NEW ISSUE

In the opinion of Bond Counsel, interest on the Series 2005 A and B 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 2005 A and B Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION VII: TAX MATTERS" herein for further information.

New York City TRANSITIONAL FINANCE AUTHORITY

$920,645,000
New York City Transitional Finance Authority
Future Tax Secured Refunding Bonds

Fiscal 2005 Series A
$780,965,000 Subseries A-1 (Senior Bonds)
$132,145,000 Subseries A-2 (Subordinate Bonds)

Fiscal 2005 Series B
$5,930,000 Subseries B-1 (Senior Bonds)
$1,605,000 Subseries B-2 (Subordinate Bonds)

Dated: Date of Delivery | Due: November 1, as shown on inside cover pages

The Future Tax Secured Refunding Bonds, Fiscal 2005 Series A (the "Series 2005 A Bonds") and the Future Tax Secured Refunding Bonds, Fiscal 2005 Series B (the "Series 2005 B Bonds" and with the Series 2005 A Bonds, the "Series 2005 A and B Bonds") are being issued by the New York City Transitional Finance Authority (the "Authority") pursuant to Chapter 16, Laws of New York, 1997, as amended (the "Act"), and an Indenture, dated as of October 1, 1997, as amended and supplemented (the "Indenture"), by and between the Authority and the Trustee.

The Subseries A-1 Bonds and the Subseries B-1 Bonds will be on a parity with the Authority's Future Tax Secured Senior Bonds. The Subseries A-2 Bonds and the Subseries B-2 Bonds will be on a parity with the Authority's Subordinate Bonds. Interest on and principal of the Subseries A-2 Bonds and the Subseries B-2 Bonds are payable from the Revenues of the Authority subordinate to Senior Debt Service and operating expenses of the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS." Provided the statutory and contractual conditions are met, other Series of Bonds on a parity with the respective Subseries of the Series 2005 A Bonds and Series 2005 B Bonds may be issued. See "SECTION IV: THE BONDS—OTHER SERIES."

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

The Series 2005 A and B 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 2005 A and B Bonds. Principal, redemption price and interest will be payable to DTC by the Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursements to the purchasers of the Series 2005 A and B Bonds are the responsibility of the DTC Participants.

Purchases of the Series 2005 A and B Bonds will be made in book-entry form in denominations of $5,000 and whole multiples thereof. Interest on the Series 2005 A and B Bonds accrues from the dated date, and is payable on each May 1 and November 1, commencing November 1, 2005.

The Series 2005 A and B Bonds are subject to redemption prior to maturity as described herein.

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

The Series 2005 A and B 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 2005 A and B Bonds and certain other matters by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by the New York City Corporation Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York. It is expected that the Series 2005 A and B Bonds will be available for delivery to DTC in New York, New York, on or about April 1, 2005.

Lehman Brothers

JPMorgan	**Merrill Lynch & Co.**	**Morgan Stanley**
Advest/Lebenthal	**Bear, Stearns & Co. Inc.**	**Citigroup**
RBC Dain Rauscher Inc.	**First Albany Capital Inc.**	**Goldman, Sachs & Co.**
Ramirez & Co., Inc.		**UBS Financial Services Inc.**
Banc of America Securities LLC	**CIBC World Markets**	**Commerce Capital Markets, Inc.**
A.G. Edwards & Sons, Inc.	**Jackson Securities**	**Legg Mason Wood Walker, Incorporated**
Loop Capital Markets, LLC	**Raymond James & Associates, Inc.**	**Roosevelt & Cross Incorporated**
Siebert Brandford Shank		**Wachovia Bank, National Association**

March 18, 2005

$913,110,000 Future Tax Secured Refunding Bonds, Fiscal 2005 Series A

	$780,965,000 Subseries A-1 (Senior Bonds)			$132,145,000 Subseries A-2 (Subordinate Bonds)		
November 1	Principal Amount	Interest Rate	Price or Yield	Principal Amount	Interest Rate	Price or Yield
2006	$28,705,000	2½ %	2.56%			
2006	25,210,000	5	2.56			
2007	33,500,000	5	2.79			
2007	19,805,000	2.80	2.79			
2008	68,630,000	5	3.00			
2008	8,160,000	3	100			
2009	36,790,000	5	3.23			
2009	16,515,000	4	3.23			
2010	53,305,000	5	3.39			
2011	54,820,000	5	3.59			
2011	4,660,000	3½	3.59			
2012	73,380,000	5	3.73			
2012	4,165,000	3.60	3.73			
2013	77,800,000	5	3.83			
2013	1,095,000	3¾	3.83			
2014	74,530,000	5	3.93			
2014	4,365,000	3.80	3.93			
2015				$48,745,000	5%	4.03%
2016(1)				44,475,000	5	4.09
2016				325,000	4	4.09
2017(1)				36,935,000	5	4.13
2017				1,665,000	4	4.13
2018(1)	36,350,000	5	4.18			
2018	2,575,000	4.10	4.18			
2019(1)	43,015,000	5	4.23			
2019	1,105,000	4⅛	4.23			
2020(1)	55,695,000	5	4.27			
2020	1,435,000	4⅛	4.27			
2021(1)	33,400,000	5	4.30			
2021	75,000	4¼	4.30			
2022(1)	6,260,000	5	4.35			
2022	225,000	4¼	4.35			
2023(1)	7,970,000	5	4.37			
2023	195,000	4.30	4.37			
2024(1)	6,205,000	5	4.40			
2024	1,025,000	4⅜	4.40			

(1) Priced to par call on May 1, 2015

$7,535,000 Future Tax Secured Refunding Bonds, Fiscal 2005 Series B

November 1	$5,930,000 Subseries B-1 (Senior Bonds)			$1,605,000 Subseries B-2 (Subordinate Bonds)		
	Principal Amount	Interest Rate	Price or Yield	Principal Amount	Interest Rate	Price or Yield
2005	$350,000	3 %	2.35%			
2006	365,000	2½	2.56			
2007	375,000	2.80	2.79			
2008	385,000	3	100			
2009	400,000	3⅛	3.23			
2010	410,000	3¼	3.39			
2011	425,000	3½	3.59			
2012	440,000	3⅝	3.73			
2013	480,000	3¾	3.83			
2014	495,000	3.80	3.93			
2015				$515,000	3.90%	4.03%
2016				535,000	4	4.09
2017				555,000	4	4.13
2018	580,000	4	4.18			
2019	600,000	4⅛	4.23			
2020	625,000	4⅛	4.27			

Certain of the information in this Offering Circular has been provided by the City and other sources considered by the Authority to be reliable. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized. No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation with respect to the Series 2005 A and B Bonds, other than those contained in this Offering Circular, and if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Series 2005 A and B Bonds, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The Underwriters have reviewed the information in this Offering Circular in accordance with their responsibilities to investors under the securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guaranty the accuracy or completeness of such information.

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

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

THE SERIES 2005 A AND B BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY BODY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005 A AND B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

(This page was left blank intentionally.)

SUMMARY OF TERMS

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

Issuer	The New York City Transitional Finance Authority (the "Authority") is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State") created by Chapter 16 of the Laws of 1997 (as amended, the "Act").
Securities Offered	$913,110,000 Future Tax Secured Refunding Bonds, Fiscal 2005 Series A, Subseries A-1 and Subseries A-2 (the "Series 2005 A Bonds") and the $7,535,000 Future Tax Secured Refunding Bonds, Fiscal 2005 Series B, Subseries B-1 and Subseries B-2 (the "Series 2005 B Bonds" and with the Series 2005 A Bonds, the "Series 2005 A and B Bonds") are to be issued pursuant to an Indenture, dated as of October 1, 1997 (as amended and supplemented from time to time, the "Indenture"), by and between the Authority and the Trustee. The Series 2005 A and B Bonds will be issued as fixed rate bonds. The Series 2005 A and B Bonds (along with all other bonds heretofore or hereafter issued under the Indenture, the "Bonds") will be payable from the Statutory Revenues which the Act requires to be paid to the Authority as described herein. The Subseries A-1 Bonds and the Subseries B-1 Bonds are issued as Senior Bonds on a parity with the Authority's Future Tax Secured Senior Bonds. The Subseries A-2 Bonds and the Subseries B-2 Bonds are issued on a parity with the Authority's Recovery Bonds and Parity Debt, which are subordinate to the Authority's Senior Bonds. Interest on and principal of the Subseries A-2 Bonds and the Subseries B-2 Bonds will be payable from the Revenues subordinate to the payment of Senior Debt Service and operating expenses of the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."
Trustee	Currently, U.S. Bank Trust National Association, New York, New York acts as the Authority's trustee. The Authority has appointed The Bank of New York, New York, New York as trustee effective as of April 1, 2005.
Servicer	The New York State Department of Taxation and Finance collects the Statutory Revenues, which consist of Personal Income Tax Revenues and Sales Tax Revenues, each as defined herein, and reports the amount of such collections to the State Comptroller. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Servicing."
Disbursement Agent	The State Comptroller holds Personal Income Tax Revenues in trust for the Authority and deposits such Revenues with the Trustee for payment of Debt Service and other expenses of the Authority. Sales Tax collections are remitted to the State Comptroller who then

	transfers Sales Tax Revenues to the Authority, if and to the extent that Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds in such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds. Payment of almost all Sales Tax collections to the Authority is subject to appropriation by the State Legislature until July 1, 2008.
Not Debt of State or City	The Bonds are not a debt of either the State or the City, and neither the State nor the City shall be liable thereon. The Bonds are not payable out of any funds other than those of the Authority. Based on State and federal constitutional, statutory and case law and the terms of the Indenture and the Agreement, Bond Counsel is of the opinion that the Authority is not eligible for protection from its creditors pursuant to Title 11 (the "Bankruptcy Code") of the United States Code; and if the debts of the City were adjusted under the Bankruptcy Code and the City or its creditors were to assert a right to the Revenues equal or prior to the rights of the Bondholders, such assertion would not succeed.
Purpose of Issue.............	The proceeds of the Series 2005 A and B Bonds will be used to redeem, at or prior to maturity, the bonds identified in Appendix C hereto by providing for the payment of the principal of and interest on and redemption premium, if any, on such bonds to the extent and to the payment dates shown. The proposed refunding is subject to the delivery of the Series 2005 A and B Bonds.
Statutory Revenues	The Bonds are payable from the "Statutory Revenues" which consist of Personal Income Tax Revenues and Sales Tax Revenues. The Act provides that the Authority's Revenues are not funds of the City. The term "Personal Income Tax Revenues" means the collections from the Personal Income Tax less overpayments and administrative costs. The term "Personal Income Tax" means the tax imposed by the City, as authorized by the State, on the income of City residents and, while applicable, on nonresident earnings in the City. Since the adoption of the Personal Income Tax in 1966, Personal Income Tax Revenues have risen from approximately $130 million to approximately $5.6 billion in fiscal year 2004. Personal Income Tax Revenues are projected to be approximately $5.8 billion in each of the fiscal years 2005 through and including 2007, and $6.1 billion and $6.5 billion in fiscal years 2008 and 2009, respectively. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Statutory Revenues." Payment of Personal Income Tax Revenues to the Authority as required by the Act is not subject to State or City appropriation. The term "Sales Tax Revenues" means the collections from the Sales Tax less (i) MAC Funding Requirements (as defined herein), which are expected to be $10 million in fiscal year 2005, and (ii) State administrative costs. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax—*MAC Funding*

Requirements." The term "Sales Tax" means the tax currently imposed by the State on the sale and use of tangible personal property and services in the City, until July 1, 2008 and thereafter means the similar tax imposed by the City. The Sales Tax is currently imposed at a rate of 4⅛%, including a temporary ⅛% imposed from June 4, 2003 through May 31, 2005. Almost all of the Sales Tax collections are subject to appropriation by the State until July 1, 2008. Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Bonds if Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds. Since the inception of the Sales Tax in fiscal year 1934, Sales Tax Revenues have increased to approximately $3.5 billion in fiscal year 2004. Sales Tax Revenues are projected to be approximately $4.2 billion, $4.1 billion, $4.2 billion, $4.0 billion and $4.6 billion in fiscal years 2005 through 2009, respectively. The projections herein assume that the Sales Tax is imposed at a rate of 4% after July 1, 2008, which requires State legislation. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax."

Enabling Legislation .... The Act, which became effective March 5, 1997, provides for the issuance of the Bonds, the payment of the Bonds from the Statutory Revenues, and the statutory and contractual covenants of the Authority, the City and the State. The Act was amended in June 2000 and September 2001 to, among other things, increase the debt-incurring capacity of the Authority. The amendment in September 2001 permitted the Authority to issue bonds and notes to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Costs").

State and City Covenants...... The Act and the Indenture contain the covenant of the State with the Bondholders (the "State Covenant") that the State shall not limit or alter the rights vested in the Authority by the Act to fulfill the terms of the Indenture, or in any way impair the rights and remedies of such holders or the security for the Bonds until such Bonds, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders of the Bonds, are fully paid and discharged. The State Covenant does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Tax, but such taxes payable to the Authority will in all events continue to be so payable so long as any such taxes are imposed.

The Act and the Indenture also contain the covenant of the State that in the event Personal Income Tax Revenues payable to the Authority during any fiscal year are projected by the Mayor of the City to be insufficient to provide at least 150% of maximum annual debt service on Outstanding Bonds, the State Comptroller shall pay to the Authority from Sales Tax Revenues such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds; provided, however, that almost all of such amounts are subject to State appropriation until July 1, 2008. See "SECTION II: SOURCES

	OF PAYMENT AND SECURITY FOR THE BONDS—Sales Tax." The State is not obligated to make any additional payments or impose any taxes to satisfy the debt service obligations of the Authority. In accordance with the Act, the City has pledged and agreed with the holders of the Bonds (the "City Covenant") that the City will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with such holders pursuant to the Act, or in any way impair the rights and remedies of such holders or the security for the Bonds until the Bonds are fully paid and discharged. Nothing contained in the Act or the Agreement restricts any right the City may have to amend, modify, repeal or otherwise alter local laws imposing or relating to the Personal Income Tax Revenues payable to the Authority so long as, after giving effect to such amendment, modification or other alteration, the amount of Statutory Revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration is not less than 150% of maximum annual debt service on Outstanding Bonds. For more information regarding the State and City Covenants, see "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Agreements of the State and the City."
Other Authority Indebtedness . .	The Act authorizes the Authority to issue Bonds and Notes for capital purposes (up to $11.5 billion) and for the refunding of Bonds and Notes. The Act was amended in September 2001 to permit the Authority to have outstanding an additional $2.5 billion of bonds and notes ("Recovery Obligations") to pay Recovery Costs. The City may, in the future, seek legislation amending the Act to eliminate the $11.5 billion statutory cap on the Authority's bonds. If the Act were so amended, the Authority would continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT." The Authority has previously issued $11.5 billion of Senior Bonds and Bond Anticipation Notes for capital purposes. The Authority currently has Outstanding $10,751,179,143 of Senior Bonds (excluding accrued interest on capital appreciation bonds). The Indenture permits the issuance of up to $12 billion of Senior Bonds (not including refunding Bonds). The Authority also has Outstanding $1,954,950,000 of Recovery Obligations and $261,845,000 of Bonds issued on a parity with Recovery Obligations ("Parity Debt"). Parity Debt is subordinate to the Authority's Senior Bonds. The Authority expects that it will issue other Bonds and Notes for capital purposes if the Act is amended to permit such issuance and may issue Bonds for refunding purposes from time to time. See "SECTION IV: THE BONDS—Other Series" and "SECTION V: THE AUTHORITY—Other Authority Indebtedness" and "—Plan of Finance."

Interest and Principal	Interest on the Series 2005 A and B Bonds will accrue from their dated date at the rates set forth on the inside cover pages hereof and will be payable semiannually on May 1 and November 1 of each year, commencing November 1, 2005. The record date for payment of interest on the Series 2005A and B Bonds is the fifteenth (15th) day of the calendar month immediately preceding the interest payment date. Principal will be due as shown on the inside cover pages and herein. Interest and principal on the Senior Bonds will be paid from the Revenues on deposit in the Bond Account or Redemption Account, if applicable. Statutory Revenues shall be deposited into the Bond Account in accordance with the retention schedule as described in "Retention Procedures" below.
Optional Redemption	The Series 2005 A and B Bonds maturing on or before November 1, 2015 are not subject to redemption prior to maturity. The Series 2005 A and B Bonds maturing after November 1, 2015 are subject to redemption prior to maturity on 30 days notice, beginning on May 1, 2015 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.
Form and Denomination	The Series 2005 A and B Bonds will be issued as fully registered securities registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). The Series 2005 A and B Bonds will be denominated in principal amounts of $5,000 and integral multiples thereof.
Indenture	The Indenture provides for the issuance of the Bonds and Notes pursuant to the Act, including the Authority's pledge to the Trustee of the revenues, accounts and statutory and contractual covenants contained therein. The Trustee is authorized to enforce the Indenture and such covenants against the Authority, the City and the State. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."
Financing Agreement	The Financing Agreement, dated October 1, 1997, as amended and supplemented, between the Authority and the City, provides for the application of proceeds of the Authority's Bonds and Notes to fund capital expenditures of the City and Recovery Costs and to refund the Authority's Bonds and includes covenants of the City and the City's agreement to hold the Authority harmless against claims related to the Projects.
Collection Account	The State Comptroller is required by the Act, commencing on or before the fifteenth day of each month, to pay the Personal Income Tax Revenues on a daily basis directly to the Trustee for application in accordance with the Indenture. While the State Comptroller is required by statute to transfer the Personal Income Tax Revenues on or prior to the fifteenth day of each month, current practice of the State Comptroller is to transfer such funds commencing on the first day of each month. See "Application of Revenues" below.

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

Bond Account	The Bond Account is held by the Trustee in accordance with the terms of the Indenture. The Trustee shall deposit amounts from the Collection Account into the Bond Account in accordance with the Retention Procedures described below for the payment of Senior Debt Service including Notes and Senior Agreements that are to be paid out of the Bond Account on a parity with the Senior Bonds.
Recovery and Parity Debt Account	The Recovery and Parity Debt Account will be held by the Trustee in accordance with the terms of the Indenture. Following required deposits to the Bond Account for Senior Debt Service and payment of Authority operating expenses in accordance with the terms of the Indenture, the Trustee shall transfer all Revenues to the Recovery and Parity Debt Account in accordance with the Retention Procedures described below for the payment of debt service on Recovery Obligations and Parity Debt, including among other obligations the Subseries A-2 Bonds and the Subseries B-2 Bonds.
Application of Revenues	All Revenues in the Collection Account shall be applied upon receipt by the Trustee in the following order of priority: *first*, to the Bond Account or Redemption Account to pay Senior Debt Service in accordance with the Retention Procedures described in the paragraph below; *second*, to the Authority's operating expenses, including deposits to the Redemption Account for optional redemption of the Senior Bonds, if any, and any reserves held by the Authority for payment of operating expenses; *third*, to the Recovery and Parity Debt Account or otherwise for the benefit of Noteholders, Subordinate Bondholders, (including holders of the Subseries A-2 Bonds and the Subseries B-2 Bonds, among other obligations) 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; and *fourth*, to the City as soon as available but not later than the last day of each month, excess Revenues, free and clear of the lien of the Indenture.
Retention Procedures	On the first business day of each Collection Quarter, which commences on the first day of each August, November, February and May, the Trustee shall begin to transfer all Statutory Revenues from the Collection Account to the Bond Account, and shall continue such transfers until the amount in the Bond Account is equal to one-half of the debt service on the Senior Bonds due in the three month period following the Collection Quarter, each such period, a "Payment Period." The total amount due in each Payment Period is the "Quarterly Payment Requirement." On the first business day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers until the Quarterly Payment Requirement is held in the Bond Account. During the third month of each Collection Quarter, if there is less than the Quarterly

Payment Requirement on deposit in the Bond Account, or the Redemption Account, as the case may be, the Trustee will continue to transfer Statutory Revenues from the Collection Account to the Bond Account until there is on deposit therein the Quarterly Payment Requirement. The payment obligations of the Trustee for payments to be made from the Collection Account to the Bond Account shall be cumulative so that any shortage in the first month of the Collection Quarter will become part of the funding obligation in the second month of the Collection Quarter, and, if necessary, the third month of the Collection Quarter. The Authority expects that the Quarterly Payment Requirement will be provided from Statutory Revenues during the applicable Collection Quarter. However, in the event collections from the Statutory Revenues are insufficient during any Collection Quarter to completely provide for the Quarterly Payment Requirement, the Trustee is required to withhold additional Statutory Revenues in subsequent Collection Quarters. To the extent the Quarterly Payment Requirement includes principal, interest or premium on the Bonds or Notes to be purchased or redeemed prior to maturity at the option of the Authority, such Senior Debt Service may be paid through the Redemption Account, and the Authority may direct the Trustee to transfer Revenues to the Redemption Account rather than the Bond Account.

After retention for Debt Service in the manner described above and payment of Authority operating expenses, at the beginning of each Collection Quarter, the Trustee shall begin to transfer all Revenues to the Recovery and Parity Debt Account, and shall continue such transfers until the amount in the Recovery and Parity Debt Account is equal to one-half of Quarterly Subordinate Debt Service; and on the first business day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers until the full amount of Quarterly Subordinate Debt Service is held in the Recovery and Parity Debt Account. To the extent that Quarterly Subordinate Debt Service includes principal, interest or premium on the Bonds or Notes to be purchased or redeemed prior to maturity, or Revenues are available to pay principal of notes of the Authority, such amounts may be paid through the Redemption Account or an escrow fund.

Defeasance. . . . . Under the Indenture, the Authority will have the ability to defease covenants in the Series 2005 A and B Bonds by depositing Defeasance Collateral with a trustee to provide for payment of principal, interest and premium, if any, thereon.

Tax Matters . . . . In the opinion of Sidley Austin Brown & Wood LLP, Bond Counsel to the Authority, interest on the Series 2005 A and B 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 2005 A and B 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 2005 A and B Bonds have been rated "AAA" by Standard & Poor's Ratings Services ("Standard & Poor's") and "AA+" by Fitch Ratings ("Fitch"). The Subseries A-1 Bonds and the Subseries B-1 Bonds have been rated "Aa1" and the Subseries A-2 Bonds and the Subseries B-2 Bonds have been rated "Aa2" by Moody's Investors Services, Inc. ("Moody's" together with Standard & Poor's and Fitch, the "Rating Agencies"). See "SECTION VIII: RATINGS."
Authority Contact	Mr. Raymond Orlando Phone Number: (212) 788-5875 Email: orlandor@omb.nyc.gov

SECTION I: INTRODUCTION

General

This Offering Circular of the New York City Transitional Finance Authority (the "Authority") sets forth information concerning the Authority in connection with the sale of the Authority's $913,110,000 Future Tax Secured Refunding Bonds, Fiscal 2005 Series A, Subseries A-1 and Subseries A-2, (the "Series 2005 A Bonds") and the Authority's $7,535,000 Future Tax Secured Refunding Bonds, Fiscal 2005 Series B, Subseries B-1 and Subseries B-2 (the "Series 2005 B Bonds" and, together with the Series 2005 A Bonds, the "Series 2005 A and B Bonds" and, together with all other Series of bonds heretofore or hereafter issued under the Indenture (defined below), the "Bonds"). The Subseries A-1 Bonds are to be issued as Senior Bonds in the aggregate principal amount of $780,965,000. The Subseries A-2 Bonds are to be issued as Parity Debt, subordinate to Senior Bonds, in the aggregate principal amount of $132,145,000. The interest and principal on the Subseries A-2 Bonds are payable on the subordinate basis described herein. The Subseries B-1 Bonds are to be issued as Senior Bonds in the aggregate principal amount of $5,930,000. The Subseries B-2 Bonds are to be issued as Parity Debt, subordinate to Senior Bonds, in the aggregate principal amount of $1,605,000. The interest and principal on the Subseries B-2 Bonds are payable on the subordinate basis described herein.

The Series 2005 A and B Bonds are being issued pursuant to the Act (as defined below) and an Indenture dated as of October 1, 1997, as amended and supplemented (the "Indenture"), by and between the Authority and U.S. Bank Trust National Association, New York, New York, as trustee (the "Trustee"). Currently, U.S. Bank Trust National Association, New York, New York acts as the Authority's trustee. The Authority has appointed The Bank of New York, New York, New York as trustee effective as of April 1, 2005. The Authority and The City of New York (the "City") entered into a Financing Agreement (the "Agreement"), dated October 1, 1997, as amended and supplemented, which provides for the application of the Authority's Bond proceeds to fund capital expenditures of the City and Recovery Costs (as defined below) and includes various covenants of the City. A summary of certain provisions of the Indenture and the Agreement, together with certain defined terms used therein and in this Offering Circular, is contained in "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT." The Series 2005 A and B Bonds are payable from the Revenues of the Authority which are derived from the Personal Income Tax Revenues and Sales Tax Revenues (each as defined herein). The Subseries A-2 Bonds and the Subseries B-2 Bonds are payable from the Revenues of the Authority, subordinate to Senior Debt Service and operating expenses of the Authority. See "SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

The Authority is a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State of New York (the "State") created by Chapter 16 of the Laws of 1997 (as amended, the "Act"). The Authority was created to provide for the issuance of debt to fund a portion of the capital program of the City. The Act authorizes the issuance of Bonds and Notes for capital purposes (up to $11.5 billion) and the refunding of Bonds and Notes. The Act was amended in September 2001 to permit the Authority to have outstanding an additional $2.5 billion of Bonds and Notes ("Recovery Obligations") to pay costs related to or arising from the September 11 attack on the World Trade Center ("Recovery Costs"). The Authority has Outstanding $1,954,950,000 of Recovery Obligations. The Authority issued $2 billion of Recovery Obligations of which the Authority used $1.5 billion in proceeds to compensate the City for revenue losses that are Recovery Costs. The City may, in the future, seek legislation amending the Act to eliminate the $11.5 billion statutory cap on the Authority's bonds. If the Act were so amended, the Authority would continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

The Indenture permits the issuance of up to $12 billion of Senior Bonds (not including refunding Bonds). The Authority has issued $11.5 billion of Senior Bonds for capital purposes. The Indenture further permits the Authority to issue additional indebtedness as Subordinate Bonds, provided that such additional issuance of debt does not cause an adverse change in the ratings obtained by the Authority on the Senior Bonds and further provided that the Authority complies with restrictions on the amount of such Subordinate Bonds which may be issued. For additional information regarding the issuance of additional obligations of the Authority, see "Section IV: THE BONDS—Other Series."

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

SECTION II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

The Subseries A-1 Bonds and the Subseries B-1 Bonds are to be issued as Senior Bonds. Interest on and principal of the Subseries A-2 Bonds and the Subseries B-2 Bonds are payable from the Revenues, subordinate to payment of Senior Debt Service, including principal of and interest on Senior Bonds, outstanding and to be issued, and payments in respect of Senior Agreements, and to operating expenses of the Authority. See "Application of Revenues" herein.

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

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

The Authority's debt is not debt of the State or the City and neither the State nor the City shall be liable thereon.

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

Statutory Revenues

The Bonds are payable from the Statutory Revenues, which consist of Personal Income Tax Revenues and Sales Tax Revenues. Personal Income Tax Revenues are the revenues collected from the Personal Income Tax less overpayments and costs of administration. The Personal Income Tax is the tax imposed by the City as authorized by the State on the income of City residents and, while applicable, on nonresident earnings in the City as described below. Sales Tax Revenues are the revenues collected from the Sales Tax less (i) the MAC Funding Requirements (as defined below), which are expected to be

$10 million in fiscal year 2005, and (ii) State administrative costs. See "Sales Tax—*MAC Funding Requirements*" below. The Sales Tax is the tax currently imposed by the State on the sale and use of tangible personal property and services in the City until July 1, 2008 and thereafter means a similar tax imposed by the City. The term "Sales Tax" also includes certain amounts collected from a sales and compensating use tax imposed by the City as authorized by the State. Pursuant to the Act, Sales Tax Revenues will be available for the payment of the Bonds if Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service on the Authority's Outstanding Bonds. For a description of the Personal Income Tax Revenues and the Sales Tax Revenues, including assumptions relating thereto and the expiration and reduction of certain portions thereof, see "Personal Income Tax" and "Sales Tax" below. For a description of the servicing and application of the Statutory Revenues, see "Servicing" and "Application of Revenues" below.

From fiscal year 1989 to fiscal year 2004, the average annual compound growth rate for Statutory Revenues was approximately 5.12%. However, Statutory Revenues decreased in fiscal years 2002 and 2003 primarily due to the September 11 attack and the effects of the national recession. Historical collections of Statutory Revenues for fiscal years 1989 to 2004 and forecasted collections of Statutory Revenues for fiscal years 2005 through and including 2009 are shown in the following table.

HISTORICAL AND FORECASTED AMOUNTS OF STATUTORY REVENUES
($ millions)

Fiscal Year Ending June 30	Statutory Revenues	Fiscal Year Ending June 30	Statutory Revenues
1989	$4,273	1999	$ 8,639
1990	4,475	2000	8,961
1991	4,720	2001	9,485
1992	5,028	2002	7,908
1993	5,444	2003	7,785
1994	5,702	2004	9,037
1995	6,202	2005(1)	10,060
1996	6,533	2006(1)	9,882
1997	7,048	2007(1)	9,983
1998	7,816	2008(1)	10,078
		2009(1)	11,065

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

(1) As forecasted by NYC OMB in the City's financial plan dated June 30, 2004 as modified in January 2005 (the "Financial Plan"). For information regarding projection assumptions and the expiration and reduction of certain portions of the Personal Income Tax and Sales Tax, see "—Personal Income Tax" and "—Sales Tax."

The amount of future Statutory Revenues to be collected depends upon various factors including the economic conditions in the City. The forecasts of Statutory Revenues are not intended to be guarantees of actual collections and results may vary from forecasts. Economic conditions in the City have reflected numerous cycles of growth and recession. There can be no assurance that historical data relating to economic conditions in the City are predictive of future trends or that forecasts of future economic developments will be realized. For more information regarding the economic conditions in the City, see "SECTION III: ECONOMIC AND DEMOGRAPHIC INFORMATION."

Debt Service Coverage

The Act authorizes the Authority to issue Bonds and Notes for capital purposes (up to $11.5 billion) and for refunding of Bonds and Notes. In addition, the Act was amended in September 2001 to permit the Authority to have outstanding an additional $2.5 billion of its Recovery Obligations. The

Indenture provides for the issuance of Senior Bonds of up to $12 billion (excluding Bonds for refunding purposes). In addition, the Indenture includes the Quarterly Senior Debt Service Covenant which provides that the maximum Quarterly Senior Debt Service may not exceed $330 million. The maximum Quarterly Senior Debt Service would total $1.32 billion on an annual basis, which corresponds to the cost of debt service on $12 billion of Authority debt outstanding at a maximum interest rate of 9% (the "Covenanted Maximum Annual Debt Service for Senior Bonds"). See "SECTION IV: THE BONDS—Other Series" and "SECTION V: THE AUTHORITY—Other Authority Indebtedness."

Other Series of Recovery Obligations and Parity Debt, in addition to the Subseries A-2 Bonds and the Subseries B-2 Bonds, may be issued, provided that collections of Statutory Revenues for the most recent fiscal year ended at least two months prior to the date of such issuance are, for each fiscal year during which such proposed Bonds are to be outstanding, at least three times the sum of $1.32 billion (Covenanted Maximum Annual Debt Service for Senior Bonds) and annual debt service on Outstanding Recovery Obligations and Parity Debt together with the Series proposed to be issued, as estimated in accordance with the Indenture.

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

DEBT SERVICE COVERAGE BY HISTORICAL AND FORECASTED STATUTORY REVENUES

Fiscal Year Ending June 30	Statutory Revenues ($ millions)	Coverage[1]
1989	$ 4,273	2.63x
1990	4,475	2.75x
1991	4,720	2.90x
1992	5,028	3.09x
1993	5,444	3.35x
1994	5,702	3.50x
1995	6,202	3.81x
1996	6,533	4.02x
1997	7,048	4.33x
1998	7,816	4.80x
1999	8,639	5.31x
2000	8,961	5.51x
2001	9,485	5.83x
2002	7,908	4.86x
2003	7,785	4.78x
2004	9,037	5.55x
2005[2]	10,060	6.18x
2006[2]	9,882	6.07x
2007[2]	9,983	6.14x
2008[2]	10,078	6.19x
2009[2]	11,065	6.80x

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

(1) Calculated assuming that a total of approximately $1.627 billion in maximum annual debt service is paid by the Authority starting in fiscal year 1989. Assumed debt service consists of the Covenanted Maximum Annual Debt Service on Senior Bonds of $1,320 million and projected maximum annual debt service on Outstanding Recovery Obligations (assuming an interest rate of 9% on variable rate Recovery Obligations) and Outstanding Parity Debt.

(2) As forecasted by NYC OMB in the Financial Plan. For information regarding projection assumptions and the expiration and reduction of portions of the Personal Income Tax and Sales Tax, see "—Personal Income Tax" and "—Sales Tax."

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

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

Year Ending July 31	August through October		November through January		February through April		May through July	
	Revenue	Coverage	Revenue	Coverage	Revenue	Coverage	Revenue	Coverage
1989	$1,105	3.3x	$1,102	3.3x	$1,159	3.5x	$ 998	3.0x
1990	1,007	3.1x	1,270	3.8x	1,150	3.5x	1,062	3.2x
1991	1,160	3.5x	1,311	4.0x	1,263	3.8x	933	2.8x
1992	1,233	3.7x	1,273	3.9x	1,463	4.4x	1,083	3.3x
1993	1,308	4.0x	1,652	5.0x	1,419	4.3x	1,041	3.2x
1994	1,293	3.9x	1,618	4.9x	1,558	4.7x	1,307	4.0x
1995	1,444	4.4x	1,755	5.3x	1,683	5.1x	1,361	4.1x
1996	1,480	4.5x	1,745	5.3x	1,798	5.4x	1,533	4.6x
1997	1,587	4.8x	1,909	5.8x	2,064	6.3x	1,532	4.6x
1998	1,619	4.9x	2,156	6.5x	2,398	7.3x	1,698	5.1x
1999	1,903	5.8x	2,442	7.4x	2,462	7.5x	1,853	5.6x
2000	1,919	5.8x	2,676	8.1x	2,563	7.8x	1,884	5.7x
2001	2,038	6.2x	2,779	8.4x	2,653	8.0x	1,944	5.9x
2002	1,870	5.7x	2,385	7.2x	1,923	5.8x	1,319	4.0x
2003	1,751	5.3x	2,369	7.2x	1,957	5.9x	1,131	3.4x
2004	1,899	5.8x	2,689	8.1x	2,442	7.4x	1,429	4.3x

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

Servicing

Personal Income Tax Collection

The New York State Department of Taxation and Finance collects the Personal Income Tax from employers and individual taxpayers and reports the amount of such funds to the State Comptroller, who holds such collections net of overpayments and administrative costs in trust for the Authority. The amount of overpayments and administrative costs paid by the State Comptroller out of gross Personal Income Tax collections has averaged 14.3% of the annual collections over the last five fiscal years. The State Comptroller is required by the Act, commencing on or before the fifteenth day of each month, to pay the Personal Income Tax Revenues on a daily basis directly to the Trustee for application in accordance with the Indenture. While the State Comptroller is required by statute to transfer the Personal Income Tax Revenues on or prior to the fifteenth day of each month, the usual practice of the State Comptroller is to transfer such funds commencing on the first day of each month. For more information regarding the application of Statutory Revenues upon receipt by the Trustee, see "—Application of Revenues" below. Payments of the Personal Income Tax Revenues by the State Comptroller to the Authority are not subject to State or City appropriation.

Sales Tax Collection

Sales Tax is collected by vendors and service providers in the City and remitted to the New York State Department of Taxation and Finance monthly, quarterly or annually based on the volume of sales. The New York State Department of Taxation and Finance reports the amounts of such collections to the State Comptroller. The State Comptroller is required to hold almost all of the Sales Tax collections (approximately 96% annually) in a separate account to secure payments required for MAC Funding Requirements (as defined below) (the "MAC pledge"). Sales Tax collections subject to the MAC pledge are subject to State appropriation but not City appropriation. In the event the Mayor of the City certifies to the State Comptroller that Personal Income Tax Revenues are projected to be insufficient to provide at least 150% of maximum annual debt service on Outstanding Bonds, the Act requires the State Comptroller to pay to the Authority from Sales Tax collections available after payments to MAC and the deduction of State administrative costs, together with the portion of the Sales Tax not subject to the MAC pledge or State or City appropriation (approximately 4% annually), an amount necessary to provide at least 150% of maximum annual debt service on the Authority's Bonds. In the event Personal Income Tax Revenues are projected to provide coverage of at least 150% of maximum annual debt service on the Bonds, no Sales Tax Revenues will be paid by the State Comptroller to the Authority. See "Agreements of the State and the City" below. Commencing July 1, 2008, Sales Tax collections, if required, will be available to be paid to the Authority, will no longer be subject to State appropriation and will not be subject to City appropriation. For information regarding the MAC pledge, see "Sales Tax—*MAC Funding Requirements*" below. The Authority has instructed the State Comptroller to pay Sales Tax Revenues directly to the Trustee, if required, for application in accordance with the Indenture. For more information regarding the application of Statutory Revenues upon receipt by the Trustee, see "—Application of Revenues" below.

Personal Income Tax

For purposes of this Offering Circular the term "Personal Income Tax" means the tax imposed by the City as authorized by the State on the income of City residents and, while applicable, on nonresident earnings in the City. Personal Income Tax collections, net of overpayments and administrative costs required to be paid, are referred to herein as "Personal Income Tax Revenues" and are Revenues of the Authority when they are paid or payable to the Trustee.

The Personal Income Tax was originally adopted in 1966 by State legislation allowing the City to impose a tax on the income of City residents and on nonresident earnings in the City. The Personal Income Tax is composed of several components, which State laws authorize the City to impose. Some of these components have required renewals in the past and will require renewals in the future. The Act provides that nothing contained therein restricts the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Tax, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed. In the past, various components of the Personal Income Tax have been reduced or have expired. The Personal Income Tax for 2002 was imposed on residents according to a schedule with a maximum rate of 3.2% (the "Base Rate") and was subject to a 14% surcharge (the "14% Surcharge"). The 14% Surcharge was imposed on the Base Rate and was authorized by the State and enacted by the City. The Base Rate plus the 14% Surcharge ranged from 2.907% to 3.648% of taxable income for 2002.

The Base Rate and the 14% Surcharge have been replaced with a temporary rate schedule for tax years 2003 through 2005. The top rate under this new temporary schedule is 4.45%. The new temporary schedule, the Base Rate and the 14% Surcharge are scheduled to expire on January 1, 2006, at which time, unless legislation is passed which re-imposes the Base Rate and the 14% Surcharge, a lower rate schedule (the "Reduced Base Rate") with a maximum rate of 1.61% is to become effective. The Reduced Base Rate is not subject to renewal but is scheduled to decline on January 1, 2007 so that the maximum rate would be 1.48%. The Base Rate, which was implemented in 1989 has, since such time, been scheduled to decline to the Reduced Base Rate on several occasions but such scheduled reductions did not occur because the Base Rate was extended.

The forecasts of Personal Income Tax Revenues contained herein assume the expiration of the temporary rate schedule for tax years 2003-2005 and the extension of the 14% Surcharge and the Base

Rate after 2005. If the 14% Surcharge is not extended prior to its expiration, Personal Income Tax Revenues (and Statutory Revenues) will be reduced by an estimated $257 million in fiscal year 2006, $773 million in fiscal year 2007, $820 million in fiscal year 2008 and $862 million in fiscal year 2009. In the event that both the Base Rate and the 14% Surcharge are not extended prior to their expiration and the Reduced Base Rate becomes effective, Statutory Revenues would be reduced by an estimated $1.0 billion in fiscal year 2006, $3.0 billion in fiscal year 2007, $3.2 billion in fiscal year 2008 and $3.4 billion in fiscal year 2009. In such an event, Statutory Revenues are projected to exceed Covenanted Maximum Annual Debt Service on Senior Bonds by an estimated $7.6 billion, $5.7 billion, $5.6 billion and $6.3 billion, respectively, in such years. Also in such an event, Statutory Revenues are projected to exceed the sum of covenanted Maximum Annual Debt Service on Senior Bonds and projected maximum annual debt service on Outstanding Subordinate Bonds by an estimated $7.3 billion, $5.4 billion, $5.3 billion and $6.1 billion in fiscal years 2006 through 2009, respectively.

Personal Income Tax Revenues were approximately $130 million in fiscal year 1967. The compounded annual growth rate of Personal Income Tax Revenues from fiscal year 1989 to fiscal year 2004 was approximately 5.61%. However, Personal Income Tax Revenues have decreased from fiscal year 2001 levels primarily due to the September 11 attack and the effects of a national recession. The following table shows Personal Income Tax Revenues for fiscal years 1989 through 2004 and forecasted Personal Income Tax Revenues for fiscal years 2005 through 2009.

HISTORICAL AND FORECASTED PERSONAL INCOME TAX REVENUES
($ millions)

Fiscal Year Ending June 30	Personal Income Tax Revenues	Fiscal Year Ending June 30	Personal Income Tax Revenues
1989	$2,448	1999	$5,397
1990	2,551	2000	5,528
1991	2,784	2001	5,771
1992	3,232	2002	4,500
1993	3,477	2003	4,495
1994	3,564	2004	5,552
1995	3,585	2005(1)	5,840
1996	3,907	2006(1)	5,826
1997	4,376	2007(1)	5,762
1998	5,147	2008(1)	6,084
		2009(1)	6,464

Source: NYC OMB. All figures are calculated on a cash basis.
(1) As forecasted by NYC OMB in the Financial Plan.

For fiscal years 1996 through 2004, an average of 77% of Personal Income Tax Revenues was collected through mandatory withholding by employers as a percentage of wage income paid to employees. For fiscal year 2004, $4.5 billion of the Personal Income Tax Revenues was collected through withholding. State law requires most employers to remit to the New York State Department of Taxation and Finance amounts withheld from income paid to employees within three business days of such payments. For fiscal years 1996 through 2004, approximately 16% of Personal Income Tax Revenues was collected from taxpayers through quarterly, installment payments on non-wage income and self-employment earnings, and approximately 7% of Personal Income Tax Revenues was collected from taxpayers following the end of each tax year based on the filing of final tax returns.

Sales Tax

For purposes of this Offering Circular the term "Sales Tax" means the tax on the sale and use of tangible personal property and services in the City currently imposed by the State until July 1, 2008, and thereafter means the similar tax imposed by the City. The Sales Tax is currently imposed at a rate of 4⅛%, including a temporary ⅛% tax imposed from June 4, 2003 through May 31, 2005. The term "Sales Tax" also includes a sales and compensating use tax imposed by the City as authorized by the State. Sales Tax Revenues do not include that portion of the Sales Tax collections required for the MAC Funding Requirements or for State administrative costs. The Sales Tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. In addition, the Sales Tax includes a 6% tax on receipts from parking, garaging or storing motor vehicles in the City.

The Sales Tax on clothing and footwear under $110 is scheduled to expire on May 31, 2005. The Governor has proposed that such tax be extended permanently, with the exception of four weeks per year during which clothing and footwear under $250 would be exempt from Sales Tax. If the Governor's proposal were enacted into law, Sales Tax Revenues are projected to increase by an estimated $23 million, $219 million, $224 million, $236 million and $236 million in fiscal years 2005 through 2009, respectively. No assurances can be given that the Governor's proposal will become law.

Prior to July 1, 2008 as described below, Sales Tax Revenues (except for the collections derived from the Sales Tax imposed by the City) are subject to appropriation by the State Legislature. Sales Tax Revenues are not subject to City appropriation. The obligation of the State to pay such amounts is subject to, and dependent upon, the making of annual appropriations therefor by the State Legislature and the availability of money to fund such payments. Approximately 4% of Sales Tax Revenues, derived from the Sales Tax imposed by the City, are not subject to the MAC pledge and are not subject to State or City appropriation.

On July 1, 2008, the Sales Tax imposed by the State will expire, and the Sales Tax imposed by the City will again be in effect. Under current law, at such time, Sales Tax Revenues payable to the Authority will no longer be subject to State appropriation and will not be subject to appropriation by the City. Due to the expiration of certain State legislation, the City-imposed Sales Tax would, under current law, take effect at the rate of 3% on July 1, 2008. The projections herein assume that the City receives authorization to impose an additional 1% sales tax so that the Sales Tax will be imposed at the rate of 4%. There can be no assurance that the City will receive such authorization.

MAC Funding Requirements

From 1934 to 1974, the City was authorized pursuant to State laws to impose the Sales Tax. Upon the establishment of MAC in 1975, the City's authority to impose the Sales Tax was suspended. A similar tax was imposed by the State to provide funds to pay for certain obligations of MAC. MAC is required to certify to the State Comptroller each quarter what portion, if any, of the Sales Tax collections is needed by MAC to make payments on all of its outstanding debt obligations and its other expenses net of any other money MAC has available to it to pay such amounts (collectively, the "MAC Funding Requirements"). MAC has the right to receive Sales Tax collections to satisfy the MAC Funding Requirements before Sales Tax collections (other than that portion of the Sales Tax imposed by the City) are available to pay Debt Service. All of MAC's outstanding debt matures on or before July 1, 2008, and has been defeased. MAC has no authority to issue additional debt. MAC Funding Requirements are expected to be $10 million in fiscal year 2005. Commencing July 1, 2008, Sales Tax collections will not be subject to the MAC pledge and will not be subject to appropriation by the State or the City.

Sales Tax Revenues

The table below shows historical Sales Tax Revenues for fiscal years 1989 through 2004 and forecasted Sales Tax Revenues for fiscal years 2005 through 2009.

HISTORICAL AND FORECASTED SALES TAX REVENUES
($ millions)

Fiscal Year Ending June 30	Sales Tax Revenues
1989	$1,825
1990	1,924
1991	1,936
1992	1,795
1993	1,968
1994	2,138
1995	2,617
1996	2,627
1997	2,671
1998	2,669
1999	3,242
2000	3,433
2001	3,714
2002	3,408
2003	3,289
2004	3,485
2005	4,220(1)
2006	4,056(1)
2007	4,221(1)
2008	3,994(1)
2009	4,601(1)

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

(1) As forecasted by NYC OMB.

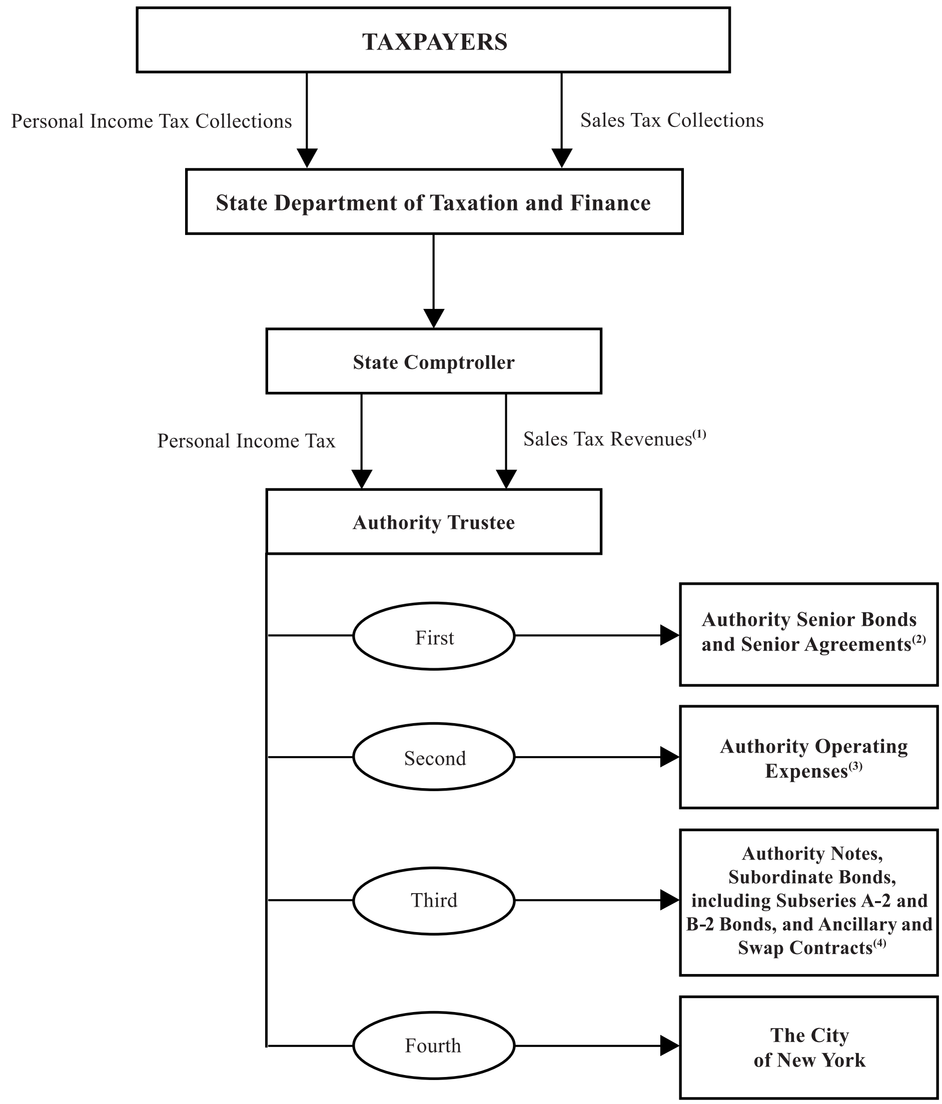
Application of Revenues

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

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

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

SUMMARY OF COLLECTION AND APPLICATION OF STATUTORY REVENUES



(1) Sales Tax Revenues are available to the Authority only in the event that projected Personal Income Tax Revenues are less than 150% of maximum annual debt service on Outstanding Bonds of the Authority. For further information see "Sales Tax."

(2) Revenues will be retained by the Trustee for the payment of Senior Debt Service (including principal of and interest on Outstanding Senior Bonds and payments, if any, pursuant to Senior Agreements), in accordance with the Retention Procedures detailed below.

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

(4) After payment of Authority operating expenses, Revenues are applied for the benefit of Noteholders (for interest only), Subordinate Bondholders and parties to ancillary and swap contracts.

Retention Procedures

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

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

After all payments are made to the Bond Account and Redemption Account, as described above, and for Authority operating expenses, money on deposit in the Collection Account will be applied in accordance with a quarterly retention method adopted by the Authority to provide for payment of debt service on Recovery Obligations and Parity Debt. At the beginning of each Collection Quarter, the Trustee shall begin to transfer Revenues to the Recovery and Parity Debt Account, and shall continue such transfers until the amount in the Recovery and Parity Debt Account is equal to one-half of the Quarterly Subordinate Debt Service; and on the first day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers until the full amount of the Quarterly Subordinate Debt Service is held in the Recovery and Parity Debt Account. The obligation of the Trustee for payments to be made from the Collection Account to the Recovery and Parity Debt Account shall be cumulative so that any shortfall in the first month of the Collection Quarter will become part of the funding obligation in the second month of the Collection Quarter and, if necessary, the third month of the Collection Quarter. As soon as practicable, but not later than the last day of each month, money on deposit in the Collection Account will be transferred to the City free and clear of the lien of the Indenture. Before the beginning of each fiscal year and each month during such fiscal year, the City will provide the Authority with a schedule of forecasted collections of Statutory Revenues. The Authority expects that the Quarterly Payment Requirement and payment requirement for Quarterly Subordinate Debt Service will be provided from Statutory Revenues during the applicable Collection Quarter. However, in the event projected collections from the Statutory Revenues are anticipated to be insufficient during any Collection Quarter to completely provide for the Quarterly Payment Requirement or Quarterly Subordinate Debt Service, the Trustee is required to withhold additional Statutory Revenues in subsequent Collection Quarters. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT—Application of Revenues." As soon as practicable, but not later than the last day of each month, money on deposit in the Collection Account will be transferred to the City free and clear of the lien of the Indenture.

Agreements of the State and the City

In the Act, the State pledges and agrees with the holders of the Bonds that the State will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with such holders pursuant to the Act, or in any way impair the rights and remedies of such holders or the security for the Bonds until the Bonds are fully paid and discharged. The Act provides that nothing therein restricts the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the

Personal Income Tax, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed.

In addition and in accordance with the Act, the State pledges and agrees with the holders of the Bonds, to the extent that Personal Income Tax Revenues payable to the Authority during any fiscal year are projected by the Mayor to be insufficient to meet at least 150% of maximum annual debt service on the Bonds then Outstanding, the State Comptroller shall pay to the Authority from Sales Tax Revenues such amount as is necessary to provide at least 150% of such maximum annual debt service on the Outstanding Bonds; provided, however, that almost all of such amounts are subject to State appropriation until July 1, 2008. See "—Sales Tax" above. The State is not obligated to make any additional payments or impose any taxes to satisfy the debt service obligations of the Authority.

In accordance with the Act, the City will pledge and agree with the holders of the Bonds that the City will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with such holders pursuant to the Act, or in any way impair the rights and remedies of such holders or the security for the Bonds until the Bonds are fully paid and discharged. Nothing contained in the Act or the Agreement restricts any right the City may have to amend, modify, repeal or otherwise alter local laws imposing or relating to the Personal Income Tax Revenues payable to the Authority so long as, after giving effect to such amendment, modification or other alteration, the amount of Statutory Revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration is not less than 150% of maximum annual debt service on Outstanding Bonds of the Authority.

The Bonds are not a debt of either the State or the City, and neither the State nor the City is liable thereon.

The covenants of the City and the State described above shall be of no force and effect with respect to any Bond if there is on deposit in trust with a bank or trust company sufficient cash or Defeasance Collateral to pay when due all principal of, applicable redemption premium, if any, and interest on such Bond.

SECTION III: ECONOMIC AND DEMOGRAPHIC INFORMATION

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

New York City Economy

The City has a highly diversified economic base, with a substantial volume of business activity in the service, wholesale and retail trade and manufacturing industries and is the location of many major securities, banking, law, accounting, new media and advertising firms.

The City is a major seaport and focal point for international business. Many of the major corporations headquartered in the City are multinational in scope and have extensive foreign operations. Numerous foreign owned companies in the United States are also headquartered in the City. These firms, which have increased in number substantially over the past decade, are found in all sectors of the City's economy, but are concentrated in trade, manufacturing sales offices, tourism and finance. The City is the location of the headquarters of the United Nations, and several affiliated organizations maintain their principal offices in the City. A large diplomatic community exists in the City to staff the missions to the United Nations and the foreign consulates.

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s, which was followed by an expansion that lasted until 2001. The Financial Plan assumes that the economic slowdown that began in 2001 as a result of the September 11 attack, a national economic recession, and a downturn in the securities industry came to an end in 2004. The Financial Plan assumes continued moderate growth in calendar year 2005.

Population

The City has been the most populous city in the United States since 1790. The City's population is almost as large as the combined populations of Los Angeles, Chicago and Houston, the three next most populous cities in the nation.

The following table provides information concerning the City's population.

POPULATION OF NEW YORK CITY

Year	Total Population
1970	7,895,563
1980	7,071,639
1990	7,322,564
2000	8,008,278

Source: U.S. Department of Commerce, Bureau of the Census.
Note: Figures do not include an undetermined number of undocumented aliens.

Taxable Sales

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. The Sales Tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. Retail sales account for almost 50% of the total taxable sales volume. The total taxable sales volume over the past 13 years has had a growth rate averaging over 4%. It is projected that total taxable sales will increase in 2003 after having increased in 2000 and 2001 and decreased in 2002.

The following table illustrates the volume of sales and purchases subject to the Sales Tax from 1989 to 1999.

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

Year[(1)]	Retail[(2)]	Utility & Communication Sales[(3)]	Services[(4)]	Manufacturing	Other[(5)]	Total
1989	$24.5	$7.6	$ 9.0	$3.8	$7.8	$52.8
1990	25.4	8.1	9.2	3.7	7.9	54.4
1991	24.0	8.5	9.1	3.3	7.8	52.6
1992	23.8	7.3	8.9	3.2	7.9	51.1
1993	24.1	9.4	9.1	3.2	8.7	54.5
1994	26.2	9.3	10.3	3.3	8.1	57.2
1995	27.6	9.0	10.7	3.3	8.8	59.4
1996	29.1	9.8	11.4	3.6	9.3	63.2
1997	31.5	9.8	13.5	3.9	8.8	67.5
1998	33.4	9.8	14.8	4.2	9.7	71.9
1999	35.0	9.6	16.1	4.2	9.6	74.5

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

(1) The yearly data is for the period from September 1 of the year prior to the listed year through August 31 of the listed year.

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

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

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

(5) Other includes construction, wholesale trade and others.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1992 to 2002 (the most recent year for which City personal income data are available). From 1992 to 2002, personal income in the City averaged 4.3% growth compared to 5.2% for the nation. After falling 0.2% in 2002, total personal income is estimated by NYC OMB to have increased in 2003 and 2004. The following table sets forth information regarding personal income in the City from 1992 to 2002.

PERSONAL INCOME IN NEW YORK CITY[(1)]

Year	Total NYC Personal Income ($ billions)	Per Capita Personal Income NYC	Per Capita Personal Income U.S.	Per Capita NYC as a Percent of U.S.
1992	$197.9	$26,644	$20,870	127.7%
1993	201.9	26,898	21,356	126.0
1994	207.5	27,403	22,176	123.6
1995	221.2	28,981	23,078	125.6
1996	234.1	30,407	24,176	125.8
1997	245.5	31,579	25,334	124.7
1998	262.0	33,341	26,880	124.0
1999	275.4	34,658	27,933	124.1
2000	296.0	36,916	29,847	123.7
2001	303.1	37,631	30,572	123.1
2002	302.5	37,476	30,806	121.7

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census. Data as of March 15, 2005.

(1) In current dollars. Personal income is based on the place of residence and is measured from income which includes wages and salaries, other labor income, proprietors' income, personal dividend income, personal interest income, rental income of persons, and transfer payments.

Sectoral Distribution of Employment and Income

In 2002, the City's service producing sectors provided approximately 2.8 million jobs and accounted for approximately 77% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2002, the employment share for the financial activities and professional and business services sectors was approximately 28% while the earnings share for those same sectors was approximately 50%. In the nation, those same service producing sectors accounted for only approximately 18% of employment and 25% of earnings in 2002. Due to the earnings distribution in the City, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

The City and the nation's employment and earnings by sector for 2002 are set forth in the following table.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS IN 2002[1]

	Employment		Earnings[2]	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.4%	0.3%	0.8%
Construction	3.2	5.2	3.1	6.2
Manufacturing	3.9	11.7	2.8	13.3
Total Goods Producing	7.1	17.3	6.3	20.3
Service Producing Sectors				
Trade, Transportation and Utilities	15.0	19.6	9.2	16.6
Information	4.9	2.6	6.8	3.8
Financial Activities	12.4	6.0	28.8	10.0
Professional and Business Services	15.4	12.3	20.0	15.1
Education and Health Services	18.0	12.4	10.3	10.6
Leisure & Hospitality	7.1	9.2	3.6	3.8
Other Services	4.2	4.1	2.3	3.1
Total Service Producing	77.0	66.2	81.2	63.0
Total Private Sector	84.1	83.5	88.9	83.7
Government[3]	15.9	16.5	11.1	16.3

Note: Totals may not add due to rounding.

(1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.

(2) Includes the sum of wage and salary disbursements, other labor income and proprietor's income. The latest information available is 2001 data.

(3) Excludes military establishments.

The comparison of employment and earnings in 1980 and 2000 set forth below is presented using the industry classification system which was in use until the adoption of the North American Industry Classification System ("NAICS") in the late 1990's. Though NAICS has been implemented for most government industry statistical reporting, most historical earnings data have not been converted.

Furthermore, it is not possible to compare data from the two classification systems except in the general categorization of government, private and total employment. The table below reflects the overall increase in the service producing sectors and the declining manufacturing base in the City from 1980 to 2000.

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

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS[(1)]

	Employment				Earnings[(2)]			
	1980		2000		1980		2000	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector								
Non-Manufacturing:								
Services	27.0%	19.8%	39.1%	30.7%	26.0%	18.4%	30.2%	28.7%
Wholesale and Retail Trade	18.6	22.5	16.8	23.0	15.1	16.6	9.3	14.9
Finance, Insurance and Real Estate	13.6	5.7	13.2	5.7	17.6	5.9	35.5	10.0
Transportation and Public Utilities	7.8	5.7	5.7	5.3	10.1	7.6	5.2	6.8
Contract Construction	2.3	4.8	3.3	5.1	2.6	6.3	2.9	5.9
Mining	0.0	1.1	0.0	0.4	0.4	2.1	0.1	1.0
Total Non-Manufacturing	69.3	59.6	78.1	70.3	71.8	56.9	83.2	67.3
Manufacturing:								
Durable	4.4	13.4	1.6	8.4	3.7	15.9	1.3	10.5
Non-Durable	10.6	9.0	4.9	5.6	9.5	8.9	4.8	6.1
Total Manufacturing	15.0	22.4	6.5	14.0	13.2	24.8	6.1	16.6
Total Private Sector	84.3	82.0	84.7	84.3	85.2	82.1	89.8	84.6
Government[(3)]	15.7	18.0	15.3	15.7	14.8	17.9	10.3	15.4

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

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

(1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.

(2) Includes the sum of wage and salary disbursements, other labor income and proprietor's income. The latest information available for the City is 2000 data.

(3) Excludes military establishments.

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1993 to 2001, the City experienced significant private sector job growth with the addition of approximately 423,000 new private sector jobs (an average growth rate of approximately 2%). In 2002 and 2003, average annual employment in the City fell by approximately 108,600 and 51,800 jobs, respectively. In 2004, average annual employment in the City increased by over 10,000 jobs. As of January 2005, total employment in the City was approximately 3,510,300 compared to approximately 3,473,900 in January 2004, an increase of approximately 1.1%.

The table below shows the distribution of employment from 1993 to 2003.

NEW YORK CITY EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Goods Producing Sectors											
Construction and Mining	88	90	91	93	101	112	120	122	116	113	111
Manufacturing	212	208	200	201	196	187	177	156	139	127	120
Service Producing Sectors											
Trade Transportation and Utilities	526	533	533	538	542	556	570	557	536	534	538
Information	152	154	159	163	166	173	187	200	177	164	162
Financial Activities	472	467	464	468	477	481	489	474	445	434	435
Professional and Business Services	437	445	468	494	525	553	587	582	550	537	537
Education and Health Services	536	552	565	576	589	606	620	627	646	658	667
Leisure and Hospitality	201	208	217	228	236	244	257	260	255	260	269
Other Services	121	123	125	129	134	142	147	149	150	149	150
Total Private	2,744	2,779	2,823	2,890	2,966	3,053	3,154	3,127	3,015	2,975	2,988
Government	578	560	546	552	561	567	569	565	569	557	554
Total	3,322	3,339	3,369	3,442	3,528	3,621	3,723	3,692	3,584	3,532	3,542

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

SECTION IV: THE BONDS

General

The Series 2005 A and B Bonds will be dated, will bear interest at the rates and will mature on the dates as set forth on the inside cover pages of this Offering Circular unless redeemed prior to maturity. All of the Series 2005 A and B Bonds will be issued in book-entry only form. The Subseries A-1 Bonds and the Subseries B-1 Bonds will be on a parity with the Authority's Future Tax Secured Senior Bonds. Interest on and principal of the Subseries A-2 Bonds and the Subseries B-2 Bonds are payable from the Revenues of the Authority subordinate to Senior Debt Service and operating expenses of the Authority and on a parity with the Authority's Recovery Bonds and Parity Debt. See "Section II: SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

The Series 2005 A and B Bonds will be issued in denominations of $5,000 or any whole multiple thereof, and will bear interest calculated on the basis of a 360-day year of 30-day months.

The Series 2005 A and B Bonds are subject to defeasance in accordance with the Indenture. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT—The Indenture—*Defeasance*."

Optional Redemption

The Series 2005 A and B Bonds maturing on or before November 1, 2015 are not subject to redemption prior to maturity. The Series 2005 A and B Bonds maturing after November 1, 2015 are subject to redemption prior to maturity on 30 days notice, beginning on May 1, 2015 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.

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

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

Debt Service Requirements

The following schedule sets forth, for each 12-month period ending June 30 of the years shown, the amounts required to be paid by the Authority for the payment of debt service on all outstanding Bonds (including the Series 2005 A and B Bonds) during such period.

	Series 2005 A and B Bonds Debt Service				
Period Ending June 30	Principal and Sinking Fund Installments	Interest Payments	Total	Outstanding Bonds Debt Service(1)	Total Bonds Debt Service(1)
2005				$1,042,115,354	$1,042,115,354
2006	$ 350,000	$47,852,915	$ 48,202,915	966,901,748	1,015,104,662
2007	54,280,000	43,172,643	97,452,643	922,682,698	1,020,135,341
2008	53,680,000	41,058,998	94,738,998	956,588,051	1,051,327,048
2009	77,175,000	38,095,053	115,270,053	902,409,736	1,017,679,788
2010	53,705,000	34,994,828	88,699,828	935,584,271	1,024,284,099
2011	53,715,000	32,399,240	86,114,240	923,668,109	1,009,782,349
2012	59,905,000	29,600,465	89,505,465	951,779,813	1,041,285,278
2013	77,985,000	26,223,533	104,208,533	951,170,699	1,055,379,231
2014	79,375,000	22,331,556	101,706,556	952,188,258	1,053,894,814
2015	79,390,000	18,401,435	97,791,435	922,346,776	1,020,138,211
2016	49,260,000	15,217,178	64,477,178	933,783,341	998,260,518
2017	45,335,000	12,859,435	58,194,435	920,315,284	978,509,719
2018	39,155,000	10,762,585	49,917,585	907,139,379	957,056,964
2019	39,505,000	8,821,673	48,326,673	877,771,713	926,098,385
2020	44,720,000	6,737,994	51,457,994	865,070,939	916,528,934
2021	57,755,000	4,192,591	61,947,591	797,600,246	859,547,838
2022	33,475,000	1,921,135	35,396,135	783,396,119	818,792,254
2023	6,485,000	923,260	7,408,260	782,314,843	789,723,103
2024	8,165,000	558,536	8,723,536	588,889,622	597,613,158
2025	7,230,000	177,547	7,407,547	569,709,430	577,116,977
2026				565,316,437	565,316,437
2027				556,726,478	556,726,478
2028				515,077,692	515,077,692
2029				407,292,040	407,292,040
2030				272,234,879	272,234,879
2031				187,511,101	187,511,101
2032				116,172,794	116,172,794
2033				77,179,736	77,179,736
2034				7,671,675	7,671,675

(1) Totals may not add due to rounding. Figures reflect estimated debt service on tax-exempt adjustable rate bonds calculated at an assumed interest rate of 5% per annum and on taxable adjustable rate bonds at an assumed rate of 7% per annum. Interest on Fiscal 2003 Series A Bonds maturing after 2014 is assumed to be 5% after November 1, 2011. Interest on Fiscal 2003 Series B Bonds maturing after 2015 is assumed to be 5% after February 1, 2011. Figures exclude amounts which may be payable under the Senior Agreements described under "SECTION V: The AUTHORITY—Other Authority Indebtedness." Outstanding Bonds Debt Service excludes debt service on the Bonds which are to be refunded with a portion of the proceeds of the Series 2005 A and B Bonds.

Use of Proceeds

The proceeds of the Series 2005 A and B Bonds will be used to redeem, at or prior to maturity, the bonds identified in Appendix C hereto by providing for the payment of the principal of and interest on and redemption premium, if any, on such bonds to the extent and to the payment dates shown. The proposed refunding is subject to the delivery of the Series 2005 A and B Bonds. Certain expenses of the Authority incurred in connection with the issuance and sale of the Series 2005 A and B Bonds will be paid from the proceeds of the Series 2005 A and B 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 or more fully-registered bond certificates will be issued for each principal amount of Securities of each series maturing on a specified date and bearing interest at a specified interest rate, each in the aggregate principal amount of such quantity of Securities, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Securities of a series, rate and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each installment to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information furnished by DTC. Neither the Authority nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Other Information

For additional information regarding the Series 2005 A and B Bonds and the Indenture see "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

SECTION V: THE AUTHORITY

Purpose and Operations

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

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

The Authority does not have any significant assets or sources of funds other than the Statutory Revenues and amounts on deposit pursuant to the Indenture. The Bonds will not be insured or guaranteed by the City, the State or the Trustee. 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
A. Gifford Miller	—	Speaker of the City Council

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

Mark Page, Executive Director

Mr. Page was appointed Executive Director in April 1997. Mr. Page also serves as the Director of Management and Budget of the City. Mr. Page has worked for the City since 1978. Mr. Page is a graduate of Harvard University and New York University School of Law.

Alan L. Anders, Treasurer

Mr. Anders was appointed Treasurer in April 1997. Mr. Anders also serves as Deputy Director for Finance of the Office of Management and Budget of the City. Prior to joining the City in September 1990, Mr. Anders was a senior investment banker for J.P. Morgan Securities since 1977 and prior to that date was Executive Director of the Commission on Governmental Efficiency and Economy in Baltimore, Maryland. Mr. Anders is a graduate of the University of Pennsylvania and the University of Maryland Law School.

Marjorie E. Henning, Secretary

Ms. Henning was appointed Secretary in April 1997. Ms. Henning also serves as General Counsel to the Office of Management and Budget of the City. Ms. Henning is a graduate of the State University of New York at Buffalo and the Harvard Law School.

Prescott D. Ulrey, General Counsel

Mr. Ulrey is a graduate of the University of California at Berkeley, the Fletcher School of Law and Diplomacy at Tufts University and Columbia Law School. He also serves as Counsel to the Office of Management and Budget of the City.

Lawrence R. Glantz, Comptroller

Mr. Glantz was appointed Comptroller in January 2000. He is a graduate of Hofstra University.

Michele Mark Levine, Assistant Comptroller

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

F. Jay Olson, CTP, Assistant Treasurer

Mr. Olson was appointed Assistant Treasurer in October 2000. Mr. Olson is a graduate of Northwestern University, the University of Texas at Austin, and the John F. Kennedy School of Government at Harvard University. He is a certified treasury professional.

Albert F. Moncure, Jr., Assistant Secretary

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

Other Authority Obligations

Assuming conditions specified in the Act and the Indenture are met, the Act authorizes the Authority to issue Bonds and Notes for capital purposes (up to $11.5 billion) and for refunding of Bonds and Notes. In addition, the Act was amended in September 2001 to permit the Authority to have outstanding an additional $2.5 billion of its Recovery Obligations. See "SECTION IV: THE BONDS—Other Series." The City may, in the future, seek legislation amending the Act to eliminate the $11.5 billion statutory cap on the Authority's bonds. If the Act were so amended, the Authority would continue to be subject to limitations on the issuance of debt pursuant to the Indenture, as it may be amended as described herein. See "APPENDIX A—SUMMARY OF INDENTURE AND AGREEMENT."

The Authority has previously issued $11.5 billion of Senior Bonds and Bond Anticipation Notes for capital purposes. The Authority currently has Outstanding $10,751,179,143 of Senior Bonds (excluding interest on capital appreciation bonds). The Indenture permits the issuance of up to $12 billion of Senior Bonds (not including refunding Bonds). The Authority has Outstanding $1,954,950,000 of Recovery Obligations and $261,845,000 of outstanding Parity Debt.

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

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

Financial Emergency Act

The Authority is a "covered organization" under the New York State Financial Emergency Act for The City of New York, as amended (the "Financial Emergency Act"), and, as such, its operations are included in the City Financial Plan. Under the Financial Emergency Act, the Financial Plan would have to be approved by the New York State Financial Control Board (the "Control Board") in the event that a Control Period (as defined in the Financial Emergency Act) were imposed. During a Control Period, the Statutory Revenues will continue to be paid to the Authority and the State and City covenants described herein will remain in full force and effect. The Financial Emergency Act requires outstanding debt obligations of the Authority to be paid. A Control Period would allow the Control Board to prohibit the Authority from issuing Other Series of Bonds if such issuance would be inconsistent with the Financial Plan or objectives and purposes of the Financial Emergency Act. No Control Period has been in effect since 1986. In the absence of a Control Period, the Control Board retains certain powers of review over the financial plans that the City is required to submit periodically. The Control Board's authority to impose a Control Period terminates July 1, 2008.

SECTION VI: LITIGATION

There is not now pending any litigation (i) restraining or enjoining the issuance or delivery of the Series 2005 A and B Bonds or questioning or affecting the validity of the Series 2005 A and B Bonds or the proceedings and authority under which they are issued; (ii) contesting the creation, organization or existence of the Authority, or the title of the directors or officers of the Authority to their respective offices; (iii) questioning the right of the Authority to enter into the Indenture or the Agreement and to pledge the Revenues and funds and other moneys and securities purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture; or (iv) questioning or affecting the levy or collection of the Personal Income Tax and Sales Tax in any material respect, or the application of the Personal Income Tax and Sales Tax for the purposes contemplated by the Act, or the procedure thereunder.

SECTION VII: TAX MATTERS

In the opinion of Sidley Austin Brown & Wood LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Series 2005 A and B Bonds will not be includable in the gross income of the owners of the Series 2005 A and B Bonds for purposes of federal income taxation under existing law. Interest on the Series 2005 A and B Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2005 A and B Bonds in the event of a failure by the Authority or the City to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and their respective covenants regarding use, expenditure and investment of the proceeds of the Series 2005 A and B Bonds and the timely payment of certain investment earnings to the United States Treasury; and no opinion is rendered by Sidley Austin Brown & Wood LLP as to the exclusion from gross income of the interest on the Series 2005 A and B Bonds for federal income tax purposes on or after the date on which any action is taken under the Indenture or related proceedings upon the approval of counsel other than such firm.

In the opinion of Bond Counsel, interest on the Series 2005 A and B Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City. In the opinion of Bond Counsel, interest on the Series 2005 A and B Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which Sidley Austin Brown & Wood LLP renders no opinion, as a result of ownership of such Series 2005 A and B 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 2005 A and B 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 2005 A and B 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 2005 A and B 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 2005 A and B Bonds. In general, the issue price of a maturity of the Series 2005 A and B Bonds is the first price at which a substantial amount of Series 2005 A and B 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 2005 A and B Bonds to a purchaser (other than a purchaser who holds such Series 2005 A and B 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 2005 A and B 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 2005 A and B Bonds are required to decrease their adjusted basis in such Series 2005 A and B Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2005 A and B Bonds are held. The amortizable bond premium on such Series 2005 A and B 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 2005 A and B Bonds. Owners of such Series 2005 A and B 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 2005 A and B Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2005 A and B 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 2005 A and B Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 2005 A and B Bonds will not have an adverse effect on the status of the Series 2005 A and B Bonds. Legislative or regulatory actions and proposals may also affect the economic value of the tax exemption or the market price of the Series 2005 A and B Bonds.

SECTION VIII: RATINGS

The Series 2005 A and B Bonds have been rated “AAA” by Standard & Poor’s and “AA+” by Fitch. Moody’s has rated the Subseries A-1 Bonds and the Subseries B-1 Bonds “Aa1” and the Subseries A-2 Bonds and the Subseries B-2 Bonds “Aa2.” Such ratings reflect only the views of Moody’s, Standard & Poor’s and Fitch from which an explanation of the significance of such ratings may be obtained. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of the Rating Agency originally establishing the rating, circumstances so warrant. A downward revision or withdrawal of such ratings, or any of them, may have an effect on the market price of the Series 2005 A and B Bonds.

SECTION IX: APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance and delivery of the Series 2005 A and B Bonds are subject to the approval of Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters are subject to the approval of the New York City Corporation Counsel, counsel to the Authority and the City, and of 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 2005 A and B Bonds.

SECTION XI: FINANCIAL STATEMENTS

The Authority's financial statements for the fiscal years ended June 30, 2004 and June 30, 2003, included in Appendix B to this Offering Circular have been audited by Grant Thornton LLP, independent certified public accountants, to the extent and for the periods indicated in their report thereon.

SECTION XII: CONTINUING DISCLOSURE UNDERTAKING

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

The Authority shall provide

(a) within 185 days after the end of each fiscal year, to each nationally recognized municipal securities information repository and to any State information depository, core financial information and operating data for the prior fiscal year, including (i) the Authority's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the Authority's revenues, expenditures, financial operations and indebtedness, generally of the types found under "Section II" and "Section III" herein; and

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

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

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

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

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

(6) adverse tax opinions or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

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

(11) rating changes; and

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

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

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

An amendment to the Undertaking may only take effect if:

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

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

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

SECTION XIII: UNDERWRITING

The Series 2005 A and B Bonds are being purchased for reoffering by the Underwriters, for whom Lehman Brothers Inc., J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated are acting as Lead Managers. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2005 A and B Bonds from the Authority at an aggregate underwriters' discount of $4,860,439.69 and to make an initial public offering of the Series 2005 A and B Bonds at prices that are not in excess of the initial public offering prices set forth on the inside cover pages of this Offering Circular, plus accrued interest, if any.

The Underwriters will be obligated to purchase all the Series 2005 A and B Bonds if any Series 2005 A and B Bonds are purchased.

The Series 2005 A and B Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriters.

SECTION XIV: VERIFICATION

The accuracy of (i) the mathematical computations of the adequacy of the maturing principal of and interest earned on the government obligations to be held in escrow to provide for the payment of the principal of and interest and redemption premiums, if any, on the bonds identified in Appendix C hereof and (ii) certain mathematical computations supporting the conclusion that the bonds are not "arbitrage bonds" under the Code, will be verified by a firm of independent certified public accountants.

SECTION XV: 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 XVI: MISCELLANEOUS

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

The agreements of the Authority with holders of the Bonds are fully set forth in the Indenture. Neither any advertisement of the Bonds nor this Offering Circular is to be construed as a contract with purchasers of the Series 2005 A and B Bonds.

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(This page was left blank intentionally.)

SUMMARY OF INDENTURE AND AGREEMENT

This summary of the Indenture and the Agreement is qualified in its entirety by reference to such documents, copies of which are available from the Authority.

Definitions. The following terms, among others, are defined in the Indenture or the Agreement:

"Accounts" means the Recovery and Parity Debt Account, Collection Account, the Bond Account and the Redemption Account.

"Act" means the New York City Transitional Finance Authority Act, as in effect from time to time, and as the context requires, other provisions of Chapter 16 of the laws of 1997, as amended.

"Agreement" means the Financing Agreement dated October 1, 1997, between the Authority and the City as amended, supplemented and in effect from time to time.

The term **"ancillary contracts"** means contracts entered into pursuant to law by the Authority or for its benefit or the benefit of any of the Beneficiaries to facilitate the issuance, sale, resale, purchase, repurchase or payment of Bonds or Notes, including bond insurance, letters of credit and liquidity facilities.

"Beneficiaries" means Bondholders and, to the extent specified in the Indenture, Noteholders and the parties to ancillary and swap contracts.

"Bondholders," "Noteholders" and similar terms mean the registered owners of the Bonds and Notes from time to time as shown on the books of the Authority, and, to the extent specified by Series Resolution, the owners of bearer Bonds and Notes.

"Bonds" means all obligations issued by the Authority, as bonds, including Senior Bonds and Subordinate Bonds.

"Capital Financing Need" means a period during which and only the extent to which the City is unable to implement its capital plan because such plan would require the City to incur debt and contractual liabilities in excess of the limit imposed by the State Constitution and implementing legislation, all as determined by the Mayor pursuant to the Act.

"Chapter 297" means Chapter 297 of the Laws of 2001 of the State, as it may be amended and in effect from time to time.

"Collection Quarter" means the three months beginning each August, November, February and May.

"Counsel" means nationally recognized bond counsel or such other counsel as may be selected by the Authority for a specific purpose.

"Debt Service" or **"Senior Debt Service"** means interest, redemption premium, purchase price to the extent provided by Officer's Certificate of the Authority, principal and sinking fund payments due on Outstanding Senior Bonds and (to the extent provided by Series Resolution) Notes, and amounts payable from the Bond Account on Senior Agreements. Principal of Notes and termination payments on swap contracts shall be deemed Debt Service only to the extent expressly specified in the text of a Series Resolution.

"Defeasance Collateral" means money and (A) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of

America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Authority obtains Rating Confirmation with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

(B) obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof);

(C) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (B), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated trust account in the trust department separate from the general assets of such custodian;

(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 Bonds or Notes that remain in the hands of their Holders but are no longer deemed Outstanding.

"Eligible Investments" means the following obligations to the extent they are legal for investment of money 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 and Standard & Poor's;

(iv) general obligations of, or obligations guaranteed by, any state of the United States or the District of Columbia receiving one of the two highest long-term unsecured debt ratings available for such securities by Moody's and Standard & Poor's;

(v) commercial or finance company paper (including both non-interest-bearing discount obligations and interest bearing obligations payable on demand or on a specified date not more than one year after the date of issuance thereof) that is rated A-1+ by Standard & Poor's and in one of the two highest categories by Moody's at the time of such investment or contractual commitment providing for such investment;

(vi) repurchase obligations with respect to any security described in clause (i) or (ii) above entered into with a broker/dealer, depository institution or trust company (acting as principal) meeting the rating standards described in clause (iii) above;

(vii) securities bearing interest or sold at a discount that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated in one of the two highest categories by Moody's and either A-1+ or in one of the two highest long-term categories by Standard & Poor's at the time of such investment or contractual commitment providing for such investment; provided, however, that securities issued by any such corporation will not be Eligible Investments to the extent that investment therein would cause the then outstanding principal amount of securities issued by such corporation that are then held to exceed 20% of the aggregate principal amount of all Eligible Investments then held;

(viii) units of taxable money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated in one of the two highest categories by Moody's and at least AAm or AAm-G by Standard & Poor's, including if so rated the VISTA Money Market Funds or any other fund which the Trustee or an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or sub-custodian, notwithstanding that (a) the Trustee or an affiliate of the Trustee charges and collects fees and expenses (not exceeding current income) from such funds for services rendered, (b) the Trustee charges and collects fees and expenses for services rendered pursuant to the Indenture, and (c) services performed for such funds and pursuant to the Indenture may converge at any time (the Authority specifically authorizes the Trustee or an affiliate of the Trustee to charge and collect all fees and expenses from such funds for services rendered to such funds, in addition to any fees and expenses the Trustee may charge and collect for services rendered pursuant to the Indenture);

(ix) investment agreements or guaranteed investment contracts rated, or with any financial institution whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, in one of its two highest rating categories for comparable types of obligations by Moody's and Standard & Poor's; or

(x) investment agreements with a corporation whose principal business is to enter into such agreements if (a) such corporation has been assigned a counterparty rating by Moody's in one of the two highest categories and Standard & Poor's has rated the investment agreements of such corporation in one of the two highest categories and (b) the Authority has an option to terminate each agreement in the event that such counterparty rating is downgraded below the two highest categories by Moody's or the investment agreements of such corporation are downgraded below the two highest categories by Standard & Poor's;

provided that no Eligible Investment may evidence the right to receive only interest with respect to 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.

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

"FNMA" means the Federal National Mortgage Association.

"Indenture" means the Indenture dated as of October 1, 1997, as amended, supplemented and in effect on April 1, 2005, and thereafter from time to time.

"**LFL**" means the Local Finance Law of the State, as amended from time to time.

"MAC" means the Municipal Assistance Corporation For The City of New York.

"Majority in Interest" means the Holders of a majority of the Outstanding Bonds or Notes eligible to act on a matter, measured by face value at maturity unless otherwise specified in a Series Resolution.

The term **"maximum annual debt service on the Bonds"** means the greatest amount of interest, principal and sinking fund payments on Outstanding Bonds (including payment on Subordinate Bonds and Senior Bonds but excluding payments on Notes and ancillary and swap contracts, whether or not such payments are Debt Service) payable in the current or any future fiscal year.

"Moody's" means Moody's Investors Service; references to Moody's are effective so long as Moody's is a Rating Agency.

"Notes" means all obligations issued by the Authority as notes.

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

"Outstanding," when used to modify Bonds or Notes, refers to Bonds or Notes issued under the Indenture, excluding: (i) Bonds or Notes which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment; (ii) Bonds or Notes which have been paid; (iii) Bonds or Notes which have become due and for the payment of which money has been duly provided; (iv) Bonds or Notes for which there have been irrevocably set aside sufficient Defeasance Collateral timely maturing and bearing interest, to pay or redeem them; and if any such Bonds or Notes are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds or Notes and notice of such redemption shall have been duly mailed in accordance with the Indenture or irrevocable instructions so to mail shall have been given to the Trustee; (v) Bonds and Notes the payment of which shall have been provided for pursuant to the defeasance of the Indenture; and (vi) for purposes of any consent or other action to be taken by the Holders of a Majority in Interest or specified percentage of Bonds or Notes, Bonds or Notes held by or for the account of the Authority, the City or any person controlling, controlled by or under common control with either of them.

"Parity Debt" means Bonds or Notes payable from the Recovery and Parity Debt Account on a parity with the Recovery Bonds or Recovery Notes, respectively.

"Payment Period" means the three months following each Collection Quarter.

"Personal Income Taxes" means the taxes paid or payable to the Authority pursuant to §1313 of the Tax Law or a successor statute.

"Project Capital Costs" or **"Costs"** means (i) costs, appropriated in the capital budget of the City pursuant to Chapters 9 and 10 of the City Charter, as amended from time to time, providing for the construction, reconstruction, acquisition or installation of physical public betterments or improvements which would be classified as capital assets under generally accepted accounting principles for municipalities, or (ii) the costs of any preliminary studies, surveys, maps, plans, estimates and hearings, or (iii) incidental costs, including legal fees, printing or engraving, publication of notices, taking of title, apportionment of costs, and interest during construction, or (iv) any underwriting or other costs incurred in connection with the financing thereof, or (v) to the extent financed by Recovery Obligations, Recovery Costs (the financing of which is not limited by references to the Capital Financing Need).

"Projects" means the projects identified in Exhibit A to the Agreement and all other projects, any costs of which are included in a Transitional Capital Plan pursuant to the Act or are Recovery Costs, and financed, by payment or reimbursement, with the proceeds of Bonds or Notes.

"Quarterly Debt Service," "Quarterly Senior Debt Service" or **"Quarterly Payment Requirement"** means Senior Debt Service payable in the following Payment Period, as certified to the Trustee by Officer's Certificate of the Authority.

"Quarterly Subordinate Debt Service" means amounts payable in the following Payment Period from the Recovery and Parity Debt Account pursuant to supplemental indentures, including interest on and principal of Recovery Obligations and Parity Debt issued as Bonds and interest on Recovery Obligations and Parity Debt issued as Notes, as certified to the Trustee by an Officer's Certificate.

"Rating Agency" means each nationally recognized statistical rating organization that has, at the request of the Authority, a rating in effect for the unenhanced Senior Bonds.

"Rating Confirmation" means evidence that no Senior Bond rating in effect from a Rating Agency will be withdrawn or reduced solely as a result of an action to be taken under the Indenture.

"Recovery and Parity Debt Account" means the account established under the Indenture to provide for the payment of debt service on Recovery Obligations and Parity Debt.

"Recovery Bonds" means Recovery Obligations issued as Bonds.

"Recovery Costs" means costs described in Chapter 297.

"Recovery Notes" means Recovery Obligations issued as Notes.

"Recovery Obligations" means bonds, notes or other obligations described in Chapter 297.

"Revenues" means the Tax Revenues (including Alternative Revenues paid or payable to the Authority) and all aid, rents, fees, charges, payments and other income and receipts (other than Note or Bond proceeds) paid or payable to the Authority or the Trustee for the account of the Authority.

"Sales Taxes" means Alternative Revenues as defined in the Act; that is, (i) sales and compensating use taxes that the City is authorized by the State to impose and (ii) taxes imposed pursuant to §1107 of the Tax Law; and successor taxes.

"Senior Agreements" means ancillary and swap contracts to the extent that amounts are payable thereon from the Bond Account pursuant to a Series Resolution.

"Senior Bonds" means all Bonds issued as Senior Bonds.

"Series" means all Notes or Bonds so identified in a Series Resolution, regardless of variations in maturity, interest rate or other provisions, and any Notes or Bonds thereafter delivered in exchange or replacement therefor.

"Standard & Poor's" means Standard & Poor's Ratings Services; references to Standard & Poor's are effective so long as Standard & Poor's is a Rating Agency.

"State" means the State of New York.

"Subordinate Agreements" means ancillary and swap contracts to the extent that such contracts are not Senior Agreements.

“Subordinate Bonds” means all Bonds but Senior Bonds.

The term **“swap contract”** means an interest rate exchange or similar agreement entered into by the Authority with Rating Confirmation by Standard & Poor’s pursuant to the Act and any appropriate provisions of the LFL that are applicable to the City and made applicable to the Authority by the Act.

“Tax-Exempt Bonds” or **“Tax-Exempt Notes”** means all Bonds or Notes so identified in any Series Resolution.

“Tax Revenues” means the Personal Income Taxes and such other revenues, including Alternative Revenues, as the Authority may derive directly from the State from taxes imposed by the City or the State and collected by the State.

“Transitional Capital Plan” means such plan in effect pursuant to the Act.

THE INDENTURE

Directors, State and City Not Liable on Notes or Bonds. Neither the Directors of the Authority nor any person executing Notes, Bonds or other obligations of the Authority shall be liable personally thereon or be subject to any personal liability or accountability solely by reason of the issuance thereof.

The Notes, Bonds and other obligations of the Authority shall not be a debt of either the State or the City, and neither the State nor the City shall be liable thereon, nor shall they be payable out of any funds other than those of the Authority; and the Notes and Bonds shall contain on the face thereof a statement to such effect.

Security and Pledge. Pursuant to the Act, the Authority assigns and pledges to the Trustee (a) the Revenues, (b) all rights to receive the Revenues and the proceeds of such rights, (c) all money and Accounts held by the Trustee, (d) the covenants of the City and the State and (e) any and all other property of every kind and nature from time to time, by delivery or by writing of any kind, pledged, assigned or transferred as and for additional security. Except as specifically provided, this assignment and pledge does not include: (i) the rights of the Authority pursuant to provisions for consent or other action by the Authority, notice to the Authority, indemnity or the filing of documents with the Authority, or otherwise for its benefit and not for that of the Beneficiaries, or (ii) any right or power reserved to the Authority pursuant to the Act or other law. The Authority will implement, protect and defend this pledge by all appropriate legal action, the cost thereof to be an operating expense. The preceding, and all pledges and security interests made and granted by the Authority pursuant hereto, are immediately valid, binding and perfected to the full extent provided by the Act. The foregoing collateral is pledged and a security interest is therein granted, to secure the payment of Bonds, Notes, and payments in respect of Senior Agreements and Subordinate Agreements; provided, however, that the pledge and security interest granted to secure the Authority’s obligation to pay Subordinate Bonds and Subordinate Agreements shall be subject and subordinate to the pledge and security interest granted to secure Debt Service. The lien of such pledge and the obligation to perform the contractual provisions shall have priority over any or all other obligations and liabilities of the Authority secured by the Revenues. The Authority shall not incur any obligations, except as authorized by the Indenture, secured by a lien on the Revenues or Accounts equal or prior to the lien of the Indenture.

Defeasance. When (a) there is held by or for the account of the Trustee Defeasance Collateral in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem all obligations to Beneficiaries in full, (b) if any Bonds or Notes are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds or Notes and notice of such redemption shall have been duly given or irrevocable instructions to give notice shall have been given to the Trustee, and (c) all the rights of the Authority and the Trustee have been provided for, then upon written notice from the Authority to the Trustee, the Beneficiaries shall cease to be entitled to any benefit or security under the Indenture except the right to receive payment of the funds so held and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien, the security interests created by the Indenture (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the Trustee's lien and security interests.

Notes and Bonds of the Authority. By Series Resolution complying procedurally and in substance with the Act and the Indenture, the Authority may authorize, issue, sell and deliver (i) Bonds or (ii) Notes in anticipation thereof, from time to time in such principal amounts as the Authority shall determine to be necessary, to provide sufficient funds to meet a Capital Financing Need, including paying and reimbursing Project Capital Costs, and funding reserves to secure Notes or Bonds; and may issue Notes or Bonds to renew or refund Notes or Bonds, by exchange, purchase, redemption or payment, and establish such escrows therefor as it may determine.

Bonds and Notes may be issued only:

(i) as Senior Bonds (or Notes in anticipation thereof)

- (x) to pay or reimburse Project Capital Costs, but
  - (I) not to exceed $12 billion in issuance amount, measured by proceeds to the Authority, and
  - (II) subject to a $330 million limit on Quarterly Debt Service to be payable, or
- (y) to refund or renew such Bonds or Notes, subject to a $330 million limit on Quarterly Debt Service to be payable; or

(ii) as Subordinate Bonds (or Notes in anticipation thereof), with Rating Confirmation; but

(iii) no Series of Senior Bonds shall be authenticated and delivered without Rating Confirmation except upon receipt by the Trustee of the following:

- (x) a certificate by the Director of Management and Budget setting forth the most recent collections for the 12 consecutive calendar months ended not more than two months prior to the date of such certificate, of the Statutory Revenues, in effect at the date of issuance of such Series of Bonds, collected by the State and to be payable to the Authority; and
- (y) an Officer's Certificate of the Authority setting forth
  - (I) the aggregate amount of Debt Service (excluding any accrued or capitalized interest), including such series of Bonds, for each Fiscal Year such Bonds will be Outstanding,
  - (II) the aggregate amount of operating expenses as estimated by an Authorized Officer of the Authority for the current Fiscal Year, and
  - (III) that the amounts set forth pursuant to clause (x) after deducting the operating expenses set forth pursuant to clause (y)(II), will be at least three times such aggregate amount set forth in clause (y)(I) for each Fiscal Year set forth pursuant to clause (y)(I).

Each interest rate on Outstanding and proposed variable-rate Bonds or Notes (if not economically fixed), shall be assumed at the maximum rate payable to investors other than parties to an ancillary contract.

The Notes and Bonds shall bear such dates and shall mature at such times as the Authority may provide pursuant to the Act. The Notes and Bonds shall bear interest at such fixed or variable rates, and shall be in such denomination, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, be payable in such medium of payment, at such place and be subject to such terms of redemption as the Authority may provide pursuant to the Act. The Notes and Bonds may be sold by the Authority at public or private sale pursuant to the Act.

Documents to be Delivered to Trustee. The Authority may from time to time request the authentication and delivery of a Series of Bonds or Notes by providing to the Trustee (among other things) the following:

(a) an Officer's Certificate to the effect that there is no default that will remain uncured immediately following such delivery, nor an uncured failure of the State or the City to comply with their respective agreements provided for in the Act, as in effect at the date of the Indenture;

(b) an opinion of Counsel as to the due authorization, execution and delivery by the Authority of the Indenture and each relevant Supplemental Indenture; to the effect that the Series Resolution is in full force and effect and that the Bonds or Notes are valid and binding; and after delivery of the first series of Bonds, to the effect that the issuance of the Bonds or Notes will not adversely affect the exclusion from gross income for federal income tax purposes of interest on Tax-Exempt Bonds or Tax-Exempt Notes theretofore issued (as set forth in the opinions delivered with such prior Bonds or Notes).

Ancillary and Swap Contracts. Pursuant to the Act, the Authority may enter into, amend or terminate, as it determines to be necessary or appropriate, any ancillary or swap contracts, including Senior Agreements, to facilitate the issuance, sale, resale, purchase, repurchase or payment of Bonds or Notes. The Authority may by Series Resolution provide for the payment through the Bond Account of amounts due on ancillary and swap contracts.

Bond Anticipation Notes. Whenever the Authority shall authorize the issuance of a Series of Bonds, the Authority may, by Series Resolution, authorize the issuance of Notes and renewals thereof in anticipation of such Series. The interest on such Notes and renewals thereof may be made payable from the proceeds of such Notes, from the Bond Account, from the Recovery Account or from the proceeds of renewal notes or the Series of Bonds in anticipation of which such Notes are issued. The proceeds of such renewal notes or Bonds may be pledged for the payment of the principal of or interest on such Notes, and any such pledge shall have a priority over any other pledge of such proceeds created by the Indenture. The Authority may also pledge the Revenues and, subject to the Indenture, the Accounts to the payment of the principal of such Notes.

Recovery Obligations and Parity Debt. The Authority may from time to time request the authentication and delivery of a Series of Recovery Obligations or Parity Debt by providing to the Trustee (among other things) the following at the delivery of Bonds or of Notes in anticipation thereof (but not both):

(i) a certificate by the Director of Management and Budget setting forth the collections for the most recent Fiscal Year ended at least two months prior to the date of such certificate, of the Statutory Revenues collected by the State and to be payable to the Authority; and

(ii) an Officer's Certificate of the Authority setting forth (x) the sum of $1.32 billion and the aggregate amount payable from the Recovery and Parity Debt Account, including such Series of Bonds (assumed, at the delivery of Notes, to be issued at the Note maturity and to amortize over 30 years at an interest rate of 7%, with level debt service), for each Fiscal Year such Bonds will be Outstanding and (y) that the amounts set forth pursuant to clause (i) will be at least 3 times the sum set forth in clause (ii)(x) for each Fiscal Year set forth pursuant to clause (ii)(x).

Project Capital Costs. Proceeds of the sale of the Bonds and Notes issued for capital purposes shall be promptly deposited in the Project Fund established under the Agreement to the extent set forth by Series Resolution, and applied to finance Project Capital Costs. The Authority shall transfer its earnings on the Project Fund to the Collection Account as Revenues, or otherwise apply such earnings in accordance with the Tax Code pursuant to Officer's Certificate.

Limited Purpose of Indenture. The Indenture provides for the issuance and payment of the Authority's obligations and the financing and refinancing of Project Capital Costs. Except as set forth in the Agreement, the Authority, the City and the Trustee shall have no liability to each other or to the Beneficiaries for the construction, reconstruction, acquisition, installation, physical condition, ownership or operation of any Project.

Application of Revenues. (a) Provision is made in the Act for the payment to the Authority of the Tax Revenues, and the Authority has requested the State Comptroller to make such payments to the Collection Account to be held by the Trustee. Any Revenues received by the Authority shall be promptly deposited in the Collection Account. All Revenues in the Collection Account shall be applied upon receipt by the Trustee, in the following order of priority: first, to the Bond Account to pay Debt Service pursuant to paragraph (b) summarized below; second, to the Authority's operating expenses, which may include deposits to the Redemption Account for optional redemption and reserves to be held by the Authority for payment of operating expenses, in such amounts as may be determined by Supplemental Indenture or Officer's Certificate; third, pursuant to Supplemental Indentures for the benefit of Noteholders, Subordinate Bondholders and parties to ancillary and swap contracts, to the extent such Supplemental Indentures may require application of Revenues to pay items after payment of Debt Service and operating expenses (see "Recovery and Parity Debt Account"); and fourth, daily or as soon as practicable but not later than the last day of each month, to the order of the City, free and clear of the lien of the Indenture.

(b) At the beginning of each Collection Quarter, the Trustee shall begin to transfer all Revenues from the Collection Account to the Bond Account, and shall continue such transfers until the amount in the Bond Account is equal to one-half of Quarterly Debt Service. On the first day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers until Quarterly Debt Service is held in the Bond Account. To the extent that Quarterly Debt Service includes principal, interest or premium on Bonds or Notes to be purchased or redeemed prior to maturity, such Debt Service may be paid through the Redemption Account, and the Authority may by Officer's Certificate direct the Trustee to transfer Revenues thereto, rather than to the Bond Account.

(c) Prior to any interest payment date for Outstanding Notes or Senior Bonds, the Authority may by Officer's Certificate estimate interest payable at a variable rate; or treat anticipated receipts on an ancillary or swap contract as offsets thereto as specified in the Indenture.

(d) The transfers and payments described above shall be appropriately adjusted by Officer's Certificate of the Authority to reflect the date of issue of Notes or Bonds, any accrued or capitalized interest deposited in the Bond Account, actual rates of interest, any amount needed or held in the Accounts for Debt Service, and any purchase or redemption of Notes or Bonds, so that there will be available on each payment date the amount necessary to pay Debt Service and so that accrued or capitalized interest will be applied to the installments of interest to which it is applicable.

(e) Revenues shall in all events be transferred from the Collection Account to the Bond Account or Redemption Account to provide for the timely payment of Debt Service, and all Revenues shall be applied to pay Debt Service and other amounts then overdue pursuant to the remedial provisions of the Indenture.

Bond Account. A Bond Account is established with the Trustee and money shall be deposited therein as provided in the Indenture. Accrued interest received upon the sale of Notes (if so specified by

Series Resolution) or Senior Bonds shall be deposited in the Bond Account. The money in the Bond Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of Debt Service. If at any time the amount held in the Bond Account exceeds Quarterly Debt Service, plus the amount payable therefrom in the current Payment Period, the Trustee shall transfer such excess to the Collection Account as Revenues. The Trustee shall pay, or transfer money from the Bond Account to a Paying Agent in time for the Paying Agent to pay, Debt Service when due in same-day funds.

Redemption Account. A Redemption Account is established with the Trustee and money shall be deposited therein as provided in the Indenture. The money and investments in such Account shall be held in trust and, except as otherwise specified, shall be applied by the Trustee to the redemption of Bonds and Notes. Upon direction by Officer's Certificate of the Authority, the Trustee shall apply money in the Redemption Account to the purchase of Bonds and Notes for cancellation at prices not exceeding (unless so directed by Officer's Certificate of the Authority) the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not with money required to pay Bonds or Notes for which notice of redemption has been given. Accrued interest on the purchase of Bonds and Notes may be paid from the Bond Account (if so payable under the Indenture) or as directed by Officer's Certificate of the Authority.

When money in the Redemption Account is to be applied to the redemption of Notes or Bonds, the Trustee shall pay, or transfer such money to a Paying Agent in time for the Paying Agent to pay, such Notes or Bonds when due in same-day funds.

If on any date the amount in the Bond Account is less than the amount then required to be applied to pay Debt Service then due, the Trustee shall apply the amount in the Redemption Account (other than any sum irrevocably set aside for particular Notes or Bonds no longer Outstanding) to the extent necessary to meet the deficiency.

Redemption of the Bonds and Notes. The Authority may redeem Bonds and Notes at its option in accordance with their terms and shall redeem Bonds and Notes in accordance with their terms pursuant to any mandatory redemption ("sinking fund") requirements established by Series Resolution. When Bonds or Notes are called for redemption, the accrued interest thereon shall become due on the redemption date. To the extent not otherwise provided, the Authority shall deposit with the Trustee on or prior to the redemption date a sufficient sum to pay the redemption price and accrued interest.

The Authority shall not by purchase or optional redemption cause Quarterly Debt Service to exceed $330 million unless either cash is on hand therefor, held by the Authority or in the Redemption Account, or this limit has been modified by Officer's Certificate of the Authority with Rating Confirmation.

Unless otherwise specified by Series Resolution, there shall, at the option of the Authority, be applied to or credited against any sinking fund requirement the principal amount of any such Bonds that have been defeased, purchased or redeemed and not previously so applied or credited. Defeased Bonds shall, at the option of the Authority, no longer be entitled, but may be subject, to the provisions thereof for mandatory redemption.

When Bonds or Notes are to be redeemed prior to maturity, the Trustee shall give notice in the name of the Authority, which notice shall identify the Bonds or Notes to be redeemed, state the date fixed for redemption and state that such Bonds or Notes will be redeemed at the corporate trust office of the Trustee or a Paying Agent. The notice shall further state that on such date there shall become due and payable upon each Bond or Note to be redeemed the redemption price thereof, together with interest accrued to the redemption date, and that money therefor having been deposited with the Trustee or Paying Agent, from and after such date, interest thereon shall cease to accrue. The Trustee shall give 30 days' notice by mail, or otherwise transmit the redemption notice in accordance with any appropriate provisions of the LFL and with the applicable Series Resolution, to the registered owners of any Bonds or Notes which are to be redeemed, at their addresses shown on the registration books of the Authority. Such notice may be waived by any Holder of Bonds or Notes to be redeemed. Failure to transmit notice to a particular Holder, or any defect in the notice to such Holder, shall not affect the redemption of any other Bond or Note.

Investments. Pending its use, money in the Accounts may be invested by the Trustee in Eligible Investments maturing or redeemable at the option of the holder at or before the time when such money is expected to be needed and shall be so invested pursuant to written direction of the Authority if there is not then an Event of Default known to the Trustee. Investments shall be held by the Trustee in the respective Accounts and shall be sold or redeemed to the extent necessary to make payments or transfers from each Account.

Except as otherwise specified, any interest realized on investments in any Account and any profit realized upon the sale or other disposition thereof shall be credited to the Collection Account.

The Trustee may hold undivided interests in Eligible Investments for more than one Account (for which they are eligible) and may make interfund transfers in kind.

If any money is invested under the Indenture and a loss results therefrom so that there are insufficient funds to pay Debt Service or to redeem Bonds or Notes called for redemption, then the deficiency shall be timely filled from Revenues (as Debt Service if so payable under the Indenture).

Unclaimed Money. Except as may otherwise be required by applicable law, in case any money deposited with the Trustee or a Paying Agent for the payment of the principal of, or interest or premium, if any, on any Bond or Note remains unclaimed for two years after such principal, interest or premium has become due and payable, the Fiduciary may and upon receipt of a written request of the Authority will pay over to the Authority the amount so deposited and the owner of such Bond or Note shall be entitled (subject to any applicable statute of limitations) to look only to the Authority as an unsecured creditor for the payment thereof.

Recovery and Parity Debt Account. A Recovery and Parity Debt Account is established with the Trustee and money shall be deposited therein as provided in the Indenture or by Officer's Certificate. The money in the Recovery and Parity Debt Account shall be held in trust and, except as otherwise provided, shall be applied solely to the payments of Recovery Obligations and Parity Debt payable therefrom. If at any time the amount held in the Recovery and Parity Debt Account exceeds Quarterly Subordinate Debt Service, plus the amount payable therefrom in the current Payment Period, the Trustee shall transfer such excess to the Collection Account as Revenues. At the third level of priority described under "Application of Revenues": at the beginning of each Collection Quarter, the Trustee shall begin to transfer all Revenues to the Recovery and Parity Debt Account, and shall continue such transfers until the amount in the Recovery and Parity Debt Account is equal to one-half of Quarterly Subordinate Debt Service; and on the first business day of the second month of each Collection Quarter, the Trustee shall resume or continue such transfers until Quarterly Subordinate Debt Service is held in the Recovery and Parity Debt Account. To the extent that Quarterly Subordinate Debt Service includes principal, interest or premium on Bonds or Notes to be purchased or redeemed prior to maturity, or Revenues are available to pay principal of Notes, such amounts may be paid through the Redemption Account or an escrow fund, and the Authority may by Officer's Certificate direct the Trustee to transfer Revenues thereto. Prior to any payment date from the Recovery and Parity Debt Account, the Authority may by Officer's Certificate estimate interest payable at a variable rate; or treat anticipated receipts on an ancillary or swap contract as offsets thereto as specified in the Indenture. The transfers and payments shall be appropriately adjusted by Officer's Certificate to reflect the date of issue of Notes or Bonds, actual rates of interest, anticipated receipts of proceeds or Revenues, any amount needed or held in the Recovery and Parity Debt Account, and any purchase or redemption of Notes or Bonds, so that there will be available on each payment date the amount necessary and so that accrued or capitalized interest will be applied to the installments of interest to which it is applicable. The Trustee shall pay, or transfer money from the Recovery and Parity Debt Account to a Paying Agent in time for such Paying Agent to pay, Recovery Obligations and Parity Debt when due in same-day funds.

Contract; Obligations to Beneficiaries. In consideration of the purchase and acceptance of any or all of the Bonds and Notes and ancillary and swap contracts by those who shall hold the same from time to time, the provisions of the Indenture shall be a part of the contract of the Authority with the Beneficiaries, and shall be deemed to be and shall constitute contracts among the Authority, the Trustee, the City to the extent specified in the Agreement, the Beneficiaries from time to time and, to the extent specified in the Act, the State. The pledge made in the Indenture and the covenants set forth to be performed by the Authority, the City and the State shall be for the equal benefit, protection and security of the Beneficiaries of the same priority. All of the Outstanding Bonds or Notes or ancillary or swap contracts of the same priority, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any thereof over any other except as expressly provided pursuant to the Indenture and the Act.

The Authority shall pay when due all sums payable on the Bonds and Notes, from the Revenues and money designated in the Indenture, subject only to (i) the Act and the Indenture, and (ii) to the extent permitted by the Act and the Indenture, (x) agreements with Holders of Outstanding Bonds and Notes pledging particular collateral for the payment thereof and (y) the rights of Beneficiaries under ancillary and swap contracts. The obligation of the Authority to pay principal, interest and redemption premium, if any, to the Holders of Bonds and Notes shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, and shall not be subject to setoff, recoupment or counterclaim. The Authority shall also pay its operating expenses.

Enforcement. The Authority shall enforce or cause the Trustee to enforce by appropriate legal proceedings, each covenant, pledge or agreement made by the City or the State in the Indenture or in or pursuant to the Act for the benefit of any of the Beneficiaries.

Sales Taxes. For each fiscal year of the City for which the Mayor has given a notice to the State Comptroller pursuant to the State Covenant, the Authority shall request the State Comptroller to schedule payments of Sales Taxes to the Authority, based on the Authority's projections of Personal Income Taxes and debt service, so that the Authority will receive Tax Revenues in each Collection Quarter sufficient to pay its obligations but in all events at least equal to the Quarterly Payment Requirement. Such requests shall be modified, as often as necessary, to reflect experience and revised projections.

Tax Covenant. The Authority shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on Tax-Exempt Bonds and Tax-Exempt Notes shall be excludable from gross income for federal income tax purposes pursuant to §103(a) of the Tax Code; and no funds of the Authority shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Tax-Exempt Bond or Tax-Exempt Note to be an arbitrage bond as defined in such Code and any applicable Regulations issued thereunder. If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, pay from the Project Fund or as an operating expense the amount, if any, required by the Code to be rebated thereto or paid as a related penalty.

Accounts and Reports. (a) The Authority shall (1) cause to be kept books of account in which complete and accurate entries shall be made of its transactions relating to all funds and accounts under the Indenture, which books shall at all reasonable times be subject to the inspection of the City, the Trustee and the Holders of an aggregate of not less than 25% in principal amount of Bonds and Notes then Outstanding or their representatives duly authorized in writing;

(2) annually, within 185 days after the close of each fiscal year, deliver to the Trustee and each Rating Agency, a copy of its audited financial statements for such fiscal year;

(3) keep in effect at all times by Officer's Certificate an accurate and current schedule of all Quarterly Debt Service to be payable during the life of then Outstanding Bonds, Notes and Senior Agreements secured by the Bond Account; certifying for the purpose such estimates as may be necessary; and

(4) deliver to each Rating Agency a quarterly statement of cash flows, including Revenues received, transfers to the Bond Account and the Redemption Account, Bonds and Notes issued, and payments of principal and interest, and an annual statement of the State's costs in administering, collecting and distributing the Tax Revenues.

(b) To implement the State Covenant, the Chairperson of the Authority shall, not less than 30 days prior to the beginning of each City fiscal year, certify to the State Comptroller, the Governor, and the Directors of the Authority a schedule of maximum annual debt service payments due on the Bonds and Notes respectively then Outstanding.

(c) The Authority shall deliver to the Trustee, not less often than quarterly, an Officer's Certificate showing (i) Revenues on a pro-forma basis for the current fiscal year and each of the two preceding fiscal years, as received, expected and adjusted as if current statutes had been in effect for the three-year period; (ii) Debt Service to be paid in the next three fiscal years; and (iii) whether such Revenues are at least 150% of such Debt Service.

Ratings. Unless otherwise specified by Series Resolution, the Authority shall pay such reasonable fees and provide such available information as may be necessary to obtain and keep in effect ratings on all the Senior Bonds from at least two nationally recognized statistical rating organizations.

No Other Business. The Authority shall not engage in any line of business not contemplated by the Act.

No Indebtedness or Funds of City. The Indenture does not constitute indebtedness of the City for purposes of §20.00 of the LFL or any constitutional or statutory limitation. The Authority's revenues are not funds of the City.

State Covenant and Tax Contract. The Authority includes in the Indenture: (a) the State's pledge and agreement with the Holders of Outstanding Bonds and Notes that the State will not limit or alter the rights vested in the Authority by the Act to fulfill the terms of any agreements made with the Holders, or in any way impair the rights and remedies of such Holders or the security for the Bonds and Notes until such Bonds and Notes, together with the interest thereon, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged, (b) the further terms of §2799-ii of the Act to the effect that: Nothing contained in this covenant shall be deemed to restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the Personal Income Taxes, but such taxes payable to the Authority shall in all events continue to be so payable so long as any such taxes are imposed. Not less than 30 days prior to the beginning of each City fiscal year, the Chairperson of the Authority shall certify to the State Comptroller, the Governor, and the members of the Board of Directors of the Authority a schedule of maximum annual debt service payments due on the Bonds and Notes then Outstanding. To the extent that Personal Income Taxes payable to the Authority during such fiscal year are projected by the Mayor to be insufficient to meet at least 150% of maximum annual debt service on the Bonds then Outstanding, the Mayor shall so notify the State Comptroller and the State Comptroller shall pay to the Authority from Sales Taxes such amount as is necessary to provide at least 150% of such maximum annual debt service on the Bonds; provided, however, that for so long as any indebtedness of MAC remains outstanding no Sales Taxes that are, as of

March 5, 1997, or may in the future be, required to be deposited in the Municipal Assistance Tax Fund established under §92-d of the State Finance Law shall be paid to the Authority except out of funds that are otherwise required to be paid to the City under that section. Nothing in this covenant shall be deemed to obligate the State to make any additional payments or impose any taxes to satisfy the obligations of the Authority; and (c) the tax contract of the State in the Act.

Authority Acknowledgments. (a) The Authority acknowledges that the City's covenants and pledge and agreement for the benefit of the Holders and the State Covenant and Tax Contract constitute important security provisions of the Outstanding Bonds and Notes, and to the fullest extent permitted by applicable federal and State law, waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support the assertion by the City, the State or any other person of, any such claim to the contrary.

(b) By acknowledging that the City's covenants and pledge and agreement for the benefit of the Holders and the State Covenant and Tax Contract constitute important security provisions of the Outstanding Bonds and Notes, the Authority also acknowledges, to the fullest extent permitted by applicable federal and State law, that, in the event of any failure or refusal by the City or the State to comply therewith, the Holders of the Outstanding Bonds or Notes may have suffered monetary damages, the extent of the remedy for which may be, to the fullest extent permitted by applicable federal and State law, determined, in addition to any other remedy available at law or in equity, in the course of any action taken pursuant to the Indenture; and to the fullest extent permitted by applicable federal and State law, the Authority waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support the assertion by the City, the State or any other person of, any claim to the effect that no such monetary damages have been suffered.

(c) The Authority confirms that the acknowledgments and agreements summarized forth in paragraphs (a) and (b) above have been included as a result of negotiations with the underwriters of the Bonds and may further acknowledge in any Series Resolution if and the extent to which any provision of the Resolution has been amended, or any provision of such Series Resolution has been included therein, as a result of the same or similar negotiations.

Rights and Duties of the Fiduciaries. The Fiduciaries shall not be required to monitor the financial condition of the Authority or the physical condition of any Project and, unless otherwise expressly provided, shall not have any responsibility with respect to reports, notices, certificates or other documents filed with them under the Indenture, except to make them available for inspection by Beneficiaries.

Upon a failure of the Authority to make a payment of Debt Service when due or a failure known to the Trustee to make any other required payment within 7 days after the same becomes due and payable, the Trustee shall give written notice thereof to the Authority. The Trustee shall give notices of default when instructed to do so by the written direction of another Fiduciary or the owners of at least 25% in principal amount of the Outstanding Senior Bonds or with respect to specified events, if actually known to an Authorized Officer. The Trustee shall proceed under the Indenture for the benefit of the Holders in accordance with the written directions of a Majority in Interest of the Outstanding Senior Bonds. The Trustee shall not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity is furnished for any expense or liability to be incurred.

Each Fiduciary shall be entitled to the advice of counsel (who may be counsel for any party) and shall not be liable for any action taken in good faith in reliance on such advice. Each Fiduciary may rely conclusively on any notice, certificate or other document furnished to it under the Indenture and reasonably believed by it to be genuine. A Fiduciary shall not be liable for any action taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under the Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or consent or other action by a Fiduciary is called for by the Indenture, the Fiduciary may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof. A permissive right or power to act shall not be construed as a requirement to act.

Any fees, expenses, reimbursements or other charges which any Fiduciary may be entitled to receive from the Authority, if not otherwise paid, shall be a first lien upon (but only upon) any funds held by the Trustee for payment of operating expenses.

Paying Agents. The Authority designates the Trustee a Paying Agent. The Authority may appoint additional Paying Agents, generally or for specific purposes, may discharge a Paying Agent from time to time and may appoint a successor. The Authority shall designate a successor if the Trustee ceases to serve as Paying Agent. Each Paying Agent shall be a bank or trust company eligible under the Act, and unless otherwise provided by Series Resolution shall have a capital and surplus of not less than $50,000,000 and be registered as a transfer agent with the Securities and Exchange Commission. The Authority shall give notice of the appointment of a successor to the Trustee as Paying Agent in writing to each Beneficiary shown on the books of the Trustee. A Paying Agent may but need not be the same person as the Trustee. Unless otherwise provided by the Authority, the Trustee as Paying Agent shall act as Bond and Note registrar and transfer agent.

Resignation or Removal of the Trustee. The Trustee may resign on not less than 30 days' written notice to the Authority and the Holders. The Trustee will promptly certify to the Authority that it has given written notice to all Holders and such certificate will be conclusive evidence that such notice was given as required by the Indenture. The Trustee may be removed by written notice from the Authority (if not in default) or a Majority in Interest of the Outstanding Senior Bonds to the Trustee and the Authority. Such resignation or removal shall not take effect until a successor has been appointed.

Successor Fiduciaries. Any corporation or association which succeeds to the municipal corporate trust business of a Fiduciary as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights, powers and duties thereof under the Indenture, without any further act.

In case a Fiduciary resigns or is removed or becomes incapable of acting, or becomes bankrupt or insolvent, or if a receiver, liquidator or conservator of a Fiduciary or of its property is appointed, or if a public officer takes charge or control of a Fiduciary, or of its property or affairs, then such Fiduciary shall with due care terminate its activities and a successor may, or in the case of the Trustee shall, be appointed by the Authority. If no appointment of a successor Trustee is made within 45 days after the giving of written notice of resignation or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Trustee or any Holder may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor Trustee shall be a trust company or a bank having the powers of a trust company, located in the State, having a capital and surplus of not less than $50,000,000.

No Statutory Trustee. Pursuant to the Act, the rights of the Holders of Bonds and Notes to appoint a statutory trustee are abrogated.

Fiduciaries for Notes and Subordinate Bonds. The Authority may by Series Resolution provide for the appointment of a Fiduciary (which may be the Trustee) to represent the Holders of Notes or Subordinate Bonds, having powers and duties not inconsistent with the Indenture or the Act.

Registered Owners. The enumeration of certain provisions applicable to DTC as Holder of immobilized Notes and Bonds shall not be construed in limitation of the rights of the Authority and each Fiduciary to rely upon the registration books in all circumstances and to treat the registered owners of Notes and Bonds as the owners thereof for all purposes not otherwise specifically provided for. Notwithstanding any other provisions of the Indenture, any payment to the registered owner of a Note or Bond shall satisfy the Authority's obligations thereon to the extent of such payment.

Events of Default; Default. "Event of Default" in the Indenture means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice. (a) The Authority shall fail to pay when due any interest, principal or redemption premium on a Note or Bond. (b) The Authority shall fail to make any other required payment to the Trustee or other Fiduciary and such failure is not remedied within 7 days after written notice thereof is given by the Trustee or other Fiduciary to the Authority. (c) The Authority shall fail to observe or perform any of its other agreements, covenants or obligations under the Indenture and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the Authority. (d) Specified events of insolvency. (e) The State shall (i) amend, alter, repeal or fail to comply with the State Covenant or its tax contract in the Act as in effect on the date hereof or (ii) enact a moratorium or other similar law affecting the Bonds or Notes or (iii) amend, modify, repeal or otherwise alter, in any material respect, (y) the requirement of §1313 of the Tax Law that: "The comptroller, after reserving such refund fund and such costs shall, commencing on or before the fifteenth day of each month, pay to the New York city transitional finance authority on a daily basis the balance of" Personal Income Taxes or (z) the requirement of §2799-ii of the Act that: "To the extent that the tax revenues payable to the authority under section thirteen hundred thirteen of the tax law during such fiscal year are projected by the mayor to be insufficient to meet at least one hundred fifty percent of maximum annual debt service on authority bonds then outstanding, the mayor shall so notify the state comptroller and the state comptroller shall pay to the authority from" Alternative Revenues such amount as is necessary to provide at least 150% of the maximum annual debt service; subject to the proviso in effect at the date of the first series of Bonds recognizing the prior lien in favor of MAC. (f) The State Comptroller shall fail or refuse to comply with any provision of law in effect for the benefit of the Authority. (g) The City shall fail to observe or perform any of its agreements, covenants or obligations under the Agreement for the benefit of the Holders and such failure is not remedied within 30 days after written notice thereof is given by the Trustee to the City and the Authority or by the Authority to the Trustee and the City. (h) Any Officer's Certificate delivered pursuant to paragraph (c) of "Accounts and Reports" above shall show estimated Revenues to be less than 150% of Debt Service.

Remedies of the Trustee. If an Event of Default occurs and is continuing: (1) The Trustee may, and upon written request of the Holders of 25% in principal amount of the Senior Bonds Outstanding shall, in its own name by action or proceeding in accordance with the Civil Practice Law and Rules: (a) enforce all rights of the Holders and require the Authority or, to the extent permitted by law, the State or the City to carry out its agreements with the Holders and to perform its duties under the Act; (b) sue upon such Bonds and Notes; (c) require the Authority to account as if it were the trustee of an express trust for the Holders of such Bonds and Notes; and (d) enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds and Notes. (2) The Trustee shall, in addition, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in the Act or incident to the general representation of Holders in the enforcement and protection of their rights. (3) If such Event of Default is described in clause (a), (d), (e)(iii) or (h) under "Events of Default" above, the Trustee shall (a) give written notice thereof to the Authority, the Holders, the Mayor, the City Comptroller, the Speaker of the Council, the Governor, the State Comptroller, the chair and ranking minority member of the Senate Finance Committee, the chair and ranking minority member of the Assembly Ways and Means Committee, and the State Financial Control Board for the City, and (b) if so directed by a Majority in Interest of the Senior Bonds, and having given 30 days' notice to the Authority, declare the principal amount of all Bonds and Notes to be, and the same shall become, due and payable.

Note and Subordinate Bond Remedies. Subject to the prior application of the Accounts to pay Debt Service and to the Indenture, the Holders of Notes or Subordinate Bonds, or a Fiduciary appointed for them, may enforce the provisions of the Indenture for their benefit by appropriate legal proceedings.

Individual Remedies. No one or more Holders shall by his or their action affect, disturb or prejudice the pledge created by the Indenture, or enforce any right under the Indenture, except in the manner therein provided; and all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided therein and for the equal benefit of all Holders of the same class; but nothing in the Indenture shall affect or impair the right of any Holder of any Bond or Note to enforce payment of the principal thereof, premium, if any, or interest thereon at and after the maturity thereof, or the obligation of the Authority to pay such principal, premium, if any, and interest on each of the Bonds and Notes to the respective Holders thereof at the time, place, from the source and in the manner expressed in the Indenture and in the Bonds and Notes.

Venue. The venue of every action, suit or special proceeding against the Authority shall be laid in the County of New York.

Waiver. If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, by written notice to the Authority, and shall do so upon written instruction of the Holders of at least 25% in principal amount of the Outstanding Senior Bonds.

Application of Money. If available money in the Accounts is not sufficient on any day to pay all Debt Service, Subordinate Bonds and Subordinate Agreements then due or overdue, such money (subject to the payment of fees and expenses necessary to collect Revenues and distribute Debt Service and to provisions theretofore made for the payment of Bonds or Notes no longer Outstanding) shall be applied *first* to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time), and if the amount available shall not be sufficient to pay in full any installment or installments of interest or obligations with respect to Senior Agreements maturing on the same date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service without priority or preference of any item over any other; and *second* to the payment of principal (including sinking fund installments) and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due), and if the amount available shall not be sufficient to pay in full all principal, premium or obligations with respect to Senior Agreements maturing on the same date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service without priority or preference of any item over any other and, if the amount available shall not be sufficient to pay in full all principal due on any date, then to the payment thereof ratably, according to the amounts due in respect of each item of Debt Service, without priority or preference of any Bond over any other; and *third* to the payment of any Notes (to the extent not paid as Debt Service), Subordinate Bonds and Subordinate Agreements then due and, if the amounts available are insufficient to pay in full all such subordinated payment obligations, then to the payment thereof ratably, without preference or priority of any such item over any other. For this purpose Debt Service on Senior Agreements shall be characterized in accordance with their financial terms and interest on overdue principal shall be treated as coming due on the first day of each month. Whenever money is to be applied pursuant to this section, such money shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such money available for application and the likelihood of additional money becoming available for such application in the future.

Supplements and Amendments. (A) The Indenture may be (1) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority and executed or approved by the Mayor and Comptroller to the extent, if any, required by the Act, to (a) provide for earlier or greater deposits into the Bond Account, (b) subject any property to the lien of the Indenture, (c) add to the covenants and agreements of the Authority or surrender or limit any right or power of the Authority, (d) identify particular Notes or Bonds for purposes not inconsistent with the Indenture including credit or liquidity support, remarketing, serialization and defeasance, or (e) authorize Bonds or Notes of a Series and in connection therewith determine the matters referred to in the Indenture and any other things relative to such Bonds or Notes that are not prejudicial to the Holders, or to modify or rescind any such authorization or determination at any time prior to the first authentication and delivery of such Series of Bonds or Notes; or

(2) amended by the Authority and the Trustee with the approval of the Mayor and Comptroller to the extent, if any, required by the Act, (a) to cure any ambiguity or defect, (b) to add provisions that are not prejudicial to the Holders, (c) to adopt amendments that do not take effect unless and until (i) no Bonds or Notes Outstanding prior to the adoption of such amendment remain Outstanding or (ii) such amendment is consented to by the Holders of such Bonds or Notes in accordance with the Indenture, or (d) pursuant to paragraph (B) summarized below.

(B) Except as described in the foregoing paragraph (A), the Indenture may be amended (1) only with the written consent of a Majority in Interest of the Subordinate Bonds, Senior Bonds and Notes (acting as three separate classes) to be Outstanding at the effective date thereof and affected thereby; but (2) only with the unanimous written consent of the affected Holders for any of the following purposes: (a) to extend the maturity of any Bond or Note, (b) to reduce the principal amount or interest rate of any Bond or Note, (c) to make any Bond or Note redeemable other than in accordance with its terms, (d) to create a preference or priority of any Bond or Note over any other Bond or Note of the same class or (e) to reduce the percentage of the Bonds and Notes required to be represented by the Holders giving their consent to any amendment.

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

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

Covenant. The City and the Authority covenant with the Holders of the Outstanding Bonds offered hereby to comply with the financial reporting requirements of the Financial Emergency Act For The City of New York and the Act, respectively, each as in effect from time to time.

THE AGREEMENT

The Agreement, including the Transitional Capital Plan attached thereto:

(i) describes by reference to the capital budget of the City and the Act the particular Projects and Costs to be financed in whole or in part by the Authority;

(ii) describes the plan for the financing of the Costs or Projects;

(iii) sets forth the method for which and by whom and the terms and conditions upon which money provided by the Authority shall be distributed to the City, which disbursements shall occur, subject to receipt by the Authority of such documentation as to the costs being reimbursed as the Authority shall reasonably require, at least monthly;

(iv) provides for the payment of such Costs by the City under such contracts as shall be awarded by the City or for the City to make a capital contribution of such proceeds as City funds to another entity for the payment or reimbursement of such Costs;

(v) requires every contract entered into by the City, or another entity receiving funds from the City, for Projects or Costs to be financed in whole or in part by the Authority to be subject to the provisions of the City Charter and other applicable laws governing contracts of the City or such entity, as the case may be; and

(vi) authorizes the Authority's assignment and pledge to the Trustee in trust for the benefit and security of the Bondholders and, to the extent specified in the Indenture, of Noteholders and the parties to ancillary and swap contracts of rights of the Authority under the Agreement.

City's Further Assurances. Pursuant to the Act, the City acknowledges the State's grant to the Authority and the Authority's pledge and assignment to the Trustee of, and disclaims ownership of, all subject to the terms of the Act: the City's right, title and interest in and to the Personal Income Taxes and the Sales Taxes, and all rights to receive the same and the proceeds thereof; and the City will protect and defend the Trustee's title thereto.

Separate Accounts and Records. The Authority and the City represent and covenant, each for itself, that: (a) Each of them will maintain its books, financial records and accounts (including, without limitation, interentity transaction accounts) in a manner so as to identify separately the assets and liabilities of each such entity; each has observed and will observe all applicable corporate procedures and formalities, including, where applicable, the holding of regular periodic and special meetings of governing bodies, the recording and maintenance of minutes of such meetings, and the recording and maintenance of resolutions, if any, adopted at such meetings; and all transactions and agreements between and among the Authority, the City and the Trustee have reflected and will reflect the separate legal existence of each entity and have been and will be formally documented in writing. (b) Neither the Authority nor the City has commingled or will commingle any of its assets, funds or liabilities with the assets, funds or liabilities of any other person or entity. Each of them has conducted and will conduct all business between itself and third parties in its own name and separate and distinct from the other.

Project Fund. A Project Fund is established to be held by the Authority. Money shall be deposited therein as provided in the Indenture. The money and investments in the Project Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Authority as described below.

The Authority shall pay from the Project Fund the Costs of Issuance, including any expenses of the City in connection with the issuance of the Bonds and Notes that are approved by the Authority, and disburse funds to the City to finance, by payment or reimbursement, Project Capital Costs to the extent of the Capital Financing Need. When all Costs of Issuance and Project Capital Costs have been paid or reimbursed, as evidenced by Officer's Certificates of the Authority and the City, any excess in the Project Fund shall promptly be paid to the Trustee for deposit in the Collection Account.

The Authority and the City shall develop, and may from time to time modify, procedures for the disbursement, at least monthly, of money to the City from the Project Fund, upon terms, conditions and documentation providing for compliance with the Act, appropriate provisions of the LFL, the Transitional

Capital Plan, the Agreement, the Indenture, and the advice of Counsel as to the application of proceeds of Tax-Exempt Notes and Tax-Exempt Bonds. The City shall pay Costs out of Note and Bond proceeds under such contracts as shall be awarded by the City or make a capital contribution of such proceeds as City funds to another entity for the payment or reimbursement of such Costs.

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

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

Limited Purpose of Agreement. The Agreement provides for the issuance and payment of the Authority's obligations and the financing and refinancing of Project Capital Costs. Except as specified in the Agreement, the Authority, the City, and the Trustee shall have no liability to each other or to the Beneficiaries for the construction, reconstruction, acquisition, installation, physical condition, ownership or operation of any Project. The specific Project Capital Costs to be paid or reimbursed by the Authority shall be determined by the City.

Covenants of the City. The City covenants with the Authority, and consents to the pledge and assignment to the Trustee of its covenants, that:

(A) The City will at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on Tax-Exempt Bonds and Tax-Exempt Notes shall be excludable from gross income for federal income tax purposes pursuant to §103(a) of the Code; and no funds of the City shall at any time be used directly or indirectly to acquire securities or obligations the acquisition or holding of which would cause any Tax-Exempt Bond or Tax-Exempt Note to be an arbitrage bond as defined in the Code and any applicable Regulations issued thereunder.

(B) The City in its papers and in the statements of its officials has referred and will refer to the Authority as a separate and distinct legal entity; and the City will take no action that is inconsistent with the Agreement and that would give any creditor of the City cause to believe either that any such obligations incurred by the City would be not only the obligation of the City, but also of the Authority, or that the City were not or would not continue to remain an entity separate and distinct from the Authority.

(C) To implement the State Covenant, an Authorized Officer of the City shall, not less than 30 days prior to the beginning of each City fiscal year, and as often as he deems necessary but at least quarterly thereafter, certify to the Authority and the Trustee the Mayor's projection of Personal Income Taxes payable to the Authority each month during such fiscal year; and if the projected Personal Income Taxes are insufficient to meet at least 150% of maximum annual debt service on the Bonds, as certified by the Chairperson of the Authority pursuant to the Indenture, then (1) the Mayor shall so notify the State Comptroller, and (2) an Authorized Officer of the City shall, not less than 30 days prior to the beginning of each City fiscal year in which such projected Personal Income Taxes are insufficient to meet at least 150% of such maximum annual debt service, and as often as he deems necessary but at least quarterly thereafter, certify to the Authority and the Trustee (in addition to other required matters) the City's projection of Sales Taxes available to be paid to the Authority each month during such fiscal year.

Statutory Pledge and Agreement ("City Covenant"). The City pledges and agrees with the Holders of the Outstanding Bonds and Notes that the City will not limit or alter the rights vested in the Authority by the Act to fulfill the terms of any agreements made with such Holders pursuant to the Act, or in any way impair the rights and remedies of such Holders or the security for such Bonds and Notes until such Bonds and Notes, together with the interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully paid and discharged. This pledge and agreement shall not be deemed to restrict any right the City may have to amend, modify or otherwise alter local laws imposing or relating to the Personal Income Taxes so long as, after giving effect to such amendment, modification or other alteration, the amount of Tax Revenues projected by the Mayor to be available to the Authority during each of its fiscal years following the effective date of such amendment, modification or other alteration shall be not less than 150% of maximum annual debt service on the Bonds.

Statutory Requirement. To the extent required by the Act, the City agrees that it shall require every contract entered into by the City, or another entity receiving funds from the City, for projects or costs to be financed in whole or in part by the Authority to be subject to the provisions of the City Charter and other applicable laws governing contracts of the City or such entity, as the case may be.

Transfers to City. Subject to the provisions of the Act and the Agreement, all money received by the Authority which, together with other money available for the purposes of the Indenture, exceeds the amount required for such purposes shall be transferred to the order of the City daily or as soon as practicable but not later than the last day of each month.

City Acknowledgments. (a) The City acknowledges that its covenants and pledge and agreement for the benefit of the Holders constitute important security provisions of the Bonds and Notes, and to the fullest extent permitted by applicable federal and State law, waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support any assertion of any claim to the contrary.

(b) By acknowledging that its covenants and pledge and agreement for the benefit of the Holders constitute important security provisions of the Bonds and Notes, the City also acknowledges, to the fullest extent permitted by applicable federal and State law, that, in the event of any failure or refusal by the City to comply therewith, the Holders of the Bonds or Notes may have suffered monetary damages, the extent of the remedy for which may be, to the fullest extent permitted by applicable federal and State law, determined, in addition to any other remedy available at law or in equity, in the course of any action taken pursuant to the Agreement; and to the fullest extent permitted by applicable federal and State law, the City waives any right to assert any claim to the contrary and agrees that it will neither in any manner directly or indirectly assert, nor in any manner directly or indirectly support any assertion of any claim to the effect that no such monetary damages have been suffered.

(c) The City further acknowledges that the acknowledgments and agreements described in paragraphs (a) and (b) above have been included as a result of negotiations with the underwriters of the first series of Bonds and may further acknowledge if and the extent to which any provision of the Agreement has been amended, or any provision of a Series Resolution has been included therein, as a result of the same or similar negotiations.

Amendment. (A) The Agreement may be (1) supplemented by delivery to the Trustee of an instrument certified by an Authorized Officer of the Authority and executed or approved by the City to the extent required by the Agreement and the Act, to (a) update the Transitional Capital Plan or (b) add to the covenants and agreements of the City or the Authority for the benefit of the Holders or surrender or limit for the benefit of the Holders any right or power of the City or the Authority; or

(2) amended by the parties with notice to the Trustee but without Bondholder or Noteholder consent to (a) cure any ambiguity or defect or (b) add provisions that are not prejudicial to the Holders of the Bonds and Notes, including provisions that do not take effect unless and until (i) no Bonds or Notes Outstanding prior to the adoption of such

amendment remain Outstanding or (ii) such amendment is consented to by Holders in accordance with the further provisions of the Agreement.

(B) Except as described in the foregoing paragraph (A), the Agreement may be amended only by the City and the Authority with the written consent of a Majority in Interest of the Subordinate Bonds, Senior Bonds and Notes (acting as three separate classes) to be Outstanding at the effective date thereof and affected thereby; but only with the unanimous written consent of the affected Holders to reduce the percentage of the Bonds and Notes required to be represented by the Holders giving their consent to any amendment.

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

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

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

June 30, 2004 and 2003

CONTENTS

Grant Thornton

Accountants and Business Advisors

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the governmental activities, the capital projects fund and the debt service fund of the New York City Transitional Finance Authority (the "Authority"), a component unit of the City of New York, New York, as of and for the years ended June 30, 2004 and 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the capital projects fund and the debt service fund of the Authority as of June 30, 2004 and 2003, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

New York, New York
September 8, 2004

60 Broad Street
New York, NY 10004
T 212.422.1000
F 212.422.0144
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

New York City Transitional Finance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements

The annual financial statements of the New York City Transitional Finance Authority (the "Authority") consist of two parts - management's discussion and analysis (this section) and the basic financial statements.

Our discussion and analysis of the financial performance of the Authority provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion & Analysis for State and Local Governments*. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. All revenues and expenses are taken into account regardless of when cash is paid or received.

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

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

The Authority is a component unit of New York City (the "City") and, accordingly, is included in the City's financial statements. The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for capital purposes ("Future Tax Secured Bonds") to $11.5 billion. The Authority has reached its statutory limit on Future Tax Secured Bonds. In addition, the Authority is 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 ("Recovery Costs"). The Authority had, as of June 30, 2004, $2 billion of Recovery Bonds outstanding.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements

During fiscal year 2004 total assets increased by $158 million. Restricted cash and cash equivalents increased by $16 million, restricted investments decreased by $100 million, unrestricted cash and cash equivalents decreased by $224 million, restricted cash for economic defeasance increased by $0.7 million, restricted investments held for economic defeasance increased by $313 million, personal income taxes receivable increased by $149 million and other assets increased by $4 million.

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

The increase of $16 million at June 30, 2004 in restricted cash and cash equivalents is comprised of an increase of $100 million in investments having an original maturity date of less than three months (thus a cash equivalent), an increase of $48 million in required debt service and a $132 million decrease in restricted cash and cash equivalents used to reimburse the City for capital projects.

The $224 million decrease in unrestricted cash and cash equivalents reflects the reduction of unrestricted grants received by the Authority from the City in the fiscal year ended June 30, 2004. The decrease in restricted investments held for debt service is primarily due to the funds being invested for less than three months at June 30, 2004.

The economic defeasance of $295 million of the Authority's Future Tax Secured Bonds in the year ended June 30, 2004 increased assets held in escrow by the Authority's Trustee by $314 million. Because this transaction was an economic defeasance, and not a legal defeasance, 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 liability for those economically defeased bonds is included in bonds payable on the books of the Authority.

Total liabilities increased by $455 million in fiscal year 2004. The primary changes were that long-term bonds payable increased by $1.1 billion, short-term debt payable decreased by $906 million and personal income taxes payable to the City increased by $149 million. The increase in long-term bonds payable reflects issuance of $1.9 billion of Future Tax Secured Bonds during the fiscal year ended June 30, 2004, of which $1.1 billion was used to pay bond anticipation notes, $145 million was used to reimburse the City for capital project costs and $709 million was used for defeasance of Future Tax Secured Bonds totaling $717 million. $295 million of the defeased Future Tax Secured Bonds were economically defeased and remain as a liability on the Authority's books while $422 million were legally defeased and were eliminated from the Authority's liabilities.

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

Total general revenues decreased by $671 million in fiscal 2004. The primary components of this decrease were a decrease of $224 million in the unrestricted grant received from the City, a $428 million decrease in personal income taxes retained due to (a) utilization of the unrestricted grant from the City, which was received in the fiscal year ended June 30, 2003, and (b) increased debt service including principal payments on bonds in fiscal year ended June 30, 2004.

Total program expenses decreased by $2.9 billion in fiscal 2004. The primary components of this decrease were a decrease of $1.3 billion in distributions to the City for its capital program, and a decrease of $1.6 billion in distributions to the City for Recovery Costs. In addition, interest expense increased by $18 million due to increased debt outstanding, and general and administrative expenses increased by $1.9 million primarily for liquidity and remarketing fees.

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements

Total assets increased by $155 million in fiscal 2004. Restricted cash and cash equivalents increased by $16 million, restricted investments decreased by $100 million, unrestricted cash and cash equivalents decreased by $224 million, restricted cash for economic defeasance increased by $0.7 million, restricted investments held for economic defeasance increased by $313 million and personal income tax receivable increased by $149 million.

Total liabilities decreased by $963 million in fiscal year 2004 which reflects the reduction in bond anticipation notes that were paid with the proceeds from the issuance of long-term debt and the increase of $112 million of deferred personal income tax revenue at June 30, 2004.

Total revenues decreased by $659 million in fiscal year 2004. The primary components of the decrease were a $224 million decrease in an unrestricted grant received from the City and a $428 million decrease in personal income taxes retained.

Expenditures decreased by $2.8 billion in fiscal year 2004. The primary components of this decrease were the distributions to the City for its capital program decreased by $1.3 billion, the distribution to the City for Recovery Costs decreased by $1.6 billion, interest expense increased by $40 million, principal amount of debt retired increased by $72 million, and general and administrative expenses increased by $1.9 million.

Other financing sources decreased by $2.3 billion primarily due to the decrease in the principal amount of bonds issued in fiscal year 2004.

New York City Transitional Finance Authority

STATEMENTS OF NET ASSETS (DEFICIT)

June 30,
(in thousands)

	2004	2003
ASSETS		
Restricted cash and cash equivalents	$ 153,632	$ 137,543
Restricted cash escrow for economic defeasance	708	-
Restricted investments	16,448	116,702
Restricted investments escrow for economic defeasance	312,879	-
Unrestricted cash and cash equivalents	400,014	624,000
Personal income tax receivable	165,229	15,949
Unamortized bond issuance costs	63,557	59,777
Total assets	1,112,467	953,971
LIABILITIES		
Distributions payable to New York City capital program	-	2,695
Personal income tax payable to New York City	165,229	15,949
Accrued expenses	2,532	2,541
Accrued interest payable	143,525	129,680
Bond anticipation notes payable	-	1,110,000
Interest rate cap obligation	16,060	13,720
Bonds payable		
Portion due within one year	389,260	184,925
Portion due after one year	12,974,625	11,839,335
Unamortized deferred bond refunding costs	(162,856)	(137,214)
Unamortized bond premium	293,459	204,754
Total liabilities	13,821,834	13,366,385
NET ASSETS (DEFICIT)		
Restricted for capital program	2,539	134,754
Restricted for economic defeasance	313,587	-
Deficit	(13,025,493)	(12,547,168)
Total deficit	$(12,709,367)	$(12,412,414)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

STATEMENTS OF ACTIVITIES

Year ended June 30,
(in thousands)

	2004	2003
Expenses		
General and administrative expenses	$ 11,328	$ 9,390
Distributions to New York City for		
Capital program	278,715	1,592,932
Recovery costs	-	1,564,884
Amortization of deferred bond refunding costs	16,511	12,529
Interest expense	489,798	471,420
Amortization of debt issuance expense	5,731	5,953
Total program expenses	802,083	3,657,108
General revenues		
Personal income tax revenue	5,693,704	4,455,749
Less remittances to New York City	(5,584,876)	(3,918,947)
Personal income tax revenue retained	108,828	536,802
Unrestricted grant from New York City	400,000	624,000
Unrealized loss on economic defeasance investments	(9,044)	-
Change in value of interest rate cap obligation	(2,340)	9,372
Investment earnings	7,686	5,753
Total general revenues	505,130	1,175,927
Change in net assets	(296,953)	(2,481,181)
Deficit - beginning of year	(12,412,414)	(9,931,233)
Deficit - end of year	$(12,709,367)	$(12,412,414)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2004
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$5,071	$ 148,561	$ 153,632
Restricted cash escrow for economic defeasance	-	708	708
Unrestricted cash and cash equivalents	-	400,014	400,014
Restricted investments	-	16,448	16,448
Restricted investments escrow for economic defeasance	-	312,879	312,879
Personal income tax receivable	-	165,229	165,229
Total assets	$5,071	$1,043,839	$1,048,910
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$2,532	$ -	$ 2,532
Personal income tax payable to New York City	-	52,933	52,933
Deferred personal income tax revenue	-	112,296	112,296
Total liabilities	2,532	165,229	167,761
Fund balances			
Reserved for capital projects	2,539	-	2,539
Reserved for debt service	-	165,009	165,009
Reserved for economic defeasance	-	313,587	313,587
Unrestricted funds	-	400,014	400,014
Total fund balance	2,539	878,610	881,149
Total liabilities and fund balances	$5,071	$1,043,839	$1,048,910

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

BALANCE SHEET
Governmental Funds

June 30, 2003
(in thousands)

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

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

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

Year ended June 30, 2004
(in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
Revenues			
Personal income tax revenue	$ -	$ 5,581,408	$ 5,581,408
Less remittances to New York City	-	(5,472,580)	(5,472,580)
Personal income tax revenue retained	-	108,828	108,828
Unrestricted grant from New York City	-	400,000	400,000
Investment earnings	346	7,340	7,686
Unrealized loss on economic defeasance investments	-	(9,044)	(9,044)
Total revenues	346	507,124	507,470
Expenditures			
Interest expense	-	508,033	508,033
Principal amount of bonds retired	-	179,510	179,510
Costs of debt issuance	8,489	-	8,489
Refunding bond issuance costs	-	2,129	2,129
Economic refunding bond issuance costs		1,476	1,476
Distributions to New York City for Capital program	278,715	-	278,715
General and administrative expenses	11,328	-	11,328
Total expenditures	298,532	691,148	989,680
Excess of expenditures over revenues	(298,186)	(184,024)	(482,210)
Other financing sources (uses)			
Principal amount of bonds issued	1,231,620	-	1,231,620
Bond premium, net of discount	44,895	-	44,895
Refunding bond proceeds	-	463,190	463,190
Payments to refunded bond escrow holder	-	(460,493)	(460,493)
Economic refunding bond proceeds		321,138	321,138
Transfers in (out)	1,997	(1,997)	-
Total other financing sources and uses	1,278,512	321,838	1,600,350
Net change in fund balances	980,326	137,814	1,118,140
Fund balances (deficit) - beginning of year	(977,787)	740,796	(236,991)
Fund balances (deficit) - end of year	$ 2,539	$ 878,610	$ 881,149

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

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

Year ended June 30, 2003
(in thousands)

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

The accompanying notes are an integral part of this statement.

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

June 30,
(in thousands)

	2004	2003
Total fund balance (deficit) - governmental funds	$ 881,149	$ (236,991)
Amounts reported for governmental activities in the statements of net assets (deficit) are different because:		
Costs of debt issuance are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), the costs of debt issuance are reported as capitalized assets and amortized over the lives of the debt.	63,557	59,777
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), bond premiums are reported as a component of bonds payable and amortized over the lives of the related debt.	(293,459)	(204,754)
Proceeds from interest rate cap agreements are currently available financial resources and are recognized as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), this amount is considered a liability and is reported at fair value.	(16,060)	(13,720)
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements but are reported in the statements of net assets (deficit). Those liabilities consist of:		
Bonds payable	(13,363,885)	(12,024,260)
Accrued interest on bonds	(143,525)	(129,680)
Costs of bond refunding are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	162,856	137,214
Personal income taxes due to the Authority at year-end but not collected within sixty days of year-end are recognized as deferred revenue in the governmental funds balance sheets. In the statements of net assets (deficit) and changes in net assets, all personal income tax receivables are recognized as revenue and are included in net assets. The corresponding amount of personal income taxes payable to the City of New York is higher in the statements of net assets (deficit) for this reason.		
Personal income tax payable to New York City	(112,296)	-
Deferred personal income tax revenue	112,296	-
Net assets (deficit) of government activities	$(12,709,367)	$(12,412,414)

The accompanying notes are an integral part of these statements.

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

Year ended June 30,
(in thousands)

	2004	2003
Net change in fund balances - total governmental funds	$ 1,118,140	$ 1,253,279
Amounts reported for governmental activities in the statements of activities are different because:		
Refunding bond proceeds and payments to refunded bond escrow holder are reported as other financing sources and uses in the governmental funds, but increase and decrease long-term liabilities in the statements of net assets (deficit).	(2,697)	(13,396)
Governmental funds report costs of bond refundings as expenditures. However, in the statements of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to advance refund the bonds.	(14,382)	(871)
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statements of net assets (deficit).	(1,231,620)	(3,772,565)
Bond proceeds used to fund the economic defeasance escrow are current financial resources to governmental funds but debt issued increases long-term liabilities in the statements of net assets (deficit).	(319,662)	-
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statements of net assets (deficit).	179,510	107,875
Governmental funds report costs of debt issuance as expenditures. However, in the statements of activities, the cost of debt issuance is amortized over the lives of the debt.	2,758	14,507
Governmental funds report bond premiums/discounts as other financing sources/uses. However, in the statements of activities, bond premiums/discounts are amortized over the lives of the debt as interest expense.	(12,815)	(47,132)
Governmental funds report revenue received from the sale of interest rate cap as other financing sources. However, statements of activities report changes in the fair value of the agreements.	(2,340)	9,372
Interest expense is reported in the statements of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required.	(13,845)	(32,250)
Change in net assets of governmental activities	$ (296,953)	$(2,481,181)

The accompanying notes are an integral part of these statements.

NOTE A - ORGANIZATION

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

The Authority was created by State legislation enacted in 1997 to issue and sell up to $7.5 billion in bonds and notes to fund a portion of the capital program of the City, the purpose of which is to maintain, rebuild and expand the infrastructure of the City. In June 2000, the State Legislature increased to $11.5 billion the Authority's capacity to issue bonds and notes for capital purposes ("Future Tax Secured Bonds"). 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. 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 ("Recovery Costs"). The Authority has issued its statutory limit of $11.5 billion of Future Tax Secured Bonds.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for unmatured interest on bonds payable, which is recognized when due. The governmental funds consist of the (a) Capital Projects Fund, which accounts for resources to be transferred to the City for its capital program and Recovery Costs and for the operations of the Authority, and (b) the Debt Service Fund, which accounts for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt.

NOTE B (continued)

Bond and bond anticipation note premiums, discounts and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the entity-wide financial statements. The governmental fund financial statements recognize the premiums, discounts, as well as debt issuance costs, during the current period. The face amount of debt issued and premium received are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

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

The Authority receives City personal income taxes, imposed pursuant to State law and collected on behalf of the Authority by the State, to service its debt and pay its administrative expenses. Funds for bond debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City.

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

NOTE C - BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), the Authority is authorized to issue $11.5 billion of Future Tax Secured Bonds. The Authority has issued $11.5 billion of Future Tax Secured Bonds and as of June 30, 2004, the Authority had outstanding debt of $11.3 billion of Future Tax Secured Bonds, including $295 million of economically defeased Future Tax Secured Bonds. The Authority includes the escrow funds for the economically defeased bonds in its assets and those funds provide for all future debt service on the economically defeased bonds.

In addition, the Act permits the Authority to have outstanding $2.5 billion of Recovery Bonds for Recovery Costs. As of June 30, 2004 and 2003, the Authority had outstanding $2 billion of Recovery Bonds.

The Authority funds its debt service requirements and operating expenditures from personal income taxes collected on its behalf by the State and, under certain circumstances, sales taxes. Sales taxes are only available to the Authority after such amounts required by the Municipal Assistance Corporation for the City of New York are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. No sales tax revenues were received or required during fiscal years 2004 and 2003.

All City personal income tax is paid by the State to the Authority. The Authority has pledged the personal income tax as collateral to secure its bonds. The Authority retains personal income taxes in an amount sufficient to service its debt and pay its operating expenditures, and remits the difference to the City. The Authority has no taxing power.

NOTE C (continued)

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

	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
	(in thousands)			
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 243,740	$ -	$ -	$ 243,740
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	600,655	-	(66,995)	533,660
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	599,915	-	(216,785)	383,130
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	69,580	-	(6,580)	63,000
Variable rate tax-exempt bonds due in 2028 (a)	100,000	-	-	100,000
1999 Fiscal Series A				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2016	329,440	-	(13,945)	315,495
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	25,435	-	(6,200)	19,235
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	222,500	-	-	222,500
Variable rate tax-exempt bonds due in 2028 (a)	277,500	-	-	277,500
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	392,390	-	(15,965)	376,425
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	29,470	-	(2,875)	26,595

NOTE C (continued)

	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
	(in thousands)			
1999 Fiscal Series B (continued)				
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	$ 100,000	$ -	$ -	$ 100,000
Variable rate tax-exempt bonds due in 2028 (a)	50,000	-	-	50,000
1999 Fiscal Series C				
3.5% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2028	310,400	-	(38,370)	272,030
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	32,420	-	-	32,420
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	97,230	-	(34,515)	62,715
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	205,235	-	(7,505)	197,730
5.90% to 7.125% serial taxable bonds maturing in varying installments through 2003	955	-	(955)	-
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	420,330	-	(5,375)	414,955
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005	7,475	-	-	7,475
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	228,615	-	(14,475)	214,140
Variable rate tax-exempt bonds due in 2030 (a)	100,000	-	-	100,000

NOTE C (continued)

	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
	(in thousands)			
2001 Fiscal Series B				
3.75% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2020	$ 285,765	$ -	$ (11,265)	$ 274,500
Variable rate tax-exempt bonds due in 2031 (a)	100,000	-	-	100,000
2001 Fiscal Series C				
3.65% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2022	331,955	-	(1,965)	329,990
Variable rate tax-exempt bonds due in 2032 (a)	100,000	-	-	100,000
2002 Fiscal Series A				
4% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2031	147,755	-	(2,335)	145,420
2002 Fiscal Series B				
3.5% to 5% serial and term tax-exempt bonds maturing in varying installments through 2031	411,145	-	(34,385)	376,760
Variable rate taxable bonds due in 2030 (a)	194,505	-	-	194,505
2002 Fiscal Series C				
4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	250,000	-	(9,710)	240,290
2003 Fiscal Series A				
3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,254,275	-	(22,710)	1,231,565
2003 Fiscal Series B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	670,230	-	(4,465)	665,765
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	62,780	-	(9,535)	53,245

NOTE C (continued)

	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
	(in thousands)			
2003 Fiscal Series C				
2.50% to 5.250% serial tax-exempt bonds maturing in varying installments through 2025	$ 441,735	$ -	$ (61,110)	$ 380,625
Variable rate tax-exempt bonds due in 2031 (a)	150,000	-	-	150,000
2003 Fiscal Series D				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	500,910	-	(13,215)	487,695
2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013	103,215	-	-	103,215
2003 Fiscal Series E				
2.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2033	550,000	-	-	550,000
2004 Fiscal Series A				
3.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2033	-	145,000	-	145,000
2004 Fiscal Series B				
2.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2032	-	545,620	-	545,620
2004 Fiscal Series C				
2.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2033	-	541,000	-	541,000
2004 Fiscal Series D				
2.00% to 5.000% serial tax-exempt bonds maturing in varying installments through 2017	-	709,240	-	709,240
Total bonds payable, excluding Recovery Bonds	9,997,555	1,940,860	(601,235)	11,337,180

NOTE C (continued)

	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
	(in thousands)			
2003 Series 1 Recovery Bonds				
Variable rate tax-exempt bonds due in 2022 (a)	$ 480,000	$ -	$ -	$ 480,000
2003 Series 2 Recovery Bonds				
Variable rate tax-exempt bonds due in 2022 (a)	520,000	-	-	520,000
2003 Series 3 Recovery Bonds				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	143,505	-	-	143,505
Variable rate tax-exempt bonds due in 2022 (a)	883,200	-	-	883,200
Total Recovery Bonds payable	2,026,705	-	-	2,026,705
Total bonds payable	12,024,260	$1,940,860	$(601,235)	13,363,885
Less current portion of bonds payable	184,925			389,260
Bonds payable due after one year	$11,839,335			$12,974,625

(a) Variable rates are adjusted daily or weekly and represent the lowest rate of interest that would cause the adjustable rate bonds to have a market value equal to the principal amount. The rates cannot exceed 9%.

(b) Fiscal 2003 Series A bonds include bonds callable on November 1, 2011. The callable term bonds are $659,770,000 maturing on November 1, 2026 and $122,500,000 maturing on November 1, 2028. Capital appreciation bonds (accreted value of $112,365,000 on November 1, 2011), maturing on November 1, 2029, are also callable. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 14% per annum. The callable bonds are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning November 1, 2011 at the option of the Authority in whole or in part at anytime, at a price of 100% of their principal amount plus accrued interest to the redemption date.

(c) $482,490,000 of Fiscal 2003 Series B term bonds maturing on February 1, 2029 are callable on February 1, 2011. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 10% per annum. Other bonds in this series callable on February 1, 2012 or later are those that mature on February 1, 2013, 2014 and 2015 with no change to the interest rate if not called. The Fiscal 2003 Series B Bonds maturing on February 1, 2029 are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning on February 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

NOTE C (continued)

(d) $295,180,000 of bonds shown as outstanding on June 30, 2004 were economically defeased on March 24, 2004 and an escrow account is held by the Authority Trustee, funded from the proceeds of the sale of Fiscal 2004 Series D.

On March 24, 2004, the Authority issued $709,240,000 of Fiscal 2004 Series D Future Tax Secured Bonds to advance refund $716,905,000 of its outstanding Future Tax Secured Bonds. $421,725,000 of the advanced refunded bonds were legally defeased and $295,180,000 of the advanced refunded bonds were economically defeased. In the legally defeased bonds refunding, the proceeds, net of costs of issuance, were invested in Defeasance Collateral (as defined in the Authority's indenture) consisting of U.S. Government securities and were deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the legally defeased bonds. In the economically defeased bonds refunding, the proceeds, net of costs of issuance, were invested in U.S. Government securities as well as federal agency bonds and STRIPS and were deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the economically defeased bonds.

Bonds economically defeased remain a liability and the escrow deposited with the Authority's Trustee is an asset on the Authority's records. The legally defeased bonds of $421,725,000 are not entitled to any benefit or security under the Authority's indenture and are payable from amounts on deposit in the escrow established for those bonds. The legally defeased bonds have been removed from the financial statements as a liability of the Authority. As of June 30, 2004 and 2003, the Authority had legally defeased bonds of $2,378,080,000 and $1,956,355,000 respectively, of which $2,176,790,000 and $1,845,770,000, respectively, are still outstanding.

The advance refunding in March 2004 resulted in an accounting loss of $38.8 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 $36.9 million and obtained an economic benefit of $23.7 million. The advance refunding in the fiscal year ended June 30, 2003 resulted in an accounting loss of $149 million and the Authority in effect reduced the aggregate debt service by $226 million and obtained an economic benefit of $148 million.

NOTE C (continued)

Debt service requirements at June 30, 2004, for bonds payable to their maturity are as follows:

	Principal	Interest (a)	Total
	(in thousands)		
Year ended June 30,			
2005	$ 389,260	$ 535,785	$ 925,045
2006	379,615	522,674	902,289
2007	415,750	508,195	923,945
2008	443,030	491,441	934,471
2009	428,920	474,451	903,371
2010 to 2014	2,599,330	2,254,069	4,853,399
2015 to 2019	3,015,890	1,770,559	4,786,449
2020 to 2024	2,911,350	1,052,844	3,964,194
2025 to 2029	2,176,500	418,904	2,595,404
2030 to 2034	604,240	46,865	651,105
	$13,363,885	$8,075,787	$21,439,672

(a) Actual variable rates at June 30, 2004 averaged approximately 0.95%, which is the rate used in this table. If variable interest is calculated at 5.00% per annum (which is the rate utilized for retention), total interest would be increased to $10,189,359 from the $8,075,787. 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.

Debt service accounts have been established under each of the Authority's indentures to provide security for the payment of interest on and principal of bonds outstanding. The principal and interest required to be paid are to be deposited into the debt service account in the quarter preceding the payment due date.

At June 30, 2004 and 2003, the Authority maintained its required debt service accounts totaling $164,775,000 and $116,413,000, respectively, of which $47,205,000 and $18,855,000 were for principal retirement, respectively, and $117,570,000 and $97,558,000 were for interest payments, respectively.

NOTE D - BOND ANTICIPATION NOTES PAYABLE

Bond anticipation notes are recorded at the principal amount outstanding and consist of the following:

	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
	(in thousands)			
2003 Fiscal Series 1				
2.5% tax-exempt bond anticipation notes maturing November 6, 2003	$ 555,000	$ -	$ (555,000)	$ -
2003 Fiscal Series 2				
2.0% tax-exempt bond anticipation notes maturing February 19, 2004	555,000	-	(555,000)	-
Total bond anticipation notes payable	$1,110,000	$ -	$(1,110,000)	$ -

NOTE E - CASH AND CASH EQUIVALENTS

At June 30, 2004, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately $5,071,000 and commercial paper of approximately $148,561,000. At June 30, 2003, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately $1,534,000 and commercial paper of approximately $136,009,000.

At June 30, 2004, unrestricted cash and cash equivalents consisted of cash of $5,000 and commercial paper of approximately $400,009,000. At June 30, 2003, unrestricted cash and cash equivalents consisted of a reverse repurchase agreement of $624,000,000.

At June 30, 2004, the Authority's restricted cash - economic defeasance consisted of cash held by the escrow agent in the economic defeasance account.

The Authority's investments classified as cash and cash equivalents have an original maturity date of three months or less. The Authority values those investments at cost plus accrued interest, which approximates market. The Authority's investments in commercial paper are held by the Authority's Trustee in the Authority's name.

NOTE E (continued)

At June 30, 2004 and 2003, the carrying amounts of bank deposits were approximately $5,071,000 and $1,534,000 respectively, and the bank balances were approximately $4,982,000 and $1,556,000, respectively. At June 30, 2004 and 2003, $100,000 and $194,000 respectively, of the bank deposits were insured by the Federal Deposit Insurance Corporation. The remaining balances were not collateralized.

NOTE F - RESTRICTED INVESTMENTS

At June 30, 2004 and 2003, the Authority's restricted investments of $16,448,000 and $116,702,000, respectively, were in commercial paper having an original maturity date of more than three months. The Authority values those investments at cost plus accrued interest, which approximates market. The commercial paper held had a rating of A-1 and P-1 or better at June 30, 2004 and 2003, respectively.

At June 30, 2004, The Authority's restricted investments in the economic defeasance escrow account at the Authority's Trustee were invested in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association bonds, notes and STRIPS; and United States bonds, notes and STRIPS. At June 30, 2004, the Authority valued these investments at market, which resulted in an unrealized loss of approximately $9,044,000. 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 does provide for all future debt service on the economically defeased bonds.

NOTE G - INTEREST RATE CAP OBLIGATIONS

On June 20, 2002, the Authority entered into three interest rate cap agreements (the "Interest Rate Cap Agreements") with the New York City Housing Development Corporation ("HDC") (a component unit of the City) relating to certain variable rate bonds issued by HDC. Under the agreements, the Authority will pay to HDC the amount by which the three-month LIBOR rate exceeds 7.35%, up to 14.85% (a maximum exposure of 7.50%), on a notional amount of $198,995,000 as of June 30, 2004 and 2003. The Authority will also pay to HDC the amount by which the three-month LIBOR rate exceeds 4.85% through April 30, 2007 and 7.35% thereafter (but not in excess of 14.85%), on a notional amount of $135,400,000 as of June 30, 2004 and 2003. Notional amounts will amortize over the life of the Interest Rate Cap Agreements by scheduled principal payments on the HDC bonds. The HDC bonds covered by the agreements mature serially through November 2032.

NOTE G (continued)

At June 30, 2004 and 2003, the Interest Rate Cap Agreements were estimated to have a market value of $16.06 million and $13.72 million, respectively, by the Authority's Swap Advisor. The valuations were based on an option valuation model using market interest rates and volatilities as of June 30 of each year.

The valuation at June 30, 2004 increased the interest rate cap obligation in the statement of net assets and resulted in an expense in the statement of activities. The valuation at June 30, 2003 reduced the interest rate cap obligation in the statement of net assets (deficit) and was reported as revenue in the statement of activities.

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

NOTE H - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority received an unrestricted grant from the City of $400,000,000 on June 29, 2004 and $624,000,000 on June 30, 2003.

NOTE I - ADMINISTRATIVE COSTS

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

NOTE J - SUBSEQUENT EVENTS

Subsequent to June 30, 2004, the Authority used the entire unrestricted grant received from the City to fund debt service and administrative expenses, rather than retaining personal income tax revenues for those purposes.

APPENDIX C

BONDS TO BE REDEEMED

The Authority expects to redeem Authority Bonds, at or prior to maturity, by applying the proceeds of the Series 2005 A and B Bonds, to provide for, at or prior to maturity, the payment of the principal of and interest and redemption premium, if any, on such bonds to the extent and to the payment dates set forth below. The refunding is contingent upon the delivery of the Series 2005 A and B Bonds.

Refunded bonds that are to be paid at maturity which are redeemable by their terms, if any, may be called for redemption at the option of the Authority if the escrow account is hereafter restructured to provide for their redemption. Any such restructuring must preserve (a) the sufficiency of the escrow account to pay the principal, interest to maturity or redemption, and any redemption premium on all the refunded bonds and (b) the exclusion from gross income for federal income tax purposes of interest on the Bonds and the refunded bonds.

The bonds are being provided for in whole or in part as indicated in the notes.

Series	Dated Date	Maturities	Payment Date	Amount
1998A	October 9, 1997	August 15, 2021	August 15, 2007	$ 5,795,000(1)(3)
1998B	January 22, 1998	November 15, 2005 (5¼%)	November 15, 2005	3,215,000(1)
		November 15, 2006 (4.20%)	November 15, 2006	3,525,000(2)
		November 15, 2006 (5%)	November 15, 2006	14,420,000(2)
		November 15, 2007 (5%)	November 15, 2007	12,510,000(1)
1998C	May 5, 1998	May 1, 2007	May 1, 2007	7,035,000(2)
		May 1, 2017	May 1, 2008	265,000(1)
		May 1, 2018	May 1, 2008	8,380,000(1)
1999A	November 24, 1998	November 15, 2005 (5%)	November 15, 2005	2,210,000(1)
		November 15, 2006 (4⅛%)	November 15, 2006	8,360,000(1)
		November 15, 2006 (5%)	November 15, 2006	6,000,000(2)
		November 15, 2007	November 15, 2007	23,285,000(2)
		November 15, 2008 (4¼%)	November 15, 2008	6,450,000(2)
		November 15, 2008 (5%)	November 15, 2008	17,995,000(2)
		November 15, 2009 (5%)	May 15, 2009	9,720,000(1)
		November 15, 2010 (5%)	May 15, 2009	24,905,000(2)
		November 15, 2011 (5¼%)	May 15, 2009	25,585,000(2)
		November 15, 2012 (5¼%)	May 15, 2009	27,485,000(2)
		November 15, 2013 (5¼%)	May 15, 2009	26,740,000(2)
		November 15, 2014 (5⅛%)	May 15, 2009	31,165,000(2)
1999B	March 9, 1999	November 1, 2008 (4⅛%)	November 1, 2008	4,675,000(1)
		November 1, 2008 (5%)	November 1, 2008	10,000,000(2)
		November 1, 2011 (5⅛%)	May 1, 2009	11,595,000(2)
		November 1, 2012 (5⅛%)	May 1, 2009	16,290,000(2)
		November 1, 2013 (5⅛%)	May 1, 2009	16,055,000(2)
		November 1, 2014 (5⅛%)	May 1, 2009	11,710,000(1)
		November 1, 2015 (5⅛%)	May 1, 2009	13,500,000(2)
1999C	May 13, 1999	May 1, 2006	May 1, 2006	710,000(1)
		May 1, 2007	May 1, 2007	10,845,000(2)
		May 1, 2012 (5¼%)	May 1, 2009	4,160,000(1)
		May 1, 2013 (5¼%)	May 1, 2009	3,180,000(1)
		May 1, 2015 (5¼%)	May 1, 2009	3,960,000(1)
		May 1, 2016 (5¼%)	May 1, 2009	6,605,000(1)
		May 1, 2025	May 1, 2009	48,100,000(1)(3)

Series	Dated Date	Maturities	Payment Date	Amount
2000B	February 2, 2000	November 15, 2005	November 15, 2005	585,000(1)
		November 15, 2006	November 15, 2006	15,365,000(2)
		November 15, 2007 (5.10%)	November 15, 2007	6,815,000(2)
		November 15, 2007 (5¾%)	November 15, 2007	7,985,000(2)
		November 15, 2008 (5¼%)	November 15, 2008	3,835,000(2)
		November 15, 2008 (5¾%)	November 15, 2008	13,185,000(2)
		November 15, 2009 (5.30%)	November 15, 2009	11,820,000(2)
		November 15, 2009 (5¾%)	November 15, 2009	6,155,000(2)
		November 15, 2010 (5⅜%)	May 15, 2010	6,150,000(2)
		November 15, 2010 (6%)	May 15, 2010	12,800,000(2)
		November 15, 2011 (6%)	May 15, 2010	10,585,000(2)
		November 15, 2012 (5½%)	May 15, 2010	2,650,000(2)
		November 15, 2012 (6⅛%)	May 15, 2010	6,780,000(2)
		November 15, 2013 (5.60%)	May 15, 2010	3,360,000(2)
		November 15, 2013 (6%)	May 15, 2010	4,695,000(2)
		November 15, 2014 (5¾%)	May 15, 2010	2,955,000(2)
		November 15, 2014 (6⅛%)	May 15, 2010	3,695,000(2)
		November 15, 2015 (5.80%)	May 15, 2010	4,015,000(2)
		November 15, 2016	May 15, 2010	26,815,000(2)
		November 15, 2018	May 15, 2010	1,445,000(2)
		November 15, 2019 (5¾%)	May 15, 2010	2,270,000(2)
		November 15, 2020 (5¾%)	May 15, 2010	16,245,000(2)
		November 15, 2021	May 15, 2010	6,640,000(2)
2000C	May 2, 2000	November 1, 2008	November 1, 2008	18,185,000(2)
		November 1, 2009 (5%)	November 1, 2009	4,710,000(2)
		November 1, 2009 (5½%)	November 1, 2009	14,385,000(2)
		November 1, 2010 (5½%)	May 1, 2010	2,845,000(1)
		November 1, 2011 (5¾%)	May 1, 2010	5,415,000(1)
		November 1, 2012 (5⅞%)	May 1, 2010	19,305,000(2)
		November 1, 2013 (5⅞%)	May 1, 2010	23,015,000(2)
		November 1, 2014 (5⅞%)	May 1, 2010	24,195,000(2)
		November 1, 2015 (5⅜%)	May 1, 2010	845,000(2)
		November 1, 2015 (5⅞%)	May 1, 2010	22,775,000(2)
		November 1, 2016 (5.40%)	May 1, 2010	865,000(2)
		November 1, 2016 (5⅞%)	May 1, 2010	1,655,000(2)
		November 1, 2017 (5½%)	May 1, 2010	880,000(2)
		November 1, 2017 (5⅞%)	May 1, 2010	28,830,000(2)
		November 1, 2018	May 1, 2010	31,455,000(2)
		November 1, 2019	May 1, 2010	33,180,000(2)
		November 1, 2020	May 1, 2010	33,165,000(1)
		November 1, 2024	May 1, 2010	16,570,000(1)(3)
2001A	October 31, 2000	February 15, 2017 (5¾%)	February 15, 2010	14,620,000(2)
2002A	July 10, 2001	May 1, 2014	May 1, 2011	3,505,000(1)
2002B	November 14, 2001	May 1, 2007 (4¾%)	May 1, 2007	6,540,000(2)
		May 1, 2010 (5¼%)	May 1, 2010	4,110,000(1)
		May 1, 2011 (5¼%)	May 1, 2011	4,330,000(1)

(1) The amount shown is a portion of the bonds of this description
(2) The amount shown is all of the bonds of this description except those, if any, that have been previously refunded
(3) The refunded bonds will be credited against the following redemption dates:

Fiscal 1998 Series A, Term Bond Due 2021	
August 15, 2019	$ 5,795,000

Fiscal 1999 Series C, Term Bond Due 2025	
May 1, 2020	$ 8,565,000
May 1, 2021	7,920,000
May 1, 2022	10,040,000
May 1, 2023	6,355,000
May 1, 2024	8,055,000
May 1, 2025	7,165,000

Fiscal 2000 Series C, Term Bond Due 2024	
November 1, 2021	$16,570,000

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

April 1, 2005

New York City Transitional Finance Authority

We have acted as bond counsel to the New York City Transitional Finance Authority (the "Authority"), a public benefit corporation organized under the laws of the State of New York (the "State"), in the Authority's issuance of its Future Tax Secured Refunding Bonds, Fiscal 2005 Series A and B (the "New Bonds"). The New Bonds are being issued pursuant to Chapter 16, Laws of New York, 1997, as amended (the "Act"), to an Indenture dated as of October 1, 1997, as amended and supplemented (the "Indenture"), between the Authority and U.S. Bank Trust National Association, as Trustee, and to a Financing Agreement dated October 1, 1997, as supplemented (the "Agreement"), between the Authority and The City of New York (the "City"). 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 Subseries A-1 Bonds and the Subseries B-1 Bonds are Senior Bonds and the Subseries A-2 Bonds and Subseries B-2 Bonds are secured on a parity with the Authority's Recovery Bonds and Parity Debt, subordinate to Senior Debt Service and operating expenses. The Authority is authorized to issue additional bonds (together with such bonds heretofore issued and the New Bonds, the "Bonds") on the terms and conditions set forth in the Indenture and all such Bonds shall be entitled to the benefit, protection and security of the Indenture in the order of priority set forth therein. We assume the parties will perform their respective covenants in the Indenture and the Agreement in all material respects.

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

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

2. The New Bonds have been duly authorized, executed, and delivered by the Authority and are valid and binding obligations of the Authority payable from the Revenues pledged and the other collateral provided therefor in the Indenture. The Bonds do not constitute a debt of the State or the City, and neither the State nor the City shall be liable thereon, nor shall the Bonds be payable out of any funds other than those of the Authority.

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

4. The Personal Income Taxes are subject neither to appropriation by the City or the State, nor to prior claims in favor of other obligations or purposes of the City or the State except as specified in

§1313 of the Tax Law with respect to overpayments and the State's reasonable costs in administering, collecting and distributing such taxes. Alternative Revenues consisting of sales and compensating use taxes imposed by the State, if payable to the Authority pursuant to the Act, are subject to State appropriation and to a prior claim of the Municipal Assistance Corporation for The City of New York. Alternative Revenues consisting of sales and compensating use taxes imposed by the City, if payable to the Authority pursuant to the Act, are not subject to appropriation by the City or the State. Upon any failure of the State Legislature to make required appropriations for State debt obligations, the Tax Revenues would not constitute revenues applicable to the General Fund of the State; hence Article 7, Section 16 of the State Constitution does not mandate such money to be set apart by the State Comptroller for the payment of State obligations.

5. The Indenture (a) has been duly and lawfully authorized, executed and delivered by the Authority, (b) creates the valid pledge of Revenues and other collateral that it purports to create and (c) is a valid and binding agreement, enforceable in accordance with its terms, of the Authority, and to the extent specified in the Act, the State. The Act does not restrict the right of the State to amend, modify, repeal or otherwise alter statutes imposing or relating to the taxes payable to the Authority pursuant to §1313 of the Tax Law, nor does it obligate the State to make any payments not specified in the Act or impose any taxes to satisfy the obligations of the Authority.

6. The lien of the Indenture on the Revenues for the security of the Senior Bonds and other instruments to the extent specified in the Indenture is, and pursuant to the covenant of the Authority in the Indenture will be, prior to all other liens thereon. The pledge of Revenues and other collateral made by the Authority in the Indenture is valid, binding and perfected without any physical delivery of the collateral or further act, and the lien thereof is valid, binding and perfected against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of such parties' notice thereof.

7. The Agreement has been duly and lawfully authorized, executed and delivered by the Authority and the City pursuant to the Act, and is a valid and binding agreement of each of them.

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

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

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

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

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

13. No registration with, consent of, or approval by any governmental agency or commission that has not been obtained is necessary for the execution and delivery of the New Bonds. The adoption and compliance with all of the terms and conditions of the Indenture and the New Bonds, and the execution and delivery of the New Bonds, will not result in a violation of or be in conflict with any existing law.

The rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the extent constitutionally applicable and except as specifically stated above, and may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

TABLE OF CONTENTS

New York City TRANSITIONAL FINANCE AUTHORITY

$920,645,000

Future Tax Secured Refunding Bonds Fiscal 2005 Series A

$780,965,000 Subseries A-1 (Senior Bonds)

$132,145,000 Subseries A-2 (Subordinate Bonds)

Future Tax Secured Refunding Bonds Fiscal 2005 Series B

$5,930,000 Subseries B-1 (Senior Bonds)

$1,605,000 Subseries B-2 (Subordinate Bonds)

OFFERING CIRCULAR

March 18, 2005