF activities of the Authority for the years ended June 30,

	2008	2007	2006	Variance 2008/2007	Variance 2007/2006
	(in thousands)			(in thousands)	
Fund balance, beginning of year	$ 443,777	$ -	$ -	$ 443,777	$ -
Revenues	7,381	24,058	-	(16,677)	24,058
Expenditures	(412,488)	(1,648,227)	-	1,235,739	(1,648,227)
Other financing sources (uses)	(8,259)	2,067,946	-	(2,076,205)	2,067,946
Fund balance, end of year	$ 30,411	$ 443,777	$ -	$ (413,366)	$ 443,777

Expenditures decreased in fiscal year 2008 as the Authority's distributions to the City's general capital program decreased to $412.49 million from $1.64 billion in fiscal year 2007, since the Authority had reached its statutory debt limit of $13.5 billion in fiscal year 2007. No tax secured bonds were issued in fiscal year 2006 as the Authority had already reached the statutory debt limit then in force. The bond proceeds are reported as an other financing source in the governmental funds.

The following summarizes the BARBs DSF activities of the Authority for the years ended June 30,

	2008	2007	2006	Variance 2008/2007	Variance 2007/2006
	(in thousands)			(in thousands)	
Fund balance, beginning of year	$ 62,743	$ -	$ -	$ 62,743	$ -
Revenues	1,558	536	-	1,022	536
Expenditures	(62,318)	(92)	-	(62,226)	(92)
Other financing sources	243,559	62,299	-	181,260	62,299
Fund balance, end of year	$ 245,542	$ 62,743	$ -	$ 182,799	$ 62,743

Expenditures in the debt service fund are primarily for the interest expense related to the $1.3 billion BARBs issued in fiscal year 2007. The other financing source consisted of $213.04 million and $62.17 million received in fiscal year 2008 and 2007, respectively, of building aid retained.

The following summarizes the FTS DSF activities of the Authority for the years ended June 30,

	2008	2007	2006	Variance 2008/2007	Variance 2007/2006
	(in thousands)			(in thousands)	
Fund balance, beginning of year	$1,094,289	$ 636,893	$1,588,843	$ 457,396	$ (951,950)
Revenues	732,596	1,974,630	384,222	(1,242,034)	1,590,408
Expenditures	(1,085,711)	(1,517,779)	(1,317,691)	432,068	(200,088)
Other financing sources (uses)	8,230	545	(18,481)	7,685	19,026
Fund balance, end of year	$ 749,404	$ 1,094,289	$ 636,893	$ (344,885)	$ 457,396

The Authority received unrestricted grants from the City of $545.75 million and $1.26 billion in fiscal year 2008, and 2007, respectively. These grants were used to service the Authority's debt service payments in the following fiscal year. The Authority did not receive a grant from the City in fiscal year 2006 and retained $684.61 million of personal income tax in fiscal year 2007 compared to $163.76 million in fiscal year 2008 to service its debt.

Expenditures decreased in fiscal year 2008 due to the cash defeasance of $546.33 million bonds in fiscal year 2007.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2008 AND 2007

	2008	2007 Restated
	(in thousands)	
ASSETS		
Unrestricted cash and cash equivalents	$ 3,322	$ 2,878
Restricted cash and cash equivalents	410,884	977,848
Restricted cash escrow for economic defeasance	683	681
Restricted investments	771,380	1,264,554
Restricted investments escrow for economic defeasance	33,505	238,198
Personal income tax receivable	446,455	580,149
Due from New York City - future State building aid	1,717,000	686,126
Unamortized bond issuance costs	68,911	71,396
Other	21,636	-
TOTAL ASSETS	3,473,776	3,821,830
LIABILITIES		
Personal income tax payable to New York City	$ 446,455	$ 580,149
Distributions payable to New York City capital programs	144,348	249,638
Accrued expenses	2,041	2,268
Accrued interest payable	156,363	189,125
Bonds payable		
Portion due within one year	175,600	105,905
Portion due after one year	14,652,230	14,500,920
Unamortized deferred bond refunding costs	(113,061)	(136,767)
Unamortized bond premium	384,441	413,954
TOTAL LIABILITIES	15,848,417	15,905,192
NET ASSETS (DEFICIT)		
Restricted for economic defeasance	1,367	151
Restricted for capital projects	10,073	1,075,221
Deficit	(12,386,081)	(13,158,734)
TOTAL DEFICIT	$ (12,374,641)	$ (12,083,362)

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007 Restated
	(in thousands)	
EXPENSES:		
General and administrative expenses	$ 8,879	$ 8,940
Distributions to New York City for general capital program	412,488	1,635,310
Amortization of deferred bond refunding costs	23,706	27,425
Interest expense	592,285	620,580
Amortization of debt issuance costs	7,142	6,961
TOTAL EXPENSES	1,044,500	2,299,216
REVENUES:		
Personal income tax revenue	8,700,965	8,254,777
Less remittances to New York City	(8,537,209)	(7,570,170)
Personal income tax revenue retained	163,756	684,607
Unrestricted grant from New York City	545,747	1,264,215
Investment earnings	43,718	69,430
TOTAL REVENUES	753,221	2,018,252
CHANGE IN DEFICIT	(291,279)	(280,964)
Deficit - beginning of year	(12,083,362)	(11,802,398)
DEFICIT - END OF YEAR	$ (12,374,641)	$ (12,083,362)

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2008

(in thousands)

	Capital Projects		Debt Service		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
ASSETS					
Unrestricted cash and cash equivalents	$ -	$ -	$ -	$ 3,322	$ 3,322
Restricted cash and cash equivalents	211,383	33,421	81,054	85,026	410,884
Restricted cash in escrow for economic defeasance	-	-	-	683	683
Restricted investments	-	-	143,150	628,230	771,380
Restricted investments in escrow for economic defeasance	-	-	-	33,505	33,505
Personal income tax receivable	-	-	-	446,455	446,455
Other	-	-	21,448	188	21,636
TOTAL ASSETS	$ 211,383	$ 33,421	$ 245,652	$ 1,197,409	$ 1,687,865
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accrued expenses	$ 381	$ -	$ -	$ 1,550	$ 1,931
Distributions payable to New York City for capital programs	141,337	3,010	-	-	144,347
Personal income tax payable to New York City	-	-	-	25,455	25,455
Deferred personal income tax revenue	-	-	-	421,000	421,000
Other	-	-	110	-	110
TOTAL LIABILITIES	141,718	3,010	110	448,005	592,843
FUND BALANCES					
Restricted for capital projects	69,665	30,411	-	-	$ 100,076
Restricted for debt service	-	-	245,542	711,894	957,436
Reserved for economic defeasance	-	-	-	34,188	34,188
Unreserved	-	-	-	3,322	3,322
TOTAL FUND BALANCES	69,665	30,411	245,542	749,404	1,095,022
TOTAL LIABILITIES AND FUND BALANCES	$ 211,383	$ 33,421	$ 245,652	$ 1,197,409	$ 1,687,865

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2007
RESTATED

(in thousands)

	Capital Projects		Debt Service		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
ASSETS					
Unrestricted cash and cash equivalents	$ -	$ -	$ -	$ 2,878	$ 2,878
Restricted cash and cash equivalents	73,088	566,848	62,743	275,169	977,848
Restricted cash in escrow for economic defeasance	-	-	-	681	681
Restricted investments	685,693	-	-	578,861	1,264,554
Restricted investments in escrow for economic defeasance	-	-	-	238,198	238,198
Personal income tax receivable	-	-	-	580,149	580,149
TOTAL ASSETS	$ 758,781	$ 566,848	$ 62,743	$ 1,675,936	$ 3,064,308
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accrued expenses	$ 105	$ 665	$ -	$ 1,498	$ 2,268
Distributions payable to New York City for capital programs	127,232	122,406	-	-	249,638
Personal income tax payable to New York City	-	-	-	45,149	45,149
Deferred personal income tax revenue	-	-	-	535,000	535,000
TOTAL LIABILITIES	127,337	123,071	-	581,647	832,055
FUND BALANCES					
Restricted for capital projects	631,444	443,777	-	-	$ 1,075,221
Restricted for debt service	-	-	62,743	852,532	915,275
Reserved for economic defeasance	-	-	-	238,879	238,879
Unreserved	-	-	-	2,878	2,878
TOTAL FUND BALANCES	631,444	443,777	62,743	1,094,289	2,232,253
TOTAL LIABILITIES AND FUND BALANCES	$ 758,781	$ 566,848	$ 62,743	$ 1,675,936	$ 3,064,308

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2008
(in thousands)

	Capital Projects		Debt Service		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
REVENUES					
Personal income tax revenue	$ -	$ -	$ -	$ 8,814,965	$ 8,814,965
Less remittances to New York City	-	-	-	(8,651,209)	(8,651,209)
Personal income tax revenue retained	-	-	-	163,756	163,756
Unrestricted grant from New York City	-	-	-	545,747	545,747
Investment earnings	11,686	7,381	1,558	23,093	43,718
TOTAL REVENUES	11,686	7,381	1,558	732,596	753,221
EXPENDITURES					
Interest expense	-	-	62,208	589,559	651,767
Interest expense economic defeasance	-	-	-	8,411	8,411
Costs of debt issuance	4,618	-	-	-	4,618
Distributions to New York City for general capital program	-	412,488	-	-	412,488
Principal amounts of bonds retired	-	-	-	279,678	279,678
Principal amount of economic defeased bonds retired	-	-	-	199,295	199,295
General and administrative expenses	-	-	110	8,768	8,878
TOTAL EXPENDITURES	4,618	412,488	62,318	1,085,711	1,565,135
Excess (deficiency) of revenues over expenditures	7,068	(405,107)	(60,760)	(353,115)	(811,914)
OTHER FINANCING SOURCES (USES)					
Principal amount of bonds issued	700,000	-	-	-	700,000
Distributions to New York City for educational facilities capital program	(1,243,921)	-	-	-	(1,243,921)
Bond premium, net of discount	5,557	-	-	-	5,557
Transfer from New York City - building aid	-	-	213,047	-	213,047
Transfers in (out)	(30,483)	(8,259)	30,512	8,230	-
TOTAL OTHER FINANCING SOURCES (USES)	(568,847)	(8,259)	243,559	8,230	(325,317)
NET CHANGES IN FUND BALANCES	(561,779)	(413,366)	182,799	(344,885)	(1,137,231)
Fund Balances- beginning of year	631,444	443,777	62,743	1,094,289	2,232,253
FUND BALANCES - END OF YEAR	$ 69,665	$ 30,411	$ 245,542	$ 749,404	$ 1,095,022

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2007
RESTATED
(in thousands)

	Capital Projects		Debt Service		
	Building Aid Revenue Bonds	**Future Tax Secured**	**Building Aid Revenue Bonds**	**Future Tax Secured**	**Total Governmental Funds**
REVENUES					
Personal income tax revenue	$ -	$ -	$ -	$ 7,719,777	$ 7,719,777
Less remittances to New York City	-	-	-	(7,035,170)	(7,035,170)
Personal income tax revenue retained	-	-	-	684,607	684,607
Unrestricted grant from New York City	-	-	-	1,264,215	1,264,215
Investment earnings	19,028	24,058	536	12,523	56,145
Investment earnings economic defeasance escrow	-	-	-	13,285	13,285
TOTAL REVENUES	19,028	24,058	536	1,974,630	2,018,252
EXPENDITURES					
Interest expense	-	-	-	579,949	579,949
Interest expense economic defeasance	-	-	-	12,154	12,154
Costs of debt issuance	15,013	12,917	-	-	27,930
Distributions to New York City for general capital program	-	1,635,310	-	-	1,635,310
Principal amounts of bonds retired	-	-	-	339,375	339,375
Defeasance escrow	-	-	-	546,326	546,326
Principal amount of economic defeased bonds retired	-	-	-	29,285	29,285
Refunding bond issuance costs	-	-	-	1,842	1,842
General and administrative expenses	-	-	92	8,848	8,940
TOTAL EXPENDITURES	15,013	1,648,227	92	1,517,779	3,181,111
Excess (deficiency) of revenues over expenditures	4,015	(1,624,169)	444	456,851	(1,162,859)
OTHER FINANCING SOURCES (USES)					
Principal amount of bonds issued	1,300,000	1,989,370	-	-	3,289,370
Distributions to New York City for educational facilities capital program	(748,299)	-	-	-	(748,299)
Refunding bond proceeds	-	-	-	321,400	321,400
Bond premium, net of discount	75,763	82,262	-	-	158,025
Payments to refunded bond escrow holder	-	-	-	(324,450)	(324,450)
Transfer from New York City - building aid	-	-	62,173	-	62,173
Transfers in (out)	(35)	(3,686)	126	3,595	-
TOTAL OTHER FINANCING SOURCES	627,429	2,067,946	62,299	545	2,758,219
NET CHANGES IN FUND BALANCES	631,444	443,777	62,743	457,396	1,595,360
Fund Balances- beginning of year	-	-	-	636,893	636,893
FUND BALANCES - END OF YEAR	$ 631,444	$ 443,777	$ 62,743	$ 1,094,289	$ 2,232,253

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2008 AND 2007

	2008	2007 Restated
	(in thousands)	
Total fund balances - governmental funds	$ 1,095,022	$ 2,232,253
Amounts reported for governmental activities in the statements of net assets (deficit) are different because:		
Costs of debt issuance are expenditures in governmental funds financial statements. However, in the statement of net assets (deficit), the costs of debt issuance are reported as capitalized assets and amortized over the life of the related asset.	68,910	71,396
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets (dificit), bond premiums are reported as a component of bonds payable and amortized over the lives of the related debt.	(384,441)	(413,954)
Distributions to the City's educational facilities capital program from BARBS proceeds are reported as an other financing source in the governmental funds financial statements. However, in the statement of net assets (deficit), they are reported as due from the City.	1,717,000	686,126
Some liabilities are not due and payable in the current period from currently available financial resources and therefore are not reported in the governmental funds financial statements but are reported in the statements of net assets (deficit). These liabilities consist of:		
Bonds payable	(14,827,830)	(14,606,825)
Accrued interest on bonds	(156,363)	(189,125)
Costs of bond refundings are reported as expenditures in governmental funds financial statements. However, in the statement 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.	113,061	136,767
Net assets (deficit) of government activities	$ (12,374,641)	$ (12,083,362)

The accompanying notes are an integral part of these financial 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
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007 Restated
	(in thousands)	
Net changes in fund balances- total governmental funds	$ (1,137,231)	$ 1,595,360
Amounts reported for governmental activities in the statements of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but bonds issued increase long-term liabilities on the statements of net assets (deficit).	(700,000)	(3,289,370)
Cash defeasances of long-term debt are reported as other expenditures, but decrease long-term liabilities in the statements of net assets (deficit).	-	546,326
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).	-	3,050
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.	(23,706)	(27,425)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (deficit).	478,973	368,660
Governmental funds report the costs of debt issuance as expenditures. However, in the statements of activities, the cost of debt issuance is amortized over the life of the related debt.	(2,524)	22,811
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 related debt as interest expense.	29,553	(119,635)
Distributions to the City's educational facilities capital program from BARBS proceeds are reported as expenditures in governmental funds. However, in the statements of activities, BARBS proceed distributions are reported as due from the City.	1,243,921	748,299
Transfers from the City of building aid is reported as an other financing source in the governmental funds. However, in the statements of activities, building aid retained is reported as a reduction of the amount due.	(213,047)	(62,173)
Interest expense is reported in the statement of activities on the accrual basis, but interest is reported as an expenditure in the governmental funds when the outlay of financing resources is required.	32,782	(66,867)
Change in net (deficit) assets of governmental activities	$ (291,279)	$ (280,964)

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The New York City Transitional Finance Authority (the "Authority") is a corporate governmental entity 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 is included in the City's financial statements as a blended component unit.

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. In July 2006, the statutory capacity to issue bonds and notes for general capital purposes of the City was increased by $2 billion; as of June 30, 2007, the Authority had issued its new statutory limit of $13.5 billion of Future Tax Secured Bonds.

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 and the Authority's operating expenditures; as of June 30, 2008 and 2007, $2.0 billion and $1.3 billion, respectively of Building Aid Revenue Bonds ("BARBs") have been issued and are outstanding.

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, rent and overhead based on its allocated share of personnel and overhead costs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

   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.

   The governmental funds consist of four funds: (1) a building aid revenue bonds capital project fund (BARBs CPF), (2) a future tax secured capital project fund (FTS CPF), (3) a building aid revenue bonds debt service fund (BARBs DSF) and (4) a future tax secured debt service fund (FTS DSF). The two capital projects funds account for resources to be transferred to the City's capital program in satisfaction of amounts due to the City and the two debt service funds account for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt, and support the operations of the Authority.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. To maintain the exemption from Federal income tax of interest on bonds issued by the Authority, the Authority will fund amounts required to be rebated to the Federal government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds.

   During the fiscal year ended June 30, 2008, the Authority made rebate payments of $111 thousand and no payments were required in the fiscal year ended June 30, 2007.

C. 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 and 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.

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

E. Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when bond interest is due in the governmental fund financial statements.

F. 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 future tax secured debt and pay a portion of its administrative expenses. Funds for future tax secured bond debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are available to be remitted to the City. During the years ended June 30, 2008 and 2007, the Authority retained $163.76 million and $684.61 million, respectively of personal income tax to be used for tax secured bonds debt service. During fiscal years 2008 and 2007, unrestricted grants were received from the City which are described in Note 7.

G. The Authority receives building aid payable by the State pursuant to the assignment by the City of the building aid payments to the Authority to service its building aid revenue bonds and pay a portion of its administrative expenses. Funds for building aid revenue bond debt service are required to be retained when the projected remaining building aid to be received by the Authority reaches 110% of the unfunded debt service for the current and the next fiscal year. Unused building aid is available to be remitted to the City. During the years ended June 30, 2008 and 2007, the Authority received transfers from the City of $213.05 million and $62.17 million, respectively of building aid to be used for BARBs debt service.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. The Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues* ("GASB 48") in fiscal year 2008. GASB 48 establishes accounting and financial reporting standards for governmental entities that have exchanged an interest in expected cash flows from collecting specific receivables or specific future revenues, and established the criteria that are used to ascertain whether the exchange should be reported as a sale or as a collateralized borrowing. The effects of the implementation of GASB 48 are described in Note 8.

I. 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, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Authority's restricted cash and cash equivalents consisted of bank deposits, commercial paper and securities of U.S. Government agencies 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.

	2008	2007
	(in thousands)	
Restricted cash and cash equivalents:		
Cash	$ 8	$ 5
Commercial paper	33,420	737,988
U.S. government agencies	377,456	239,855
Total restricted cash and cash equivalents	$ 410,884	$ 977,848
Restricted cash in escrow for economic defeasance	$ 683	$ 681

All of the commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services. As of June 30, 2008 and 2007, the Authority's restricted cash in escrow for economic defeasance consisted of bank deposits. As of June 30, 2008 and 2007, the carrying amounts and bank balances of bank deposits were $683,000 and $681,000, respectively. As of June 30, 2008 and 2007, $100,000 of the bank balances was insured by the Federal Deposit Insurance Corporation. The remaining balances were not insured or collateralized

The Authority's unrestricted cash and cash equivalents consisted of bank deposits, and securities of U.S Government agencies held by the Authority's Trustee in the Authority's name.

	2008	2007
	(in thousands)	
Unrestricted cash and cash equivalents:		
Cash	$ 90	$ 127
U.S. government agencies	3,232	2,751
Total unrestricted cash and cash equivalents	$ 3,322	$ 2,878

As of June 30, 2008 and 2007, the carrying amounts and bank balances of bank deposits were $89,000 and $132,000, respectively. As of June 30, 2008 and 2007, $89,000 and $100,000, respectively, of the bank balances were insured by the Federal Deposit Insurance Corporation. The remaining balances were not insured or collateralized.

The Authority's investments classified as cash and cash equivalents have an original maturity date of three months or less from the date of purchase. The Authority values those investments at cost plus accrued interest, which approximates market. See Note 4 below for the Authority's investment policy.

NOTE 4 – INVESTMENTS

Each account of the Authority that is held pursuant to the Indenture between the Authority and its Trustee, as amended and as restated November 16, 2006 (the "Indenture") may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture.

For an investment, custodial credit risk is the risk 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. As of June 30, 2008, the Authority did not hold any of its investments in commercial paper. In the fiscal year ended June 30, 2007, the commercial paper held by the Authority 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 $14 million as of June 30, 2008 and an unrealized gain of approximately $3.41 million as of June 30, 2007. 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 as of June 30, 2008 and 2007 are as follows:

	2008	2007
	(in thousands)	
Restricted investments:		
Commercial paper	$ -	$ 277,102
Securities of U.S. government agencies	771,380	987,452
Total restricted investments	$ 771,380	$1,264,554
Restricted investments for economic defeasance		
Securities of U.S. government agencies	$ 33,505	$ 238,198

NOTE 5 – BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), as amended, the Authority is authorized to issue $13.5 billion Future Tax Secured Bonds. The Authority had issued $13.5 billion of Future Tax Secured Bonds as of June 30, 2008. As of June 30, 2008 and 2007, the Authority had outstanding debt of $11.3 billion and $11.5 billion of Future Tax Secured Bonds, respectively, including $32 million and $234 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.

The Act also permits the Authority to have outstanding $2.5 billion of Recovery Bonds. As of June 30, 2008 and 2007, the Authority had outstanding $1.52 billion and $1.77 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 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 the fiscal years ending June 30, 20 8 and 2007.

NOTE 5 – BONDS PAYABLE (Continued)

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 to pay certain operating expenditures, and remits the difference to the City. The Authority has no taxing power.

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 and certain operating expenditures. As of June 30, 2008 and 2007, the Authority had $2.00 billion and $1.30 billon of BARBs, respectively, outstanding.

Under the legislation, the BARBs are payable from the State Building Aid payable by the State and assigned to the Authority. These State aid payments are subject to annual appropriation from the State. In accordance with the legislation and the Indenture, BARBs do not have a claim on the personal income tax revenues or sales tax revenues.

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

	Balance June 30, 2006	Bonds Issued	Retired or Defeased	Balance June 30, 2007	Bonds Issued	Retired or Defeased	Balance June 30, 2008
			(in thousands)				
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 190,485	$ -	$ (13,540)	$ 176,945	$ -	$ (176,945)	$ -
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	441,395	-	(38,870)	402,525	-	-	402,525
1998 Fiscal Series C 4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	282,665	-	(57,110)	225,555	-	-	225,555
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	63,000	-	(29,975)	33,025	-	-	33,025

NOTE 5 – BONDS PAYABLE (Continued)

	Balance June 30, 2006	Bonds Issued	Retired or Defeased	Balance June 30, 2007	Bonds Issued	Retired or Defeased	Balance June 30, 2008
			- - - - - - - - - - - - - - - (in thousands) - - - - - - - - - - - - - - -				
Variable rate tax-exempt bonds due in 2028 (a)	100,000	-	-	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	70,985	-	(4,925)	66,060	-	-	66,060
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	7,265	-	(7,265)	-	-	-	-
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	189,180	-	(44,540)	144,640	-	-	144,640
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	277,500	-	-	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	270,550	-	(11,175)	259,375	-	-	259,375
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	2,555	-	(2,555)	-	-	-	-
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	100,000	-	-	100,000	-	-	100,000
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	50,000	-	-	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	82,315	-	(28,280)	54,035	-	-	54,03
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	28,125	-	(14,945)	13,180	-	-	13,18
2000 Fiscal Series A 4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	35,865	-	-	35,865	-	(4,250)	31,61

NOTE 5 – BONDS PAYABLE (Continued)

	Balance June 30, 2006	Bonds Issued	Retired or Defeased	Balance June 30, 2007	Bonds Issued	Retired or Defeased	Balance June 30, 2008
			(in thousands)				
2000 Fiscal Series B 4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	9,470	-	-	9,470	-	-	9,470
2000 Fiscal Series C 4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	28,400	-	(7,820)	20,580	-	-	20,580
2001 Fiscal Series A 4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	49,285	-	(29,975)	19,310	-	(745)	18,565
Variable rate tax-exempt bonds maturing in varying installments through 2030 (a)	100,000	-	-	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	228,120	-	(31,890)	196,230	-	(4,880)	191,350
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	100,000	-	-	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	274,695	-	(17,760)	256,935	-	(23,545)	233,390
Variable rate tax-exempt bonds maturing in varying installments through 2032 (a)	100,000	-	-	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	107,585	-	(27,110)	80,475	-	(3,215)	77,260
2002 Fiscal Series B 3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	326,435	-	(19,090)	307,345	-	-	307,345
Variable rate taxable bonds maturing in varying installments through 2030 (a)	177,165	-	(45)	177,120	-	(50)	177,070

NOTE 5 – BONDS PAYABLE (Continued)

	Balance June 30, 2006	Bonds Issued	Retired or Defeased	Balance June 30, 2007	Bonds Issued	Retired or Defeased	Balance June 30, 2008
			(in thousands)				
2002 Fiscal Series C 4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	199,235	-	(30,695)	168,540	-	-	168,540
2003 Fiscal Series A 3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,151,240	-	(86,165)	1,065,075	-	-	1,065,075
2003 Fiscal Series B 3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	650,360	-	(15,485)	634,875	-	-	634,875
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	15,900	-	(15,900)	-	-	-	-
2003 Fiscal Series C 2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	356,350	-	(28,220)	328,130	-	(13,195)	314,935
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	150,000	-	-	150,000	-	-	150,000
2003 Fiscal Series D 2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	467,060	-	(6,005)	461,055	-	-	461,055
2.65% to 4.80% serial taxable bonds maturing in varying installments throughout 2013	84,185	-	(37,285)	46,900	-	-	46,900
2003 Fiscal Series E 2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	498,590	-	(45,410)	453,180	-	-	453,180
2004 Fiscal Series A 3.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	138,960	-	(15,465)	123,495	-	(1,765)	121,730
2004 Fiscal Series B 2.00% to 5.25% serial and term varying installments through 2032	496,135	-	(25,790)	470,345	-	(7,245)	463,100

NOTE 5 – BONDS PAYABLE (Continued)

	Balance June 30, 2006	Bonds Issued	Retired or Defeased	Balance June 30, 2007	Bonds Issued	Retired or Defeased	Balance June 30, 2008
			(in thousands)				
2004 Fiscal Series C 2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	492,320	-	(16,530)	475,790	-	-	475,790
2004 Fiscal Series D 2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2017	558,410	-	(165,205)	393,205	-	-	393,205
2005 Fiscal Series A 2.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2024	859,805	-	(141,370)	718,435	-	-	718,435
2005 Fiscal Series B 2.50% to 4.125% serial tax-exempt bonds maturing in varying installments through 2020	6,810	-	(365)	6,445	-	-	6,445
2006 Fiscal Series A 3.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	573,255	-	(67,845)	505,410	-	-	505,410
2007 Fiscal Series A 3.375% to 5.25% serial tax-exempt bonds maturing in varying installments through 2022	-	500,000	-	500,000	-	-	500,000
5.13% to 6.24% serial taxable bonds maturing in varying installments through 2018	-	200,000	-	200,000	-	-	200,000
Variable rate tax-exempt bonds maturing in varying installments through 2023 (a)	-	100,000	-	100,000	-	-	100,000
2007 Fiscal Series B 4.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	-	900,000	(54,655)	845,345	-	-	845,345
2007 Fiscal Series C 3.60% to 5.00% serial tax-exempt bonds maturing in varying installments through 2027	-	366,970	-	366,970	-	-	366,970
Variable rate tax-exempt bonds maturing in varying installments through 2027 (d) maximum rate 12%	-	111,200	-	111,200	-	-	111,200
Variable rate tax-exempt bonds maturing in varying installments through 2027 (d) maximum rate 12%	-	111,200	-	111,200	-	-	111,200
Total bonds payable, excluding recovery bonds	$ 10,391,655	$2,289,370	$ (1,139,260)	$ 11,541,765	$ -	$ (235,835)	$ 11,305,930

NOTE 5 – BONDS PAYABLE (Continued)

	Balance June 30, 2006	Bonds Issued	Retired or Defeased	Balance June 30, 2007	Bonds Issued	Retired or Defeased	Balance June 30, 2008
		- - - - - - - - - - - - - - (in thousands) - - - - - - - - - - - - - -					
2003 Series 1 Recovery Bonds Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	$ 424,600	$ -	$ (18,700)	$ 405,900	$ -	$ (47,400)	$ 358,500
2003 Series 2 Recovery Bonds Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	458,800	-	(20,700)	438,100	-	(54,800)	383,300
2003 Series 3 Recovery Bonds 2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	74,290	-	(36,430)	37,860	-	(37,860)	-
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	883,200	-	-	883,200	-	(103,100)	780,100
Total recovery bonds payable	1,840,890	-	(75,830)	1,765,060	-	(243,160)	1,521,900
Total tax secured bonds payable	12,232,545	2,289,370	(1,215,090)	13,306,825	-	(478,995)	12,827,830
2007 Series S-1 Building Aid Revenue 3.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2036	-	650,000	-	650,000	-	-	650,000
2007 Series S-2 Building Aid Revenue 3.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2037	-	650,000	-	650,000	-	-	650,000
2008 Series S-1 Building Aid Revenue 3.00% to 5.00% serial and term bonds maturing in varying installments through 2038	-	-	-	-	700,000	-	700,000
Total building aid revenue bonds payable	-	1,300,000	-	1,300,000	700,000	-	2,000,000
Total bonds payable	12,232,545	3,589,370	(1,215,090)	14,606,825	700,000	(478,995)	14,827,830
Less: current portion of bonds payable	(368,660)			(105,905)			(175,600)
Bonds payable due after one year	$ 11,863,885			$ 14,500,920			$ 14,652,230

NOTE 5 – BONDS PAYABLE (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 $659.77 million maturing on November 1, 2026 and $122.50 million maturing on November 1, 2028. Capital appreciation bonds (accreted value of $112.36 million 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) $482.49 million of Fiscal 2003 Series B term bonds maturing on February 1, 2029 are callable on February 1, 2011. If these bonds are not called on February 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 10% per annum. Other bonds in this series callable on February 1, 2012 or later are those that mature on February 1, 2013, 2014 and 2015 with no change to the interest rate if not called. The Fiscal 2003 Series B Bonds maturing on February 1, 2029 are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning on February 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

(d) Auction rates are set weekly through auction. The rates cannot exceed 12%.

Included in bonds payable on June 30, 2008 and 2007 were $32 million and $234 million, respectively, of Future Tax Secured Bonds that were economically defeased on March 24, 2004, and the escrow deposited with the Authority's Trustee is recorded as an asset. These amounts were funded from the proceeds of the sale of Fiscal 2004 Series D Future Tax Secured Bonds.

On February 22, 2007, the Authority issued $300 million of Fiscal 2007 Series B Future Tax Secured Bonds (refunding portion) and made an equity contribution from current revenue of $4.9 million to advance refund $309.14 million of its outstanding Future Tax Secured Bonds. This advance refunding resulted in an accounting loss of $10.8 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 $18.3 million and obtained an economic benefit of $12.4 million.

On June 28, 2007, the Authority defeased $537.3 million of outstanding Future Tax Secured Bonds with current revenue of $546.3 million. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral (as defined in the Authority's indenture) to provide for all future debt service on the defeased bonds. Refundings using Defeasance Collateral result in the refunded bonds being removed from reported bonds outstanding. This refunding resulted in an accounting gain of $19.6 million.

On February 15, 2008, the Authority defeased $745.0 thousand of outstanding Future Tax Secured Bonds with current revenue of $723.02 thousand. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral (as defined in the Authority's indenture) to provide for all future debt service on the defeased bonds. The refunding using Defeasance Collateral resulted in the refunded bonds being removed from reported bonds outstanding. This refunding resulted in an accounting gain of $22 thousand.

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, 2008 and 2007, the Authority had bonds refunded with Defeasance Collateral totaling $5.07 and $5.07 billion, respectively, of which $3.38 billion and $4.55 billion, respectively, are still to be paid from the Defeasance Collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

NOTE 5 – BONDS PAYABLE (Continued)

Debt service requirements as of June 30, 2008, for future tax secured bonds, including recovery bonds, payable to their maturity are as follows:

	Principal	Interest (a)	Total
	(in thousands)		
Year ended June 30,			
2009	$ 156,780	$ 573,440	$ 730,220
2010	153,915	566,617	720,532
2011	492,230	553,672	1,045,902
2012	597,860	591,735	1,189,595
2013	631,230	605,046	1,236,276
2014 to 2018	3,370,825	2,552,175	5,923,000
2019 to 2023	3,689,475	1,611,336	5,300,811
2024 to 2028	2,672,505	718,100	3,390,605
2929 to 2033	1,055,530	106,001	1,161,531
2034	7,480	192	7,672
	$ 12,827,830	$ 7,878,314	$20,706,144

(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, 2008 averaged approximately 2.714% on tax-exempt bonds, 4.270% on taxable bonds and 3.348% on auction 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 $8.73 billion from the $7.88 billion 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 deposited into the applicable debt service account in the quarter preceding the payment due date.

Debt service requirements at June 30, 2008, for building aid revenue bonds payable to maturity are as follows:

	Principal	Interest	Total
	(in thousands)		
Year ended June 30,			
2009	$ 18,820	$ 80,878	$ 99,698
2010	30,025	94,159	124,184
2011	31,100	93,050	124,150
2012	36,405	91,709	128,114
2013	39,950	90,258	130,208
2014 to 2018	227,355	423,312	650,667
2019 to 2023	286,705	363,364	650,068
2024 to 2028	364,940	284,450	649,390
2929 to 2033	463,800	184,766	648,566
2034 to 2038	500,900	62,690	563,590
	$ 2,000,000	$ 1,768,635	$ 3,768,635

NOTE 5 – BONDS PAYABLE (Continued)

As of June 30, 2008 and 2007, the Authority maintained its required debt service accounts as follows:

	June 30, 2008		June 30, 2007	
	(in thousands)			
	Principal	Interest	Principal	Interest
Required for future tax secured bonds	$ 32,545	$ 138,032	$ 9,010	$ 125,341
Required for BARBs	$ 18,820	$ 80,878	$ -	$ 62,208

The Authority held approximately $ 542.68 million and $785.21 million in excess of amounts required to be retained for future tax-secured bond debt service under the Indenture as of June 30, 2008 and 2007, respectively. The Authority held approximately $145.65 million in excess of amounts required to be retained for future building aid bond debt service under the Indenture as of June 30, 2008. There was no excess held as of June 30, 2007.

NOTE 6 – BOND ANTICIPATION NOTES PAYABLE

Bond anticipation notes are recorded at the principal amount outstanding. During the fiscal year ended June 30, 2007, the Authority issued and retired $600,000 of 2007 Fiscal Series 1 4.25% tax-exempt bond anticipation notes that matured June 20, 2007.

NOTE 7 – UNRESTRICTED GRANT FROM THE CITY OF NEW YORK

In fiscal year 2008, the Authority received an unrestricted grant from the City in the amount of $545.75 million on June 30, 2008. These funds will be used to fund debt service requirements for future tax secured debt during the fiscal year ending June 30, 2009.

In fiscal year 2007, the Authority received an unrestricted grant from the City in the amount of $1.26 billion on June 28, 2007. These funds were used to fund debt service requirements for future tax secured debt during the year ending June 30, 2008 to fund the cash defeasance escrow of $546.33 million (used to defease $537. 30 million of tax secured bonds on June 28, 2007); for the early retirement of $170.30 million of tax secured variable rate debt on September 4, 2007; and for the early retirement of tax secured variable rate debt on June 24, 2008.

NOTE 8 – IMPLEMENTATION OF GASB 48

The Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues* ("GASB 48") in fiscal year 2008. GASB 48 establishes accounting and financial reporting standards for governmental entities that have exchanged an interest in expected cash flows from collecting specific receivables or specific future revenues, and established the criteria that are used to ascertain whether the exchange should be reported as a sale or as a collateralized borrowing.

The implementation of GASB 48 changed the accounting and financial reporting for the Authority's disbursements of BARBs proceeds to the City and receipt of building aid from New York State ("State") to the Authority pursuant to the assignment to the Authority by the City in fiscal year 2007 of building aid payments from the State to the Authority. The Authority retains sufficient building aid revenue to service the BARBs debt and to pay certain of its administrative expenses. Under the criteria established under GASB 48, this assignment of building aid revenue by the City to the Authority is considered a collateralized borrowing, due to the City's continuing involvement necessary for collection of the building aid. As a result of the provision of GASB 48, requiring retroactive application of its requirements to prior years, the Authority's fiscal year 2007 financial statements have been restated, resulting in a increase in the Authority's net assets as of June 30, 2007 of $686.13 million as a result of the Authority reporting as an asset (Due from New York City - Future Building Aid) the cumulative amount it has distributed to the City for the educational facilities capital plan net of the cumulative amount of building aid it has retained. The effect of the implementation of GASB 48 on the fund financial statements is to report distributions to the City for its educational facilities capital program as an other financing use of funds, rather than as an expenditure, as these distributions are now considered as repayments of a borrowing, which are reported as an other financing use of funds.

NOTE 9 – 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 bond proceeds or investment earnings, are funded from the personal income taxes and building aid revenue flowing through the Authority's accounts.

NOTE 10 – SUBSEQUENT EVENTS

A. At its September 29, 2008 meeting, the Authority's Board of Directors passed a resolution authorizing the issuance of up to $800 million of Building Aid Revenue Bonds, Fiscal 2009 Series S-1.

B. The credit markets in the United States are experiencing a period of volatility and instability. Certain adjustable rate debt instruments issued by the Authority contain provisions that allow holders of the instruments to put the instruments back to the Authority. The Authority relies on its remarketing agents to remarket this debt and should the agent be unable to remarket this debt, the Authority has in place liquidity facilities from banks to support this debt. Through September 30, 2008, the Authority's liquidity facilities have not been drawn upon.

Appendix C

PROPOSED FORM OF BOND COUNSEL OPINION

January 21, 2009

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 Building Aid Revenue Bonds, Fiscal 2009 Series S-3 (the "New Bonds"). The New Bonds are being issued pursuant to Chapter 16, Laws of New York, 1997, as amended (the "Act"), to an Indenture dated as of October 1, 1997, as supplemented, and as amended and restated November 16, 2006 (the "Indenture"), between the Authority and The Bank of New York Mellon, as Trustee, and to an Assignment of State Aid dated October 19, 2006 (the "Assignment"), and a Financing Agreement dated October 1, 1997, as supplemented and as amended and restated November 16, 2006 (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 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, payable from the sources of revenue 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 with respect to all provisions thereof material to the subject matter of this opinion letter.

2. The New Bonds have been duly authorized, executed, and delivered by the Authority and are valid and binding obligations of the Authority payable from the Building Aid pledged and the other collateral provided for School Bonds 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 of the Building Aid, (b) the Authority's pledge to the Trustee of the Building Aid and other collateral described in the Indenture and (c) the application of proceeds of the Bonds to purposes of the City.

4. The City, acting through the Mayor, has assigned to the Authority all of the State school building aid payable to the City or its school district pursuant to section 3602.6 of the Education Law (or to any successor provision of State law) and, under the Act, such Building Aid and the right to receive the Building Aid are the property of the Authority. The Building Aid is subject to State appropriation, to prior claims under the Constitution and laws of the State, and to priorities under the Indenture in favor of specified Senior Bonds, Recovery Bonds and other Parity Debt.

5. The Indenture (a) has been duly and lawfully authorized, executed and delivered by the Authority, (b) creates the valid pledge of Building Aid 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 Building Aid 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 Building Aid for the security of the outstanding Senior Bonds and other instruments, including the New Bonds, to the extent specified in the Indenture is, and pursuant to the covenant of the Authority in the Indenture will be, prior to all other liens thereon. The pledge of Revenues, including the Building Aid, 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 Assignment and the Agreement have been duly and lawfully authorized, executed and delivered by the Authority and the City pursuant to the Act, and are valid and binding agreements 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 Building Aid superior or equal to the rights of the holders of the Bonds, such assertion would not succeed.

9. The New Bonds are issued for school purposes and therefore entitled to the benefit of § 99-b of the State Finance Law.

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

11. The Authority and the City have convenanted to comply with applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion from gross income of the interest on the New Bonds for purposes of federal income taxation. Assuming compliance by the Authority and the City with such provision of the Code, interest on the New Bonds will not be included in the gross income of the owners thereof for purposes of federal income taxation. Failure by the Authority or the City to comply with such applicable requirements may cause interest on the New Bonds to be includable in the gross income of the owners thereof retroactive to the date of the issue of the New Bonds. Further, we render no opinion as to the effect on the exclusion from gross income of interest on the New Bonds of any action taken or not taken after the date of this opinion without our approval.

12. 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.

13. The excess, if any, of the stated redemption price at maturity of any maturity of the New Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the New Bonds with original issue discount is excluded from gross income for federal income tax purposes to the same extent as interest on the New Bonds.

14. 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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