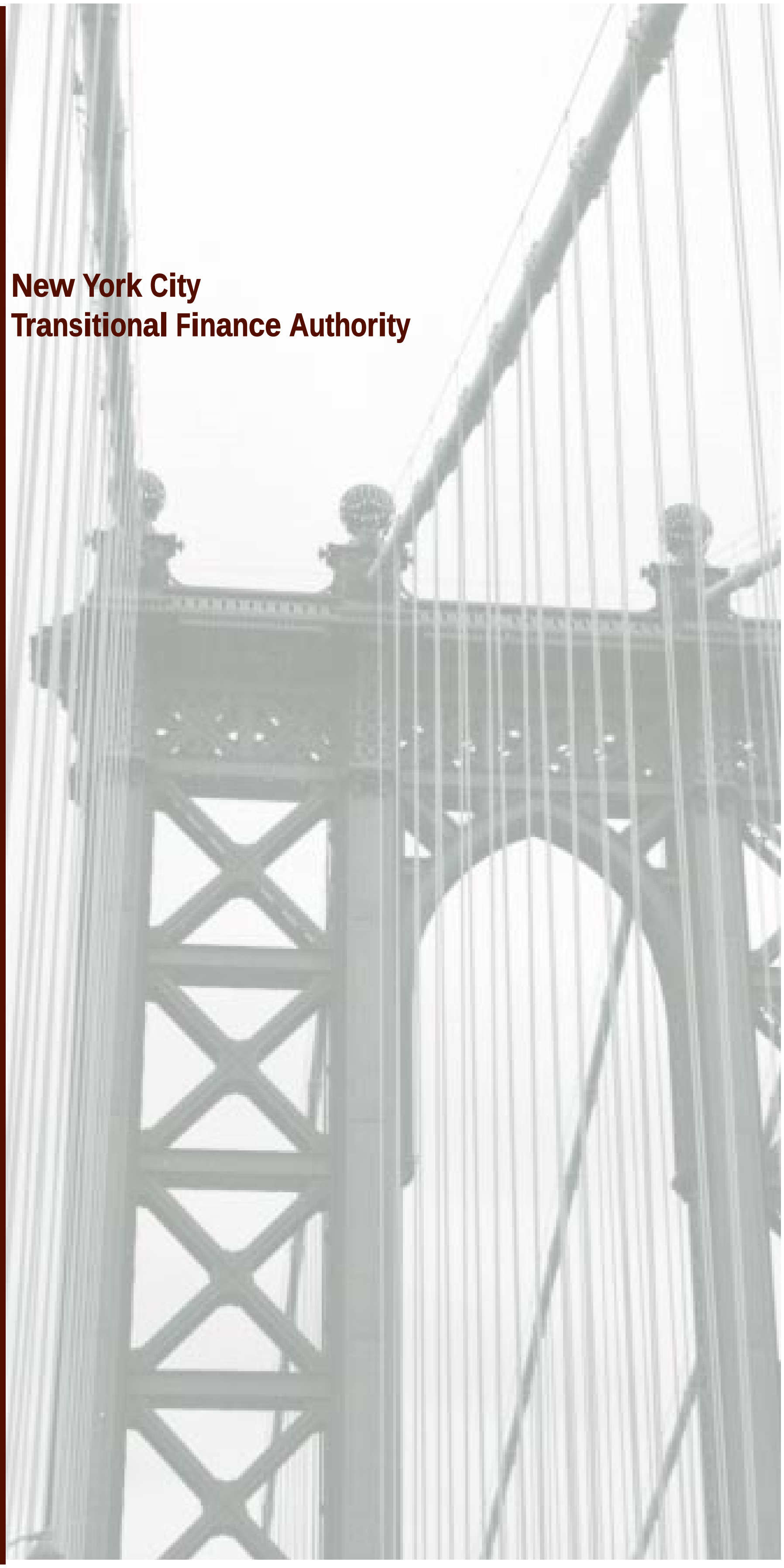
Financial Statements
and Report of
Independent Certified
Public Accountants

New York City
Transitional Finance Authority

October 1, 1997
(inception)
to June 30, 1998



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Letter from the Chairperson

I am pleased to present the first annual report of the New York City Transitional Finance Authority (TFA). This report contains complete audited financial information for the TFA's first fiscal year of operation that ended on June 30, 1998.

The TFA is a public benefit corporation whose purpose is to finance a portion of New York City's capital improvement program. The TFA is empowered to borrow up to $7.5 billion through the issuance of bonds for capital purposes that will finance an estimated 45 percent of the City's capital program over the period of fiscal years 1998 to 2001. TFA bonds are payable from the Statutory Revenues, which consist of personal income tax revenues and, if needed, sales tax revenues otherwise for New York City.

As an independent public benefit corporation the TFA has been determined to be separate from New York City and New York State in a bankruptcy analysis, as well as enjoying high coverage of its debt service provided by the statutory revenues. The credit was successfully presented to and analyzed by credit rating agencies in the context of an asset-backed revenue securitization. Credit ratings and market acceptance indicated by comparative yields have demonstrated a successful borrowing vehicle in the AA to AAA range, as compared to the City's A range. This results in a substantial reduction in the cost of financing New York City's capital program.

Unique to the TFA is the asset-backed nature of the credit that combines structured finance methods with a traditional revenue source. Structured finance refers to a new and growing sector of the U.S. capital markets which allows entities to separate and securitize revenue streams to earn the highest bond ratings and lowest interest costs. This technique was utilized initially by corporations in the form of credit card and other receivable financings and recently by electric utilities to amortize the cost of "stranded" nuclear assets. New York City and other municipalities have used this technique in tax lien sales, but we are not aware of another municipality or other public subdivision which has previously utilized a similar financing structure as a means to support a major share of its capital budget.

Bonds issued by the TFA are formally known as Future Tax Secured Bonds, referencing the statutory revenues. The Statutory Revenues, although formerly NYC tax revenues, were changed by the state legislation creating the TFA into revenues of the TFA. Personal income tax is now paid directly to the TFA. Payment of these revenues to the City is made by the TFA only after and to the extent the TFA determines revenue to be in excess of its needs.

The TFA is an innovative result of a negotiation between the City and State over how to address the State constitutional limit on the amount of debt that municipalities are allowed to incur. The constitution limits the amount of debt a municipality may incur to a value not greater than 10 percent of the five-year average full value of taxable real estate in its jurisdiction. For New York City, this limit is defined as $30.9 billion in Fiscal Year 1998, the reporting year.

To address this problem the New York State Legislature approved a law authorizing the creation of the New York City Transitional Finance Authority on March 5, 1997 (Chapter 16 of the Laws of 1997, the "Act"). This process began with formal discussions in early 1996, and legislation was introduced in December of 1996. The TFA is governed by a Board of five directors, consisting of the following officials of the City of New York, (the "City"): the Director of Management and Budget (who also serves as Chairperson), the Commissioner of Finance, the Commissioner of Design and Construction, the Comptroller and the Speaker of the Council.

The constitutional debt limit is not adequate to finance the investment requirements of the City's infrastructure. Without the TFA, the debt limit would have caused the abrupt cessation of the City's capital program. Furthermore, the interest rates paid by the City for the extensive financing required for its capital program were comparatively high, both because of the City's then credit ratings (BBB+/Baa1/A- by Standard & Poors, Moody's and Fitch IBCA respectively) and the volume of New York City general obligation bonds in the municipal marketplace.

Borrowing costs for the City's capital program have been substantially lowered through the TFA credit. At its inaugural issuance, TFA bond yields were, over all, lower than comparable AAA-insured tax-exempt issues. In addition to addressing the constitutional debt limit issue, the TFA is a new and stronger credit in the municipal market. Prior to the introduction of the TFA, the municipal market was requiring higher yields to absorb the volume of the City's general obligation bond borrowing. Reliance on this alternative credit structure for a substantial portion of NYC's borrowing requirements has been instrumental in lowering the volume of City general obligation bonds in the marketplace and thereby contributing to the lowest comparative yields on those bonds in recent history.

The TFA has already proved a successful borrowing vehicle for New York City's capital improvement program. Its $7.5 billion capacity will help New York City continue to meet its capital investment needs and prepare for the future.

Respectfully submitted,

Robert M. Harding
Chairman

PS 7
19 Crescent Street
Brooklyn, N.Y.

IS 119
74-01 78th Avenue
Queens, N,Y.

The New York City public school system, with approximately 1,500 school buildings and support facilities, served 1.1 million pupils from pre-kindergarten through high school in the 1997-1998 school year, an increase of 8,846 students over the prior school year. The primary objectives of the Board of Education's capital program are to arrest deterioration of the physical plant and provide additional capacity. Multiple solutions to overcrowding—both capital and non-capital—will be required to meet projected enrollment growth. The Preliminary 2000 Ten-Year Capital Strategy provides the Board of Education with a City-funded lump-sum allocation of $13.0 billion, of which $5.2 billion has been allocated for the replacement or rehabilitation of building components.

The Neighborhood Redevelopment Program (NRP) conveys clusters of occupied City-owned residential buildings to selected community-based not-for-profit organizations for rehabilitation and operation as rental housing. This program is a part of Building Blocks!, a comprehensive neighborhood redevelopment initiative, which is designed to stimulate community renewal by returning City-owned properties to responsible private owners. BuildingBlocks! targets clusters of occupied and vacant buildings the City acquired through tax foreclosure proceedings (in rem) for renovation and disposition to community-based owners. Buildings are owned and occupied by local entrepreneurs, neighborhood not-for-profit housing organizations, or tenants who form low-income cooperatives. From Fiscal 1994 to October 1998, the number of in rem housing units was reduced by 41%. Units that have passed into private ownership during this period now provide over $6 million annually to the City in tax revenue.

358 41 Street
Brooklyn, N.Y.

In its first fiscal year of operation, the TFA issued $1.95 million tax-exempt bonds on a negotiated basis through its underwriting syndicate. In addition, $100 million in taxable bonds were issued through a competitive bidding process and another $100 million of variable rate tax-exempt bonds were issued with a liquidity facility from a commercial bank.

The TFA's inaugural bond issuance of $650 million, identified as the1998 Series A bonds, was sold on October 1, 1997. Yields on the issue ranged from 3.9 percent in the 1999 maturity to 5.38 percent in the 2027 maturity. In a pre-sale order period for retail investors, over $146 million or 22.6 percent of the bonds were sold. The all-in fixed rate true interest cost of the transaction was 5.19 percent.

The second bond offering sized at $650 million of tax-exempt bonds that sold on January 13, 1998 is identified as the 1998 Series B bonds. This transaction saw yields ranging from 3.60 percent in the 1999 maturity to 4.99 percent in 2023 and 4.95 percent in the longest maturity of 2027. This financing was the first major bond financing by a municipal authority or other political subdivision in at least 25 years to have 30-year bonds with an interest cost under 5 percent. $125.8 million of the bonds were sold in the pre-sale retail order period. The all-in fixed rate true interest cost of the transaction was 4.85 percent.

The TFA's third bond offering, Fiscal 1998 Series C, was priced on April 7, 1998 and included three major components. The largest piece of the transaction was $650 million in tax-exempt fixed rate bonds. Yields ranged from 3.95 percent in the 2001 maturity to 5.23 percent in the 2026 maturity.

As part of this transaction, the TFA also issued $100 million in taxable bonds through a competitive bidding process. These securities contained serial maturities in 2003 through 2007 and 2011 through 2014. Salomon Smith Barney won the bidding from a field of six bidders with a true interest cost of 6.38 percent and an average life of 9.5 years. The TFA is authorized to issue taxable bonds for the City's capital improvement program for projects that are authorized but not eligible for tax-exempt status. The primary uses for these bonds are for rehabilitation or new construction of housing or for economic development activities.

The final component of the 1998 Series C transaction was $100 million in variable rate tax-exempt bonds. The bonds were priced on the closing date of the fixed rate bonds. The variable rate bonds are puttable securities repriced in the daily mode and include a liquidity facility from Bayerische Landesbank Girozentrale, New York Branch.

Designed by Leffert Lefferts Buck and constructed at a cost of $24 million (in 1903 dollars), the Williamsburg Bridge entered service in December of 1903. It provided decades of service to the citizens of New York City until late 1988, when structural deterioration forced its temporary closure. Reopened soon after to vehicular and subway traffic, the structure has subsequently been under construction to the finest available standards of modern bridge engineering. Between May 1999 and May 2005, work on the Williamsburg Bridge will include the replacement of the north approach roadways, the installation of permanent bicycle and pedestrian pathways, the rehabilitation of the tower bearings, and assorted painting and architectural work.

One of the most heavily travelled of all the East River crossings, the Manhattan Bridge remains one of New York City's most notable transportation landmarks. Designed by famed bridge engineer Leon Moisseff, and opened to traffic in December 1909, the bridge is presently in the seventeenth year of a 26-year, $611-million reconstructiion project. The current scope of work includes the painting of the structure's south side and towers, the painting of the main cables and the restoration of the triumphal arch and collonade on the Manhattan-side terminus.

Report of Certified Public Accountants

Grant Thornton

GRANT THORNTON LLP

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

We have audited the balance sheet of the New York City Transitional Finance Authority (the "Authority") as of June 30, 1998, and the related statement of revenues and expenditures for the period October 1, 1997 (inception) to June 30, 1998. 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.

We conducted our audit in accordance with generally accepted auditing standards. 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 financial position of the New York City Transitional Finance Authority as of June 30, 1998, and the results of its operations for the period October 1, 1997 (inception) to June 30, 1998 in conformity with generally accepted accounting principles.

Grant Thornton LLP

New York, New York
July 29, 1998

Balance Sheet

June 30, 1998

(in thousands)

	Governmental fund types		General long-term debt account group	Total (memorandum only)
	Capital project	Debt service		
Assets				
Restricted assets				
Cash and cash equivalents	$150,227	$15,960	$ –	$ 166,187
Amounts to be provided for general long-term debt	–	–	2,150,000	2,150,000
Total assets	150,227	15,960	2,150,000	2,316,187
Liabilities				
Bonds payable			2,150,000	2,150,000
Distributions payable to New York City Capital Program	101,002			101,002
Accrued expenses	30		–	30
Total liabilities	101,032		2,150,000	2,251,032
Fund balance				
Reserved for capital program	49,195			49,195
Reserved for debt service	–	15,960	–	15,960
Total fund balance	49,195	15,960	–	65,155
Total liabilities and fund balance	$150,227	$15,960	$2,150,000	$2,316,187

The accompanying notes are an integral part of this statement.

Statement of Revenues and Expenditures

October 1, 1997 (inception) to June 30, 1998

(in thousands)

	Government fund types: Capital project	Government fund types: Debt service	Total (memorandum only)
Revenues			
Personal income tax revenues		$4,042,103	$4,042,103
Less remittances to New York City		4,025,994	4,025,994
Personal income tax revenues retained		16,109	16,109
Interest income	$ 11,345	254	11,599
Total revenues	11,345	16,363	27,708
Other financing sources			
Principal amount of bonds issued	2,150,000	–	2,150,000
Total revenues and other financing sources	2,161,345	16,363	2,177,708
Expenditures			
Bond interest expense		11,147	11,147
Costs of bond issuance	16,344	–	16,344
Distributions to New York City for Capital Program	2,055,266	–	2,055,266
General and administrative expenses	362	–	362
Total expenditures	2,071,972	11,147	2,083,119
Other financing uses			
Bond discount	29,434	–	29,434
Transfer to debt service fund	10,744	(10,744)	–
Total expenditures and other financing uses	2,112,150	403	2,112,553
Excess of revenues and other financing sources over expenditures for the period	49,195	15,960	65,155
Fund balance at beginning of period	–	–	–
Fund balance at end of period	$ 49,195	$ 15,960	$ 65,155

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

June 30, 1998

Note A Organization

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

The Authority was created by State legislation enacted in 1997 to issue and sell up to $7.5 billion in bonds and notes to fund a portion of the capital program of the City, the purpose of which is to maintain, rebuild and expand the infrastructure of the City. In his Declaration of Need and Proposed Transitional Capital Plan, dated July 1998, the Mayor of the City stated that he expected $3.090 billion of liabilities incurred during the 1998 fiscal year and $4.431 billion of liabilities incurred during the 1999 fiscal year to be met with funds of the Authority. Of the $7.5 billion of debt currently authorized, $750 million may be issued at a variable rate.

Note B Summary of Significant Accounting Policies

The Authority follows the modified accrual basis of accounting. It recognizes revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are required when the related liability is incurred, except for unmatured interest on bonds payable, which is recognized when due.

The Authority uses two governmental fund types and an account group to report its financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities. The Capital Projects Fund accounts for resources to be transferred to the City's capital program and supports the operations of the Authority. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt. The General Long-Term Debt Account Group accounts for long-term bonds payable which at maturity will be paid through the Debt Service Fund. Only that portion of bonds payable expected to be financed from expendable available resources is reported as a liability of the Debt Service Fund.

Note B *(continued)*

The Authority receives personal income taxes, imposed by the City and collected by the State on behalf of the Authority, to service its debt and pay administrative expenses. Funds for debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City. Accordingly, uncollected personal income tax susceptible to accrual at year-end is not recognized as revenue in the current period because it is not required to fund current expenditures.

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

Note C Bonds Payable

The Authority was authorized by the Act to issue obligations in an aggregate principal amount of $7.5 billion, of which the Authority had issued $2.15 billion at June 30, 1998. All of the City personal income tax is paid by the State to the Authority. The Authority has pledged the personal income tax as collateral to secure its bonds. The Authority retains personal income taxes in an amount sufficient to service its debt and pay its operating expenses, and remits the difference to the City. The Authority has no taxing power.

The Authority funds its debt service requirements and operating expenses from the State's collection of personal income taxes and, under certain circumstances, sales taxes. Sales taxes are only available to the Authority after such amounts required by the Municipal Assistance Corporation are deducted and if the amounts of personal income tax revenues fall below statutorily specified coverage levels. The Authority periodically certifies to its bond trustee the amount of funding it requires. Net collections of personal income taxes not required by the Authority are paid by the Authority to the City. In the event that personal income tax revenues are not sufficient to provide at least 150 percent of the maximum annual debt service on the Authority's outstanding bonds, sales tax revenues will become available. No sales tax revenues were received during fiscal 1998.

Notes to Financial Statements *(continued)*

June 30, 1998

Note C *(continued)*

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

	Balance at October 1, 1997	Issued	Retired	Balance at June 30, 1998
	(in thousands)			
1998 Fiscal Series A – 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	$	$ 650,000		$ 650,000
1998 Fiscal Series B – 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027		650,000		650,000
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026		650,000		650,000
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014		100,000		100,000
Variable rate tax-exempt bonds due in 2028 (a)		100,000		100,000
Total bonds payable	$	$2,150,000	$	$2,150,000

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

Notes to Financial Statements *(continued)*

June 30, 1998

Note C *(continued)*

Debt service requirements to maturity at June 30, 1998, are as follows:

	Principal	Interest	Total
		(in thousands)	
Year ended June 30,			
1999		$ 114,002	$ 114,002
2000	$ 41,785	104,432	146,217
2001	43,615	102,463	146,078
2002	45,555	100,421	145,976
2003	48,970	98,498	147,468
Thereafter until 2028	1,970,075	1,414,169	3,384,244
	$2,150,000	$1,933,985	$4,083,985

Debt service accounts have been established under each of the Authority's Indentures to provide security for the payment of interest on and principal of the bonds issued and outstanding. The amount required to pay principal and interest is due in the preceding quarter.

At June 30, 1998, the Authority maintained its required debt service accounts totaling $15,960,000.

Note D Cash and Cash Equivalents

The Authority's cash and cash equivalents are currently limited to bank deposits, U.S. Government guaranteed securities purchased directly and through repurchase agreements from primary dealers and commercial paper. At June 30, 1998, the Authority's cash and cash equivalents consisted of bank deposits of $62,000, repurchase agreements of approximately $150 million and commercial paper of approximately $16 million. All of the Authority's investments are classified as cash and cash equivalents because they have an original maturity date of three months or less. Accordingly, the Authority values its investments at cost, which approximates market.

Notes to Financial Statements *(continued)*

June 30, 1998

Note D *(continued)*

At June 30, 1998, the carrying amount of bank deposits was approximately $62,000 and the bank balance was approximately $459,000. The Authority's repurchase agreements are collateralized by U.S. Government agency securities held by the Authority's agent in the Authority's name. The Authority's commercial paper is held by the Authority's agent in the Authority's name.

Note E Administrative Costs

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

Transitional Finance Authority Directors and Management

Directors:

Robert M. Harding, *Chairperson, ex officio Director of Management and Budget of the City*
Alan G. Hevesi *ex officio Comptroller of the City*
Peter F. Vallone *ex officio Speaker of the City Council*
Joseph J. Lhota *acting Commissioner of Finance of the City*
Luis M. Tormenta *ex officio Commissioner of the Department of Design and Construction of the City*

Officers of the Authority:

Mark Page *Executive Director*
Alan Anders *Treasurer*
Marjorie E. Henning *Secretary*
Valerie Mehallow *Comptroller*
Wei-Li Pai *Assistant Treasurer*
Albert F. Moncure, Jr. *Assistant Secretary*
Prescott D. Ulrey *Assistant Secretary*
Patrick J. McCoy *Manager of Investor Relations*

Investor Relations Contact
Patrick J. McCoy
(212) 788-9170
mccoyp@ibm.net
www.ci.nyc.ny.us/**tfa**

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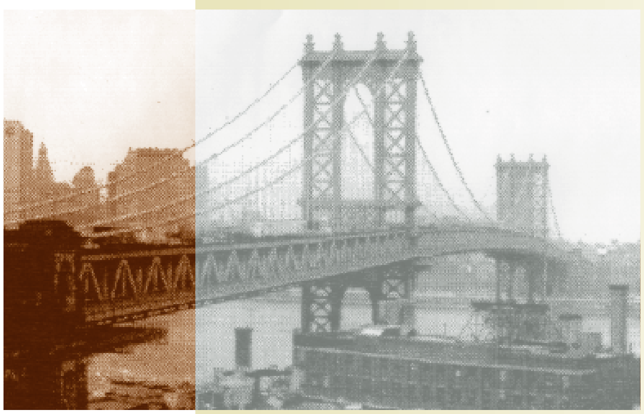

New York City
Transitional Finance Authority
75 Park Place, 6th Floor
New York, New York 10007

photographs: page 3–(PS-7) Nat Valentine; (IS-119), Bernstein Associates; page 4–Larry Racioppo; pages6, 16 (Manhattan Bridge)–Tim Robinson design: Elton Robinson printing: Paul J. Weinstein Quality Printing