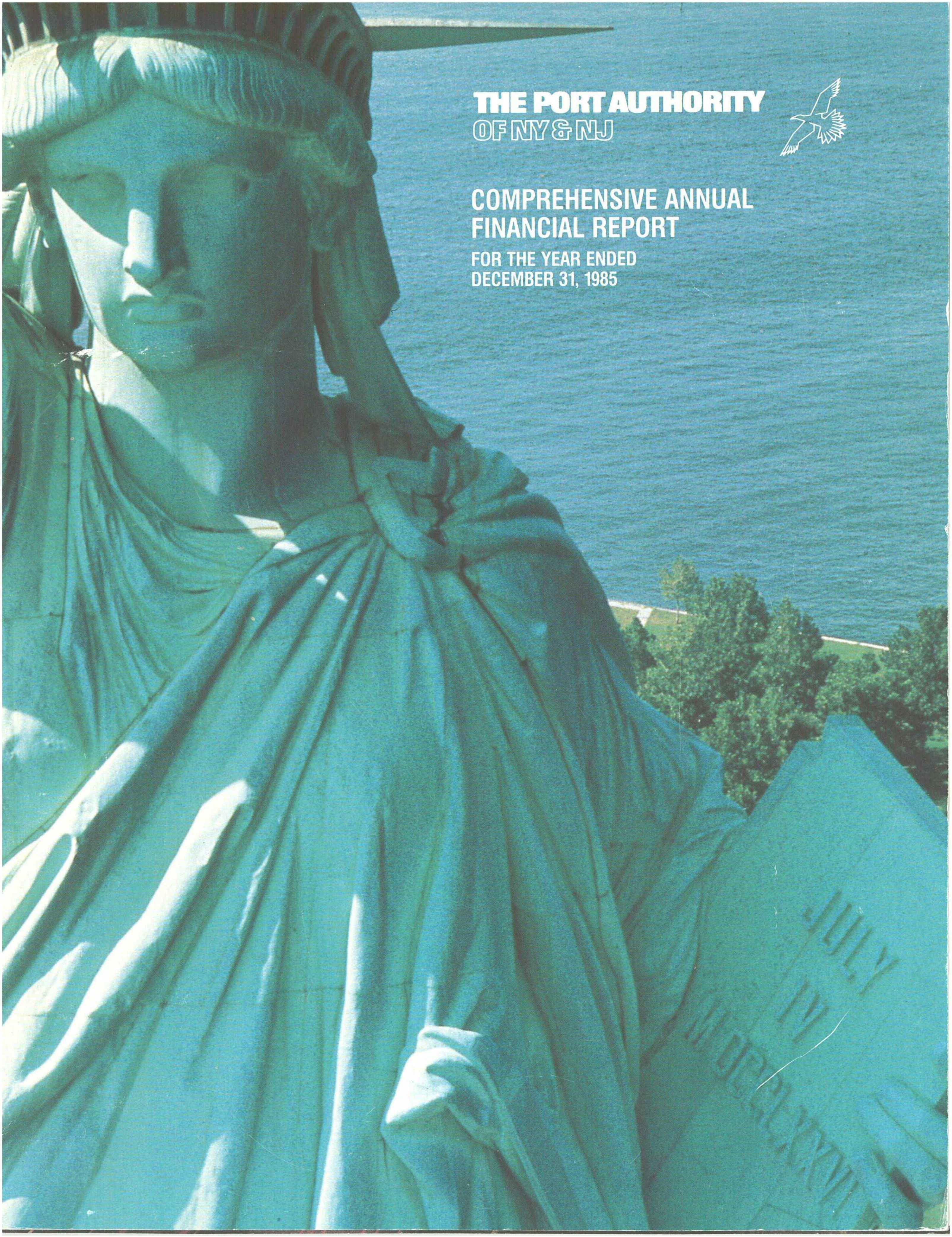
THE PORT AUTHORITY
OF NY & NJ

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1985



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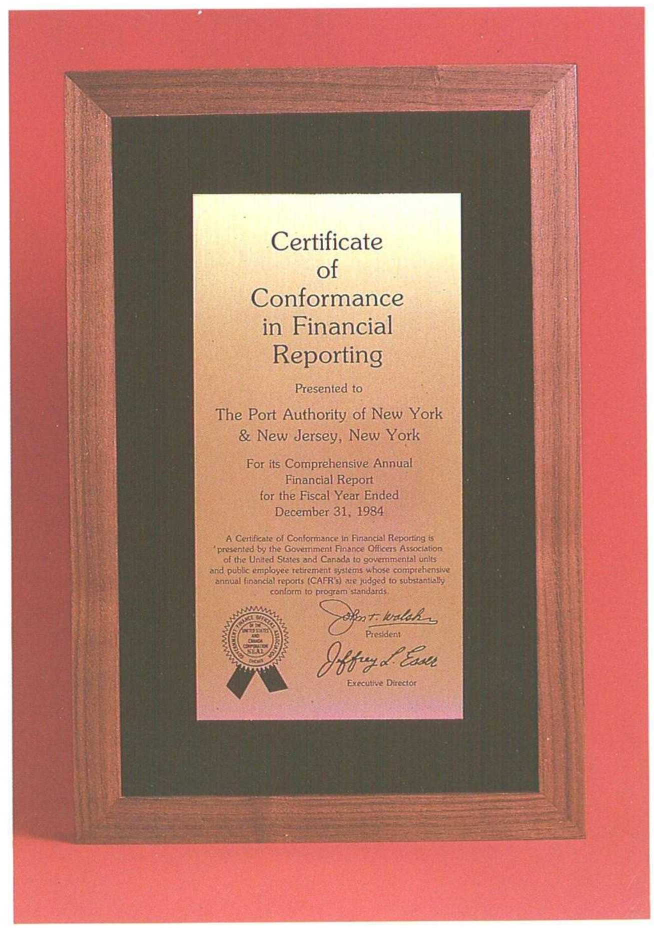


The Government Finance Officers Association of the United States and Canada Certificate of Conformance in Financial Reporting, the highest form of recognition in governmental accounting and financial reporting, was presented to the Port Authority of New York and New Jersey for its 1984 Comprehensive Annual Financial Report.

Honorable Mario M. Cuomo, Governor
State of New York

Honorable Thomas H. Kean, Governor
State of New Jersey

Honorable Mario M. Cuomo
Governor, State of New York

Honorable Thomas H. Kean
Governor, State of New Jersey

Your Excellencies:

In accordance with the Port Compact of 1921, we are pleased to submit to you and to the New York and New Jersey Legislatures the 1985 Annual Report of The Port Authority of New York and New Jersey.

Sixty-five years ago, in an act that required great vision and transcended geographic rivalries, the Governors of the States of New York and New Jersey created The Port Authority of New York and New Jersey. In a world that is increasingly competitive, the need for regional cooperation is even greater today than it was in 1921.

The dynamics of change are transforming the region served by the Port Authority: the number of jobs has increased; the spread of new residential growth has pushed further into the suburbs and into revitalized areas of the inner cities; waterfront areas, long neglected, are becoming attractive sites for new development. The mushrooming development in Northern New Jersey and along Manhattan's West Shore has—political jurisdictions notwithstanding—turned the Hudson River into just another avenue in a burgeoning central business district.

As a result of these changes, we are confronted with new problems and tougher challenges. Commutation patterns have shifted—moving more people longer distances on already overtaxed facilities. The gentrification phenomenon has had economic and social effects that range from the proliferation of the homeless, who use our public spaces for shelter, to heightened public aspirations about the use of areas on or near the waterfront. These waterfront properties still have to provide also for marine businesses, waterborne commerce, and less aesthetic but nevertheless vital activities, such as resource recovery plants or industrial plants.

Even more compelling is the need for us to recognize that we are an economic entity in this region—New York and New Jersey—and that our competitive challenges come from other cities and regions in this country. Our airport systems and our port facilities combined generate more than six percent of the gross regional product. Yet, our airports are being sorely challenged by air gateways from Montreal to Dallas and our port commerce, which is still preeminent in the nation, must deal with ever-increasing competitive pressure from other Atlantic Coast ports.

The Board and staff of the Port Authority have been deeply involved in developing the strategies to face up to these challenges. Clearly, we must make the capital investments to modernize and expand our aviation and port capabilities. We must also make the heavy investments necessary to deal with ever-growing trans-Hudson congestion. Obviously, too, we must renew our dedication to those areas of our region where the recent economic revival of our area has yet to take hold.

We are prepared to commit to a series of major reinvestments to achieve this course. This is the time to focus once again on our basic businesses—to adopt a "back to basics" approach that will drive the Port Authority for years to come.

We are fortunate to have leadership in both of our states that understands these pressing issues and envisions a region that will provide a high quality of life for its people for the decades to come. Similarly, under the stewardship of my predecessor, Alan Sagner, and former Executive Director Peter C. Goldmark, Jr., the Port Authority moved boldly to address the pressing demands of another challenging era.

With the continued and enlightened leadership of the States, the Board of Commissioners is confident that the Port Authority can fulfill the essential missions entrusted to it by the people of New York and New Jersey.

Sincerely,

April 10, 1986

Philip D. Kaltenbacher
Chairman

Robert F. Wagner
Vice Chairman

THE PORT AUTHORITY OF NY & NJ

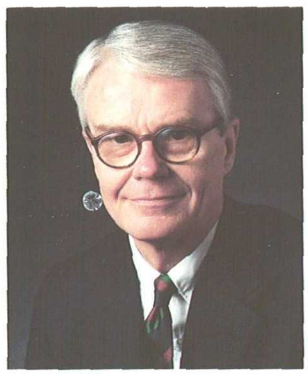
Board of Commissioners

Philip D. Kaltenbacher, Chairman[1]
Robert F. Wagner, Vice Chairman
Jerry Fitzgerald English
Lewis L. Glucksman[2]
James G. Hellmuth
Henry F. Henderson, Jr.
William K. Hutchison
H. Carl McCall[2]
John G. McGoldrick
William J. Ronan
Alan Sagner[1]
Howard Schulman
Robert V. Van Fossan

Philip D. Kaltenbacher
Chairman and Chief Executive Officer
Seton Company

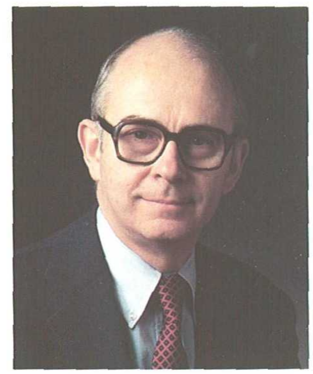
Robert F. Wagner
Attorney
Finley, Kumble, Wagner, Heine, Underberg, Manley & Casey

Jerry Fitzgerald English
Attorney
Of Counsel to Kerby, Cooper, Schaul & Garvin and to Bressler, Director & Rothenberg



William K. Hutchison
Partner
Christenson and Montgomery

H. Carl McCall
Vice President
Citibank, N.A.



John G. McGoldrick
Attorney
Schulte Roth & Zabel

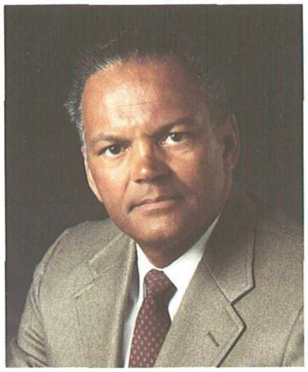
Howard Schulman
Schulman & Altman

Robert V. Van Fossan
Chairman and Chief Executive Officer
Mutual Benefit Life Insurance Company

1 Commissioner Kaltenbacher, a member of the Board since January 1983, was elected Chairman on September 12, 1985, succeeding Commissioner Sagner, who had been at the Board's helm since 1977.

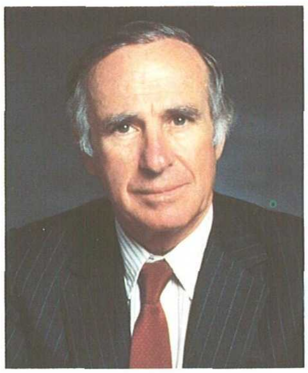
2 Commissioner McCall joined the Board on January 31, 1985, succeeding Commissioner Glucksman.

ames G. Hellmuth
ice President
ankers Trust New York Corporation

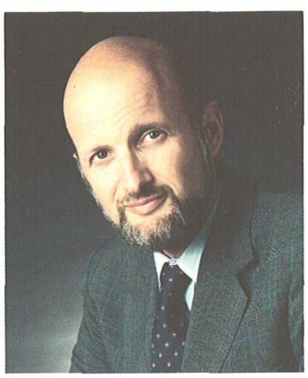


Henry F. Henderson, Jr.
President
H. F. Henderson Industries

)r. William J. Ronan
'ice Chairman
:CX, Inc.



Alan Sagner
Principal
Alan Sagner Company



Stephen Berger
Executive Director

Officers and Department Directors

Stephen Berger, Executive Director*

Patrick J. Falvey, General Counsel
and Assistant Executive Director

Sidney J. Frigand, Assistant Executive Director/
Government, Community and Public Affairs

Louis J. Gambaccini, Assistant Executive Director/
Trans-Hudson Transportation

Katy MacKay, Assistant Executive Director/
Administration

Hugh O'Neill, Assistant Executive Director/
Policy Planning and Business Development

Joseph L. Vanacore, Assistant Executive Director/
Capital Programs

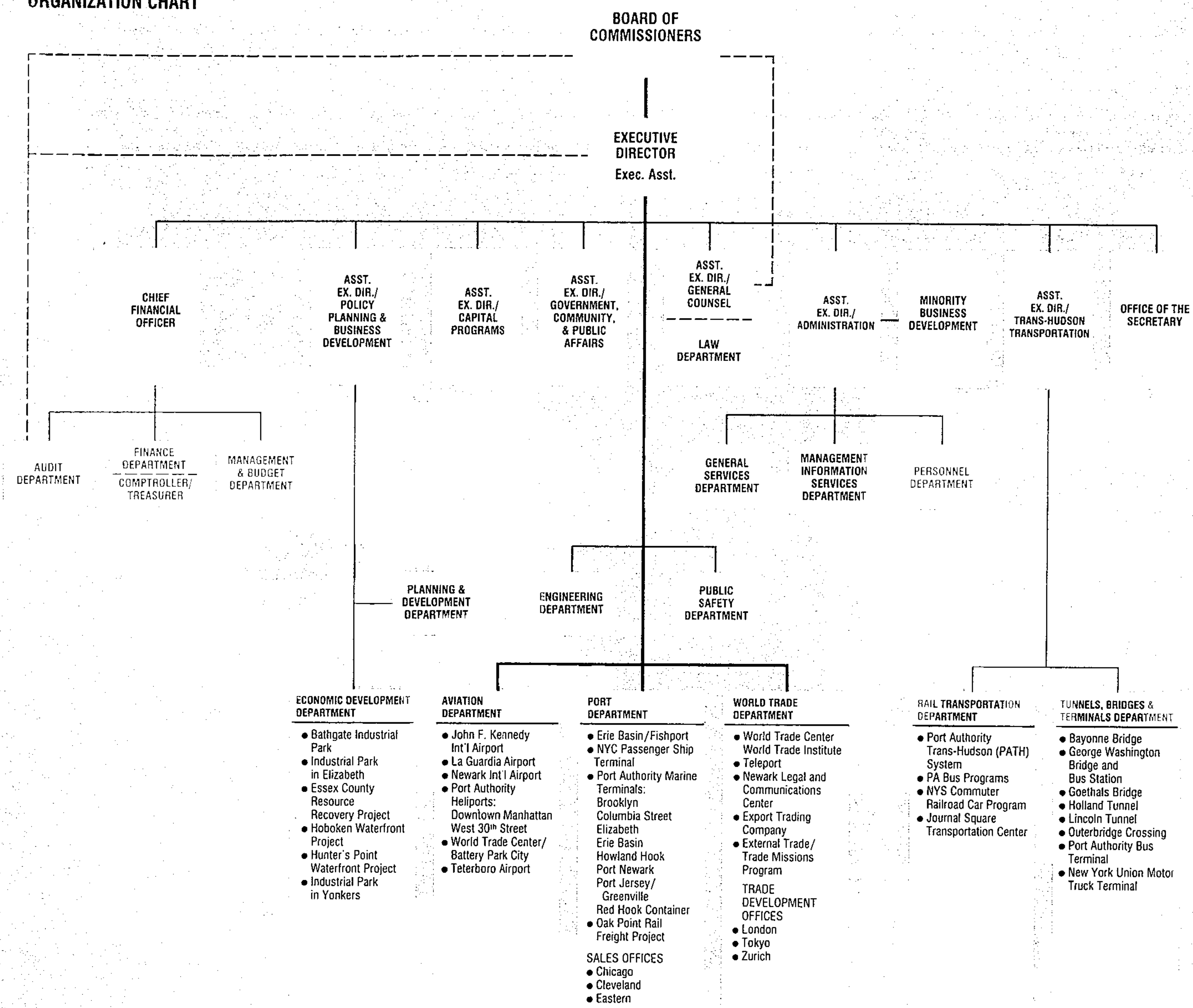
Barry Weintrob, Chief Financial Officer

Robert J. Aaronson, Aviation
Anthony Barber, Tunnels, Bridges & Terminals
Gene C. Gill, General Services
Francis A. Gorman, Comptroller
Richard R. Kelly, Rail Transportation
James J. Kirk, Port
Doris E. Landre, Secretary
Phil LaRocco, Economic Development
Donald R. Lee, Audit
Lillian C. Liburdi, Management & Budget
Rino M. Monti, Engineering and Chief Engineer
Edward J. O'Malley, Personnel
James J. O'Malley, Management Information Services
Martin E. Robins, Planning & Development
Victor T. Strom, Public Safety
Guy F. Tozzoli, World Trade
Marshal L. Wilcox, Jr., Treasurer

* Stephen Berger was named Executive Director effective October 1, 1985, succeeding Peter C. Goldmark, Jr., who resigned in August to accept a position in the private sector.

THE PORT AUTHORITY OF NY & NJ

ORGANIZATION CHART



Letter from the Executive Director

The Port Authority's Annual Report for 1985 chronicles a year of transition for the New York-New Jersey region and for the Authority. It was a year of continued economic vitality, suggesting that the region is responding successfully to many of the economic changes that just a decade ago seemed so threatening. It was a year in which our evolution toward the economy of the twenty-first century accelerated.

It was a year in which the Port Authority's ambitious capital improvement plans began to be translated into higher levels of investment—into steel and bricks and mortar. And it was a year in which Peter Goldmark completed his outstanding tenure as the Port Authority's Executive Director, and in which the Port Authority's Commissioners gave me an opportunity to serve the region's people.

During 1985, the Port Authority's strategic planning process led us to a heightened awareness of the need to increase our investments in the Authority's basic businesses—the New York-New Jersey port, the regional airport system, the trans-Hudson transportation network. In order to fulfill its mission and meet its commitments in the years ahead, the Authority will have to maintain and rebuild its existing facilities, many of which are several decades old. It will have to expand many facilities to meet the higher levels of demand that result from continued regional growth. And it will have to invest in the new facilities that will be required in tomorrow's rapidly changing economy.

This multi-billion dollar investment need represents a major challenge to the Port Authority. Meeting the challenge will require us to strengthen our capacity to plan and execute major capital projects. It will call for great skill and imagination in managing construction on the PATH system, on our bridges and tunnels, and at the airports, while we continue to deliver services that are essential to the region's day-to-day economic life. And it will require us to generate new revenues to finance the greatly expanded capital program.

The challenge is formidable—but for the organization that built the George Washington Bridge and the World Trade Center, that revitalized the PATH system, that developed the world's first modern international jetport and its first containerport, that built one of the nation's first and most successful inner-city industrial parks, it is a familiar one as well. I am fully confident that the Port Authority can respond as creatively and effectively in the years ahead as it has in the past.

But we cannot do the job alone. The States of New York and New Jersey, the region's municipal governments and community organizations, its business leaders and its labor organizations are of necessity our partners in this undertaking. Only through the cooperation of all of these interests can we assure that the region will continue to grow, and to be a strong competitor in an increasingly competitive global economy. If we succeed, the future will be one of greater opportunity for all the region's people—especially for those who have not fully shared the benefits of the past decade's recovery.

The Port Authority stands ready to help the region's people build their future.

Stephen Berger
Executive Director

THE PORT AUTHORITY IN A YEAR OF TRANSITION

1985 was a year of growth and renewal throughout the New York–New Jersey Metropolitan Region, a region on the move. For the Port Authority, it was also a year of challenge and transition, of strengthening the agency's commitments to its ongoing responsibilities of moving people, goods and information while sharpening its focus on markets and methods of operation to meet the needs of the future.

1985 saw major fourth-quarter changes in the Authority's leadership—but not its commitments. Commissioner Philip D. Kaltenbacher accepted election to the chairmanship, replacing Commissioner Alan Sagner, who had been at the Board's helm since 1977. Investment banker Stephen Berger joined the agency to fill the Executive Director post left vacant by the departure of Peter Goldmark, the agency's chief executive officer for the past eight years.

Executive Director Berger announced a reorganization of key executive staff to reflect his analysis of Port Authority priorities:

- Patrick J. Falvey continued his responsibilities as General Counsel and Assistant Executive Director.
- Sidney J. Frigand, Assistant Executive Director/Government, Community and Public Affairs, assumed responsibility for state legislative relations while retaining oversight of Federal, local and community relations, as well as media information services.
- Louis J. Gambaccini was appointed Assistant Executive Director/Trans-Hudson Transportation with oversight of rail transportation operations, tunnels, bridges and terminals, and trans-Hudson improvement studies under way.
- Francis A. Gorman was named Comptroller with responsibility for the work of all accounting units of the Finance Department, as well as liaison with external auditors.
- Katy MacKay assumed the post of Assistant Executive Director/Administration with oversight of General Services, Personnel, Management Information Services, and the Office of Minority Business Development.
- Hugh O'Neill was named Assistant Executive Director/Policy Planning and Business Development.

Lincoln Tunnel manager joins member of her communications desk staff to check morning traffic flow through South Tube on closed circuit TV.

- Joseph L. Vanacore was named Assistant Executive Director/Capital Programs with responsibility for coordinating the agency's multi-billion dollar five-year capital plan.
- Barry Weintrob was appointed Chief Financial Officer and continued as Director of Finance Department.

1985, finally, was a year of epic traffic, a mixed blessing that strained the capacities of the Authority's trans-Hudson and aviation facilities even as it helped confirm the region's new vigor.

All told, it was a year that called upon all of the Port Authority's resources to maintain high standards of excellence while meeting the escalating demands of the present and the formidable challenges of the years to come.

A Region on the Rise

By year's end, the region was in strong economic shape. It had made a remarkable recovery from the crisis years of the early and mid-1970s. Almost one million new jobs had been created since 1976, dropping unemployment rates to well below those of the nation. There were real gains in both business and personal income. In the course of the decade just completed, the region had gained more than 120 million square feet of new office space and construction of more was well under way. Private investment had increased on both sides of the Hudson River. The years of population loss in the major cities had ceased, the figures had stabilized and begun to show a slight increase. Most importantly, all signs now pointed to continued expansion.

During those long recovery years, the Port Authority assumed a significant new role as catalyst in regional renewal and redevelopment, operating in collaboration with state and municipal officials and agencies in the shared conviction that the region's well-being depended upon the resurrection of long-neglected capital investment and infrastructure improvements. With the approval of the two States, it also broadened its mission to allow an active role in spurring economic development and renewal outside of Manhattan's Central Business District, particularly in the region's "inner ring" of municipalities and communities which had been ravaged by recession and relocation with massive losses in jobs and investments.

Addressing the new technologies that would encourage the retention of the region's financial core as well as growth in its service-oriented industries, the Port Authority and its public and private partners continued work on Teleport to provide sophisticated new telecommunications systems and state-of-the-art facilities to link the region by satellite with the rest of the country and the rest of the world.

In addition, the organization expanded its international trade development activities on behalf of the region. Its programs include not only the exploration of new overseas markets for regional products, but also the sponsorship of trade missions abroad and the development of XPORT, its

George Washington Bridge lights turn to diamonds during midwinter evening commuter hours. Photo, shot from top of one of bridge's New Jersey towers, looks eastward to Washington Heights, New York.

own export trading company created to encourage the region's small to medium-sized firms to venture into selling their products abroad.

1985—The Port Authority in Retrospect

The Port Authority's ongoing trade and transportation responsibilities, together with its new projects and capital enterprises, by year's end comprised an uncommon inventory.

Supported solely by its own revenues, the agency was running five major operations crucial to the economy of the region: the port facilities, the major airports, the trans-Hudson transportation facility network, world trade promotion and development, and regional economic development. In addition, the Port Authority was preparing to commit several billion dollars over the next five years to capital improvements—primarily to its aviation, marine and bistate transportation facilities—in order to equip them to meet the demands of the future.

Major projects at year's end, some under development, some already or soon to be under way, included: redevelopment programs and/or expansions at all three airports; rehabilitation of the PATH commuter rail system with new and rehabilitated cars, an enhanced safety program and station improvements; a major rehabilitation of the Holland Tunnel; and modernization of the Authority's marine facilities. Construction in progress or soon to begin included work on the Fishport in Brooklyn's Erie Basin, the Teleport on Staten Island, Bathgate Industrial Park in the South Bronx, the Essex County Resource Recovery facility in Newark, the Newark Legal and Communications Center, and additional industrial parks in Yonkers, New York and Elizabeth, New Jersey. Plans also progressed on waterfront development projects in Hoboken, New Jersey, and Hunter's Point, New York.

AVIATION

The leading gateway for international air travel and air cargo, John F. Kennedy International Airport, handled nearly 30 million passengers in 1985. Congestion is already a problem. A massive redevelopment plan is on the drawing board to enable the airport to handle the 45 million people expected to use it by the year 2000.

During the year, several projects paved the way:

- The Port Authority, in conjunction with New York State, is building a second major entrance to JFK in the 150th Street area of the airport. Improvements include connections to the Southern Parkway, Nassau Expressway, and Van Wyck Expressway.

- Work began on interim International Arrivals Building improvements to maintain amenities and ease the flow of passengers through the facility.

- All the airport's car rental operations were brought together in a new consolidated center. Its location at Kennedy's Federal Circle means easy access to main airport arteries and to all terminals by shuttle bus or van.

- Kennedy's first international air courier clearance center received Board approval at year-end and will materialize early in 1986. Located in the airport's cargo area, at a good distance from the International Arrivals Building and its passengers, the new center will permit isolation of incoming courier packages in a separate facility for U.S. Customs clearance and courier service pick-up. The arrangement will expedite clearances for the couriers. It also will benefit incoming passengers by relieving congestion at baggage carrousels, shortening lines in Customs Hall, and reducing traffic on the roadways in the central terminal area.

Newark International Airport continued its spectacular passenger growth in 1985. Outpacing every major airport in the nation, Newark has experienced a 237 percent increase in passenger volume over the past seven years. The air traveler count nearly equaled that of JFK in 1985.

Although the most modern of the three regional airports, Newark has capacity problems. Most serious are those of its roadways which, by mid-1985, were being used by more than the number of vehicles they were designed to accommodate.

During the year, a combination of ongoing projects and evaluations prepared the way for future growth, including:

- Completion of the International Flight Center in Terminal C, providing international travelers with full arrival and departure facilities, including Federal Inspection services. Work by PEOPLExpress on its portion of the terminal progressed toward full completion in 1987. PEOPLExpress is Newark's largest and still growing airline.

- Authorization of $3.6 million in roadway improvements to accommodate traffic growth expected by mid-1987.

- Extensive studies of future long-term parking needs, roadway modifications and ways to lure airport patrons, visitors and employees out of their cars and into such high-occupancy vehicles as vans, buses, or even trains.

Barged to Brooklyn's New York Rail Car Corp. for complete rehabilitation in early spring, this car and three others were back by November for testing prior to their return to PATH service.

Thousands of New Jersey commuters pour into Lower Manhattan every morning via PATH and World Trade Center. The setting here: PATH's escalators to WTC Concourse.

• The grand opening on January 31 of a 10-story, 400-room Marriott Hotel in the heart of the airport.

LaGuardia Airport, the smallest of the three airports, also must expand its terminal and land-side capacity to meet present and future needs. LaGuardia is one-quarter the size of Newark International; the whole airport could fit into Kennedy's Central Terminal Area. By the year 2000, it must be readied to handle a projected 30 million passengers—50 percent more than it handled in 1985.

Projects and plans begun or continued during the year included:

• Renovation of the central terminal building's interior to relieve congestion and improve amenities.

• Planning for a new unit terminal to allow the eastern end of the airport to accommodate 15 million passengers.

• Preparations for widening of a major access route, improvement to on-airport roadways, and construction of a new roadway to the east end of the airport to ease congestion and redistribute traffic.

A number of patron service improvements were in place at the airports by year's end. Among them were:

• A pilot system to provide computerized information for LaGuardia passengers, with plans to extend the service to Newark and Kennedy.

• Consolidated ground transportation counters to afford travelers information on limousine, taxi and bus service, and to help arrange for some of these services upon request.

• A new Office of Ground Transportation to aid development of quality public transportation to the airports.

• A "standards of excellence" pilot program to monitor courtesy and efficiency of ground transportation operators.

• Promotion of the Air Transcenter at midtown Manhattan's Port Authority Bus Terminal, resulting in a marked and continuing increase in its use by patrons bound for all three airports.

Kennedy, Newark and LaGuardia together continued to handle more air cargo than any other air cargo center in the world in 1985; a 100 percent increase is projected for 1995. Accommodation for that volume has mandated an ambitious program of air cargo facility and service developments. By the end of 1985:

Not an airport patron but a "visitor in bronze," on loan to the Port Authority by artist J. Seward Johnson of Princeton, N.J. Hundreds of the agency's permanent artworks can be seen at facilities throughout the region.

• New cargo buildings were in the works for both Newark International and Kennedy, as were roadway improvements to keep air cargo moving after arrival on the field.

• Planning for "Air Cargo Fast Flow," a computerized system of virtually paperless processing for air cargo imports, had moved forward, with eight airlines at JFK already participating in phase one of the system. When fully operational, the system should slash processing time by at least 50 percent.

• Marketing of Kennedy International's new Foreign Trade Zone was continuing, while a second FTZ was being planned for Newark.

• In the fall, the Port Authority began work to expand and improve the Downtown Manhattan Heliport. When completed late in 1986, the $9 million heliport will be one of only four all-weather, instrument landing heliports in the nation.

PORT

The Port of New York-New Jersey's foreign oceanborne general cargo trade reached record levels in 1985 for the second consecutive year. Cargo volumes rose to 13,747,989 tons, up 5.1 percent from 1984. For the first time since 1980, both imports and exports contributed to the port's tonnage gain.

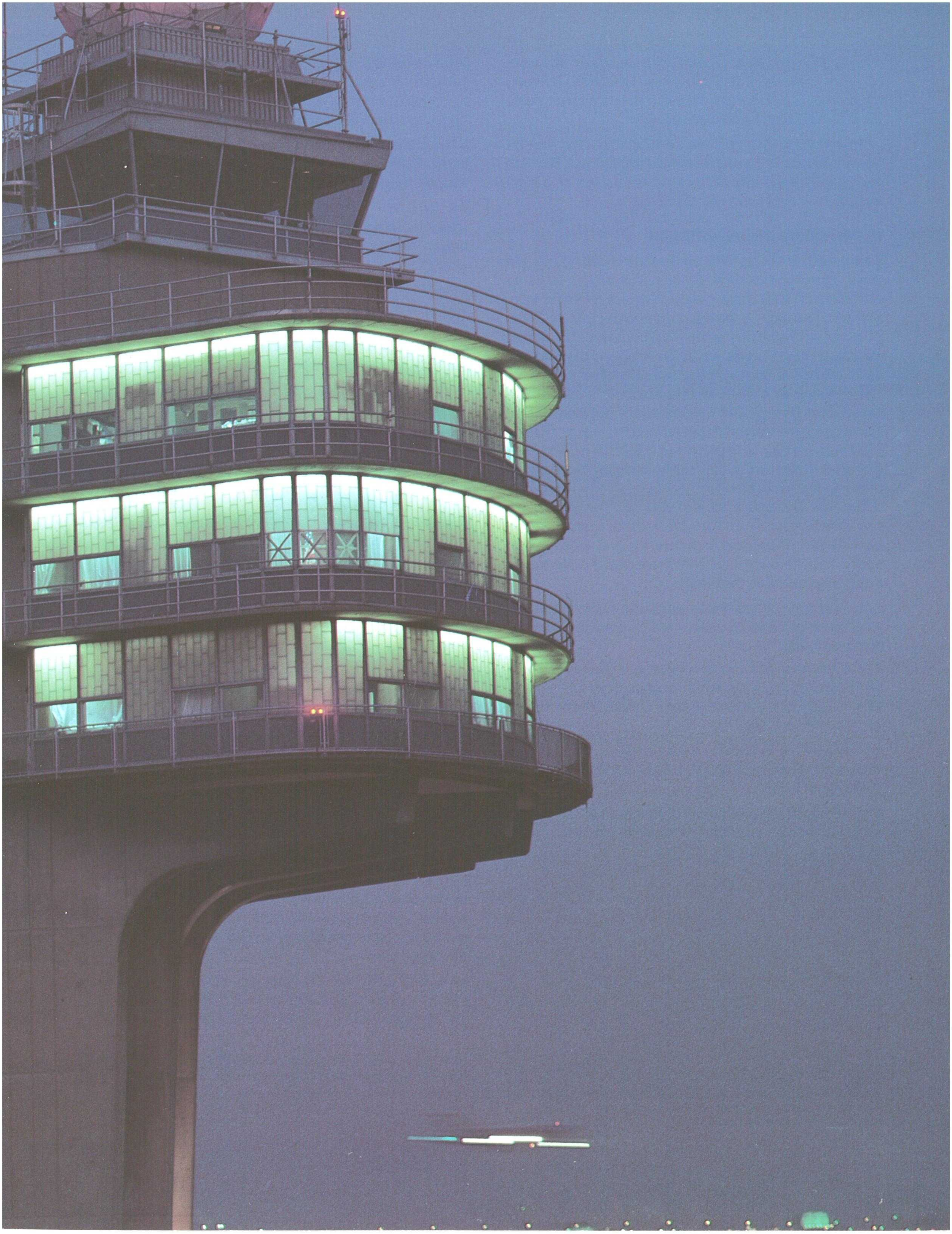
By year's end, the port had outperformed its competitor ports on the North Atlantic and in the rest of the nation as well. Its share of North Atlantic cargo had climbed from 45.5 percent in 1984 to 46 percent in 1985, while its U.S. share had risen from 10.5 to 10.7 percent, the highest in five years.

During the year the New York-New Jersey port's competitive position improved through the development and acceptance of a new container cargo assessment formula for funding longshoremen's fringe benefits. The formula cut roughly $100 per container out of the overall cost of moving containers through the port to destinations more than 260 miles inland, putting the port in a better position to attract container traffic bound for prime midwest markets. The Port Authority played a key role in settlement of this long-standing cost problem.

To maintain and strengthen the port as the leading load center of the North Atlantic region, the Port Authority continued strong marketing of existing facilities and moved forward on certain emerging projects:

• Howland Hook Marine Terminal on Staten Island became the Port Authority's newest facility in midsummer when lease agreements with the City of New York and United States Lines, the terminal's resident steamship line,

Newark International's control tower dominates the night sky over this fastest-growing airport in the United States.



became effective. Before year's end, expansion and modernization plans were well under way. Ultimately, Howland Hook will be able to handle 350,000 containers a year, some 130,000 more than its current capacity.

• Newcomers to Foreign Trade Zone Number 49 at the Port Newark/Elizabeth Marine Terminal included two Brazilian orange juice importers and processors as well as a high-technology copper rod manufacturer.

TRANS-HUDSON TRANSPORTATION

Each weekday during 1985, an average of 600,000 people drove across the Hudson via tunnel or bridge, while an estimated 600,000 more crossed by bus or PATH train. Studies completed by the agency's interdisciplinary Trans-Hudson Task Force during the year concluded that, unless commuter travel habits could be changed significantly, traffic might well approach gridlock within five years.

In January, as a result of Port Authority initiatives, the formation of TRANSCOM was realized. A coalition of more than a dozen transportation agencies in the region, TRANSCOM was created to improve traffic monitoring and flow, coordinate construction schedules, and provide an operations information center.

The Port Authority's trans-Hudson challenges are not only a matter of traffic gridlock. Many of the agency's aging facilities face increasing maintenance and rehabilitation needs. The challenge is to meet these needs while providing quality service to the public.

Among such rehabilitation programs completed or in progress at the vehicular crossings and mid-Manhattan bus terminal in 1985:

• Work began in June on rehabilitation of the Holland Tunnel, including replacement of ceilings and lighting systems—a job being accomplished without interruption of commuter-hour traffic.

• A two-year rehabilitation of the Outerbridge Crossing's entire roadway began in August, again without interruption to rush-hour traffic.

• Rebuilding of the midtown Bus Terminal's Ninth Avenue entrance and construction of a block-long acrylic canopy were completed during the year; new facilities and amenities for the disabled were finished and opened to the public; and rehabilitation of the building's complex electrical distribution system was begun.

Some 80 airlines now serve Kennedy International Airport, the Gateway to America for international air travelers.

• Two concrete pedestrian sidewalks of the George Washington Bridge were replaced, and major repairs to the supporting steel underneath were completed.

• A combined Weehawken Firehouse/Lincoln Tunnel Maintenance Garage was opened in November, while work began nearby on upgrading the tunnel's emergency garage.

• An AM rebroadcasting system was installed in the Lincoln Tunnel to enable operations personnel to override commercial AM broadcasts with traffic advisories to motorists en route through the tunnel. A similar system was installed in the Holland Tunnel in 1984.

PATH, the Port Authority Trans-Hudson commuter railroad, has been facing problems caused by increasing ridership, timeworn rolling stock, and an aging capital plant. Ridership is expected to continue to rise in light of New Jersey's real estate boom and waterfront development, matched by economic growth in lower Manhattan.

By year's end, early stages of the Port Authority's $800 million PATH capital improvement program were in place:

• A "running repair" shop in Jersey City to make immediate repairs on rail cars with minor problems was put into operation in December.

• By midsummer, a new centralized materials supply depot was opened in Jersey City.

• The first group of rehabilitated cars in PATH's 248-car fleet was returned to PATH in November for testing before being put back in service. Ultimately, the refurbished fleet will be augmented by 95 new cars scheduled for delivery beginning in 1986. Meanwhile, several 1958-vintage "K" cars, overhauled, were back in service by November. When the new and rehabilitated fleet can take over, the "K" cars will be converted to "work trains."

During 1985, other phases of the multi-year improvement program were either begun or under way:

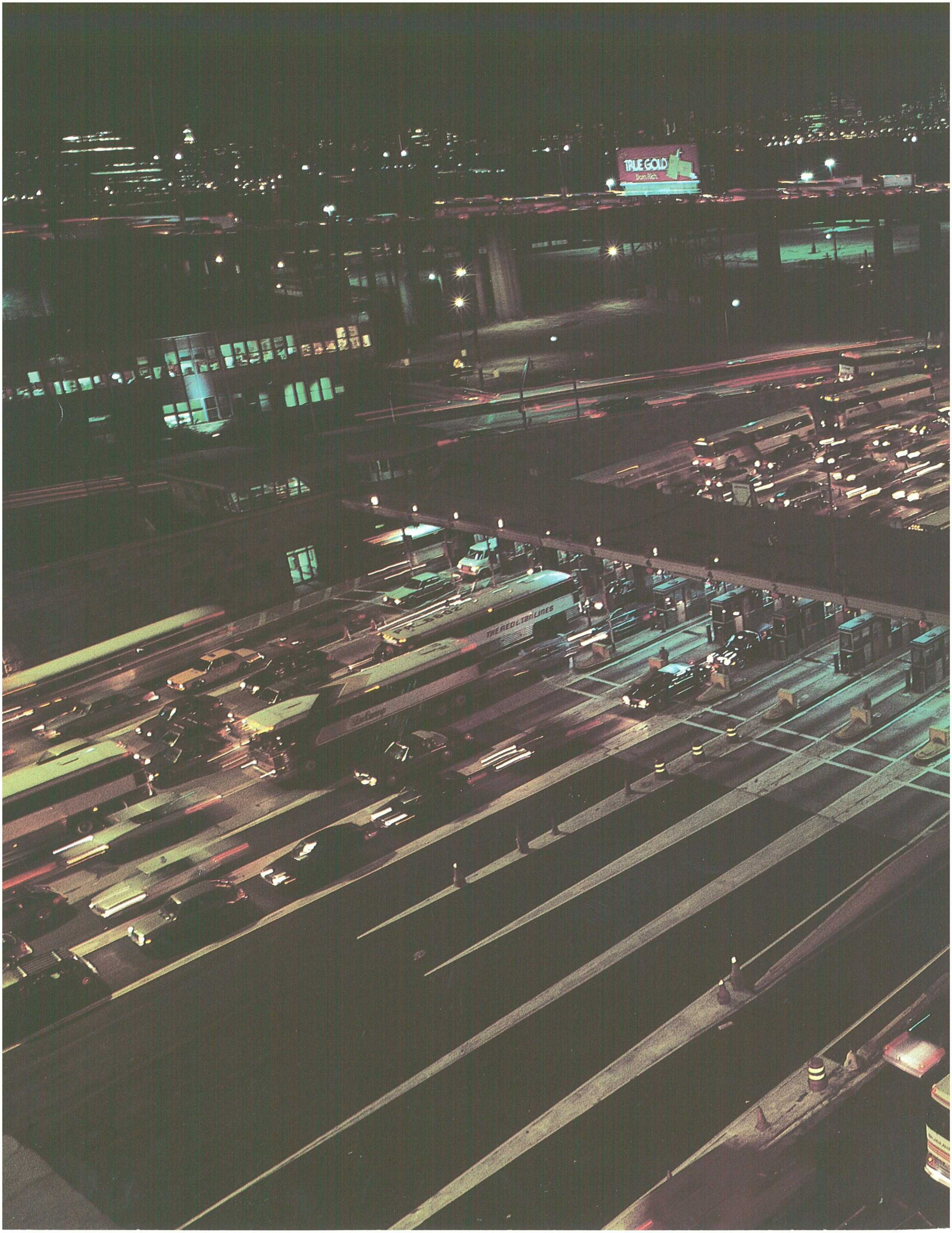
• Work was continuing on the new emergency tunnel ventilation shaft at the Pavonia Station, and construction on another vent shaft, also in Jersey City, was progressing; four others, two in New Jersey and two in New York, were in the design phase.

• Also as part of the PATH safety program, installation of the new tunnel standpipe system was more than half completed. Approximately 72,000 feet of steel piping will pro-

Small packages and large documents from everywhere flow through Newark International Airport, the region's leading overnight package delivery center.

overleaf Evening rush-hour traffic—a view from a light tower high above the Lincoln Tunnel's New Jersey plaza.


ARE470 LBS
EMS


TRUE GOLD
THE RED & TAN LINES


Panasonic
KENT III
BOX
Turnpike
EXIT
25
MPH
SUBURBAN

vide an immediate source of water for emergencies when the system is fully operational.

WORLD TRADE

XPORT, the Port Authority's export trading company, was created to help small and medium-sized regional firms enter the export field and to help with their financing and marketing.

1985 saw XPORT move beyond its developmental stages and into its first full commercial year. Sixty small New York and New Jersey client manufacturers, all of them international trade neophytes, had sold a total of more than $2 million worth of products to customers in 40 countries by year's end.

Among other international trade highlights in 1985:

- The Port Authority reorganized its Zurich- and London-based staff to permit greater flexibility and coordination in handling their trade development, tourism and Gateway America promotions. London headquarters moved to new offices in International House, World Trade Centre.

- In October, the Port Authority Trade Mission Program sponsored its first trade mission to Brazil. Five regional manufacturers of medical and health care products participated directly, while five more were represented by XPORT's medical group product manager. Negotiations for well over $1 million in health-related products were in progress at year's end.

The World Trade Center continued to fulfill its promise as a major generator of revenues both for rejuvenation of Port Authority facilities and for financing bistate revitalization projects through the Fund for Regional Development. At the same time, its educational facilities continued to serve the world trade community, and its luster attracted a record number of tourists to the downtown heart of Manhattan.

- For the fifth year, the Center was 98 percent rented.

- By year's end—scarcely 26 months after the New York State Relocation Program began—the Fund for Regional Development, administered by the Port Authority, had released fully 45 of Tower Two's 51 state-occupied floors to private tenants at market rates triple those previously paid by the State. The largest of the five Fund leases signed during the year covers 24 floors.

- Some 7,650 members of the international trade community attended executive-level world business seminars and evening courses offered during 1985 by the Trade Center's educational arm, the World Trade Institute. By year's end, the number of Institute program participants since 1970 totaled more than 100,000.

- The World Trade Center Observation Deck celebrated its tenth anniversary during the weekend of December 7 by issuing an open invitation to all ten-year-olds sharing its birthday month to come with their parents for a free visit up top. Thousands accepted.

During 1985, more than 1.5 million people of all ages and from all countries visited the Deck, an all-time high for attendance.

Economic Development Advances

The Port Authority moved forward during the year on its commitments to strengthening the regional economy. The agency's capital enterprises showed substantial progress:

- Bathgate Industrial Park, the Economic Development Department's joint undertaking with the City of New York and the Public Development Corporation, had all but five parcels of its 12-block South Bronx complex under development by year-end. In April, construction began on a Business Assistance Center to house support services for the small business tenants that make up the industrial park community. Bathgate's tenants occupying space in 1985 included a hydroponic greenhouse, a printing company, and generic drug, picture frame and apparel manufacturers.

The Industrial Park in Yonkers, New York, another Economic Development Department project, is located on a 21-acre site containing the former Otis Elevator Plant. It became a Port Authority facility in November 1984. In May, 1985 the agency purchased the plant itself in order to house the American/Japanese firm that will manufacture PATH equipment and perform a major portion of the work on 95 new rail cars. Discussions are now under way with other transit-related businesses about leasing space in this developing industrial complex.

Work on paving, utilities and site preparation of Economic Development's other industrial park in Elizabeth, New Jersey, began in June. A unique mitigation system to return this underutilized site to environmentally sound, economically productive use was approved and installed. Aggressive marketing efforts and design plans for specific buildings were in progress. The complete park will comprise 1.5 million square feet of buildings on a 125-acre tract within Foreign Trade Zone Number 49.

Nesting containerloads of exports aboard ship at Elizabeth. Port's general cargo trade reached record volumes in 1985 for second consecutive year.

Unloading containership at Port Newark/Elizabeth Marine Terminal complex—America's Container Capital. Up to five cranes can be mustered to work a ship and finish the job in a matter of hours.


6747
MAHER
TERMINALS
6747
Ottawa
EMC

• Legislation passed in 1984 authorized the Port Authority to proceed in developing two waterfront projects: one in Hoboken, New Jersey, and one in Hunter's Point, New York. In 1985, demolition began on selected areas of the Port Authority's Hoboken piers and Pier A was opened for interim waterfront use and access by the public. Detailed planning continued, including plans for an improved transportation center, and negotiations were under way with the City of Hoboken for final agreement on the project. Throughout the year, work progressed on urban design plans and other services for the Hunter's Point project, and discussions continued toward final agreement with the City of New York.

• Negotiations continued on a mass-burning solid waste disposal project in Essex County, New Jersey, and a Host Municipality Agreement was approved by the Newark City Council, the Essex County Board of Freeholders and the Port Authority. The region currently generates 30,000 tons of garbage daily and its landfills are exhausted. The new plant would reduce the overload by 2,250 tons a day.

• Teleport, the World Trade Department's pioneering satellite communications center on Staten Island, had four satellite dish antennas in operation by year's end. First on-line was the COMSAT International Earth Station Terminal, offering direct transmission, around the clock, to and from international satellites serving four continents.

Teleport's basic fiber optic cable network was completed and placed in operation. By year's end, the 150-mile network stretched westward from Brooklyn and Queens through Manhattan to Newark, Jersey City and beyond, with more than a dozen "operating nodes" along the way where users can plug in with additional cable or via standard telephone lines.

Construction of the Telecenter Building, the project's communications center, began in March and is targeted for completion in the spring of 1986.

In July, a private developer signed a 40-year lease for 5.8 Teleport acres and began work on the complex's first office building, Teleport 1, scheduled for completion in mid-1986.

A South Bronx Greenhouse worker pulls herbs for midtown client. Unique in city, this Bathgate firm grows plants in water rather than soil.

• Groundbreaking ceremonies in October marked commencement of work on the Newark Legal and Communications Center. The 17-story office condominium complex in the heart of downtown Newark, also being built by the World Trade Department, is intended to anchor the legal profession to the city and to spur new commercial development in the area. By year's end, three law firms had reached agreements in principle with the Port Authority to purchase more than one-third of the center's 400,000 square feet.

The completed center will include an elevated walkway to Newark's Penn Station/PATH, a 500-car underground garage and a built-in fiber optic connection to the Teleport. The City of Newark and the Newark Economic Development Corporation are participants in the project, which should be ready for its first occupants by the end of 1987.

The Port Authority continued its commitment to affirmative action in recruiting and promoting practices. Under an ongoing Minority Business Enterprise Program, the agency's business involvement with enterprises owned by minorities and women nearly doubled that of 1984.

• Fishport, under development by the Port Department, began phase one construction at Brooklyn's Erie Basin in early March, with rebuilt infrastructure and some 180,000 square feet of new fish handling, processing, storage and auction space to be completed within 20 months or so. Virtually all phase one space had been leased by the end of 1985. As an interim measure, the Port Authority installed a conveyor belt plus fish and seafood sorting equipment on Brooklyn's Pier 1 in mid-fall, and welcomed its first fishing vessel customer shortly thereafter. Fishport is being built to resurrect the fishing industry in the bistate harbor.

• Although the creation of the Bank for Regional Development, a companion entity to the authorized Fund for Regional Development, requires action by the two state legislatures, the Port Authority in 1984 and 1985 identified and authorized over $50 million of projects as part of the total commitment of $250 million of funds derived from the 1984 toll increase. Bank amounts are earmarked for use on state-requested regional projects that are within the agency's legislatively-approved sphere.

Among these undertakings requested by the Governors and authorized by the Board during 1985 were funds to support the construction of Oak Point Link and Harlem River Yard rail car access projects in the South Bronx; a $14 million provision for a joint public and private sector redevelopment, Metrotech, in downtown Brooklyn; a share of the construction of a new direct connection between the Bayonne Bridge and New Jersey State Route 169 serving Bayonne's eastern industrial area, and a number of project-related studies in both states.

• Ten new buses were purchased in 1985 under the Port

Journeyman printers check sheets as they come off press of Ampco Printing Corp., one of five manufacturing tenants already in business in South Bronx's growing Bathgate Industrial Park. Total park employment, 1,100 by year's end, will rise to some 1,900 upon project's completion.

Authority's $440 million mass transportation programs set up to provide new buses and bus-related facilities for use in the two States. These high-occupancy articulated buses, engineered for access to the Lincoln Tunnel and Port Authority Bus Terminal, serve to strengthen public transportation networks on both sides of the Hudson River. The 1985 vehicles bring to 2,465 the total number of buses the agency has bought for use in the two States since enabling legislation was passed in 1979 and 1981.

• The Port Authority stepped up its promotion, advertising and marketing programs in 1985 to maintain and sharpen the region's competitive edge both at home and abroad.

• The Gateway Improvement Task Force, organized by the Port Authority to improve tourism services for the region's visitors, had completed its second report at year's end. The task force, comprised of local business and government representatives, evaluated on-airport systems and recommended specific improvement programs and additional amenities for visitors.

• The New York–New Jersey harbor's Independence Day festivities and the second annual world-class Liberty Cup Yacht Races highlighted Harbor Festival '85, a cooperative celebration of the nation's founding and the region's maritime heritage, funded in part by the Port Authority. An outgrowth of the port's bicentennial program of 1976, Harbor Festival has been a popular mid-summer happening ever since. The Port Authority has acted as festival catalyst and co-host since 1978.

Significant Regional Studies

A basic component of the Port Authority's regional responsibilities is monitoring the economy. Two major reports published in 1985 were *The Regional Economy: 1984 Review, 1985 Outlook for the New York–New Jersey Metropolitan Region*, distributed in April; and *The Regional Economy: First Half 1985*, released in October.

Two of the agency's primary concerns, the maritime and aviation industries, were the subjects of major studies. *The Economic Impact of the Port Industry on the New York–New Jersey Metropolitan Region*, published in April, concluded that ocean-borne international cargo and related business generated $14 billion in economic activity over the year and contributed 192,000 jobs. *The Economic Impact of the Aviation Industry on the New York–New Jersey Region, Preliminary Summary Report*, published in November, showed that the three major airports and aviation-related businesses brought $19 billion and some 300,000 jobs to the region. The economic activity of these two industries, marine and aviation, together account for 6.5 percent of the gross regional product.

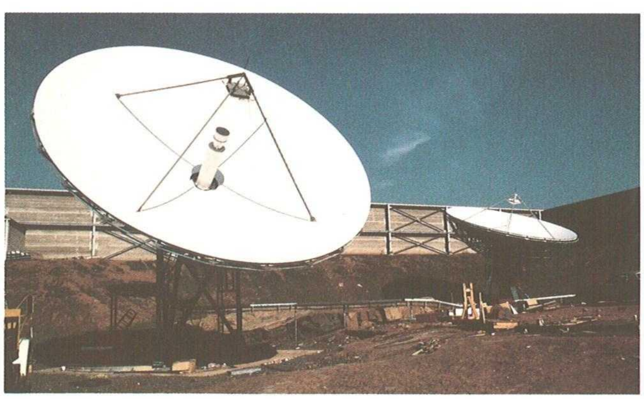
The economic boom has not come upon the region without a price. Growing congestion throughout the metropolitan area has been and will continue to be keenly felt at all Port Authority transportation facilities. This has led the agency to undertake a number of actions and special studies of user characteristics and future trends, and to prepare a ten-year forecast of the region's outlook for population, job levels and labor force.

Supporting Regional Growth: The Trans-Hudson Connection, published in June, included a recommendation to study the feasibility of ferryboat service on the Hudson River. Similarly, the agency began to study future transportation needs at the Authority's three Staten Island bridges. And the need to reexamine the role that bridge and tunnel truck movements currently play in the region's distribution system sparked a survey by type and quantity of commodities hauled by truck at all vehicular crossings. This knowledge, gathered in 1985, becomes a vital base for consideration of pricing levels and strategies to ease congestion.

Through its participation in the Freight Services Improvement Conference—a private/public sector research, planning and advocacy organization formed with the two States—the Port Authority helped to organize the Bistate Harbor Carriers Conference to address issues of access, gate procedures and equipment safety for the region's marine terminals.

In recent years air passenger travel has been experiencing dramatic growth—up 44 percent since 1981 and up 5.6 percent in 1985 alone—and the numbers of people who fly for business or pleasure are expected to increase steadily in years to come. Vehicular access to the airports is already a problem. In future years, the problem will become critical. The Port Authority, in 1985, made detailed analyses of traffic conditions on roads leading to, and within, the three major airports, as well as studies of passenger profiles, in order to develop the transportation strategies that will improve access to the airports.

In recognition of the increasing globalization of the economy and to aid understanding of how foreign investors reach decisions concerning the region, the Port Authority released results of its study, *Attitudes Towards the Regional Labor Force: A Survey of Non-U.S.-Owned Manufacturing and Distribution Companies in the New York–New Jersey Region.*



Four satellite dish antennas were in operation by year's end at Teleport, the region's pioneering communications center on Staten Island.

Port Authority Portfolio Manager and her Senior Financial Analyst check latest quotes on major Wall Street bond trading floor.

FINANCIAL SECTION

To The Board of Commissioners of
The Port Authority of New York and New Jersey

The Comprehensive Annual Financial Report of The Port Authority of New York and New Jersey, including its subsidiary Port Authority Trans-Hudson Corporation (PATH), for the year ended December 31, 1985, is submitted herewith. This report presents fairly and fully discloses the Port Authority's financial results and financial position, briefly describes basic policies, and gives a general discussion of the activities undertaken during the year ended December 31, 1985. The purpose and format of this transmittal letter is to discuss the items listed below in a formal and comprehensive manner.

Reporting Entity and its Services

The Port Authority of New York and New Jersey is a municipal corporate instrumentality created in 1921, by compact between the States of New York and New Jersey consented to by the Congress of the United States, which undertakes only those projects authorized by the two States. It is authorized and directed to plan, develop, and operate terminals and other facilities of transportation and commerce, and to advance projects in the general fields of transportation, economic development, and world trade that contribute to promoting and protecting the commerce and economy of the Port District, which comprises an area of about 1,500 square miles in both States centering about New York Harbor.

The governor of each State appoints six of the twelve members of the governing Board of Commissioners, subject to confirmation by the respective State Senate. The Commissioners serve six-year overlapping terms as public officials without compensation. They establish Port Authority policy, appoint an Executive Director to implement it, and also appoint a General Counsel to act as legal advisor to the Board and to the Executive Director. Governors from either State have from time to time exercised the statutory power to veto the actions of Commissioners from their respective State.

The Executive Director is responsible for the management of the daily operations of the agency's 33 facilities through line and staff departments comprising approximately 9,000 career personnel and guides proposals to the point of presentation to the Board of Commissioners.

As a public corporation serving the people of the New Jersey-New York metropolitan region, the Port Authority combines sound business and governmental principles and practices and is dedicated to providing high quality public service and operating efficiency. To assist in guiding the operation of each of the departments, detailed policies and procedures are published and communicated to all employees.

The compact envisions the Port Authority as being financially self-sustaining; and, as such, it must obtain the funds necessary for the construction or acquisition of facilities upon the basis of its own credit, its reserve funds and its future revenues. The agency has neither the power to pledge the credit of either State or any municipality nor to levy taxes or assessments.

Accounting System and Budgetary Control

The Port Authority's consolidated financial statements are prepared in accordance with generally accepted accounting principles and include information on Port Authority operations by operating segment, prepared on a full accrual basis. Where appropriate, statements and schedules reflect amounts, including provisions for claims made against the Port Authority, based on estimates and judgments which the Port Authority believes to be sound. These financial statement presentations do not in any way change the net revenues or reserves of the Port Authority or their applications as they are defined and governed by requirements of law and the Port Authority's bond resolutions and as they are reflected in Schedules A, B and C. The Port Authority conducts its operations in accordance with such resolutions and legal requirements.

The bond resolutions provide that net operating revenues be calculated without allowance for depreciation. Rather, facility capital costs are provided for through deductions from net revenues and reserves of amounts equal to principal payments on debt or appropriations to Invested in Facilities. Reconciliations of the Consolidated Statement of Income to Schedule A and the Consolidated Statement of Financial Position to Schedule B appear on page 32.

The accounts of Port Authority Trans-Hudson Corporation (PATH) are consolidated in the accompanying financial statements. The assets and liabilities of the New York State Commuter Car Program and the Fund for Regional Development are not included in the Port Authority's financial statements (see pages 37 and 38, respectively).

To reasonably assure compliance with published policies and procedures and to protect the Port Authority's assets, a system of internal controls, including budget guidelines, has been developed. This system is strengthened and supplemented by a staff of internal auditors which conducts examinations of the Port Authority's operations and reports to the Audit Committee of the Board of Commissioners on management's performance. There are inherent limitations that should be recognized in considering the potential effectivenes of any system of internal control. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived and that the evaluation of those factors requires estimates and judgments by management.

The Port Authority's annual budget is a financial planning tool outlining the estimated expenditures for programs already authorized or to be considered by the Board of Commissioners. It is developed as part of a business planning process which includes a comprehensive review of the Port Authority's mission and business strategies and the programs, policies and projects, both operating and capital, required to carry out that mission. The budget is not an authorization allocation, and its approval based on the financial plan does not in itself authorize projects. Each new capital project must be separately considered and approved. Upon approval, the financial plan becomes a means of achieving systematic control of program expenditures to insure they are made in accordance with the policies and financial decisions of the Board, and the requirements of the By-Laws of the Port Authority.

Results of Operations

The current year's gross operating revenues totalled $1,100,840,000, an increase of $100,780,000, or 10.1 percent, over 1984. This growth is primarily attributable to higher rentals at the World Trade Center including revenues generated by a recovery from tenants of retroactive payments in-lieu-of taxes of approximately $29,900,000, an increase in flight fee revenues and service charges at the three major metropolitan airports, increased tenant activity at our marine and other facilities and the full year effect of the June 3, 1984 PATH fare increase. Operating expenses increased by $152,948,000, or 21.6 percent, over 1984, to $859,843,000, primarily as a result of the one-time payment to New York City of approximately $46,822,000 for retroactive payments in-lieu-of taxes for the World Trade Center, higher rent payments to New York City for the New York Airports and generally higher costs for labor and materials.

Cash Management

The Port Authority's long-term investment portfolio was invested in Port Authority bonds and in securities of or guaranteed by the United States Government. Earnings of $59,022,000 were recorded on an average long-term portfolio of $511,031,000. The result was an average earnings rate of 11.5%.

Short-term investments, primarily in government securities and also in money market instruments, averaged $512,120,000 during the year. The short-term portfolio principally represented the investment of operating revenues and construction funds awaiting disbursement. Income on these investments totalled $46,676,000 or an average rate of about 9.1%.

Income on long-term and short-term investments increased by approximately $8,523,000, or 8.8 percent, over 1984, primarily due to higher average investment balances.

Financial Position

As of December 31, 1985, the total assets of the Port Authority were $5,046,308,000, an increase of $589,616,000 or 13 percent over last year. Facilities, at Cost, rose by $334,598,000 to $4,942,660,000.

The increase in Facilities, at Cost, is represented by an additional investment of $109,670,000 in ground and mass transportation facilities, with the Bus Terminal extension and modernization project, the Holland Tunnel ceiling project, and PATH's safety projects accounting for a major portion of the increase. Investment in other facilities increased by $224,928,000, led by Air Terminals which increased by $105,657,000, primarily as a result of various improvements and rehabilitations to roadways and buildings at the three major metropolitan airports. The World Trade Center's fire safety program and continued construction at the Teleport were contributing factors to a $28,765,000 increase in investment in World Trade Facilities and investment in the remaining facilities increased by $90,506,000, mainly due to expenditures at the Bathgate, Yonkers and Elizabeth Industrial Parks as well as the Howland Hook Marine Terminal.

Debt Administration

The Port Authority has issued over $6,042,649,000 in obligations since its creation, of which $2,712,317,000 was outstanding as of December 31, 1985. The Port Authority has issued $3,963,650,000 of Consolidated Bonds and Notes (exclusive of refundings) since 1952, of which $2,615,175,000 was outstanding as of December 31, 1985. In 1985, the Port Authority issued three series of Consolidated Bonds, all maturing in 2020, totalling $400,000,000. The first, in a principal amount of $100,000,000, was issued at a fixed interest rate of 8.70%. Two subsequent issues, in a principal amount of $100,000,000 and $200,000,000, respectively, provide for fixed interest rates of 7% and 6¾%, respectively, until December 1, 1988, with the bondholder having a one-time option, semi-annually thereafter, to convert to a variable interest rate.

Consolidated Bonds (which includes Consolidated Notes) are a direct and general obligation of the Port Authority and its full faith and credit are pledged to the payment of debt service thereon. All Consolidated Bonds, including any which may hereafter be issued, are also equally and ratably secured by a pledge of the net revenues of all existing facilities and any additional facilities which may hereafter be financed or refinanced in whole or in part through the medium of Consolidated Bonds.

In the Consolidated Bond Resolution of 1952, the Port Authority covenanted that no additional General and Refunding, Air Terminal or Marine Terminal Bonds would be issued. The only obligations of the Port Authority which were issued prior to 1952 and which were outstanding at December 31, 1985, are the General and Refunding Bonds in the amount of $642,000. Amounts available from the the Special Reserve Fund, which was established by the Port Authority in connection with the General and Refunding Bonds, had been held in trust since December 31, 1970, as described on page 36. As of March 1, 1986, all General and Refunding Bonds have matured, all scheduled principal and interest payments have been made and the agreement of trust establishing the Special Reserve Fund has terminated.

To effectuate its programs, statutes which required the Port Authority to create the General Reserve Fund also established the principle of pooling revenues from facilities with established earning power to aid in the development of new projects. The statutes also provide for the utilization of available net revenues to maintain the General Reserve Fund at the prescribed amount of 10 percent of the total par value of the outstanding bonds legal for investment as defined in the General Reserve Fund statutes (except for New York State Guaranteed Commuter Car Bonds).

Currently, the General Reserve Fund and the Consolidated Bond Reserve Fund are pledged in support of all the Port Authority's outstanding bonds and notes other than New York State Guaranteed Commuter Car Bonds, obligations issued under the Port Authority Commercial Paper Program, and Special Project Bonds.

Bonds for an additional facility which are secured by a pledge of the General Reserve Fund cannot be issued unless the Port Authority's Board of Commissioners certify that the issuance of the bonds, or that such a pledge, will not materially impair the Port Authority's sound credit standing, the investment status of its bonds or its ability to fulfill its commitments and undertakings.

It is the Port Authority's policy to retire debt as rapidly as sound financial management permits and to maintain, at year-end, in its reserve funds, including reserve funds in trust, a combined amount equal to at least the amount of the next two years' mandatory debt service on bonds secured by a pledge of the General Reserve Fund.

A statutory covenant with holders of affected Port Authority obligations, which was enacted in 1962 by the legislatures of New York and New Jersey, permits financing of passenger railroad facilities in addition to the basic PATH system only within specified financial limits. The covenant was adopted as part of the statutes authorizing Port Authority acquisition of the interstate Hudson and Manhattan Railroad. In 1973, the legislatures of New York and New Jersey enacted legislation to preclude application of this covenant provision to Port Authority obligations issued after May 10, 1973.

Interest recorded on the Port Authority's debt charged to operations and reserves pursuant to bond resolutions totalled $110,042,000 in 1985. Bonded debt repayment through operations and reserves amounted to $49,347,000, which includes long-term bonds with a par value of $43,347,000 retired through mandatory sinking fund and maturity payments and $6,000,000 par value of notes retired as scheduled. Repayment of commercial paper obligations not refunded by Commercial Paper Notes amounted to $55,964,000. At December 31, 1985, commercial paper obligations outstanding, including $550,000 accumulated under the bank line of credit, totalled $37,870,000. Total debt service charged to net revenues and reserves, including reserve funds in trust, therefore, was $215,353,000, which does not include amounts relating to New York State Guaranteed Commuter Car Bonds and Special Project Bonds. Bonds and Notes increased during the year by $350,653,000 to a total of $2,712,317,000. During the year, net assets increased by 6.7 percent to a total of $3,909,194,000, which represents approximately 72 percent of the amount invested in Port Authority facilities.

Reserve Funds

At year-end 1985, the General Reserve fund balance was $271,232,000 and continued to meet the prescribed statutory amount of at least 10 percent of outstanding bonds legal for investment as defined in the General Reserve Fund statutes. On December 31, 1985, the Consolidated Bond Reserve Fund had a balance of $417,204,000, after application of $55,964,000 for the repayment of commercial paper obligations, $87,359,000 to direct investment in facilities, and $4,063,000 to self-insurance. The balance of the Special Reserve Fund in Trust, described on page 36, totalled $646,000. The sum of these reserves was $689,082,000, which exceeded the next two years' mandatory debt service on bonds secured by a pledge of the General Reserve Fund.

Bond covenants require that the reserve funds be maintained in cash or invested in certain government securities. At year-end, $682,192,000 was invested in such securities and $6,890,000 was maintained as cash.

Independent Audit

A firm of independent public accountants is retained each year to conduct an examination of the accounts and financial statements of the Port Authority in accordance with generally accepted auditing standards and meets directly with the Audit Committee of the Board of Commissioners. Also performed as part of the annual examination is a study and evaluation of the system of internal accounting control. Both reports are included in the Comprehensive Annual Financial Report.

Certificate of Conformance

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Conformance in Financial Reporting to The Port Authority of New York and New Jersey for its comprehensive annual financial report for the year ended December 31, 1984.

In order to be awarded a Certificate of Conformance, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

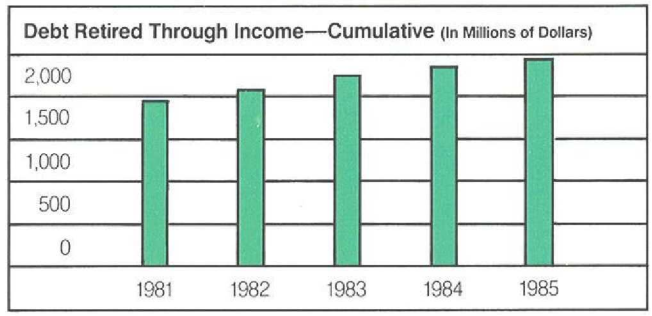
A Certificate of Conformance is valid for a period of one year only. We believe our current report continues to conform to Certificate of Conformance Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Executive Director

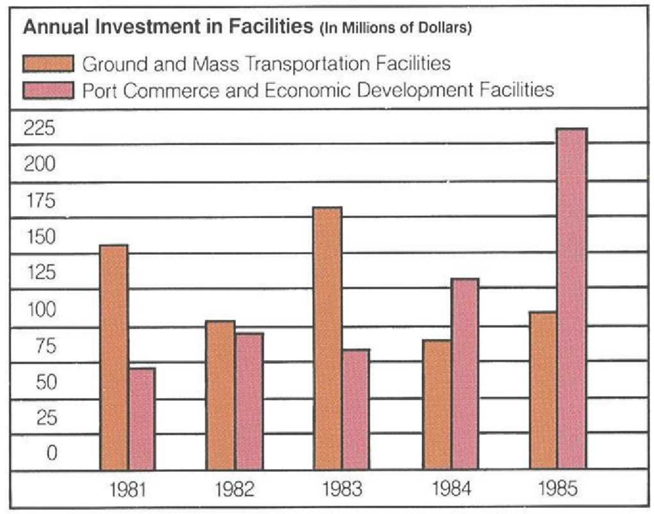
Chief Financial Officer

Selected Financial Information

Highlights	1985	1984
	(In Thousands)	
Gross Operating Revenues	**$1,100,800**	$1,000,100
Net Operating Revenues	**241,000**	293,200
Net Revenues Available for Debt Service and Reserves	**332,700**	384,500
Debt Service Charged to Revenues and Reserves	**215,400**	221,500
Cumulative Invested in Facilities	**5,396,500**	5,050,800
Bonded Debt Outstanding, in accordance with Port Authority bond resolutions	**2,712,300**	2,361,700
General Reserve Fund	**271,200**	236,200
Consolidated Bond Reserve Fund	**417,200**	425,100
Special Reserve Fund in Trust	**600**	1,900



The Port Authority is a self-supporting agency which funds its operations and retires its debt through fares, fees, tolls and other charges.



Cumulative Port Authority investment totaled more than $1 billion over the past five years. For the same period, outstanding debt increased by approximately $700 million.

Touche Ross & Co.

November 27, 1985

Mr. John G. McGoldrick, Chairman
and Members of the Audit Committee of
The Port Authority of New York and New Jersey
New York, New York

We have made a study and evaluation of the system of internal accounting control of The Port Authority of New York and New Jersey in effect at October 31, 1985. Our study and evaluation was conducted in accordance with standards established by the American Institute of Certified Public Accountants and was performed concurrently with our examination of the Port Authority's financial statements for the year ending December 31, 1985.

Management of the Port Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against losses from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles and, where appropriate, in accordance with the Port Authority's bond resolutions.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the Port Authority's system of internal accounting control in effect at October 31, 1985, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the Port Authority's financial statements.

Touche Ross & Co.

Certified Public Accountants

GATEWAY ONE–NEWARK, NEW JERSEY 07102–(201) 622-7100

Touche Ross & Co.

February 28, 1986

To the Board of Commissioners of
The Port Authority of New York and New Jersey

We have examined the consolidated statements of financial position of The Port Authority of New York and New Jersey and its subsidiary, Port Authority Trans-Hudson Corporation, as of December 31, 1985 and 1984, and the related consolidated statements of income, changes in net assets and changes in financial position for the years then ended. We also have examined the financial information included in Schedules A through F. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Port Authority of New York and New Jersey and its subsidiary as of December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis, except for the change, with which we concur, in the method of accounting for post retirement benefits as described in Note J to the financial statements. The accompanying Schedules A through C have been prepared pursuant to the requirements of law and Port Authority bond resolutions. The accounting practices followed in the preparation of these schedules differ in some respects from generally accepted accounting principles as described in Note A-8. In our opinion, Schedules A, B and C present fairly the consolidated assets and liabilities of the Authority at December 31, 1985 and the consolidated revenues and reserves for the year then ended in conformity with the accounting principles described in Note A-8 which have been applied on a basis consistent with that of the preceding year, except for the change with which we concur, as described in Note J.

Also, in our opinion, the supplementary information presented in Schedule D and the selected financial data for the years ended December 31, 1985, 1984, 1983, 1982 and 1981, appearing in Schedule E, are fairly stated in all material respects in relation to the financial statements taken as a whole. In our opinion, Schedule F presents fairly the assets and liabilities of the New York State Commuter Car Program at December 31, 1985 and 1984, in conformity with the basis of accounting described therein, applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

GATEWAY ONE–NEWARK, NEW JERSEY 07102–(201) 622-7100

Consolidated Statement of Income

	Year Ended December 31, 1985	1984
	(In Thousands)	
Gross Operating Revenues (Note L)	**$1,100,840**	$1,000,060
Operating Expenses:		
Employee compensation, including benefits	**402,997**	343,376
Materials, equipment, supplies and contract services	**190,378**	164,670
Heat, light and power	**66,703**	67,562
Rents (primarily related to airport leases) and amounts in-lieu-of-taxes	**144,487**	85,186
Other (Note K-5)	**55,278**	46,101
Total Operating Expenses	**859,843**	706,895
Depreciation on Facilities (Note B)	**120,393**	115,953
Amortization of Costs for Bus Programs (Note K-1)	**38,938**	29,186
Income from Operations	**81,666**	148,026
Financial Income and Expense:		
Income on investments	**83,729**	84,263
Gain on purchase of Port Authority bonds in connection with current sinking fund requirements	**1,226**	1,680
Interest expense	**(108,127)**	(114,920)
Income Before Extraordinary Items	**58,494**	119,049
Extraordinary Items		
Gain on purchase of Port Authority bonds in connection with future sinking fund requirements	**4,851**	3,821
Gain on insurance proceeds (Note B)	**—**	7,072
Net Income	**$ 63,345**	$ 129,942

Consolidated Statement of Changes in Net Assets

	Year Ended December 31, 1985	1984
	(In Thousands)	
Balance at January 1	**$1,868,547**	$1,727,685
Net Income	**63,345**	129,942
Government Contributions in Aid of Construction (Note G)	**22,606**	10,920
Balance at December 31	**$1,954,498**	$1,868,547

See Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Position

	December 31, 1985	December 31, 1984
	(In Thousands)	
Assets		
Facilities, at Cost (Note B)	**$4,942,660**	$4,608,062
Less Accumulated Depreciation on Facilities	**1,750,052**	1,640,763
Facilities, Net	**3,192,608**	2,967,299
Investments (Note C)	**1,265,253**	938,531
Cash	**21,202**	20,398
Accounts Receivable (net of Allowance for Doubtful Accounts of $10,175,000 in 1985 and $9,049,000 in 1984)	**76,390**	77,591
Unamortized Costs for Bus Programs	**249,189**	288,111
Other Assets	**241,666**	164,762
Total Assets	**5,046,308**	4,456,692
Liabilities		
Bonds and Notes (Note D)	**2,655,466**	2,309,563
Commercial Paper Obligations (Note E)	**37,870**	—
Accounts Payable	**177,830**	82,621
Accrued Pension, Retirement and Other Employee Benefits (Note J)	**112,579**	93,224
Accrued Interest and Other Liabilities	**98,423**	90,179
Deferred Income	**9,642**	12,558
Total Liabilities	**3,091,810**	2,588,145
Net Assets	**$1,954,498**	$1,868,547
Net Assets are Composed of:		
Net Income Invested in Port Authority Facilities, Operations and Reserves	**$1,785,088**	$1,713,041
Government Contributions in Aid of Construction (Note G)	**169,410**	155,506
Net Assets	**$1,954,498**	$1,868,547

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31, 1985	1984
	(In Thousands)	
Funds Provided from:		
Net Income	$ 63,345	$129,942
Add-Income charges not affecting funds in the period:		
Depreciation on facilities	120,393	115,953
Amortization of costs for Bus Programs	38,938	29,186
Amortization of certain other assets	12,443	9,102
Funds provided by operations	235,119	284,183
Bonds, notes and commercial paper obligations	493,834	291,389
Port Authority bonds retired	31,340	12,586
Government contributions in aid of construction	22,606	10,920
Decrease in accounts receivable	1,201	1,331
Increase in accounts payable, accrued expenses and other liabilities	122,808	1,397
Total Funds Provided	906,908	601,806
Funds Applied to:		
Cost of facilities	345,702	203,854
Retirement or repayment of bonds, notes and commercial paper obligations	110,904	109,152
Port Authority bonds purchased by the Port Authority	30,497	27,083
Cost for Bus Programs	16	15,643
Other net changes in other assets and deferred credits	92,263	6,879
Total Funds Applied	579,382	362,611
Net Increase in Cash and Investments	$327,526	$239,195

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note A–Summary of Significant Accounting Policies:

1. The Port Authority of New York and New Jersey, created in 1921 by compact between the two States, with the consent of Congress, has no stockholders or equity holders; cash derived from operations and other cash received must be disbursed for specific purposes in accordance with provisions of various statutes and agreements with holders of its bonds and others. The costs of providing facilities and services to the general public on a continuing basis are recovered primarily in the form of fares, fees, tolls, rents and other user charges.

2. The financial statements and schedules include the accounts of the Port Authority and its wholly-owned subsidiary, Port Authority Trans-Hudson Corporation (PATH), consistent with the criteria set forth in the National Council on Governmental Accounting Statement No. 3, Defining the Governmental Reporting Entity. The assets and liabilities of the New York State Commuter Car Program and the Fund for Regional Development are not included in the Port Authority's financial statements (see Note F-5, Note I and Schedule F).

3. Facilities are carried at cost and include the expenditure of Federal and State grants to acquire, construct, place in operation and improve the facilities of the Port Authority. Facility capital costs include net interest expense incurred from the date of issuance of the debt to finance construction until completion of the capital project. (See Note B-1 and Note G.)

4. Investments in long-term securities, other than Port Authority bonds, are valued at amortized cost. Investments in short-term securities, other than Port Authority bonds, are valued at the lower of their aggregate amortized cost or market value. Investments in the Liberty Circle Venture Capital Fund (a limited partnership in which the Port Authority is the limited partner) are valued at cost.

Port Authority bonds purchased by the Port Authority serve to reduce debt on Bonds and Notes and are not included in investments. Interest expense and interest earnings relating to such Port Authority bonds purchased are not included in interest expense and income on investments. Bonds and Notes are shown net of unamortized discount. Consistent with Financial Accounting Standard No. 64, Extinguishments of Debt Made to Satisfy Sinking Fund Requirements, gains on purchase of Port Authority bonds in connection with future sinking fund requirements (those scheduled to occur more than one year from date of purchase) are separately classified as an extraordinary item. (See Note C.)

5. Depreciation is computed on the straight-line method based on estimated useful lives of the related assets including those financed by government contributions (see Note G). In distributing net income to net assets, a charge representing depreciation on assets acquired with contributions is made against the related contributions accounts. (See Note B-1.)

6. All expenditures for the Bus Programs are recorded as deferred charges and amortized over the estimated useful life of the buses (see Note K-1).

7. The revenues and expenses of facilities are accounted for in the operating fund. The financial resources expended for the construction or acquisition of major facilities or improvements thereto are accounted for in the capital fund. Transactions involving the application of net revenues are accounted for in the reserve funds pledged as additional security for bondholders (see Note F).

8. Schedules A, B and C have been prepared in accordance with the requirements of law and Port Authority bond resolutions which differ in some respects from generally accepted accounting principles, as follows:

The Port Authority's bond resolutions provide that net operating revenues shall not include an allowance for depreciation on facilities. Thus, depreciation is not a factor in determining the net revenues and the reserves of the Port Authority or their application as provided in the Port Authority's bond resolutions. Instead, facility capital costs are provided for through deductions from net revenues and reserves of amounts equal to principal payments on debt or appropriations to Invested in Facilities. These amounts are credited at par to Debt Retired Through Income and to Appropriated Reserves Invested in Facilities, respectively.

Expenditures for the Bus Programs are included in Invested in Facilities in accordance with Port Authority bond resolutions.

Port Authority bonds purchased by the Port Authority remain outstanding and are included in Investments and Bonds and Notes until retirement. Interest expense and interest earnings relating to such Port Authority bonds purchased are included as interest on bonds and notes and income on investments.

Furthermore, to reflect the cumulative amount invested by the Port Authority since 1921 in connection with its facilities, the cost of assets removed from service is not deducted from Invested in Facilities.

A reconciliation of Schedules A and B to the Consolidated Statements follows:

Consolidated Statement of Income To Revenues and Reserves (Schedule A)

	Year Ended December 31, 1985	1984
	(In Thousands)	
Net Income reported on Consolidated Statement of Income	$ 63,345	$129,942
Add: Depreciation on Facilities	120,393	115,953
Amortization of Costs for Bus Programs	38,938	29,186
Sub-Total	222,676	275,081
Less: Direct Investment in Facilities	87,359	71,527
Gain on Insurance Proceeds	—	7,072
Appropriations for Self-Insurance	4,063	489
Debt Retired - Bonds and Notes	49,347	19,675
- Commercial Paper Obligations	55,964	85,389
Sub-Total	196,733	184,152
Increase in Reserves reported on Schedule A, Revenues and Reserves (Pursuant to Port Authority bond resolutions)	$ 25,943	$ 90,929

Consolidated Statement of Financial Position To Assets and Liabilities (Schedule B)

	Year Ended December 31, 1985	1984
	(In Thousands)	
Net Assets reported on Consolidated Statement of Financial Position	$1,954,498	$1,868,547
Add: Accumulated Depreciation on Facilities	1,750,052	1,640,763
Accumulated Retirements	98,425	87,321
Cumulative Amortization of Costs for Bus Programs	106,219	67,281
Net Assets reported on Schedule B, Assets and Liabilities (Pursuant to Port Authority bond resolutions)	$3,909,194	$3,663,912

9. The Port Authority provides for uninsured potential losses through its self-insurance program by appropriations from the Consolidated Bond Reserve Fund to the operating fund and provides for losses by charging operating expenses as incurred.

10. The 1984 financial statements contain certain reclassifications which have been made in order to conform to the classifications used in 1985.

Note B–Facilities:

1. Cost of facilities is composed of the following:

	December 31, 1985	1984
	(In Thousands)	
Completed Construction:		
Air Terminals	$1,579,428	$1,540,135
World Trade Facilities	1,049,714	1,048,613
Marine & Other Facilities	598,501	605,519
Tunnels & Bridges	657,948	631,854
Rail	272,026	266,639
Bus Terminal	226,563	226,563
	4,384,180	4,319,323
Construction in Progress	558,480	288,739
	$4,942,660	$4,608,062

Asset lives used in the calculation of depreciation are generally as follows:

Tunnels and Bridges	100 years
Buildings	25 to 50 years
Runways and other paving	15 to 25 years
Machinery and equipment	5 to 35 years

Net interest expense added to cost of facilities was $24,810,000 in 1985 and $14,510,000 in 1984.

2. In 1980, a fire destroyed Pier B at the Hoboken Port Authority Marine Terminal. Substantially all assets destroyed by the fire were insured for their replacement value. The insurance proceeds received in 1984 exceeded the remaining unamortized value of Pier B by $7,072,000, an amount which was included as an extraordinary item on the 1984 Consolidated Statement of Income.

Note C–Investments:

	December 31, 1985			December 31, 1984
	Principal Amount	Quoted Market	Book Value	Book Value
		(In Thousands)		
Short-Term				
United States Treasury Bills	$441,410	$425,871	$425,332	$445,568
United States Treasury Notes	30,000	30,205	30,182	10,016
Bankers' Acceptances	47,000	46,820	46,845	—
Certificates of Deposit	1,608	1,608	1,608	2,902
Commercial Paper	25,000	24,989	24,990	600
Total Short-Term	$545,018	$529,493	528,957	459,086
Long-Term				
Farmers' Home Administration (Department of Agriculture) Insured Notes	$ 11,000	$ 10,874	10,997	56,988
United States Treasury Bonds and Notes	690,000	701,427	695,382	403,836
Government National Mortgage Association Participation Certificates	2,000	1,936	2,000	2,000
Total Long-Term	$703,000	$714,237	708,379	462,824
Liberty Circle Venture Capital Fund	$ 5,000		5,000	—
Bonds of The Port Authority of New York and New Jersey	$ 39,749		39,749	40,592
Accrued Interest Receivable			22,917	16,621
Total Investments			1,305,002	979,123
Less: Bonds of The Port Authority of New York and New Jersey			39,749	40,592
Investments			$1,265,253	$938,531

Note D–Bonds and Notes:

1. Obligations legal for investment as defined in the General Reserve Fund Statues (see Note F-1).

		December 31, 1984	Issued	Retired	December 31, 1985
			(In Thousands)		
General and Refunding Bonds					
Ninth Series	1½% due 1985	$ 427	$ —	$ 427	$ —
Tenth Series	1¾% due 1985	256	—	256	—
Eleventh Series	1¼% due 1986	1,232	—	590	642
		1,915	—	1,273	642
Consolidated Bonds (A)					
Fourth Series	2¾% due 1985	2,000	—	2,000	—
Sixth Series	3% due 1986	7,800	—	3,600	4,200
Seventh Series	3.40% due 1986	6,500	—	3,000	3,500
Eighth Series	3.40% due 1987	11,000	—	3,000	8,000
Tenth Series	3¾% due 1987	9,000	—	2,400	6,600
Twelfth Series	3⅜% due 1988	10,500	—	2,100	8,400
Fourteenth Series	3⅝% due 1989	13,750	—	2,750	11,000
Sixteenth Series	4¼% due 1989	6,250	—	1,250	5,000
Nineteenth Series	3½% due 1991	11,100	—	1,100	10,000
Twentieth Series	3¼% due 1993	19,425	—	1,750	17,675
Twenty-first Series	3.40% due 1993	13,875	—	1,250	12,625
Twenty-second Series	3⅜% due 1993	13,875	—	1,250	12,625
Twenty-third Series	3⅜% due 1994	15,125	—	1,250	13,875
Twenty-fourth Series	3½% due 1994	15,125	—	1,250	13,875
Twenty-sixth Series	3½% due 1995	23,625	—	1,575	22,050
Twenty-seventh Series	3⅜% due 1995	16,500	—	1,250	15,250
Twenty-eighth Series	3⅜% due 1996	18,750	—	1,250	17,500
Twenty-ninth Series	3½% due 1996	18,750	—	1,250	17,500
Thirtieth Series	3⅝% due 1998	17,269	—	769	16,500
Thirty-first Series	4% due 2002	81,000	—	—	81,000
Thirty-second Series	5% due 2003	86,500	—	2,500	84,000
Thirty-third Series	4¾% due 2003	86,400	—	2,400	84,000
Thirty-fourth Series	5½% due 2003	93,000	—	—	93,000
Thirty-fifth Series	6⅝% due 2005	97,000	—	1,000	96,000
Thirty-sixth Series	6.40% due 2005	48,000	—	—	48,000
Thirty-seventh Series	6% due 2006	98,000	—	1,000	97,000
Thirty-eighth Series	5⅜% due 2006	97,000	—	—	97,000
Thirty-ninth Series	5.80% due 2007	147,630	—	630	147,000
Fortieth Series	6% due 2008	99,000	—	500	98,500
Forty-first Series	5½% due 2008	98,500	—	—	98,500
Forty-second Series	8.20% due 2011	100,000	—	—	100,000
Forty-third Series	7% due 2011	50,000	—	—	50,000
Forty-fifth Series	6½% due 2012	75,000	—	—	75,000
Forty-sixth Series	6% due 2013	75,000	—	—	75,000
Forty-seventh Series	6½% due 2013	100,000	—	—	100,000
Forty-eighth Series	6¾% due 2014	75,000	—	—	75,000
Forty-ninth Series	10¼% due 2017	100,000	—	—	100,000
Fiftieth Series	10⅛% due 2017	100,000	—	—	100,000
Fifty-first Series	11% due 2019	100,000	—	—	100,000
Fifty-second Series (B)	9% due 2014	100,000	—	—	100,000
Fifty-third Series	8.70% due 2020	—	100,000	—	100,000
Fifty-fourth Series (C)	7% due 2020	—	100,000	—	100,000
Fifty-fifth Series (D)	6¾% due 2020	—	200,000	—	200,000
		2,157,249	400,000	42,074	2,515,175
Consolidated Notes (A)					
Series HH	7-3/4% due June 1, 1987	100,000	—	—	100,000
Series II	5.99% due January 15, 1985	1,000	—	1,000	—
Series JJ	5.8% due December 17, 1985	5,000	—	5,000	—
		106,000	—	6,000	100,000
Special Project Bonds (E)					
Series 1, Delta Air Lines, Inc. Project:					
First Installment	10-1/2% due 2002	10,015	—	—	10,015
Second Installment	10-1/2% due 2008	86,485	—	—	86,485
		96,500	—	—	96,500
Total Bonds and Notes in accordance with Port Authority bond resolutions		2,361,664	$400,000	$49,347	2,712,317
Less: Amortized cost of Port Authority bonds purchased by the Port Authority		40,592			39,749
Unamortized discount		11,509			17,102
Bonds and Notes		$2,309,563			$2,655,466

(A) All Consolidated Bonds and Consolidated Notes are equally and ratably secured by a pledge of the net revenues of all existing facilities and any additional facilities which may be financed or refinanced in whole or in part through the medium of Consolidated Bonds (see Note F).

(B) Subject to an annual option, commencing on November 1, 1994, and on each November 1 thereafter, of the registered holder to exercise a one-time election to convert to a variable interest rate, ranging from 8% to 12% per annum.

(C) Subject to a semi-annual option, commencing on December 1, 1988, and on each June 1 and December 1 thereafter, of the registered holder to exercise a one-time election to convert to a variable interest rate, ranging from 5% to 10% per annum.

(D) Subject to a semi-annual option, commencing on December 1, 1988, and on each June 1 and December 1 thereafter, of the registered holder to exercise a one-time election to convert to a variable interest rate, ranging from 5% to 9-1/2% per annum.

(E) Each series of Special Project Bonds is to be secured solely by a mortgage by the Port Authority of facility rental as set forth in a lease with respect to a project to be financed with the proceeds of bonds, by a mortgage by the lessee of its leasehold interests under the lease and by a security interest granted by the lessee to the Port Authority and mortgaged by the Port Authority in certain items of the lessee's personal property to be located at the project, and such other security in addition to the foregoing as may be required by the Port Authority from time to time as appropriate to the particular project. Consistent therewith, Delta Air Lines has also agreed that it shall pay the debt service on the Series 1 Bonds as a separate and independent covenant from its obligation to pay facility rental. (See Note F-4.)

2. Five-year amortization of Bonds and Notes (see Note D-1) outstanding on December 31, 1985 is:

Year Ending December 31:	Principal (In Thousands)
1986	$ 55,506
1987	155,132
1988	52,607
1989	53,819
1990	56,299
Total	$373,363

Amortization and interest applicable to General and Refunding Bonds are secured by a trust as outlined in Note F-2.

Note E–Financing:

The Port Authority finances construction and acquisition of its facilities primarily by issuing bonds, notes and other obligations. Details of Bonds and Notes and their amortization are described in Note D and Schedule D.

1. Commercial Paper Notes are special obligations of the Port Authority authorized to be issued for purposes of payment for capital expenditures in connection with the facilities of the Port Authority specified in the Commercial Paper Resolution and for the refunding of Commercial Paper Notes. On November 14, 1985, the Authority modified and extended the Commercial Paper Program. The prior restriction prohibiting previously issued Commercial Paper Notes from having a maturity date later than the last business day of the calendar year of issue no longer exists, but no Commercial Paper Notes may have a maturity date later than December 31, 1990. To assist in providing program liquidity in the event the Commercial Paper Notes cannot be refunded at maturity due to market conditions, a stand-by revolving credit facility in the principal amount of up to $150,000,000 is provided by a group of banks and trust companies. This stand-by revolving credit facility, subject to the fulfillment of certain conditions and unless sooner revoked or terminated in accordance with its provisions, expires on December 31, 1990. In addition, a bank line of credit in the amount of $15,000,000 permits accumulation of the capital expenditures to be funded by the issuance of Commercial Paper Notes. The total aggregate principal amount of Commercial Paper Notes and advances under the credit facilities described above which may be outstanding at any one time may not be in excess of $150,000,000.

Under the terms of the Port Authority Commercial Paper Resolution as modified and the agreements entered into thereunder, the payment of the principal of and interest on Commercial Paper Notes, not paid by subsequently issued Commercial Paper Notes, and advances under the stand-by credit facility and under the line of credit, are to be special obligations of the Port Authority payable from the proceeds of obligations issued for such purpose, including Consolidated Bonds issued in whole or in part for such purpose, or from net revenues (as defined in the Commercial Paper Resolution as modified) deposited to the Port Authority's Consolidated Bond Reserve Fund and remaining after certain applications authorized by the Consolidated Bond Resolution, and in the event such proceeds or net revenues are insufficient therefore, from other moneys legally available for such payments when due. Payment of the principal of and interest on these special obligations is subject in all respects to the payment of debt service on General and Refunding Bonds and Consolidated Bonds, as required by the applicable provisions of the Port Authority's bond resolutions, to the payment into the General Reserve Fund of the amount necessary to maintain such Fund at the amount specified in the General Reserve Fund statutes, to the payment of debt service on Limited Obligation Variable Rate Demand Bonds, if any, as required by the applicable provisions of the resolution establishing such issue, and to applications to purposes authorized by the Consolidated Bond Resolution.

The Commercial Paper Notes, and the interest thereon, and advances under the stand-by credit facility and under the line of credit, and the interest thereon, are not secured by or payable from the General Reserve Fund.

During the period January 1, 1985 through December 31, 1985, sales of Commercial Paper Notes, exclusive of refundings, totalled $93,284,000. Of that total, Notes amounting to $55,964,000 were repaid. At December 31, 1985, Commercial Paper Obligations, including $550,000 accumulated under the bank line of credit, totalled $37,870,000.

During the period January 1, 1986 through February 28, 1986, sales of Commercial Paper Notes, exclusive of refundings, totalled $12,657,000, resulting in a balance outstanding of $49,977,000.

2. As of February 13, 1986, the Board of Commissioners had established and authorized the issuance, and had authorized the sale by the Committee on Finance, of the following series of Consolidated Bonds and Notes for various purposes, including, in the case of Series Forty-two R, the refunding, on July 15, 1986, of Consolidated Bonds, Forty-second Series.

Series	Authorization Expires	Maximum Interest Rate Per Annum	Due Date	Authorized Amount
42 R(Bonds)	July 15, 1986	6.50%	July 15, 2011	$100,000,000
56th(Bonds)	June 30, 1987	15%	April 1, 2021	200,000,000
57th(Bonds)	June 30, 1987	15%	Nov. 1, 2021	200,000,000
58th(Bonds)	June 30, 1987	15%	April 1, 2022	200,000,000
KK(Notes)	June 30, 1987	12%	July 15, 1988	100,000,000
LL(Notes)	June 30, 1987	12%	Jan. 15, 1989	100,000,000
MM(Notes)	June 30, 1987	12%	July 15, 1989	100,000,000

Other than Series Forty-two R, the maximum aggregate principal amount of Bonds of these series which may be sold is $400,000,000, and the maximum aggregate principal amount of Notes of these series which may be sold is $200,000,000.

3. By resolution of October 11, 1984, as amended on February 13, 1986, the Board of Commissioners established and authorized a series of special limited obligations known as the "Bank Loan of 1986", for various purposes, in an aggregate principal amount of up to $100,000,000, at a maximum interest rate per annum of 12 percent. This authorization expires June 30, 1987.

4. By resolution of November 14, 1985, as amended on February 13, 1986, the Board of Commissioners established and authorized the issuance, and authorized the sale by the Committee on Finance, of Port Authority Limited Obligation Variable Rate Demand Bonds, Series 1986, Due 2016, in an aggregate principal amount of up to $200,000,000 for purposes of capital expenditures in connection with facilities of the Port Authority. This authorization expires on June 30, 1987.

5. On April 11, 1985, the Board of Commissioners authorized a program of lease-financing transactions to be known as the "Port Authority Operating Equipment-Lease Financing Program" to facilitate the purchase of portions of operating equipment for use at the Port Authority's facilities (see Note A-7), with the aggregate principal amount financed at any one time not to exceed $10,000,000. The arrangement with the lessor-investor or investors and with Bank of America NT&SA, New York, New York, the initial lessor's designee, provides for a variable interest rate on the lease transactions equal to 60 percent of Bank of America's reference rate, with each lease to extend for the useful life of the equipment, title to which is to be held by the Port Authority. On August 1, 1985, the closing for the Master Financing Lease with the initial lessor-investor was held and an initial deposit of $2,500,000 has been made by the lessor-investor.

Note F–Reserves:

1. The General Reserve Fund statutes provide for the Port Authority to maintain the General Reserve Fund in an amount equal to at least 10 percent of outstanding bonds legal for investment as defined in the statutes (see Note D-1), except for New York State Guaranteed Commuter Car Bonds described in Note F-5. At December 31, 1985, the General Reserve Fund balance was $271,232,000 and continued to meet the prescribed statutory amount. The Port Authority has established the policy of maintaining total reserve funds in an amount equal to at least the next two years' debt service on outstanding debt secured by a pledge of the General Reserve Fund.

At December 31, 1985, the Port Authority met the requirements of its bond resolutions to maintain total reserve funds in cash and specified marketable securities. Such amount included $646,000 held in trust for repayment of principal and interest on General and Refunding Bonds (see Note F-2).

2. In accordance with the provisions of bank loan agreements, the Port Authority, on December 31, 1970, placed into trust amounts available from the Port Authority's Special Reserve Fund, Air Terminal Reserve Fund and Marine Terminal Reserve Fund so that such Funds would be maintained in amounts sufficient to secure fully, unconditionally and absolutely the Port Authority's obligation to provide for the redemption as scheduled and the payment of interest until redemption on the outstanding General and Refunding, Air Terminal and Marine Terminal Bonds. As of December 31, 1980, the Port Authority had fully satisfied all debt service requirements on Air Terminal and Marine Terminal Bonds and the Air Terminal and Marine Terminal Reserve Funds in Trust no longer exist.

Under the terms of the Agreement of Trust, the remaining General and Refunding Bonds are not required to be paid or redeemed in advance of their scheduled redemption by operation of the sinking fund thereof.

With the establishment and maintenance of these Trust Funds, and with the satisfaction of all outstanding Air Terminal and Marine Terminal Bonds in 1980, net revenues of the Port Authority's existing facilities are applicable to debt service on Consolidated Bonds and Notes and all remaining balances, except such amounts as may be necessary to maintain the General Reserve Fund in the prescribed amount, are payable into the Consolidated Bond Reserve Fund.

3. The balance of all net revenues upon which Consolidated Bonds have a first lien, after deducting payments for debt service upon all Consolidated Bonds and such amounts as may be required to maintain the General Reserve Fund at its statutory amount, are to be paid into the Consolidated Bond Reserve Fund. Consolidated Bonds have a first lien upon the net revenues of all existing facilities of the Port Authority (cars acquired under the New York State Commuter Car Program are not included in "facilities of the Port Authority") and any additional facility financed by Consolidated Bonds. The prior liens and pledges with respect to certain net revenues in favor of General and Refunding Bonds of the Port Authority have been satisfied by the establishment and maintenance of the Special Reserve Fund in Trust as discussed in Note F-2.

4. On June 9, 1983, the Port Authority established an issue of special limited obligations known as Special Project Bonds. Neither the full faith and credit of the Port Authority nor the General Reserve Fund or the Consolidated Bond Reserve Fund are pledged to the payment of the principal of and interest on Special Project Bonds. (See Note D-1.)

5. New York State Guaranteed Commuter Car Bonds are secured by the net revenues of the Port Authority arising out of the lease of commuter railroad cars by the Port Authority to railroads in New York. Car Bonds are not secured by any other revenues, reserves or assets of the Port Authority, are not general obligations of the Port Authority and are not secured by the full faith and credit of the Port Authority. In the event that lease revenues are not sufficient to provide for scheduled payment of principal and interest, the punctual payment of debt service is fully and unconditionally guaranteed by the State of New York. New York State Guaranteed Commuter Car Bonds outstanding at December 31, 1985, totalled $88,295,000. (See Schedule F.)

Note G–Government Contributions in Aid of Construction:

The Port Authority receives contributions in aid of construction for capital purposes from government agencies. Federal funding from the Airport Improvement and the Airport Development Aid Programs was $20,754,000 in 1985 and $9,627,000 in 1984. Federal funding through the New York City Public Development Corporation for the Bathgate Industrial Park was $1,852,000 in 1985, and $1,293,000 in 1984.

Charges representing depreciation on assets relating to contributions were $8,702,000 in 1985 and $8,441,000 in 1984.

	December 31,	
	1985	1984
Cumulative Contributions	$263,261,000	$240,655,000
Less: Accumulated Charges (depreciation on assets acquired with contributions)	93,851,000	85,149,000
	$169,410,000	$155,506,000

Note H–Lease Commitments:

1. Gross operating revenues attributable to minimum rentals associated with operating leases amounted to approximately $312,000,000 in 1985 and approximately $284,000,000 in 1984.

2. Property Held for Lease

The Port Authority has entered into operating leases with tenants for the use of space at various Port Authority facilities including buildings, terminals, offices and consumer service areas at airports, marine terminals, bus and truck terminals, rail facilities, industrial parks, The Teleport and The World Trade Center.

Minimum future rentals scheduled to be received on operating leases in effect on December 31, 1985, are:

Year Ending December 31:	
1986	$ 305,527,000
1987	279,919,000
1988	264,382,000
1989	247,592,000
1990	229,369,000
Later Years	1,932,912,000
Total Minimum Future Rentals	$3,259,701,000

Investments in airports, World Trade Center, marine terminals and the bus terminal as of December 31 include property associated with minimum rentals derived from operating leases (see Note B-1). It is not reasonably practicable to segregate the value of assets associated with producing minimum rental revenue from the value of assets associated with an entire facility.

3. Property Leased From Others

Rental expenses under leases, including payments to the cities of New York, Newark and Hoboken for various air terminals, marine terminals and other facilities, aggregated $79,967,000 in 1985 and $66,436,000 in 1984. The lease terms expire at various times from 1999 to 2031 and may be renewed for additional periods. Minimum future rentals scheduled to be paid on operating leases in effect on December 31, 1985, are detailed below and additional rentals may be payable based on earnings of specified facilities under some of these leases.

Year Ending December 31:	
1986	$ 20,117,000
1987	21,492,000
1988	22,895,000
1989	24,232,000
1990	25,590,000
Later Years	889,587,000
Total Minimum Future Rentals	$1,003,913,000

Note I–World Trade Center:

Gross operating revenues include rental income of $21,400,000 in 1985 and $25,600,000 in 1984 from the State of New York for office and other space in the World Trade Center, and $7,200,000 in 1985 and $3,200,000 in 1984 of rental income from the Fund for Regional Development for office and other space vacated by the State of New York. The State, as of December 31, 1985, had vacated 900,000 square feet of its original leasehold and, over the next several years, is to vacate an additional 1,200,000 square feet in the south tower building.

The Fund for Regional Development is an entity created separately by agreement among the Port Authority, the State of New York and the State of New Jersey. The Fund leases from the Port Authority space formerly occupied by the State of New York in the south tower building and subleases such space to others. At December 31, 1985, the Fund had signed subleases with tenants committing forty-five floors in the south tower building and 19,000 square feet of sub-grade space, totalling approximately 1,800,000 square feet. In connection with Fund subleases, any amounts retained by the Fund are to be in excess of those amounts which would have been receivable by the Port Authority for the space occupied by the State of New York and such excess amounts are not pledged under the General Reserve Fund statutes or the Consolidated Bond Resolution. The Fund may make capital expenditures in connection with projects authorized by the 1962 World Trade Center–Hudson Tubes legislation.

Other Assets includes approximately $26,100,000 advanced by the Port Authority pursuant to the agreement creating the Fund. These amounts have been advanced to allow the Fund to cover certain Fund obligations. It is expected that future revenues to be derived by the Fund from signed subleases will be more than sufficient to repay advances made by the Port Authority. At December 31, 1985, net assets of the Fund were approximately $4,200,000 (see Note A-2).

Note J–Pension and Retirement Plans and Related Benefits:

1. Employees of the Port Authority are covered by one of two public employees' retirement systems: the New York State Employees' Retirement System or the New York State Policemen's and Firemen's Retirement System. PATH employees are covered by the provisions of the Railroad Retirement Act and certain PATH employees are also covered by supplemental plans established by PATH. The Port Authority's contributions to the two public employees' retirement systems are based primarily on billings from these systems. PATH's contributions to the Railroad Retirement System are based on federal regulations pursuant to the Railroad Retirement Act. For the years 1985 and 1984, the Port Authority and PATH provided a total of approximately $53,222,000 and $52,600,000, respectively, as employer contributions to these pension and retirement plans.

The two public employees' retirement systems covering Port Authority employees do not require contributions from police personnel or from those non-police employees who joined that system prior to July 1, 1976. Non-police personnel who became members of the system on July 1, 1976, and thereafter are presently required by statute to contribute three percent of their annual wages, with the Port Authority contributing the balance required by the system for these employees.

Contributions to these public employees' retirement systems for 1985 and 1984 by the Port Authority and Port Authority employees represented approximately three percent of the total contributions to the systems in each of these years. No information is available from these retirement systems as to the amount of any excess of the actuarially computed value of vested benefits over the systems' assets specifically related to employees of the Port Authority. However, if these public employees' retirement systems were to have terminated as of March 31, 1985, the latest date for which information is available, the actuarial present value of accumulated plan benefits for all of the employees covered by such systems (including the small percentage that are Port Authority employees) would exceed the net assets available for benefits of such systems by less than one percent.

2. The Port Authority and PATH provide certain health care and life insurance benefits for active employees and for employees who have retired from the Port Authority or

PATH (and for eligible dependents and survivors of active and retired employees). Contributions towards the cost of some of these benefits are required of certain active and/or retired employees. Those benefits are provided through insurance companies whose premiums are based on the benefits paid during the year, or through plans under which benefits are paid directly by the Port Authority or PATH. Prior to 1985 the cost of these benefits was recognized as an expense of the period in which such premiums or benefit claims were paid. Beginning in 1985, the cost of these benefits also includes an accrual in the amount of $10,000,000 for the prior service costs of these benefits for retired and active employees and their dependents. As of March 31, 1985, the actuarially determined present value of future benefits for prior service by active and retired employees and their dependents, to be paid after retirement, totalled $142,000,000. Annual accruals are to be made each year, on a consistent basis, until this amount is fully recognized. The actuarially determined valuation is to be reviewed periodically for the purpose of adjusting the annual accruals.

The cost of providing health care and life insurance benefits, excluding the $10,000,000 accrual for prior service costs, totalled approximately $27,815,000 in 1985 and $23,495,000 in 1984. The cost of providing these benefits for approximately 3,800 retired employees who may be covered by one or more of these plans is not separable from the cost of providing similar benefits for the approximately 9,000 active employees of the Port Authority and PATH.

3. Effective October 1, 1985, the Port Authority and PATH began to offer certain eligible employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code of 1954, as amended. The plan permits participants to defer a portion of their salary until future years. Amounts deferred are not available to employees until termination of employment, retirement, death, or unforeseeable emergency.

The Port Authority has appointed the New York State Deferred Compensation Board as the exclusive agent for the Port Authority and PATH, to exercise on its behalf the powers conferred by the deferred compensation plan.

All amounts deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the participating employee or other beneficiary) solely the property and rights of the Port Authority or PATH (without being restricted to the provisions of benefits under the plan), subject to claims of the general creditors of either. Participants' rights under the plan are equal to those of general creditors in an amount equal to the fair market value of each participant's account.

Deferred compensation plan assets of approximately $2,300,000 are included at market value in Other Assets and the liability to participants is included in Accrued Pension, Retirement and Other Employee Benefits.

Note K–Commitments and Certain Charges to Operations:

1. The Port Authority was authorized, pursuant to legislation effective March 1, 1979, as amended effective January 7, 1982, to allocate, subject to appropriate certifications pursuant to Port Authority bond resolutions and to bi-state legislation, up to $440,000,000 for mass transportation projects consisting of buses and other bus related facilities, with up to $220,000,000 to be allocated in each of the States of New York and New Jersey. The appropriate certifications were made by the Authority in 1979, and in May 1982. As of December 31, 1985, the Port Authority had agreed to purchase 2,465 buses and related spare parts at a cost of approximately $383,300,000 to be used under the Bus Programs in the States of New York and New Jersey. A total of 2,355 buses were delivered by that date. In February 1984, the New York City Transit Authority (NYCTA) removed certain of the buses in its fleet from passenger transportation service. Included among these buses are 174, provided under lease to the NYCTA pursuant to the Bus Programs. During 1985, amortization of these buses was accelerated, resulting in additional expense of $9,383,000. The remaining balance of the programs, totalling $56,700,000, is expected to be completed in accordance with schedules established at the request of the two States.

The Port Authority is not permitted to incur operating or maintenance expenses in connection with its programs to provide buses and bus related facilities and the Port Authority does not expect to derive any revenue from this investment. Further, the lessee is required to defend and to provide for indemnification, subject to appropriations or other funds which are or become legally available for this purpose, of the Port Authority against any liability by reason of the programs.

2. The PATH fare was increased from 30 cents per passenger trip to 50 cents per passenger trip effective July 31, 1983, and from 50 cents per passenger trip to 75 cents per passenger trip effective June 3, 1984. The revenues generated by these PATH fare increases, together with other available Port Authority funds, are expected to be used in connection with a $200,000,000 portion of PATH's capital improvement program. The 1984 bridge and tunnel tolls increase permits the Port Authority to support a capital program of approximately $250,000,000, including a portion thereof which would enable the Port Authority to undertake the upgrading of the tunnels and bridges and their approaches.

3. The Port Authority is now engaged in providing various capital improvements to certain of its existing facilities, and has undertaken studies for other such improvements and for other new construction and acquisitions, which are expected to require additional financing, including the issuance of bonds by the Port Authority. These include, but are not limited to, additional improvements to the Port Authority Bus Terminal, completion of Terminal C at Newark International Airport, redevelopment of the central terminal area roadway system at John F. Kennedy International Airport, capital improvements related to safety, maintenance, rehabilitation and improvement at the PATH system, the Oak Point Rail Freight Link, industrial development projects and facilities including the Elizabeth and Yonkers Industrial Parks, the Essex County Resource Recovery facility, a center for commercial fishing at the Erie Basin-Port Authority Marine Terminal, and the Newark Legal and Communications Center. The Port Authority is presently participating, either directly or with the assistance of outside consultants, in evaluating, with appropriate government officials and agencies in both States, the feasibility and economic viability of establishing a United States Navy Surface Action Group Homeport; resource recovery projects; mixed-use waterfront development projects; a regional development "bank" to be used as a vehicle for the authorization and effectuation of capital improvement projects, including the possible future use of certain revenues derived from the space occupied by the State of New York in the World Trade Center; improved landside access at Newark International Airport; a passenger distribution system and related improvements at John F. Kennedy International Airport; the development of foreign trade zones and distribution centers; a project which would include a Center for Advanced Technology in Telecommunications, in Brooklyn, New York; and activities to ease the burdens on Trans-Hudson transportation facilities, including the initial study of the feasibility of ferry service.

In order for the Port Authority to undertake some of the projects noted above, appropriate legislative authorization would be required and such projects could, if undertaken, involve capital expenditures by the Port Authority; however, no Port Authority capital funds are committed to capital projects without appropriate certifications and authorizations.

At December 31, 1985, approximately $600,000,000 of construction was expected to be completed within the next three years pursuant to various contracts entered into by the Port Authority.

Capital expenditures during the year 1986 are anticipated to be approximately $800,000,000, including a portion of the allocations related to the contracts and programs described above as well as the other ongoing capital construction programs of the Port Authority.

4. It is expected that costs of construction and operation of Port Authority facilities will continue to increase and that increases from time to time will continue to be necessary in the Port Authority's fares, fees, tolls, rentals and other charges, or that reductions in services and associated expenditures will occur, so that the cost of Port Authority operations and debt service and reserves will continue to be provided for in accordance with financial requirements and agreements with holders of Port Authority bonds or other obligations.

5. Other expenses of $55,278,000 in 1985 and $46,101,000 in 1984 include amounts for insurance, telephone, payment of interest on Special Project Bonds, and certain other operating, development and administrative expenses.

6. Under the agreements between the City of New York and the Port Authority with respect to the World Trade Center, after the World Trade Center space becomes available for occupancy the Port Authority is to make additional annual payments to the City in-lieu-of-taxes with respect to certain space occupied by private tenants within the World Trade Center. On December 30, 1981, the City instituted a suit seeking a declaratory judgment interpreting the payment-in-lieu-of-taxes agreement. On February 8, 1985, an order granting the City's cross-motion and denying the Port Authority's motion for summary judgment was signed by the court. On September 30, 1985, a stipulation of settlement was signed and the appeal of the court's order was withdrawn. The Port Authority paid New York City $46,822,000, of which approximately $29,900,000 is to be recovered under agreements with World Trade Center tenants. Of these amounts, $5,000,000 was recorded as a liability in 1984 and the balance has been reflected in 1985.

Note L–Information on Port Authority Operations by Operating Segment:

1. Operating Results

Gross Operating Income (Loss) consists of Revenues from Operations less operating and maintenance expenses, depreciation and Bus Program amortization. General Administrative and Development Expenses, Financial Income, and Interest Expense are not considered in calculating Gross Operating Income (Loss). Allocated general administrative and development expenses for the Ground and Mass Transportation group are $63,380,000 in 1985 and $47,500,000 in 1984 and for the Port Commerce and Economic Development group are $65,425,000 in 1985 and $55,229,000 in 1984.

	Ground and Mass Transportation				Port Commerce and Economic Development				Combined	
	Tunnels & Bridges	Bus Terminal and Bus Programs	Rail	Total	Air Terminals	Marine & Other Facilities	World Trade Facilities	Total	1985	1984
					(In Thousands)					
1985										
Gross Operating Revenues	$213,086	$ 20,150	$ 44,583	$ 277,819	$511,141	$ 70,853	$241,027	$ 823,021	$1,100,840	
Interdepartmental Revenues		52	1,756	1,808		567	37,187	37,754		
Revenues from Operations	213,086	20,202	46,339	279,627	511,141	71,420	278,214	860,775		
Gross Operating Income (Loss)	103,306	(59,992)	(62,351)	(19,037)	126,256	13,566	89,686	229,508	$210,471	
1984										
Gross Operating Revenues	$204,365	$ 20,515	$ 38,090	$ 262,970	$480,641	$ 60,009	$196,440	$ 737,090		$1,000,060
Interdepartmental Revenues		73	1,318	1,391		849	32,677	33,526		
Revenues from Operations	204,365	20,588	39,408	264,361	480,641	60,858	229,117	770,616		
Gross Operating Income (Loss)	105,453	(43,982)	(53,421)	8,050	140,463	9,410	92,832	242,705		$250,755
General Administrative and Development Expenses									(128,805)	(102,729)
Income from Operations									81,666	148,026
Financial Income									84,955	85,943
Interest Expense									(108,127)	(114,920)
Income Before Extraordinary Items									58,494	119,049
Extraordinary Items										
Gain on purchase of Port Authority bonds in connection with future sinking fund requirements									4,851	3,821
Gain on insurance proceeds (Note B)									—	7,072
Net Income									$ 63,345	$129,942

2. Asset Information

The table below contains a summary of information on the Port Authority's assets. Facilities, net consists of facilities at cost less accumulated depreciation.

	Ground and Mass Transportation				Port Commerce and Economic Development				
	Tunnels & Bridges	Bus Terminal and Bus Programs	Rail	Total	Air Terminals	Marine & Other Facilities	World Trade Facilities	Total	Total Assets
					(In Thousands)				
1985 Assets									
Facilities, net-beginning of year	$475,436	$207,736	$226,088	$ 909,260	$751,952	$393,426	$912,661	$2,058,039	$2,967,299
Net capital expenditures	42,919	9,845	57,027	109,791	114,889	92,257	28,765	235,911	345,702
Depreciation	(11,626)	(4,301)	(7,778)	(23,705)	(57,827)	(17,790)	(21,071)	(96,688)	(120,393)
Facilities, net-end of year	$506,729	213,280	$275,337	995,346	$809,014	$467,893	$920,355	2,197,262	3,192,608
Unamortized Cost-Bus Programs		249,189		249,189				—	249,189
Total		$462,469		$1,244,535				$2,197,262	3,441,797
Cash, investments, accounts receivable and other assets									1,604,511
Total Assets									$5,046,308
1984 Assets									
Facilities, net-beginning of year	$450,818	$192,424	$215,398	$ 858,640	$743,268	$376,579	$900,911	$2,020,758	$2,879,398
Net capital expenditures	35,436	18,771	18,843	73,050	63,070	34,946	32,788	130,804	203,854
Depreciation	(10,818)	(3,459)	(8,153)	(22,430)	(54,386)	(18,099)	(21,038)	(93,523)	(115,953)
Facilities, net-end of year	$475,436	207,736	$226,088	909,260	$751,952	$393,426	$912,661	2,058,039	2,967,299
Unamortized Cost-Bus Programs		288,111		288,111				—	288,111
Total		$495,847		$1,197,371				$2,058,039	3,255,410
Cash, investments, accounts receivable and other assets									1,201,282
Total Assets									$4,456,692

Schedule A **Revenues and Reserves** (Pursuant to Port Authority bond resolutions)

	Year Ended December 31, 1985 Operating Fund	1985 Reserve Funds (Schedule C)	1985 Combined Total	1984 Combined Total
	(In Thousands)			
Gross Operating Revenues	$1,100,840	$ —	**$1,100,840**	$1,000,060
Operating Expenses:				
Employee compensation, including benefits	402,997	—	**402,997**	343,376
Materials, equipment, supplies and contract services	190,378	—	**190,378**	164,670
Heat, light and power	66,703	—	**66,703**	67,562
Rents (primarily related to airport leases) and amounts in-lieu-of-taxes	144,487	—	**144,487**	85,186
Other (Note K-5)	55,278	—	**55,278**	46,101
Total Operating Expenses	859,843	—	**859,843**	706,895
Net Operating Revenues	240,997	—	**240,997**	293,165
Financial Income				
Income on investments (includes gain of $6,077,000 in 1985 and $5,501,000 in 1984 on purchase of Port Authority bonds)	19,976	71,745	**91,721**	91,337
Security valuation adjustment	—	—	**—**	(19)
Net Revenues Available for Debt Service and Reserves	260,973	71,745	**332,718**	384,483
Debt Service				
Interest on bonds and notes	109,972	70	**110,042**	116,474
Serial maturities and sinking fund retirements	48,074	1,273	**49,347**	19,675
Repayment of commercial paper obligations	—	55,964	**55,964**	85,389
Total Debt Service	158,046	57,307	**215,353**	221,538
Transfers to Reserves	($ 102,927)	102,927	**—**	—
Revenues After Debt Service and Transfers to Reserves		117,365	**117,365**	162,945
Direct Investment in Facilities		(87,359)	**(87,359)**	(71,527)
Appropriations for Self-Insurance		(4,063)	**(4,063)**	(489)
Increase in Reserves		25,943	**25,943**	90,929
Reserve Balances-Beginning of Year		663,139	**663,139**	572,210
Reserve Balances-End of Year (Schedule C)		$689,082	**$689,082**	$663,139

See Notes to Consolidated Financial Statements.

Schedule B **Assets and Liabilities** (Pursuant to Port Authority bond resolutions)

	December 31, 1985				December 31, 1984
	Operating Fund	Capital Fund	Reserve Funds	**Combined Total**	Combined Total
			(In Thousands)		
Assets					
Invested in Facilities	$ —	$5,396,493	$ —	**$5,396,493**	$5,050,775
Investments (Note C)	140,053	482,757	682,192	**1,305,002**	979,123
Cash	3,120	11,192	6,890	**21,202**	20,398
Accounts Receivable (net of Allowance for Doubtful Accounts of $10,175,000 in 1985 and $9,049,000 in 1984)	75,790	600	—	**76,390**	77,591
Other Assets	147,545	111,223	—	**258,768**	176,271
Total Assets	366,508	6,002,265	689,082	**7,057,855**	6,304,158
Liabilities					
Bonds and Notes (Note D)	—	2,712,317	—	**2,712,317**	2,361,664
Commercial Paper Obligations (Note E)	—	37,870	—	**37,870**	—
Accounts Payable	112,486	65,344	—	**177,830**	82,621
Accrued Pension, Retirement and Other Employee Benefits (Note J)	112,579	—	—	**112,579**	93,224
Accrued Interest and Other Liabilities	97,192	1,231	—	**98,423**	90,179
Deferred Income	9,642	—	—	**9,642**	12,558
Total Liabilities	331,899	2,816,762	—	**3,148,661**	2,640,246
Net Assets	$ 34,609	$3,185,503	$689,082	**$3,909,194**	$3,663,912
Net Assets are Composed of:					
Debt Retired Through Income	$ —	$2,460,683	$ —	**$2,460,683**	$2,355,373
Reserves (Schedule C)	—	—	689,082	**689,082**	663,139
Government Contributions in Aid of Construction (Note G)	—	263,261	—	**263,261**	240,654
Appropriated Reserves Invested in Facilities	—	461,559	—	**461,559**	374,200
Appropriated Reserves for Self-Insurance	34,609	—	—	**34,609**	30,546
Net Assets	$ 34,609	$3,185,503	$689,082	**$3,909,194**	$3,663,912

See Notes to Consolidated Financial Statements.

Schedule C **Analysis of Reserve Funds** (Pursuant to Port Authority bond resolutions)

	Year Ended December 31, 1985 General Reserve Fund	1985 Consolidated Bond Reserve Fund	1985 Special Reserve Fund in Trust for General & Refunding Bonds	1985 **Combined Total**	1984 Combined Total
			(In Thousands)		
Balance, January 1 (Note F)	$236,166	$425,033	$1,940	**$663,139**	$572,210
Income on investments (includes gain on purchase of Port Authority bonds)	26,611	44,985	149	**71,745**	61,530
Security valuation adjustment	—	—	—	—	(133)
Reserve fund transfers	8,455	(8,355)	(100)	—	—
Transfers from operating fund	—	102,927	—	**102,927**	188,141
	271,232	564,590	1,989	**837,811**	821,748
Applications:					
Interest on bonds and notes	—	—	70	**70**	122
Serial maturities and sinking fund retirements	—	—	1,273	**1,273**	1,082
Repayment of commercial paper obligations	—	55,964	—	**55,964**	85,389
Invested in facilities	—	87,359	—	**87,359**	71,527
Self-insurance	—	4,063	—	**4,063**	489
Total Applications	—	147,386	1,343	**148,729**	158,609
Balance, December 31 (Note F)	$271,232	$417,204	$ 646	**$689,082**	$663,139

NOTE: The above schedule reflects the valuation of securities in accordance with the accounting principles stated in Note A-4. Had the market value of securities at December 31, 1985 been used, the respective Reserve Fund balances at December 31, 1985 would be:

General Reserve Fund	Consolidated Bond Reserve Fund	General & Refunding Bonds
$271,232	$423,598	$ 646

See Notes to Consolidated Financial Statements.

Schedule D **Amortization of Consolidated Bonds and Consolidated Notes 1986-2020**

	December 31, 1985 (In Thousands)		
	Total Debt Service		
	Par Value $2,615,817		
Year	Total	Interest	Amortization
1986	$ 229,115	$ 173,609	$ 55,506
1987	321,898	166,766	155,132
1988	214,534	161,927	52,607
1989	221,124	167,305	53,819
1990	221,101	164,802	56,299
1991	221,699	162,046	59,653
1992	223,037	159,039	63,998
1993	224,418	155,674	68,744
1994	222,036	152,569	69,467
1995	224,154	151,213	72,941
1996	222,359	146,949	75,410
1997	219,758	142,508	77,250
1998	221,244	137,744	83,500
1999	221,078	132,578	88,500
2000	226,607	126,857	99,750
2001	224,852	120,102	104,750
2002	225,313	112,813	112,500
2003	217,607	105,107	112,500
2004	199,816	97,566	102,250
2005	197,250	90,000	107,250
2006	180,811	82,061	98,750
2007	165,855	74,605	91,250
2008	151,150	67,650	83,500
2009	136,228	60,978	75,250
2010	132,332	54,332	78,000
2011	129,405	47,405	82,000
2012	111,800	40,300	71,500
2013	101,277	34,027	67,250
2014	84,020	28,020	56,000
2015	67,899	22,899	45,000
2016	67,377	18,377	49,000
2017	62,542	13,542	49,000
2018	43,945	8,945	35,000
2019	40,151	5,151	35,000
2020	30,191	2,191	28,000
Total	$6,003,983	$3,387,657	$2,616,326

NOTE: Total Amortization of $2,616,326,000, shown above, differs from the Par Value of $2,615,817,000 because the above table includes call premiums of $1,151,000, but does not include $642,000 General and Refunding Bonds to be retired in 1986 for which sinking fund payments were made, in accordance with resolutions establishing such Bonds, on December 31, 1985. Interest shown under "Total Debt Service" is computed on the assumption that amortization payments will be made each year on the latest permissible date. Amortization and interest applicable to General and Refunding Bonds are secured by a trust as outlined in Note F-2. Neither the above table nor Par Value include amounts for special obligations which may be outstanding from time to time, including those established under the Commercial Paper Program, $96,500,000 Special Project Bonds, Series 1, which are not secured by or payable from the General Reserve Fund and for accelerated mandatory retirements, if any, in connection with Consolidated Bonds, Fifty-second Series, due 2014, which have been converted to a variable rate of interest (see Note E-1 and Note F-4). Both the above table and Par Value include all mandatory payments (including sinking fund requirements, applicable call premiums and serial maturities) whether payable from revenues or other sources upon assumptions that: (1)-the presently outstanding bonds or notes will not be retired prior to maturity except in accordance with the mandatory retirement provisions of the resolutions establishing the series of which such bonds or notes form a part; (2)-the payment into each sinking fund will be made on the latest permissible date of each year for which such sinking fund payment is required to be made; (3)-such payments will be in the amounts scheduled to be made for such year. Both the above table and Par Value also include, for those series of bonds which may be converted to a variable rate of interest, the maximum amount of such interest permissible.

See Notes to Consolidated Financial Statements.

Schedule E **Selected Statistical Financial Data**

	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
					(In Thousands)					
REVENUES AND EXPENSES										
Gross Operating Revenues	**$1,100,840**	$1,000,060	$ 848,584	$ 779,744	$ 699,113	$ 647,647	$ 588,064	$ 543,810	$ 524,325	$ 496,413
Operating Expenses	**859,843**	706,895	610,287	557,303	487,758	437,199	391,517	367,794	327,047	310,701
Net Operating Revenues	**240,997**	293,165	238,297	222,441	211,355	210,448	196,547	176,016	197,278	185,712
Income on Investments	**85,644**	85,836	71,626	88,664	90,688	77,675	44,957	30,150	24,695	22,211
Gain on Purchase of Port Authority Bonds	**6,077**	5,501	8,596	13,533	13,116	12,323	10,067	9,321	3,670	6,446
Security Valuation Adjustment	**—**	(19)	11	—	1,135	(944)	(3,664)	(9,981)	(127)	1,381
Net Revenues Available for Debt Service and Reserves	**332,718**	384,483	318,530	324,638	316,294	299,502	247,907	205,506	225,516	215,750
DEBT SERVICE-OPERATIONS										
Interest on Bonds and Notes (Note B)	**(109,972)**	(116,352)	(110,024)	(101,818)	(99,542)	(98,040)	(87,296)	(85,456)	(83,354)	(78,195)
Times, Interest Earned (A)	**3.02**	3.30	2.87	3.16	3.16	3.05	2.84	2.40	2.71	2.76
Serial Maturities and Sinking Fund Retirements	**(48,074)**	(18,593)	(32,433)	(30,387)	(42,344)	(38,092)	(36,944)	(21,023)	(30,173)	(29,204)
Times, Debt Service Earned (A)	**2.08**	2.33	2.05	2.26	2.24	2.16	2.00	1.93	1.99	2.01
DEBT SERVICE-RESERVES										
Debt Service on Bonds Secured by Trusts	**(1,343)**	(1,204)	(637)	(1,129)	(1,298)	(2,187)	(4,159)	(6,354)	(5,088)	(4,253)
Interest on Bank Loans	**—**	—	(2,777)	(4,300)	(6,456)	(5,749)	(6,370)	(7,562)	(8,329)	(9,213)
Repayment of Bank Loans	**—**	—	(31,250)	(31,250)	(31,250)	(31,250)	(40,000)	(40,000)	(60,000)	(60,000)
Repayment of Commercial Paper Obligations	**(55,964)**	(85,389)	(100,089)	(37,422)	—	—	—	—	—	—
Debt Retirement Acceleration	**—**	—	(20,000)	(20,000)	(20,000)	(10,000)	(7,500)	—	—	—
Direct Investment in Facilities-Reserves	**(87,359)**	(71,527)	(19,221)	(75,621)	(75,000)	(20,000)	(25,000)	—	(5,000)	(3,000)
Appropriation for Self-Insurance-Reserves	**(4,063)**	(489)	537	1,329	607	(1,896)	(3,444)	(3,955)	(4,636)	(3,405)
Net Increase in Reserves Before Cumulative Effect of Change in Accounting Principle	**25,943**	90,929	2,636	24,040	41,011	92,288	37,194	41,156	28,936	28,480
Cumulative Effect on Prior Years of Changing to a Different Security Valuation Method	**—**	—	—	—	—	9,503	—	—	—	—
Net Increase in Reserves (B)	**25,943**	90,929	2,636	24,040	41,011	101,791	37,194	41,156	28,936	28,480
RESERVE BALANCES										
Beginning of Year	**663,139**	572,210	569,574	545,534	504,523	402,732	365,538	324,382	295,446	266,966
End of Year	**$ 689,082**	$ 663,139	$ 572,210	$ 569,574	$ 545,534	$ 504,523	$ 402,732	$ 365,538	$ 324,382	$ 295,446
Represented by:										
General Reserve Fund	**$ 271,232**	$ 236,166	$ 223,080	$ 223,080	$ 210,597	$ 210,597	$ 210,597	$ 208,023	$ 194,692	$ 188,168
Special Reserve (C)	**646**	1,940	3,064	3,649	4,788	6,103	7,466	8,829	10,192	11,554
Air Terminal Reserve (C)	**—**	—	—	—	—	—	682	3,283	7,766	10,925
Marine Terminal Reserve (C)	**—**	—	—	—	—	—	157	310	795	1,333
Consolidated Bond Reserve	**417,204**	425,033	346,066	342,845	330,149	287,823	183,830	145,093	110,937	83,466
Total	**$ 689,082**	$ 663,139	$ 572,210	$ 569,574	$ 545,534	$ 504,523	$ 402,732	$ 365,538	$ 324,382	$ 295,446
DEBT-AT YEAR-END										
General and Refunding Bonds	**$ 642**	$ 1,915	$ 2,997	$ 3,528	$ 4,589	$ 5,805	$ 7,051	$ 8,279	$ 9,490	$ 10,684
Air Terminal Bonds	**—**	—	—	—	—	—	667	3,192	7,514	10,395
Marine Terminal Bonds	**—**	—	—	—	—	—	154	300	767	1,273
Consolidated Bonds and Notes	**2,615,175**	2,263,249	2,075,842	2,127,275	1,967,662	1,925,006	1,973,098	1,943,460	1,804,152	1,859,325
Special Project Bonds	**96,500**	96,500	96,500	—	—	—	—	—	—	—
Total Bonds and Notes	**2,712,317**	2,361,664	2,175,339	2,130,803	1,972,251	1,930,811	1,980,970	1,955,231	1,821,923	1,881,677
Commercial Paper Obligations	**37,870**	—	—	—	—	—	—	—	—	—
Bank Loans	**—**	—	—	31,250	62,500	93,750	125,000	165,000	205,000	140,000
Total	**$2,750,187**	$2,361,664	$2,175,339	$2,162,053	$2,034,751	$2,024,561	$2,105,970	$2,120,231	$2,026,923	$2,021,677
INVESTED IN FACILITIES-AT YEAR-END	**$5,396,493**	$5,050,775	$4,838,351	$4,574,583	$4,375,490	$4,148,331	$3,985,354	$3,882,953	$3,792,776	$3,697,423
DEBT RETIRED THROUGH INCOME										
Annual	**$ 105,310**	$ 105,064	$ 184,303	$ 120,120	$ 94,810	$ 81,409	$ 88,343	$ 67,023	$ 94,754	$ 92,897
Cumulative	**$2,460,683**	$2,355,373	$2,250,309	$2,066,006	$1,945,886	$1,851,076	$1,769,667	$1,681,324	$1,614,301	$1,519,547

(A) In computing Times, Interest Earned and Times, Debt Service Earned, insignificant amounts of interest income and interest expense on debt previously accelerated have been included in Net Revenues Available for Debt Service and Reserves and Interest on Bonds and Notes, respectively. In addition, Serial Maturities and Sinking Fund Retirements has been adjusted to exclude the retirement of Consolidated Notes and to include scheduled retirement of debt previously accelerated as follows:

1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
($1,560)	($29,731)	($12,193)	($11,016)	$1,250	($2,250)	—	—	—	—

(B) Net Increase in Reserves with the 1980 and 1982 changes in accounting principles relating to the security valuation method and capitalization of interest retroactively applied would be as follows:

1981	1980	1979	1978	1977	1976
$ 34,390	$ 90,732	$ 36,881	$ 50,964	$ 29,044	$ 27,079

(C) Reserve Funds maintained in Trust since December 31, 1970. See Note F-2 to Consolidated Financial Statements.

NOTE: This selected statistical financial data is prepared from information contained on Schedules A, B and C and is presented for general information purposes only and is not intended to reflect specific applications of the revenues and reserves of the Port Authority which are governed by statutes and its bond resolutions. The data for the years 1976-1980 are derived from financial statements examined by another independent auditor.

See Notes to Consolidated Financial Statements.

The Port Authority of New York and New Jersey
New York State Commuter Car Program
Assets and Liabilities

	December 31, 1985	December 31, 1984
	(In Thousands)	
Assets		
Invested in Commuter Cars, at Cost	**$145,069**	$137,898
Cash and Investments in U.S. Government Securities, at Cost (which approximates market)	**5,416**	15,563
Other Assets	**563**	594
Total Assets	**151,048**	154,055
Liabilities		
State Guaranteed Commuter Car Bonds	**88,295**	93,935
Other Liabilities	**9,663**	12,670
Total Liabilities	**97,958**	106,605
Debt Retired	**$ 53,090**	$ 47,450

NOTE: Pursuant to legislation of the States of New York and New Jersey, the Port Authority is authorized and empowered, upon the election of either state, to purchase and lease railroad cars to commuter railroads of the electing state, and to borrow money for such purpose or for the repayment of advances from the electing state if such state has made itself liable for the repayment of the money so borrowed. By resolution dated April 12, 1962, the Port Authority established an issue of New York State Guaranteed Commuter Car Bonds. The information contained in this schedule has been prepared pursuant to such bond resolution and legislation. Such Car Bonds are secured by the net revenues of the Port Authority arising out of the lease of commuter railroad cars. The Metropolitan Transportation Authority currently leases railroad cars acquired under this program, in its own right and in connection with the assumption of equipment obligations of Consolidated Rail Corporation (ConRail) and of the Penn Central Transportation Company (and its successor, ConRail). Car Bonds are not secured by any other revenues, reserves or assets of the Port Authority, are not general obligations of the Port Authority and are not secured by the full faith and credit of the Port Authority. In the event that lease revenues are not sufficient to provide for scheduled payment of principal and interest, the punctual payment of such debt service is fully and unconditionally guaranteed by New York State. Title to the cars is to be relinquished by the Port Authority after retirement of all obligations issued in connection with such cars. (See Note F-5.)

See Notes to Consolidated Financial Statements.

THE PORT AUTHORITY OF NY & NJ

Facility Traffic

Tunnels and Bridges

(Eastbound Traffic in Thousands)

	1985	1984
All Crossings		
Automobiles	**96,203**	91,798
Buses	**1,934**	1,810
Trucks	**7,561**	7,346
Total Vehicles	**105,698**	100,954
George Washington Bridge		
Automobiles	**44,098**	42,086
Buses	**267**	255
Trucks	**3,822**	3,695
Total Vehicles	**48,187**	46,036
Lincoln Tunnel		
Automobiles	**18,178**	17,113
Buses	**1,417**	1,327
Trucks	**1,120**	1,037
Total Vehicles	**20,715**	19,477
Holland Tunnel		
Automobiles	**12,318**	12,184
Buses	**90**	78
Trucks	**1,011**	1,084
Total Vehicles	**13,419**	13,346
Staten Island Bridges		
Automobiles	**21,608**	20,415
Buses	**160**	150
Trucks	**1,608**	1,530
Total Vehicles	**23,376**	22,095
Cumulative PA Investment In Tunnels and Bridges (In Thousands)	**$762,200**	$720,200

Air Terminals

	1985	1984
Totals at the Three Major Airports		
Plane Movements	**1,013,900**	995,000
Passenger Traffic	**78,064,000**	73,891,000
Cargo–Tons	**1,408,600**	1,510,600
Revenue Mail–Tons	**240,900**	253,400
Kennedy International Airport		
Plane Movements	**286,100**	306,700
Passenger Traffic		
Total	**28,945,000**	29,935,000
Domestic	**12,569,000**	13,601,000
Overseas	**16,376,000**	16,334,000
Cargo–Tons	**1,080,400**	1,235,600
LaGuardia Airport		
Plane Movements	**348,100**	343,100
Passenger Traffic	**20,542,000**	20,302,000
Cargo–Tons	**54,100**	47,000
Newark International Airport		
Plane Movements	**379,700**	345,200
Passenger Traffic	**28,577,000**	23,654,000
Cargo–Tons	**274,100**	228,000
Cumulative PA Investment In Air Terminals (In Thousands)	**$ 1,734,500**	$ 1,638,600

Terminals

	1985	1984
All Bus Facilities		
Passengers	**75,595,000**	72,948,000
Bus Movements	**3,129,000**	3,069,000
Port Authority Bus Terminal		
Passengers	**59,000,000**	56,000,000
Bus Movements	**2,000,000**	1,946,000
George Washington Bridge Bus Station		
Passengers	**5,500,000**	6,046,000
Bus Movements	**262,000**	270,000
PATH Journal Square Transportation Center Bus Station		
Passengers	**11,095,000**	10,902,000
Bus Movements	**867,000**	853,000
Cumulative PA Investment In Bus Facilities (In Thousands)	**$251,000**	$248,900

Marine Terminals

	1985	1984
All Terminals		
Ship Arrivals	**2,812**	3,196
General Cargo (Long Tons)	**17,943,938**	16,436,113
New Jersey Marine Terminals		
Ship Arrivals	**2,258**	2,692
General Cargo (Long Tons)	**17,465,633**	15,936,529
New York Marine Terminals		
Ship Arrivals	**554**	504
General Cargo (Long Tons)	**478,305**	499,584
Cumulative PA Investment In Marine Terminals (In Thousands)	**$660,300**	$626,600

PATH

	1985	1984
Total Passengers	**53,709,000**	54,628,000
Passenger Weekday Average	**190,750**	192,800
Cumulative PA Investment in PATH (In Thousands)	**$374,200**	$317,500

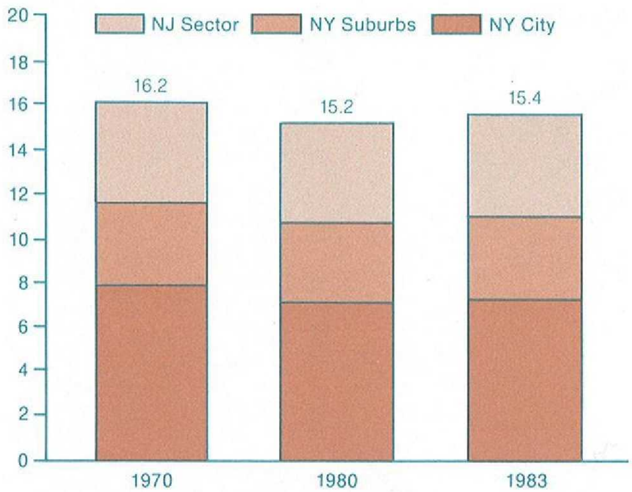
	1985	1984
Total Port Authority Cumulative Invested in Facilities, Including the Above (In Thousands)	**$5,396,500**	$5,050,800

The New York-New Jersey Metropolitan Regional Almanac

The New York-New Jersey Metropolitan Region, the largest and most diversified metropolitan region in the nation, consists of New York City, the four suburban New York counties of Nassau, Rockland, Suffolk and Westchester, and the eight counties of northern New Jersey, Bergen, Essex, Hudson, Middlesex, Morris, Passaic, Somerset and Union.

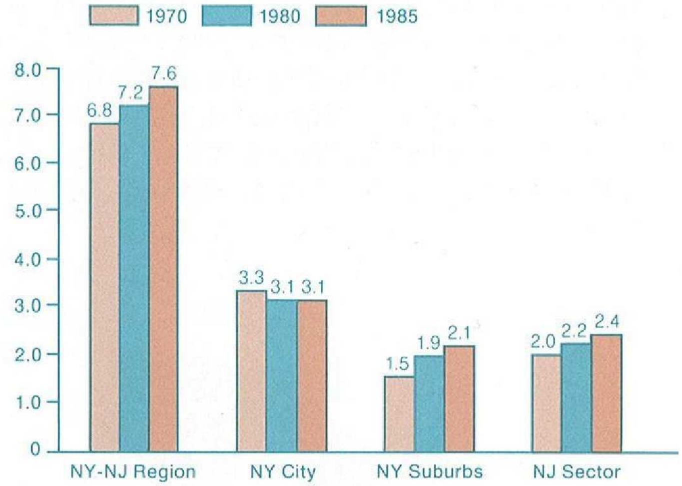
Area	3,900 Square Miles
Population 1983	15.4 Million
Households 1980	5.5 Million
Civilian Labor Force 1985	7.6 Million
Total Personal Income 1983	$220.9 Billion
Retail Sales 1985 Estimate	$86 Billion
Total Wage and Salary Jobs—1985	7.3 Million

Population
N.Y.-N.J. Metropolitan Region
1970, 1980 and 1983
(in millions)



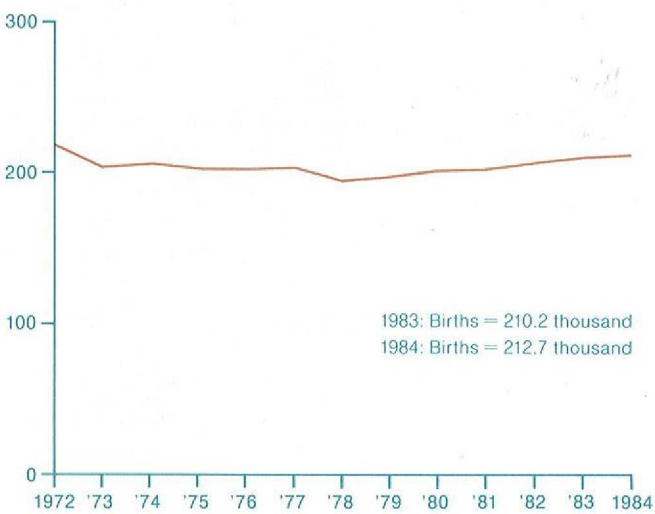
Source: U.S. Bureau of the Census, N.Y. State Dept. of Commerce, N.J. State Dept. of Labor

Total Labor Force
N.Y.-N.J. Metropolitan Region
1970, 1980 and 1985
(in millions)



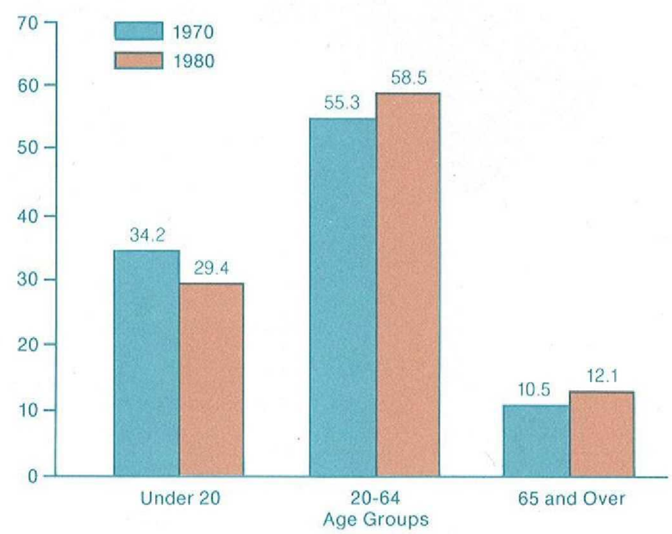
Source: N.Y. and N.J. State Depts. of Labor

Number of Births
N.Y.-N.J. Metropolitan Region
1972-1984
(in thousands)



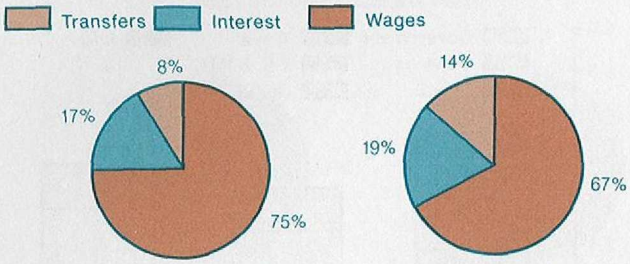
Source: N.Y. and N.J. State Depts. of Health

Changes in Age Distribution
New York-New Jersey Region
1970, 1980
(percent)



Source: U.S. Bureau of the Census. Census of Population, 1970 and 1980

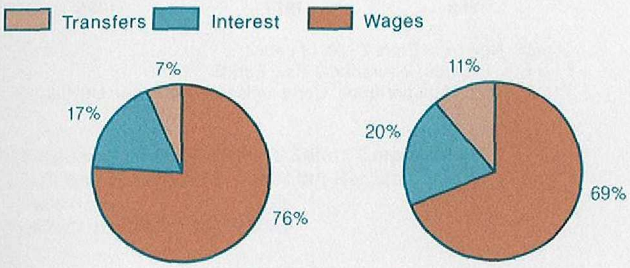
Total Personal Income by Type
N.Y.-N.J. Metropolitan Region
(percent)



1969: Region = $76.6 billion

1983: Region = $220.9 billion

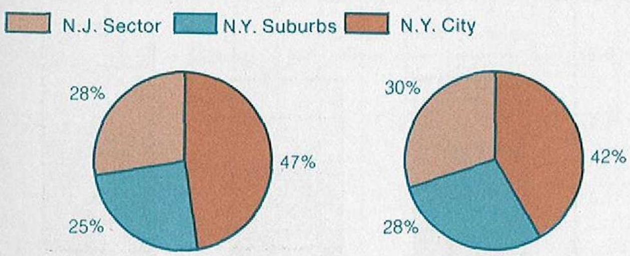
Total Personal Income by Type
N.Y. Suburbs
(percent)



1969: N.Y. Suburbs = $19.0 billion

1983: N.Y. Suburbs = $62.1 billion

Total Personal Income
N.Y.-N.J. Metropolitan Region
(percent)

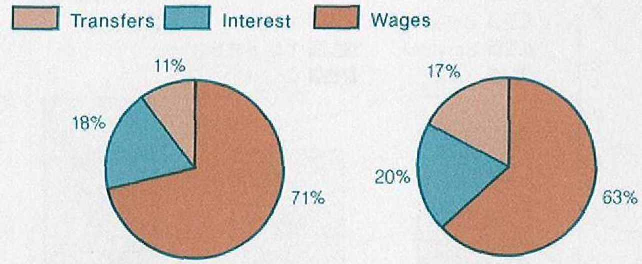


1969: Region = $76.6 billion

1983: Region = $220.9 billion

Source: U.S. Bureau of Economic Analysis
Wages = Net Labor and Proprietors Income
Interest = Dividends, Interest and Rent
Transfers = Transfer Payments

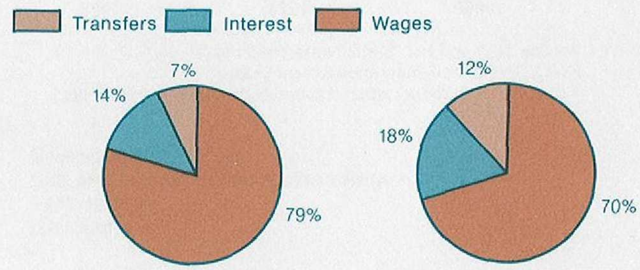
Total Personal Income by Type
New York City
(percent)



1969: New York City = $36.3 billion

1983: New York City = $92.7 billion

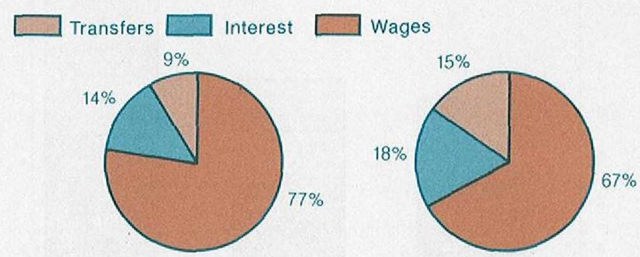
Total Personal Income by Type
N.J. Sector
(percent)



1969: N.J. Sector = $21.3 billion

1983: N.J. Sector = $66.1 billion

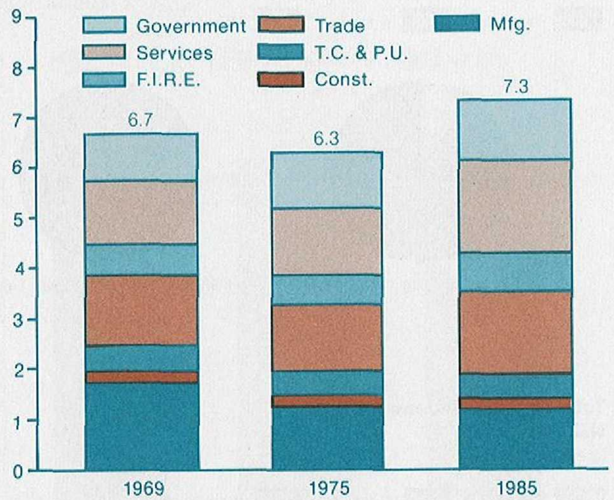
Total Personal Income by Type
United States
(percent)



1969: U.S. = $747.5 billion

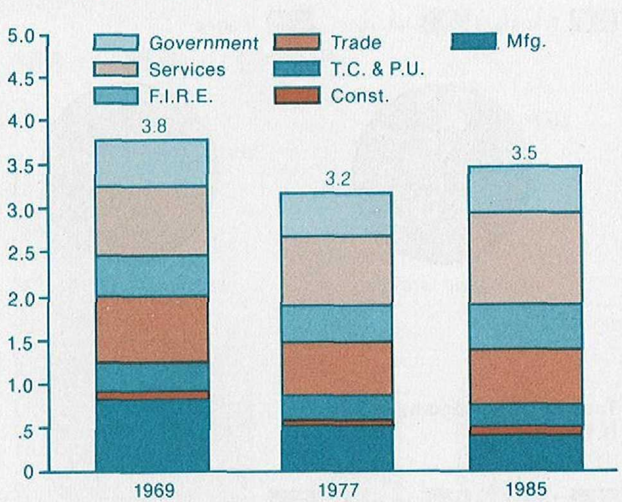
1983: U.S. = $2.7 trillion

N.Y.-N.J. Metropolitan Region Wage & Salary Employment in Millions by Major Industry 1969, 1975 and 1985



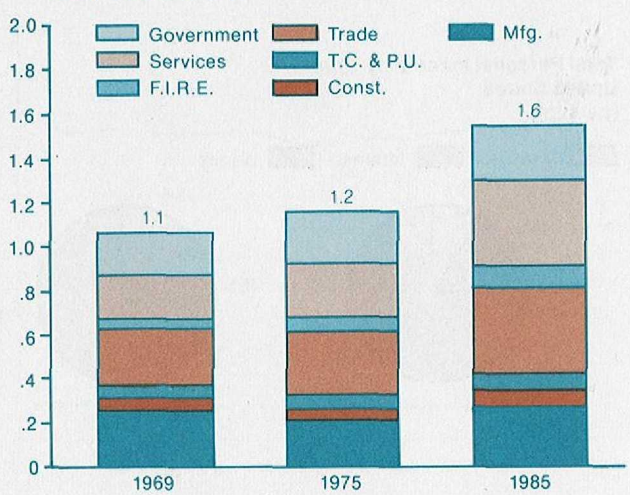
Source: N.Y. and N.J. State Depts. of Labor
F.I.R.E. = *Finance, Insurance & Real Estate*
T.C. & P.U. = Transportation, Communications & Public Utilities

New York City Wage & Salary Employment in Millions by Major Industry 1969, 1977 and 1985



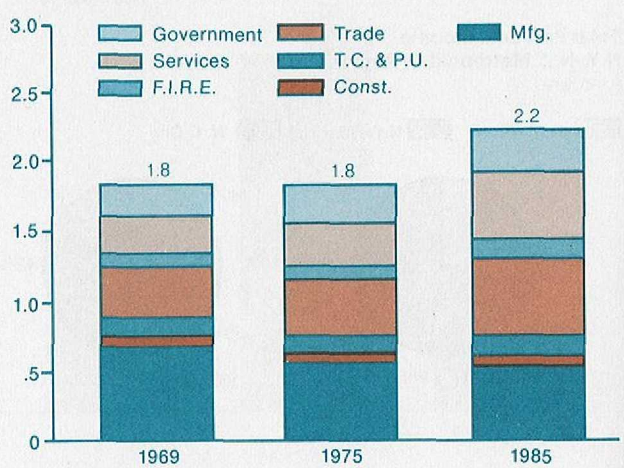
Source: New York State Dept. of Labor
F.I.R.E. = *Finance, Insurance & Real Estate*
T.C. & P.U. = Transportation, Communications & Public Utilities

New York Suburbs Wage & Salary Employment in Millions by Major Industry 1969, 1975 and 1985



Source: New York State Dept. of Labor
F.I.R.E. = Finance, Insurance & Real Estate
T.C. & P.U. = Transportation, Communications & Public Utilities

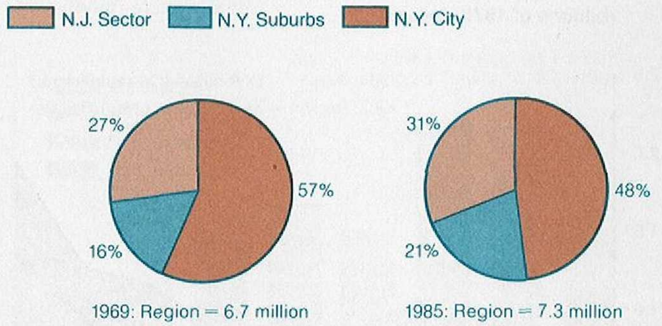
New Jersey Sector Wage & Salary Employment in Millions by Major Industry 1969, 1975 and 1985



Source: New Jersey State Dept. of Labor
F.I.R.E. = Finance, Insurance & Real Estate
T.C. & P.U. = Transportation, Communications & Public Utilities

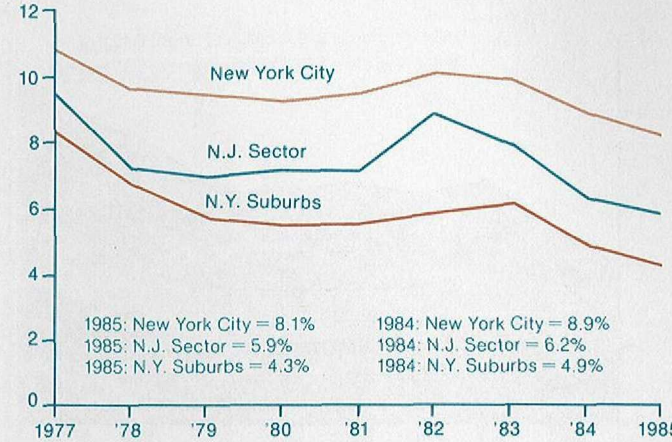
Unemployment

Wage and Salary Employment in the N.Y.-N.J. Metropolitan Region by Major Geographic Area



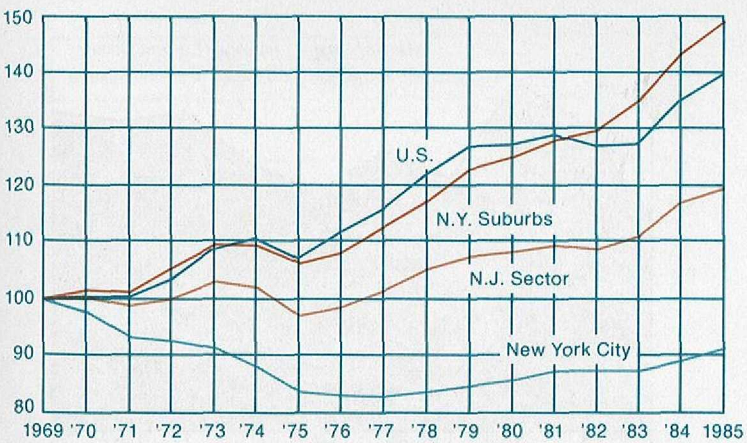
Source: N.Y. State Dept. of Labor
N.J. State Dept. of Labor

Unemployment Rates N.Y.-N.J. Metropolitan Region 1977-1985 (percent)



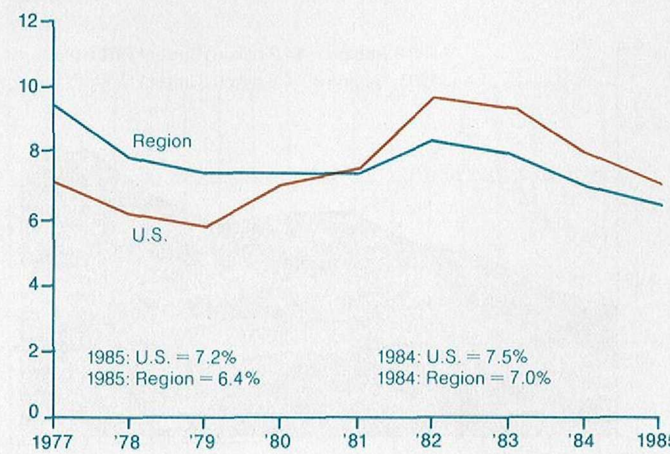
Source: N.Y. State Dept. of Labor
N.J. State Dept. of Labor

Index of Private Wage and Salary Employment U.S. and N.Y.-N.J. Metropolitan Region 1969-1985 (index number: 1969 = 100)



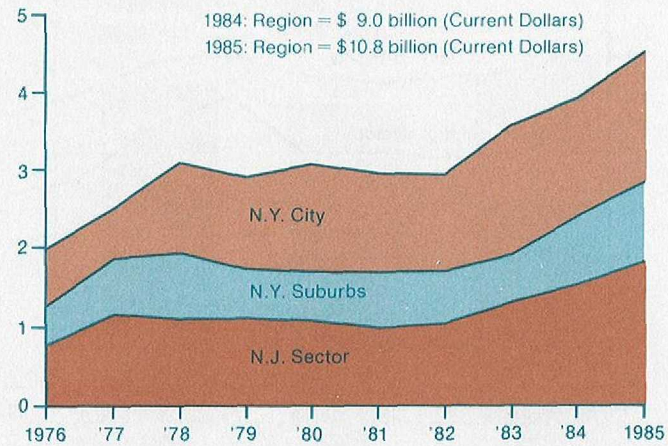
Source: U.S. Bureau of Labor Statistics
N.Y. State Dept. of Labor
N.J. State Dept. of Labor

Unemployment Rates U.S. and N.Y.-N.J. Metropolitan Region 1977-1985 (percent)



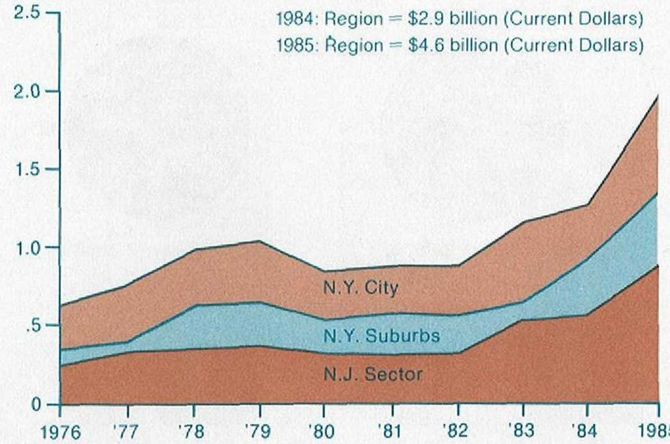
Source: U.S. Bureau of Labor Statistics
N.Y. State Dept. of Labor
N.J. State Dept. of Labor

Total Construction Contract Awards
N.Y.-N.J. Metropolitan Region
1976-1985
(billions of 1972 dollars)



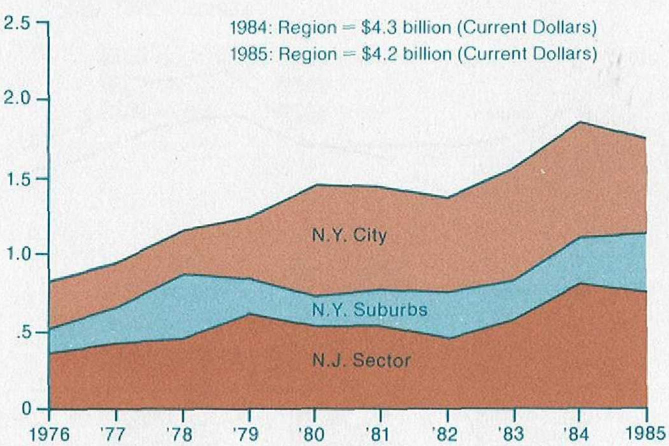
Source: F.W. Dodge

Residential Building Construction Contract Awards
N.Y.-N.J. Metropolitan Region
1976-1985
(billions of 1972 dollars)



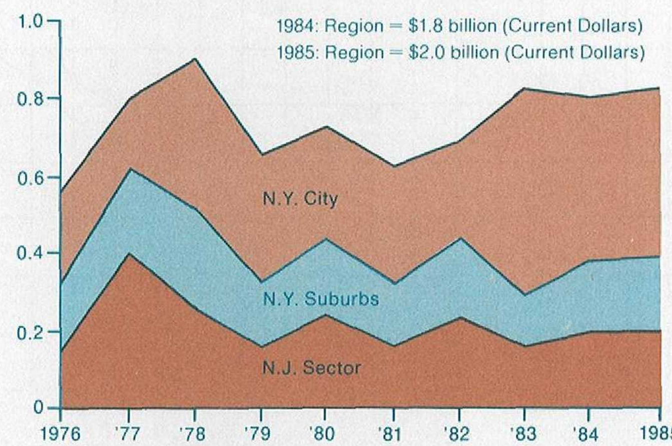
Source: F.W. Dodge

Commercial and Industrial Building
Construction Contract Awards
N.Y-N.J Metropolitan Region 1976-1985
(billions of 1972 dollars)



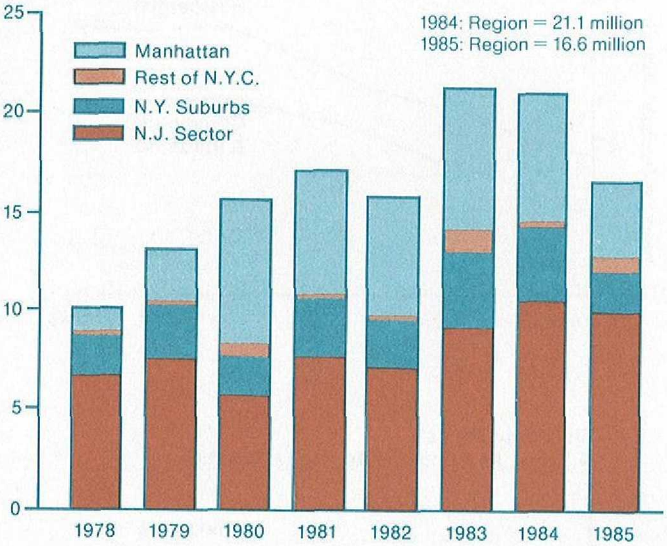
Source: F.W. Dodge

Infrastructure Construction Contract Awards
N.Y.-N.J. Metropolitan Region
1976-1985
(billions of 1972 dollars)



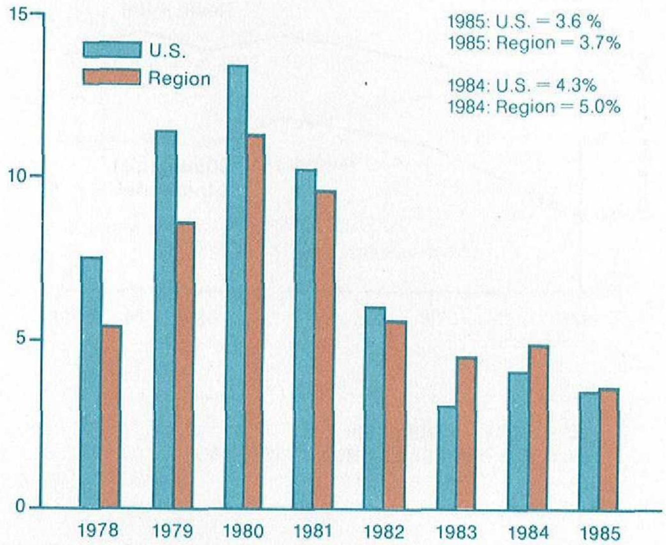
Source: F.W. Dodge

Contract Awards for Office Buildings in the New York-New Jersey Metropolitan Region 1978-1985 (millions of square feet)



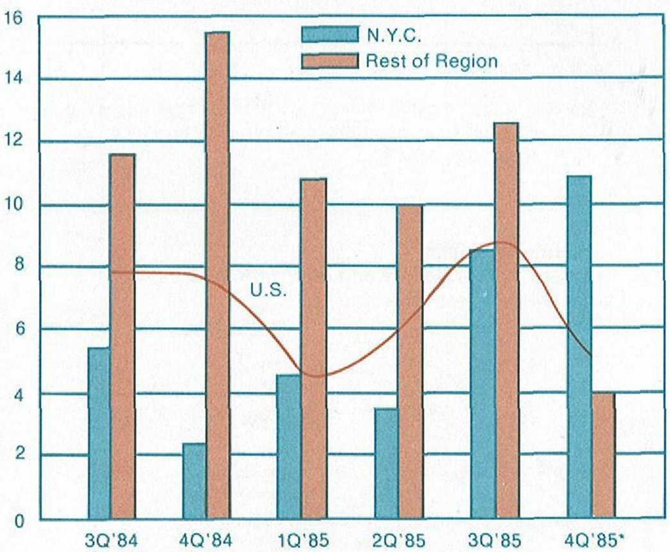
Source: F.W. Dodge

Percent Change in Consumer Price Index/All Items U.S. and N.Y.-N.J. Metropolitan Region 1978-1985 (percent)



Source: U.S. Bureau of Labor Statistics

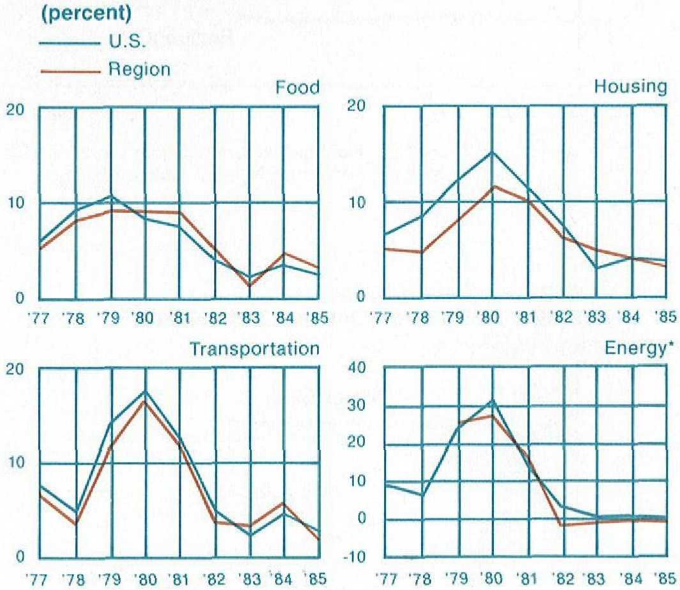
Percent Change in Retail Sales in the NY-NJ Metropolitan Region and the U.S. by Quarter: 1985 Over 1984 (percent)



Source: U.S. Dept. of Commerce

Note: *Fourth Quarter 1985 based on October and November data.

Components of the Consumer Price Index 1977-1985 (percent)

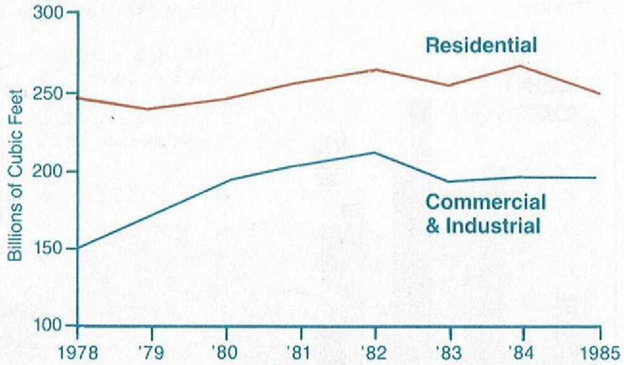


*Energy data for region unavailable prior to 1978

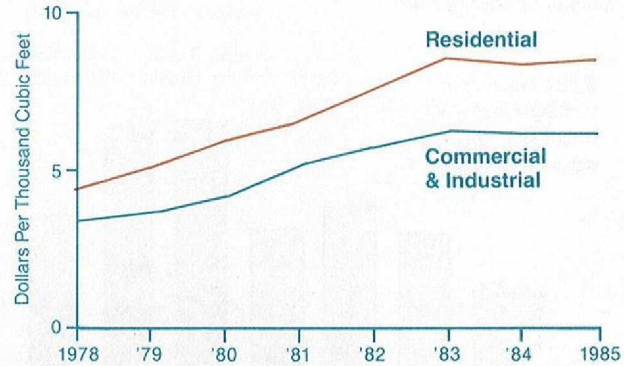
Source: U.S. Bureau of Labor Statistics

Energy

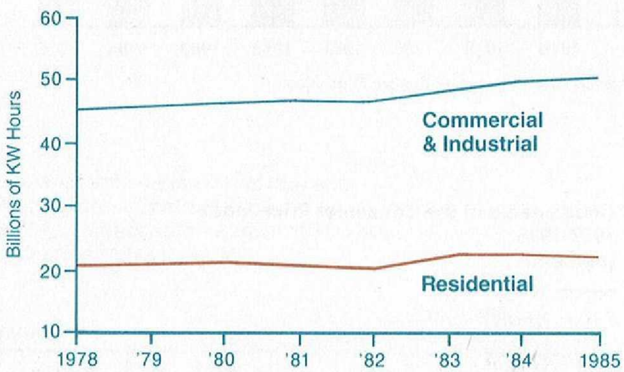
Natural Gas Consumption
N.Y.-N.J. Metropolitan Region 1978-1985



Natural Gas Prices
N.Y.-N.J. Metropolitan Region 1978-1985

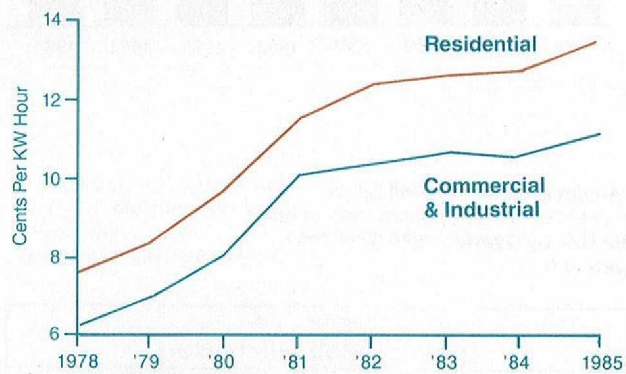


Electricity Consumption
N.Y.-N.J. Metropolitan Region 1978-1985



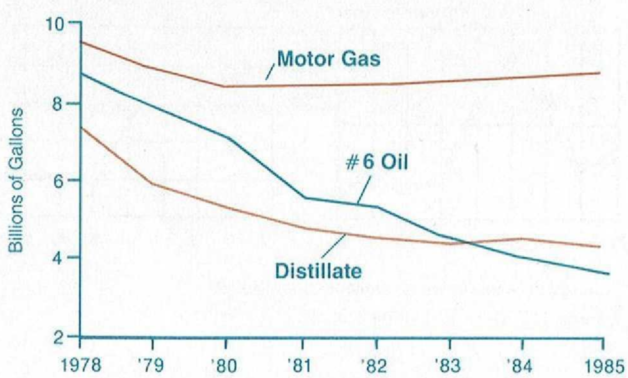
Source: NJDOE, NYPSC. Electricity and natural gas consumption is based on utility sales within N.Y.-N.J. metropolitan area.

Electricity Prices
N.Y.-N.J. Metropolitan Region 1978-1985



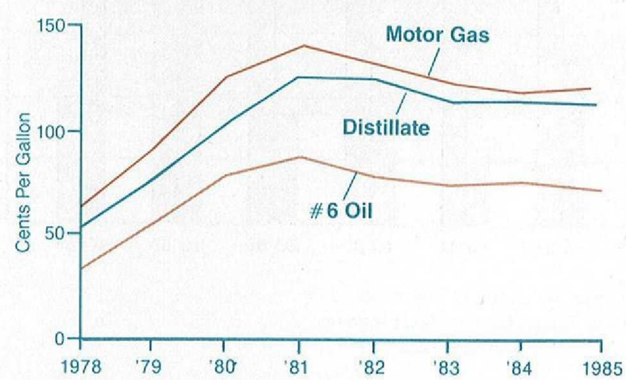
Source: NJDOE, NYPSC. Electricity and natural gas prices are based on a weighted average of utility revenues.

Petroleum Consumption
States of New Jersey and New York 1978-1985



Source: U.S. Energy Information Administration

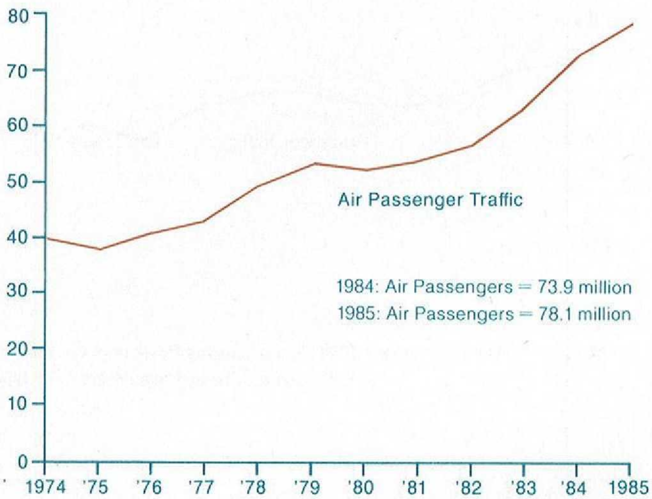
Petroleum Prices
States of New Jersey and New York 1978-1985



Source: BLS Consumer Prices, Oil Daily
Prices for gasoline are average of all grades, #6 has 0.3% sulfur content.

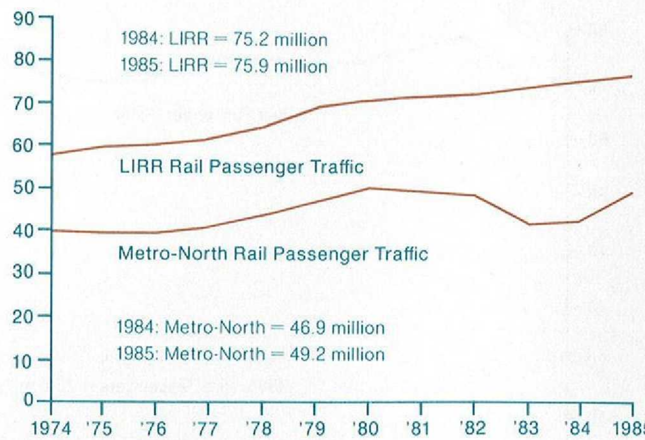
Regional Traffic Trends

Domestic and Overseas Air Passenger Traffic
N.Y.-N.J. Metropolitan Region
1974-1985
(in millions)



Source: The Port Authority of N.Y.-N.J.

Metropolitan Transportation Authority
Commuter Rail Revenue Passenger Traffic
1974-1985
(in millions)

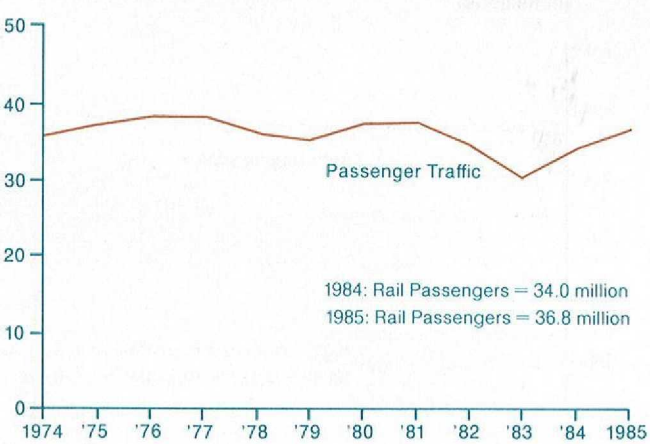


Source: Metropolitan Transportation Authority

Note: Metro-North includes the former New Haven, Harlem and Hudson lines of Conrail

Note: 6 week Metro-North strike in 1983

New Jersey Transit Rail Passenger Traffic
1974-1985
(in millions)

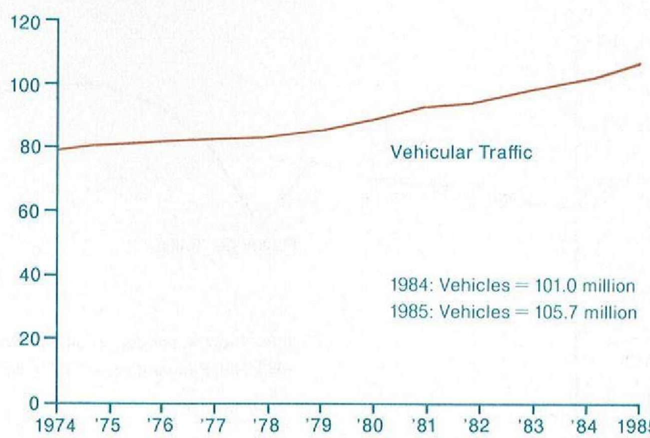


Source: Tri-State Regional Planning Commission, 1974-1978
New Jersey Transit, 1979-1985

Note: New Jersey Transit's rail operations include the former Hoboken and New Jersey Divisions of Conrail. Excludes MTA ridership on Mainline Bergen but it includes MTA Pascack Valley and N.J. Transit ridership utilizing Amtrak's Northeast Corridor service

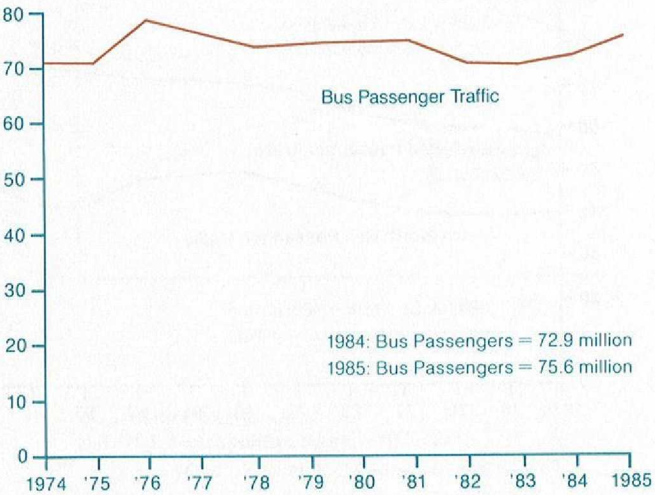
Note: 34 day strike in 1983

Port Authority Tunnels and Bridges
Annual Eastbound Vehicular Traffic
1974-1985
(in millions)



Source: The Port Authority of N.Y.-N.J.

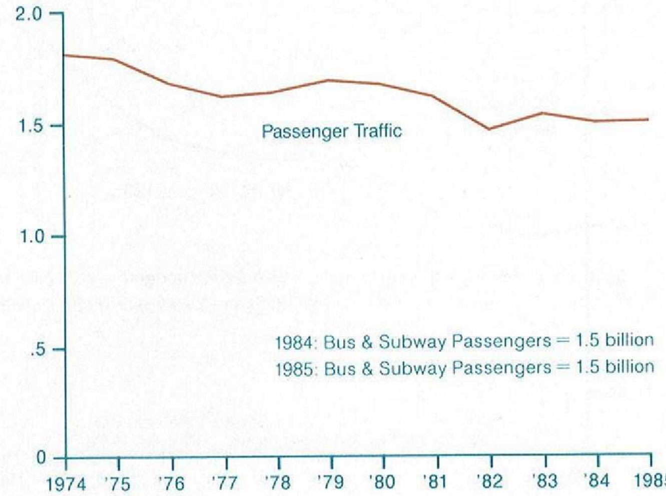
Bus Passenger Traffic: through Port Authority terminals
N.Y.-N.J. Metropolitan Region
1974-1985
(in millions)



Source: The Port Authority of N.Y.-N.J.

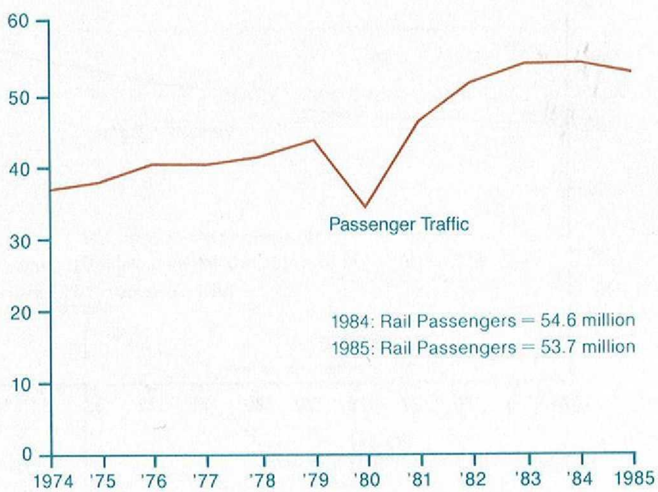
Note: Journal Square Transportation Center opened in 1976

New York City Transit Authority
Bus and Subway Revenue Passenger Traffic
1974-1985
(in billions)



Source: New York City Transit Authority

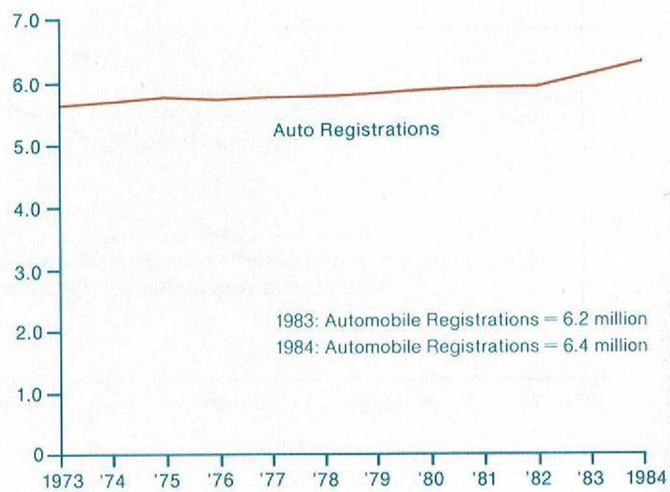
Port Authority Trans-Hudson Rail Passenger Traffic
1974-1985
(in millions)



Source: The Port Authority of N.Y.-N.J.

Note: New York City transit strike, April 1 to April 13, 1980
PATH strike, June 12 to August 31, 1980

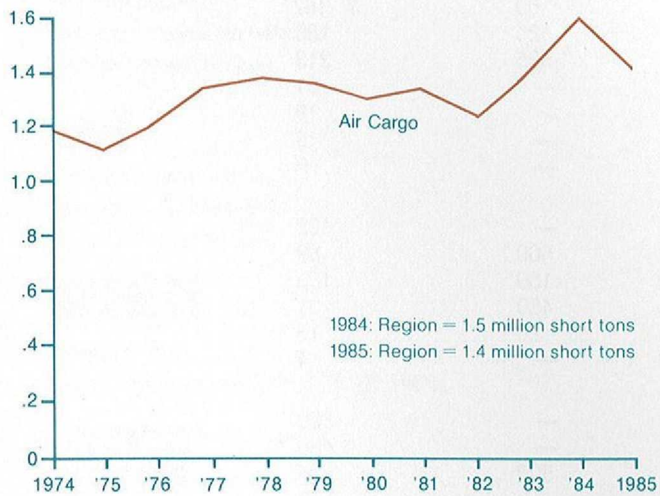
Passenger Automobile Registrations
N.Y.-N.J. Metropolitan Region
1973-1984
(in millions)



Source: State of New Jersey and New York
Departments of Motor Vehicles

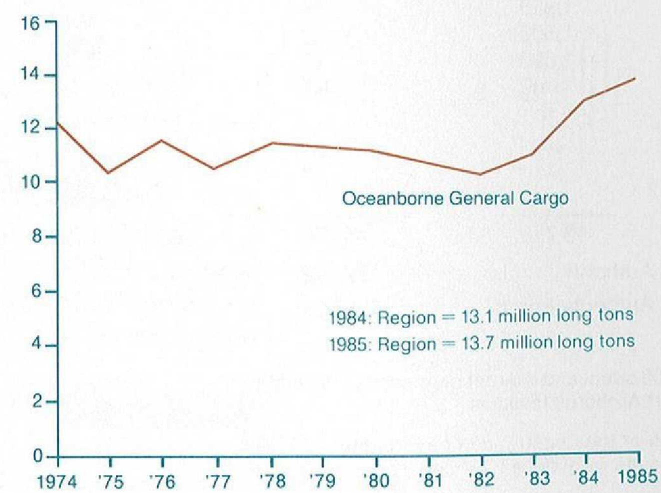
Note: New Jersey reports automobile registrations
on a fiscal year. Calendar year data
were imputed by interpolation

Air Cargo Traffic
N.Y.-N.J. Metropolitan Region
1974-1985
(in millions of short tons)



Source: The Port Authority of N.Y.-N.J.

Oceanborne General Cargo
The Port of N.Y.-N.J.
1974-1985
(in millions of long tons)



Source: The Port Authority of N.Y.-N.J.

Estimated Job Generation in the New York-New Jersey Metropolitan Region through Major Port Authority Projects

Authorized or Under Way	Construction-Related* (man-years)	Permanent	Project Amount (in millions)
Aviation			
Facility Improvements	2,900	50	$ 167
Air Cargo/Airmail	2,625	425	138
Terminal C at NIA	5,000	1,525	213
Nassau Expressway/Southern Parkway	700	—	31
Dualization of 150th Street	350	—	19
School Soundproofing	325	—	15
Downtown Manhattan Heliport	175	—	9
Port			
Cargo Handling	3,225	—	132
Warehousing/Distribution	1,775	500	89
Oak Point Rail Freight	2,475	150	120
Fishport	475	450	31
Juice Facilities	350	25	18
Other	75	—	4
Ground & Mass Transportation			
PATH Capital Improvement Program	9,600	—	800
Bus Programs	—	—	1,496 **
Bus Terminal	4,650	500	235
Trans-Hudson Crossings	2,650	—	153
Staten Island Crossings	400	—	26
World Trade Center			
WTC Construction and Improvements	11,400	100	542
Fire Safety Program	775	—	43
Teleport	2,450	3,400	116
Newark Legal and Communications Center	1,225	1,500	57
Export Trading Company	—	100	2
Economic Development			
Bathgate Industrial Park	850	1,925	54
Industrial Park at Elizabeth	1,850	1,500	97
Industrial Park at Yonkers	175	1,500	27
Resource Recovery	2,750	100	343
Bank for Regional Development***			
Route 169/Bayonne Bridge	475	—	27
Metrotech	350	—	14
TOTALS	60,050	13,750	$5,018
		Port Authority Funds	$2,953
		Non-Port Authority Funds	$2,065

It is estimated that New York and New Jersey residents hold a total of 275,000 direct and indirect permanent jobs related to Port Authority operations and to transport operators and tenants at Port Authority facilities.

*The total number of man-years of employment generated over the length of the construction period, directly in the construction industry, and in supply industries. A man-year is equivalent to the work done by a single person over one year.

**The Port Authority share of the Bus Program is $440 million, with $1,056 million from Federal and other sources.

***Creation of the Bank awaits State legislative action. Additional amounts totaling more than $20 million have also been identified for other projects, including the Oak Point Rail Freight project and the Industrial Park at Yonkers.

THE PORT AUTHORITY OF NY & NJ

John F. Kennedy International Airport
LaGuardia Airport
Newark International Airport
Teterboro Airport
Downtown Manhattan Heliport
West 30th Street Heliport

Bathgate Industrial Park
Industrial Park in Elizabeth
Industrial Park in Yonkers

PATH system
PATH: Journal Square Transportation Center

Brooklyn Marine Terminal
Columbia Street Marine Terminal
Elizabeth Marine Terminal
Erie Basin Marine Terminal (Fishport)
New York City Passenger Ship Terminal
Port Newark
Red Hook Container Terminal
Howland Hook Marine Terminal

Holland Tunnel
Lincoln Tunnel

Bayonne Bridge
George Washington Bridge and Bus Station
Goethals Bridge
Outerbridge Crossing

Port Authority Bus Terminal
New York Union Motor Truck Terminal

The World Trade Center
The Teleport
Newark Legal and Communications Center

1985 Annual Report

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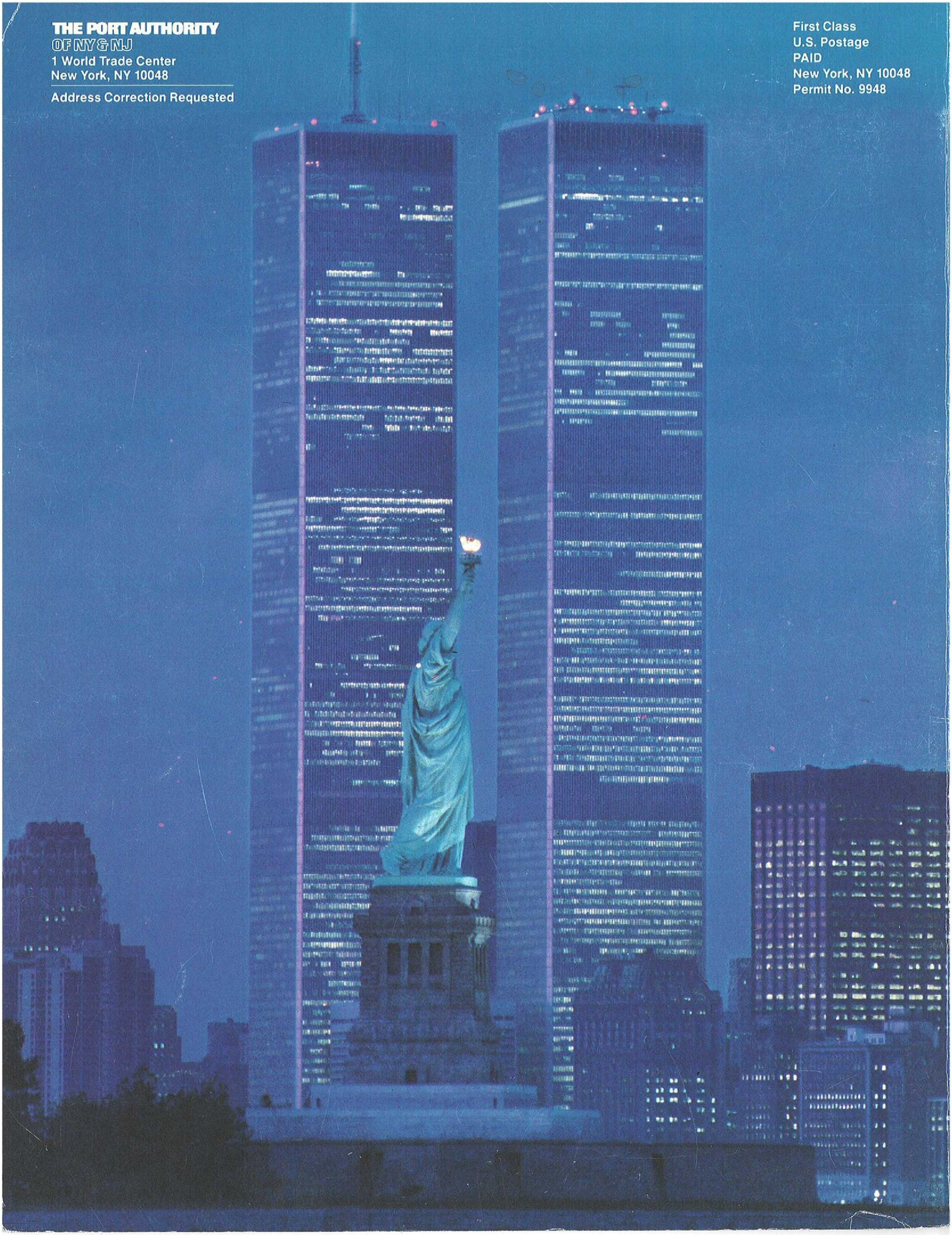
Prepared by the
Government, Community and
Public Affairs, and
Finance departments of
The Port Authority
of New York and New Jersey
One World Trade Center
New York, N.Y. 10048

Printed in U.S.A.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