THE PORT AUTHORITY OF NY & NJ

Comprehensive Annual Financial Report

For The Year Ended December 31, 1988

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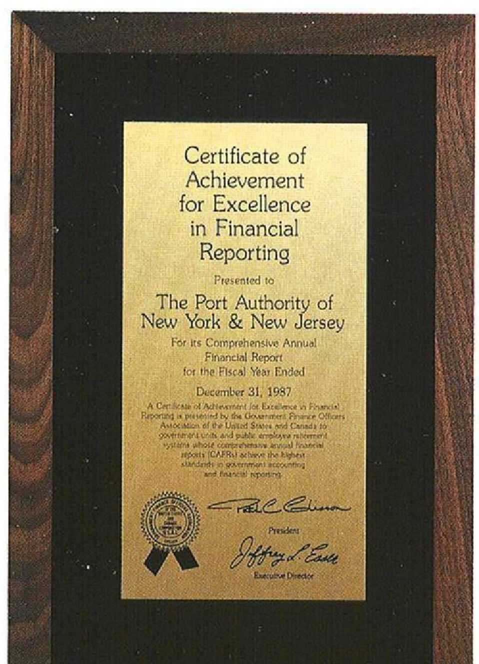
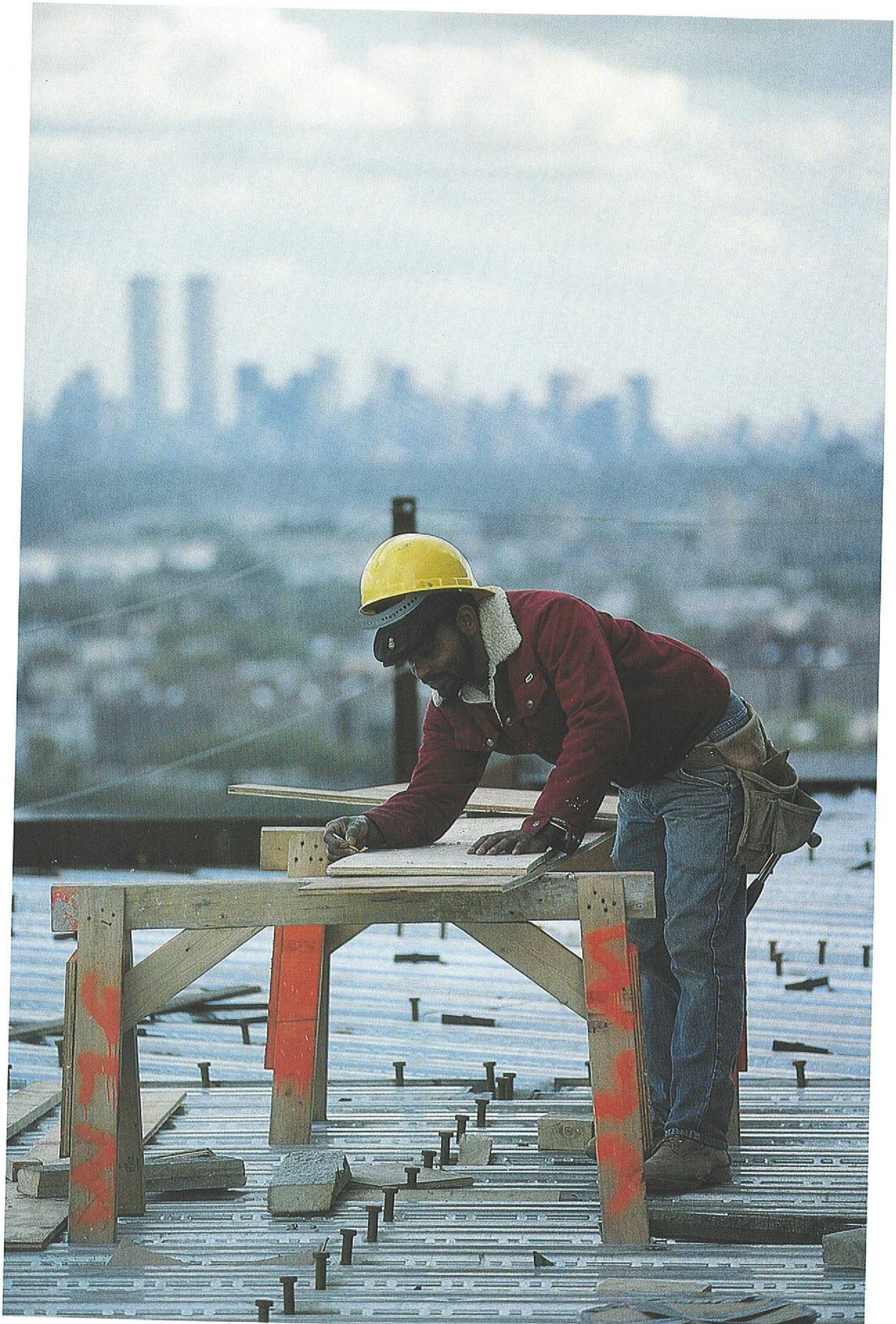
For the fourth consecutive year, the Port Authority of New York and New Jersey was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada for its 1987 Comprehensive Annual Financial Report.


Certificate of Achievement for Excellence in Financial Reporting
Presented to
The Port Authority of New York & New Jersey
For its Comprehensive Annual Financial Report for the Fiscal Year Ended
December 31, 1987
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.
President
Executive Director



1988—a year of progress and results

Honorable Thomas H. Kean, Governor
State of New Jersey

Honorable Mario M. Cuomo, Governor
State of New York

Your Excellencies:

We are pleased to submit to you and to the New Jersey and New York Legislatures the 1988 Annual Report of The Port Authority of New York and New Jersey, in accordance with the bistate Port Compact of 1921.

This was a year of substantial progress in the implementation of the Port Authority's multi-billion dollar Capital Program. This challenging reinvestment program has begun to produce results that will yield economic dividends to the metropolitan region for decades to come.

Port Authority capital projects are in varying stages of construction throughout the region. The year began with the completion of Newark International Airport's Terminal C—one of the finest air passenger facilities in North America—and concluded with the groundbreaking for a new control tower at John F. Kennedy International Airport, the first stage of a far-reaching redevelopment program intended to ensure JFK's future as the nation's premier international air gateway.

This report will present just a glimpse of the many capital improvements in our marine and aviation facilities, interstate transportation network, and in the areas of world trade and economic development.

The vast redevelopment of the Port Authority's physical plant has also been accompanied by enhancements in the quality and scope of services provided to our patrons and the region's citizens.

We are especially proud that the agency's ambitious programs for minority and women-owned business participation in capital and operational activities are being achieved. We are also strengthening our efforts, through training and placement, to create new job opportunities for the region's unemployed and underemployed residents. In this way, we will be better prepared for anticipated skilled labor shortages in key areas.

Addressing still another area of social concern, the Port Authority helped establish two new drop-in centers for the homeless in midtown and lower Manhattan, and is working to develop a third drop-in center for the homeless in Jersey City.

What unifies these diverse elements of Port Authority activity is the central mission that the agency serves: to enhance the bistate metropolitan region's capacity to meet the competitive challenges of the future, at home and abroad, and to improve the quality of life for the area's more than 16 million residents.

The Board of Commissioners is deeply indebted to the two Governors and the region's political and community leaders for their continuing leadership and support, which have been central to the Port Authority's ability to accomplish these important objectives.

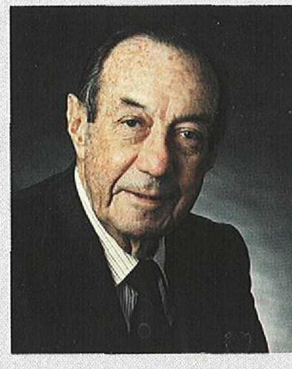
Sincerely,

Philip D. Kaltenbacher
Chairman

Robert F. Wagner
Vice Chairman

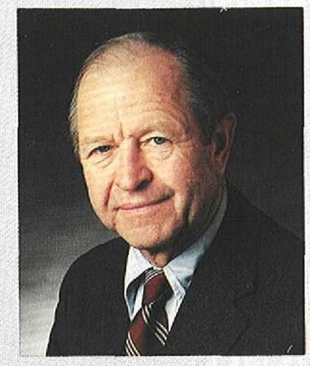
April 13, 1989

Philip D. Kaltenbacher
Chairman and Chief Executive Officer
Seton Company



Robert F. Wagner
Former Mayor
City of New York

Hazel Frank Gluck
Commissioner
Department of Transportation
State of New Jersey



James G. Hellmuth
Vice President (retired 7/31/88)
Bankers Trust New York Corporation

Origins of the Port Authority of New York and New Jersey

On April 30, 1921, the New York-New Jersey Port Authority came into being. It was the first interstate agency ever created under a clause of the Constitution permitting compacts between states with Congressional consent.

The new agency's area of jurisdiction was called the "Port District," a 17-county bistate region within a 25-mile radius of the Statue of Liberty.

The mandate of the agency was to promote and protect the commerce of the bistate port and to undertake port and regional improvements not likely to be financed by private enterprise nor to be attempted by either state alone: a modern wharfage for the harbor shared by the two states, tunnel and bridge connections between the states and, in general, trade and transportation projects to promote the region's economic well-being.

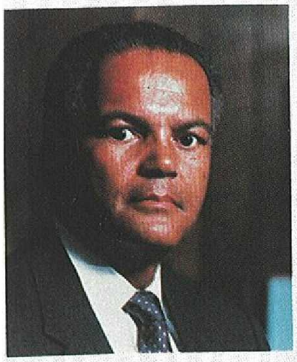
Governance of the Port Authority

The Governor of each state appoints six Commissioners to the agency's Board of Commissioners, each appointment subject to the approval of the respective state senate.

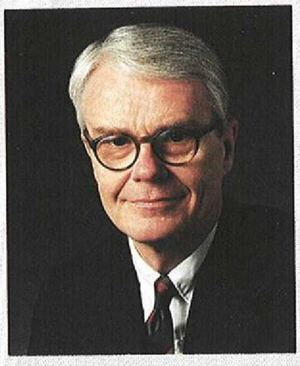
The Governors retain the right to veto the actions of the Commissioners. The Port Authority may proceed only with those projects the two states authorize.

The twelve Commissioners serve as public officials without remuneration.

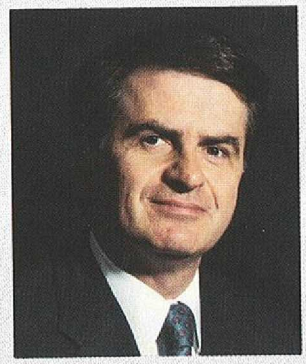
The Board of Commissioners appoints an Executive Director to effect its policies. The Executive Director manages day-to-day operations through the Aviation, Port, Rail Transportation, Tunnels, Bridges and Terminals and World Trade and Economic Development line departments and staff departments such as Engineering and Human Resources.



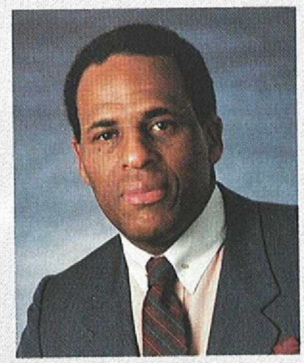
Henry F. Henderson, Jr.
President
H. F. Henderson Industries



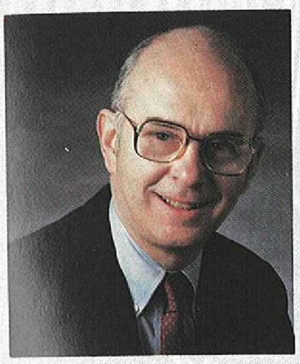
William K. Hutchison
Partner
Christenson & Hutchison



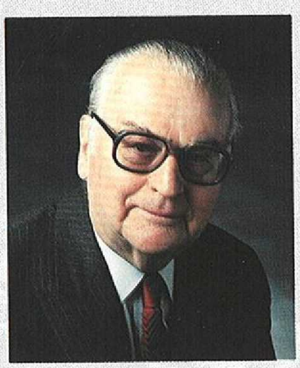
Richard C. Leone



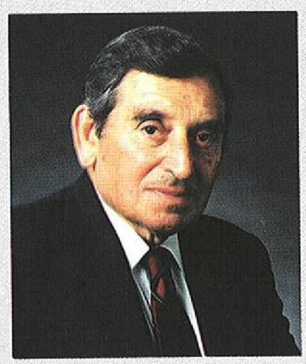
H. Carl McCall
Vice President
Citibank, N.A.



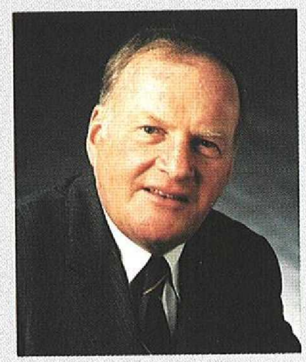
John G. McGoldrick
Attorney
Schulte Roth & Zabel



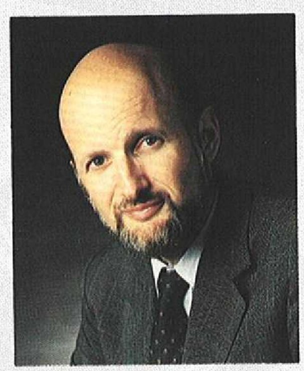
Dr. William J. Ronan
Chairman
UTDC Corp.



Howard Schulman
Attorney



Robert Van Buren
Chairman of the Board and
Chief Executive Officer
Midlantic Corporation



Stephen Berger
Executive Director

Board of Commissioners

Philip D. Kaltenbacher, Chairman
Robert F. Wagner, Vice Chairman
Hazel Frank Gluck
James G. Hellmuth
Henry F. Henderson, Jr.
William K. Hutchison
Richard C. Leone
H. Carl McCall
John G. McGoldrick
William J. Ronan
Howard Schulman
Robert Van Buren

After a decade of solid growth, the New York-New Jersey regional economy showed signs of slowing down in 1988. While total employment registered some modest gains, and unemployment reached an 18-year low, other indicators suggested that the region might be shifting into lower gear. Traffic at our airports and on our interstate transportation network was essentially static. Vacancy rates for commercial office space increased; and new construction activity dropped off sharply.

It is not surprising that after so many years of sustained expansion, the region would eventually slow down. More ominous, however, are signs that the limited growth we saw in 1988 might also reflect some persistent structural problems —emerging shortages of skilled labor, severe shortages of affordable housing, and congestion on our transportation networks.

A softening economy might tempt some to cut back on planned investments in public facilities. At the Port Authority we believe, however, that this would be precisely the wrong response. Now is the time to press ahead with the billions of dollars in public investment needed to overcome our current constraints, and to assure that the region can compete effectively in an increasingly integrated global economy. The sight of steel rising at new and redeveloped Port Authority facilities is a visible reaffirmation of our agency's commitment to the region's continued growth and development.

The competition we face cannot be met by bricks and mortar alone. We are also working hard to improve the quality of the services we provide to our customers—be they trans-Hudson commuters, travelers looking for better ways to get to and from our airports, or small companies hoping to gain access to overseas markets. And we are striving to strengthen the Port Authority's own management practices, to improve productivity, and to cut our administrative costs.

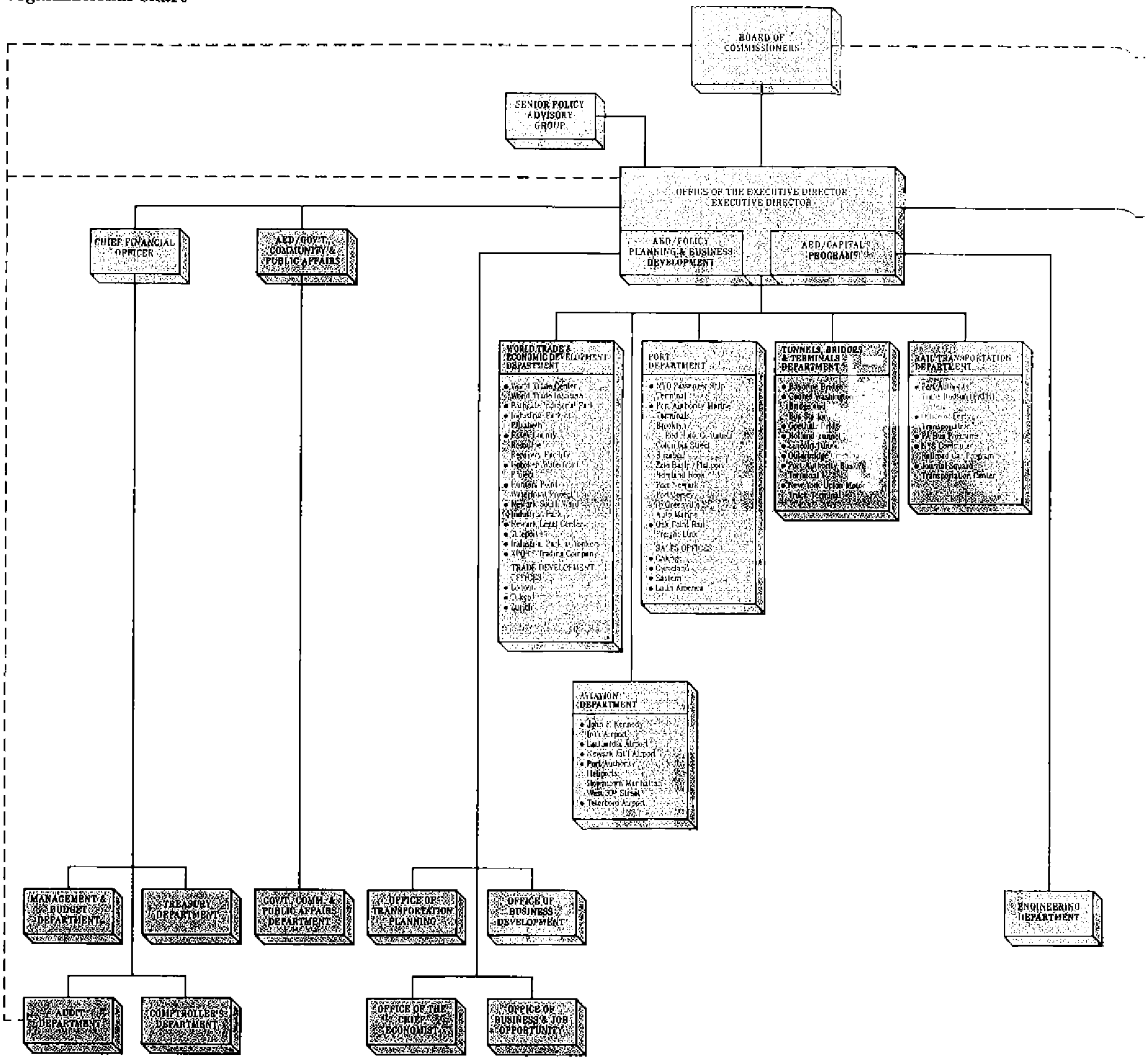
These are challenging, exciting times for the agency and for the region it serves. With a commitment to continued investment in essential public facilities, to better service for our customers, and to a stronger Port Authority, I believe we can rise to the challenge.

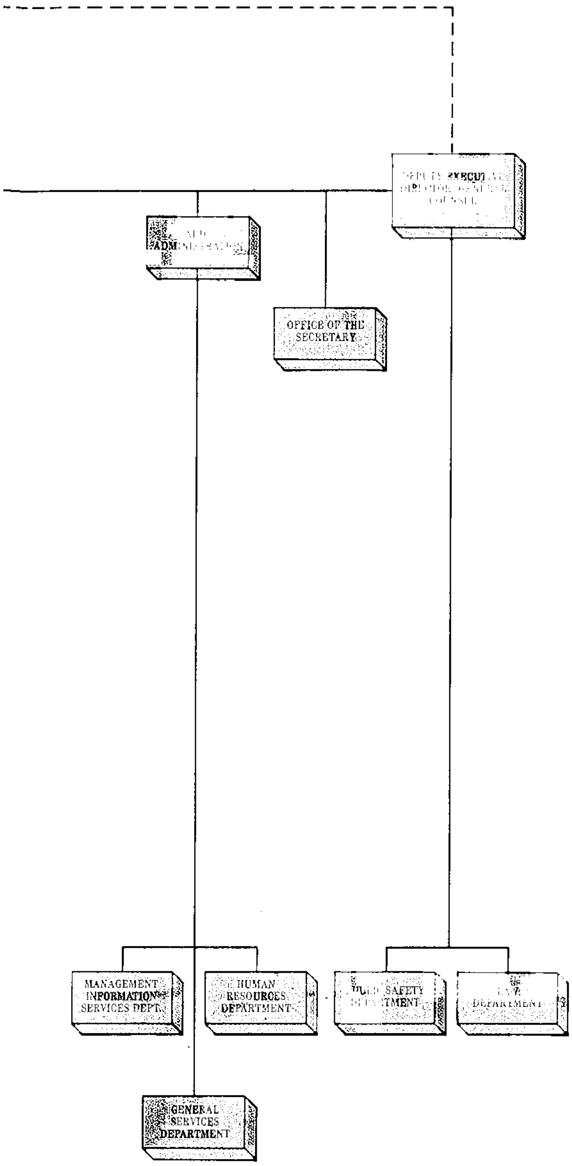
Stephen Berger
Executive Director

April 13, 1989

Steel rose at many Port Authority capital projects in 1988.

Organizational Chart





Officers and Directors

Stephen Berger, Executive Director
Patrick J. Falvey, General Counsel and Deputy Executive Director
Sidney J. Frigand, Assistant Executive Director/ Government, Community and Public Affairs
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[1]
Rebecca Andrade, Office of Business and Job Opportunity
Anthony J. Barber, Tunnels, Bridges & Terminals
John J. Collura, Management & Budget
Karen S. de Bartolomé, Secretary[2]
Henry I. DeGeneste, Public Safety
Gene C. Gill, General Services
Francis A. Gorman, Comptroller[3]
John E. Haupert, Treasurer
Christine Johnson, Office of Transportation Planning
Richard R. Kelly, Rail Transportation
Phil LaRocco, World Trade & Economic Development
Donald R. Lee, Audit
Lillian C. Liburdi, Port[4]
Emily Lloyd, Office of Business Development
Charles J. Maikish, Office of Ferry Transportation
Rino M. Monti, Engineering and Chief Engineer
Edward J. O'Malley, Personnel[5]
James J. O'Malley, Management Information Services
David Z. Plavin, Aviation Redevelopment Programs
Rosemary Scanlon, Office of The Chief Economist
Morris Sloane, Aviation Operations

[1] Resigned February 3, 1989; Morris Sloane named Acting Director February 6, 1989

[2] Succeeded Doris E. Landre who retired July 1, 1988

[3] Retired March 30, 1989; A. Paul Blanco named Comptroller March 31, 1989

[4] Succeeded James J. Kirk who retired June 4, 1988

[5] Retired January 7, 1989; Louis J. LaCapra named Director of Human Resources February 10, 1989

THE PORT AUTHORITY IN 1988–PROGRESS AND RESULTS

Progress and results—these words aptly characterize the year 1988 at The Port Authority of New York and New Jersey. It was a year when steel began to rise on many of its ambitious capital projects while others neared or reached completion, providing the foundation for an upgraded, modernized regional infrastructure equipped to sustain the New York-New Jersey region's future economic growth. Port Authority capital investment in 1988 totaled $580 million.

Steel was rising at Newark's Legal Center, at PATH's new car maintenance center in Harrison, and at The Teleport satellite communications center and office park in Staten Island.

Ground was broken for a lofty new control tower at John F. Kennedy International Airport—marking the first stage of a major redevelopment of JFK's central passenger terminal area.

A magnificent passenger terminal was opened at Newark International Airport, and new state-of-the-art cargo facilities went into service in the port and at JFK.

Work went forward on building a new auto marine terminal on the Jersey City/Bayonne waterfront.

Services were improved, expanded and modernized on the PATH transit system and at the Holland Tunnel; new "park-and-fly" transportation services were initiated to ease airport access from suburban locations; and planning continued for a new trans-Hudson passenger ferry service, set to begin operations late in the spring of 1989.

Yet even as the steel rose on new or redeveloped Port Authority facilities, the rising level of competition from around the nation and the world gave renewed urgency to the challenge of maintaining the region's historic standing as a national and international center of trade and transportation.

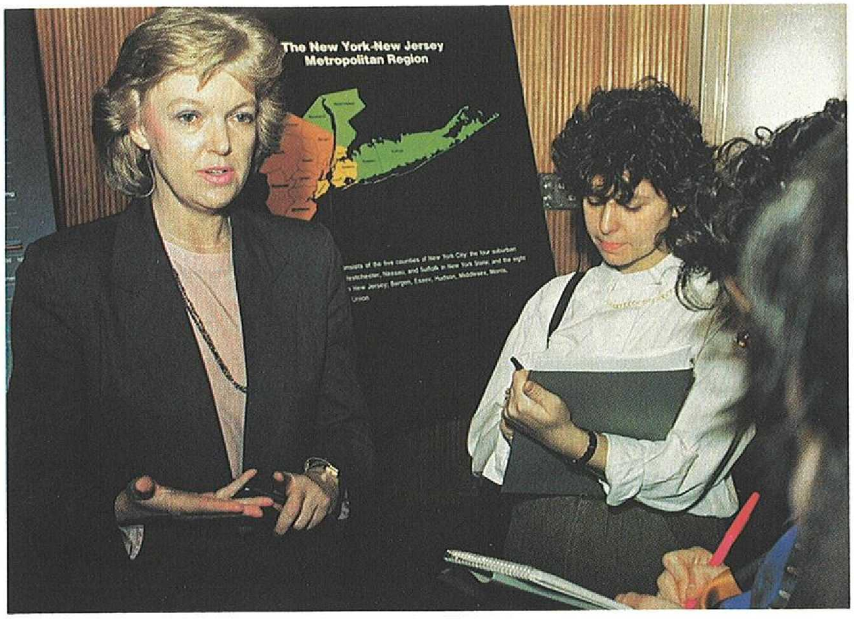
The Port Authority's unprecedented Capital Program for the modernization and renewal of its facilities is a tangible demonstration of confidence in the region's capacity to meet the competitive challenges posed by a fast-changing world economy.

As important to sustaining the region's competitive position as these physical improvements are and will be, the Port Authority has given new emphasis to improving the quality and level of its services to meet the varied needs of its patrons, including myriad domestic and international air carriers and travelers, commuters, tenants, truckers, freight shippers, tourists, local businesses and millions of residents of the bistate metropolitan region.

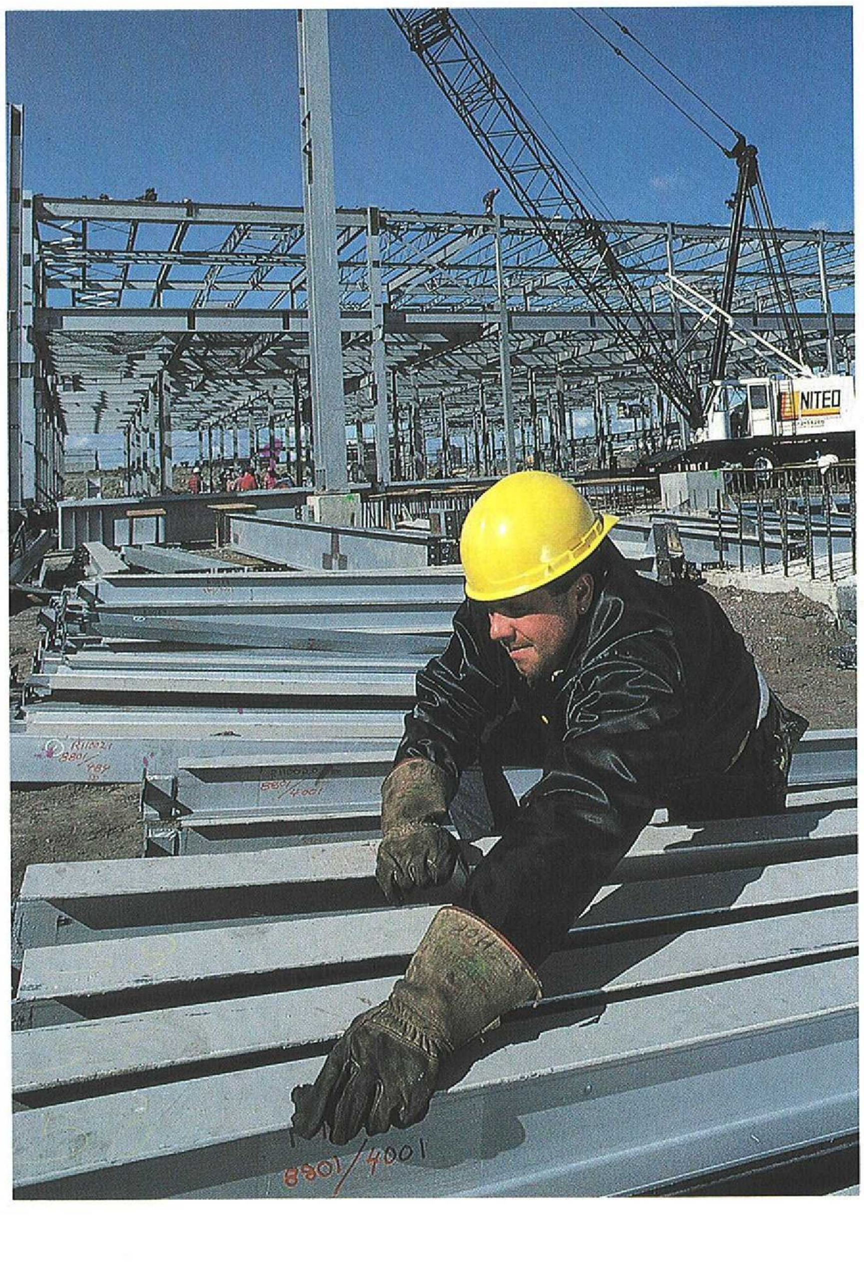
The regional economy showed mixed results in 1988. The unemployment rate dropped to 4 percent, its lowest level since 1970, and retail sales registered a healthy 8.4 percent gain. However, some potential danger signs began to emerge as well—a decline in the rate of total job growth to less than 1 percent, a 19 percent drop in the dollar value of construction activity.

The international trade picture was shaped by the continuing softness in the dollar's value, which brought relief to the U.S. trade deficit. U.S. exports rose 27 percent, while imports grew by 7 percent.

These trends affected regional trade activity both positively and negatively. Oceanborne



Port Authority Chief Economist Rosemary Scanlon (left) responds to questions from reporters following the February presentation on the region's 1988 economic forecast.



PATH's new Harrison Car Maintenance Facility took shape in 1988. When completed in mid-1990, it will service PATH's refurbished and expanded transit fleet.

cargo handled by the port was off for the year, but international air travel grew and air cargo continued to expand dramatically.

Of more serious long-term concern is the negative impact of chronic capacity shortages in key structural elements of the economy. For several years, the tightening squeeze of transportation congestion and growing shortages of affordable housing and skilled labor have become increasingly detrimental to the regional economy. While each element in some measure represents a by-product of the region's prosperity, collectively they pose a formidable and interrelated obstacle to sustained economic growth.

Further, the growth in the numbers and the skill levels of the work force has not kept pace with employer needs. While the regional economy has spiraled outwards into the suburbs, many urban residents remain outside the work force because they either lack sufficient needed skills or lack access to available jobs. Moreover, the high cost of housing makes it difficult to attract newcomers to fill this labor gap.

In addressing the need to bring disadvantaged residents into the mainstream and, at the same time, develop a stronger local labor force, the Port Authority continued working with various municipal and state agencies to coordinate and strengthen these efforts. Our objectives are expanded apprenticeship programs, including substantial minority/women enrollment, and increased involvement of community-based organizations and schools in recruitment and preapprenticeship training. These are ambitious but achievable goals which are crucial to the region's future prosperity.

The regional transportation network is challenged to link the available labor pool and job market more effectively, but pervasive congestion undercuts this effort. While traffic volumes at our interstate crossings leveled off during the year, peak-period congestion remained the norm. Some units of the system, the Holland and Lincoln Tunnels, for example, operated at capacity during morning and evening rush hours.

In making a massive investment of public funds for its redevelopment program, the Port Authority has strengthened efforts to assure that the highest business and ethical standards are observed by employees, building contractors or anyone else with whom the agency may do business. To this end, the new Office of Inspector General was established during the year in the Audit Department and aggressive reviews will continue to be undertaken on Port Authority contract performance, including examination of contractors' books and records. Further, job-site activities are being carefully monitored by the agency's resident engineers and construction inspectors.

The agency's capital improvements are being reinforced by a heightened emphasis on customer services. New and expanded services are a major focus, particularly in the Port Authority's trade and economic development activities. XPORT, the Port Authority's Trading Company, enjoyed a record year of expediting overseas sales of regionally manufactured products. Continuing progress also was achieved in implementing the port's innovative Automated Cargo Expediting System (ACES) to speed and record shipping transactions electronically.

Further, among public agencies, the Port Authority has been a leader in pursuing partnerships with private enterprise to initiate new services or expand existing ones. Agreements to furnish new "park-and-fly" bus service to Newark International Airport from suburban satellite terminals, and to operate ferry service between Hoboken and lower

Manhattan are prime examples of the Port Authority's innovative approach.

While upgrading its facilities and services, the Port Authority has sought to be responsive to some of the difficult social issues that challenge the region. The problems of homelessness and the mismatch between workers' skills and job availability and requirements are concerns that affect both the region as a whole and the Port Authority directly. With up to 1,000 homeless people taking shelter in Port Authority transportation facilities every day, the agency has endeavored to meet the needs of the unfortunate with sensitivity, while fulfilling its responsibility to 600,000 daily patrons.

The Port Authority has made a serious, successful effort to ensure that the economic benefits generated by the Capital Program and other activities are equitably distributed among those sectors of the regional community who may not have enjoyed full opportunity. In this connection, the agency has established ambitious goals for minority- and women-owned business participation in the award of contracts under the Capital Program.

The progress and results evident in the Port Authority's redevelopment program went forward without any serious disruption of services at the trade and transportation facilities used daily by hundreds of thousands of the region's residents.

To sustain its tradition of efficient and effective operations in the face of dramatic changes and challenges, the Port Authority strengthened its own management structure and operating capabilities. The agency began streamlining its operations to increase productivity and promote a more flexible and entrepreneurial working environment. In addition, prudent management actions have resulted in reducing overtime, lowering liability-insurance premiums by as much as 34 percent, and realizing savings of more than $1 million in lower telecommunications costs.

All of these efforts have been aimed at achieving the agency's central objectives:

- To provide a quality and diversity of services that respond to our patrons' needs;
- To expand the range of economic opportunities available to the region's residents and businesses; and
- To strengthen the competitive position and quality of life in the metropolitan New York-New Jersey region.

For the Port Authority, 1988 was truly a year of both progress and results.

Regional air cargo business set a new record of 1.8 million tons in 1988.

AVIATION: BUILDING FOR A MORE COMPETITIVE FUTURE

In most respects, 1988 was a strong year for the region's airports, even as total air passenger traffic remained virtually unchanged from 1987. Total passenger traffic at all three airports was about 77.8 million compared with 77.9 million in 1987. It was a banner year for air cargo, with total volume at the three airports rising to 1.8 million tons, a new record. John F. Kennedy International recorded an all-time high of 31.2 million passengers, including a new record of 18.3 million overseas travelers. Traffic at LaGuardia remained stable with 24 million passengers. Newark, too, set new records both in overseas travelers and in air cargo shipments. However, the airport's total passenger traffic declined about 4.2 percent to 22.5 million. The slight drop at Newark was attributed mainly to the declining availability of low-fare service and a significant cutback in service by one of the airport's major tenant airlines.

During the year the Port Authority's net capital spending at the regional airports totaled about $188 million. Planning and design work for large-scale redevelopment programs at the three airports moved ahead rapidly.

Efforts to improve the quality of service at the region's airports produced results in several areas. Flight delays were reduced by more than 35 percent through implementation of the FAA's Expanded East Coast Plan in 1987. Further, despite record passenger volumes at Kennedy's International Arrivals Building, average processing time for travelers declined from 45 minutes in 1987, to 30 minutes in the summer of 1988. In addition, security improved as well. Auto theft at the airports, for example, was reduced 23 percent.

Construction Progress

• Construction began on the foundation of a new 300-foot air traffic control tower—to be the tallest in the nation—as the first major component in the redevelopment of Kennedy. And planning advanced on the other major elements of the airport's massive redevelopment, including the new Central Terminal Complex (CTC), an automated people mover system linking the CTC and the individual airline terminals, an automated baggage handling system, a reconfigured roadway network and other infrastructure improvements.

• Continental Airlines began service at Newark International's new 875,000 square foot Terminal C, the region's largest and one of the nation's most modern passenger terminals. The $225 million structure features 41 aircraft gates and lounges, moving walkways, computerized baggage handling and other innovations. This spacious complex increased the airport's gate capacity by some 75 percent.

• LaGuardia Airport's redevelopment program advanced with the start of preliminary work on expanding the airport's Central Terminal Building at the lower (departures) level and adding three roadway lanes to the upper (arrivals) level. Further, under an agreement in which the Port Authority authorized payment of up to $162 million, Continental and Eastern Airlines announced plans to build an ultra-modern, nine-gate, 250,000 square foot terminal near the Eastern Shuttle Terminal.

• The Port Authority authorized a $5 million modernization project to expand American Airlines' premises at LaGuardia. Work on this part of a $32 million renovation of the Central Terminal Building is expected to begin by spring 1989.

New Jersey Governor Thomas H. Kean and actress Brooke Shields, a New Jersey resident and enthusiastic State promoter, celebrate the opening in August of Newark International Airport's $225 million Terminal C. The spacious new complex increased the airport's gate capacity by some 75 percent.

New York Governor Mario M. Cuomo (standing) joins Queens Borough President Claire Shulman, Port Authority Chairman Philip D. Kaltenbacher and Executive Director Stephen Berger (second, third and fourth from left) at the December groundbreaking ceremony for John F. Kennedy International Airport's new control tower.

Service Improvements

• China Airlines, Ltd. of the Republic of China (Taiwan) entered into an agreement with the Port Authority to build a $13 million air cargo building at Kennedy International Airport.

• Reconfiguration of key terminals at Kennedy helped several major carriers initiate new or expanded service while generating additional revenue for the Port Authority. United Airlines and British Airways entered into a joint marketing and operating agreement, under which United will move its operations to the British Airways terminal, which is being expanded to accommodate both carriers. Meanwhile, Northwest Airlines moved into United's old terminal, permitting Pan American to expand into Northwest's facility. This change increased Pan Am's capacity by 20 percent.

• Continental Airlines and Scandinavian Airlines (SAS) announced a new partnership that will result in the inauguration of new international services between Newark Airport and western Europe in the spring of 1989.

• New Jersey's first satellite "park-and-fly" terminal in Ridgewood began operations, providing regularly scheduled service linking the northern New Jersey suburbs with Newark International. This is the first of similar projects planned for several locations within 20 miles of the airport. The Port Authority also began seeking proposals for comparable satellite terminals in Westchester and Long Island.

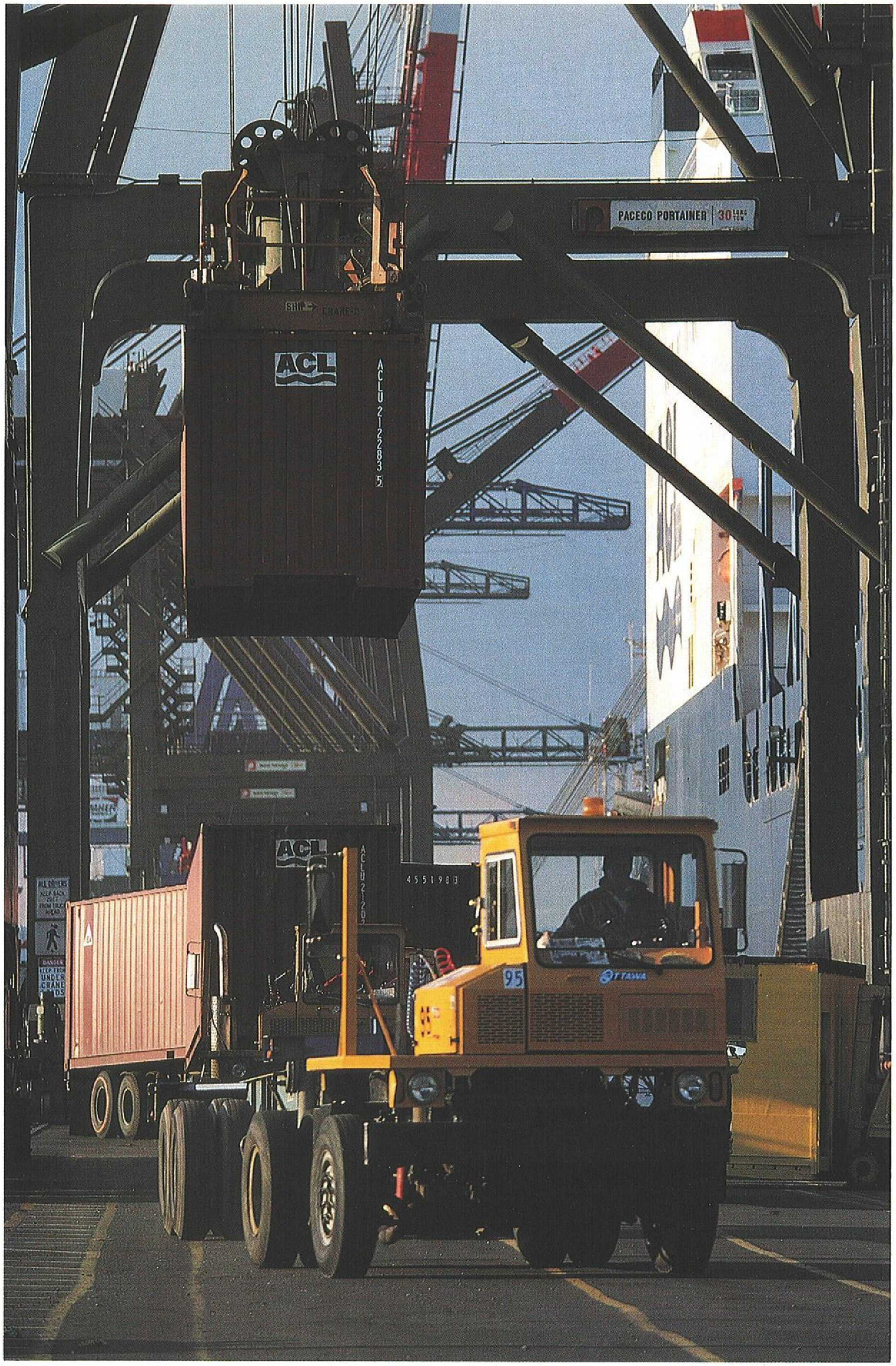
• The U.S. Postal Service, Newark International's oldest tenant, began enlarging its premises to expand its air mail capability and provide new retail services. The expansion, scheduled for completion in the summer of 1989, is expected to generate more than 350 new jobs. Federal Express also announced plans in 1988 to expand its small package handling facility at Newark.

• Construction of a $2.7 million noise barrier at the western end of LaGuardia Airport was completed in July 1988. After discussion with community residents, a further extension of the barrier is expected to be completed in 1989.

Supporting New Technology

• Continuing its leadership role in the national civil tiltrotor aircraft program, the Port Authority participated in 1988 in significant joint activities with both the Federal Aviation Administration (FAA) and National Aeronautics and Space Administration (NASA). The tiltrotor is a fixed wing aircraft with tilting rotors at the wingtips that can take off and land like a helicopter and cruise like a turboprop plane. By providing point to point service, the tiltrotor could increase the region's air transportation capacity and offer travelers greater convenience.

In August, the FAA and the Port Authority announced the initiation of a federally funded study to examine sites in Manhattan for eventual commercial short-haul tiltrotor service. In addition, a study to assess the potential of commuter tiltrotor operations at Kennedy and Newark International and LaGuardia airports was also begun during the year.



Capital expenditures for improved port facilities totaled $65 million in 1988.

NEW DEVELOPMENTS STRENGTHEN PORT'S COMPETITIVE POSITION

While the New York-New Jersey Port's trade continued to reflect the relative strength of the regional economy in 1988, there were some weak areas, particularly in segments of the oceanborne cargo industry. For 1988, the New York-New Jersey Port's oceanborne general cargo declined by 7.4 percent to 12.1 million tons. All of the decline was on the import side; while general cargo exports rose by 10.3 percent. Port Authority capital expenditures for port facilities totaled about $65 million and a number of service improvements were introduced during the year.

Construction Developments

- Construction proceeded on the $31 million Port Authority Auto Marine Terminal, an automobile import/export facility situated on a 145-acre tract in Jersey City and Bayonne. The terminal was fully leased by October, with the new vehicle preparation centers scheduled to be operational in 1989.

- The dredging and widening of the Kill Van Kull and Newark Bay channels, the bistate port's principal shipping channels, was begun last year by the U.S. Army Corps of Engineers and continued in 1988 with the awarding of four of five contracts involved. When completed in 1991, the waterway between Upper New York Bay and Port Newark-Elizabeth will be deepened from 35 to 40 feet and widened to 500 feet, enabling the largest container ships to navigate these channels. The Port Authority is providing 35 percent of the dredging project's total cost, estimated at $145 million.

- Shipping activity resumed at the Howland Hook Marine Terminal for the first time since the demise of U.S. Lines in 1986, with the resumption of container operations by Sea Terminals, Inc., operating between the bistate port and Puerto Rico. During the year, the Board authorized $25 million for rehabilitation of Howland Hook.

- In November 1988, a Japanese importer of ginger from Thailand became the first lessee of a unit in the new $10 million modular warehouse and distribution complex now being built at the Elizabeth-Port Authority Marine Terminal. When fully completed in 1989, the complex will have added 24 versatile units, each of which comprises 5,000 square feet and can be adapted for use as showroom, assembly, office or other uses.

- Ecuadorian Line, Inc. announced plans in July to modernize a new banana handling facility at Port Newark, the last such facility in the port. In addition, it was announced that a new $8 million imported vegetable oil facility would be constructed at Port Newark and begin operations in 1989.

- Atlantic Gypsum Company began operations at its new Port Newark plant at the end of 1988, following receipt of the first gypsum cargo from Spain.

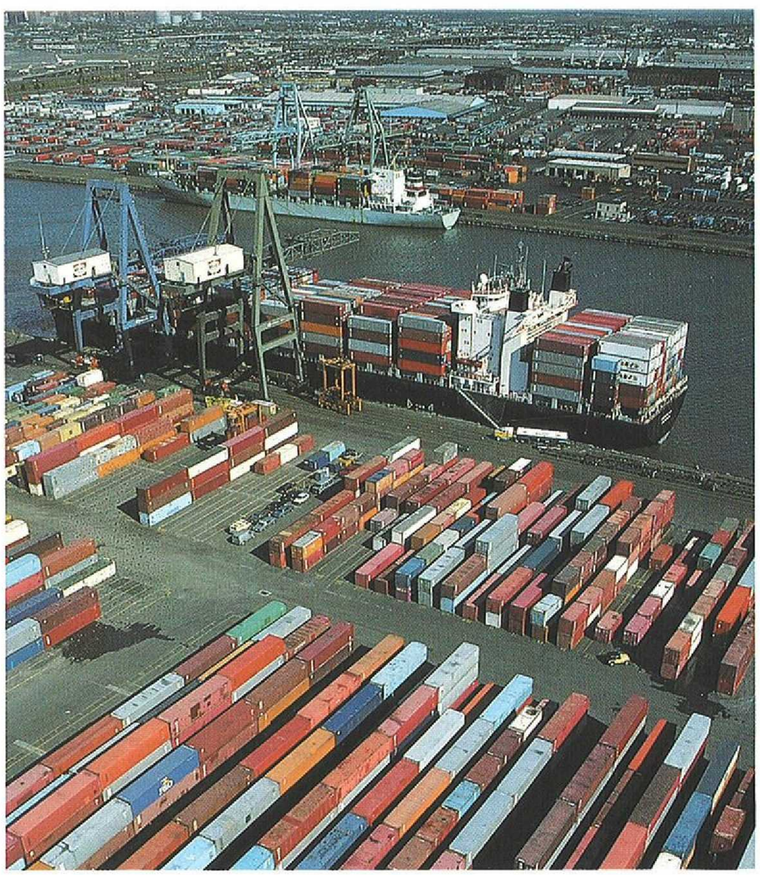
Measures to Improve Port Competitiveness

- In midyear, the New York Shipping Association and the International Longshoremen's Association agreed to reduce average container assessments paid by steamship lines by $90, when containers move more than 260 miles to and from the bistate port.

- In September 1988, the Port Authority began offering cash incentives to shippers and steamship lines to increase the movement of containers between the New York-New Jersey Port and the Midwest by subsidizing the cost of transporting the containers between local marine terminals and regional rail facilities. Under the plan, the Port Authority pays steamship companies or shippers $25 per import and $50 per export container when such containers move by rail to and from points more than 260 miles from the port.

• Progress continued on the Port Authority's Automated Cargo Expediting System (ACES), an innovative computer network designed to speed the movement of cargo through the port by electronically transmitting up to nine business documents among steamship lines, custom house brokers and terminal operators. Pilot operations began in midyear, and the system is expected to be fully operational in early 1989. It will be commercially available to more than 400 organizations engaged in maritime cargo transactions.

• At the close of 1988, the port began recapturing a share of the cocoa import trade, when the first shipment of 23,000 bags of cocoa from the Ivory Coast arrived at the newly refurbished dockside warehouse facilities at New York City's South Brooklyn Marine Terminal. The port had market share dominance in this commodity until the early 1960s, when the trade was lost to competing East Coast ports. Collaboration among the operator, Continental Terminals, Inc., the City and State of New York, the International Longshoremen's Association, the New York Shipping Association and the Port Authority, which helped develop customers, contributed to the port's resurgence in this commodity.



Aerial view of busy Port Newark/Elizabeth Port Authority Marine Terminal, a focal point for millions of tons of worldwide oceanborne general cargo handled by the bistate port. Improvements made at cargo distribution facilities in 1988 helped strengthen the port's competitive position.

PATH's interstate rail system served 56.9 million riders in 1988.

INTERSTATE TRANSPORTATION NETWORK

Regional development patterns continued to put pressure on the interstate transportation network. The region is experiencing dynamic change, with yesterday's "exurbs" becoming today's congested suburbs and the Manhattan Central Business District spilling over into Hudson County, downtown Brooklyn, and Long Island City. With all of our interstate facilities already at capacity during the peak hour, the challenge is to expand the transportation network sufficiently to sustain regional expansion while rehabilitating and improving aging facilities at the region's core.

Rail Marks Year of New Construction and Service Improvements

The growth in traffic volume on the Port Authority's interstate transportation facilities slowed from the rapid pace of the early and mid-1980s in response to slowing job growth in Manhattan and a strong economy in New Jersey. PATH's 1988 experience reflected these changes. After handling a record volume in 1987, total PATH passengers declined about 2.5 percent to 56.9 million, down from 58.2 million in 1987. Peak-period traffic in 1988 was particularly affected by job losses in Manhattan's financial sector and changing commuter needs as new jobs in New Jersey were filled by individuals residing west of the Hudson.

Improvements that are part of PATH's ongoing $855 million capital program continued to yield substantial results. Refurbishment of the line's existing car fleet was a major accomplishment. These cars, plus 95 new cars, brought PATH's fleet to full strength, enabling the interstate line to provide expanded peak-hour service. Additional trains were placed in service on the World Trade Center-Newark and Hoboken-World Trade Center lines, and rush-hour train capacity was increased on both the Journal Square-33rd Street and World Trade Center-Newark lines. As a result, peak-period crowding was reduced. In addition, PATH's on-time, peak-period performance on all lines rose to 87 percent, representing a 10 percent improvement over 1987.

Construction Improvements

- Construction continued on PATH's new Harrison Car Maintenance Facility. When completed in mid-1990, the $205 million facility will replace the 80-year-old Henderson Street shop and provide the necessary yard configuration and rail access for an expanded fleet of 376 cars.

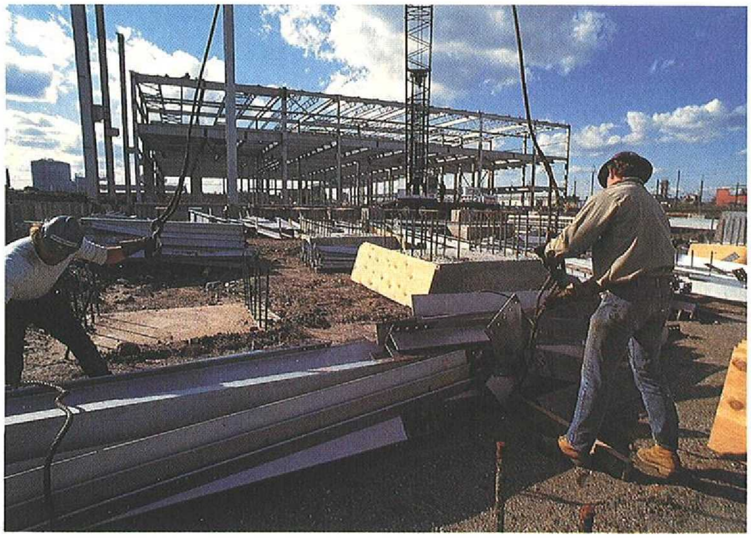
- Progress was made on major components of PATH's $241 million safety program. The program includes construction of important new tunnel ventilation, standpipe and emergency evacuation structures.

- A $19 million modernization of PATH's Pavonia/Newport Station was initiated in February 1988. The Newport Associates Development Company is building a new station entrance pavilion and contributing $1 million toward the cost of underground work. Completion is expected in late 1989.

- In May, the Port Authority authorized a $27.5 million rail accessibility project to provide greater access for elderly and disabled individuals at six of the PATH system's major terminals and stations in New York and New Jersey.

- Construction continued on the new entrance at the Exchange Place Station which will provide significantly improved escalator access later in 1989. Plans were announced for an improved secondary stairway entrance to be built by a private developer at PATH's Grove

Construction continued on several major rail projects in 1988, reflecting an ongoing commitment to service improvements for PATH's 200,000 daily riders.



Rebuilding of the Exchange Place Station's entrance on the Jersey City waterfront is a key component of PATH's capital improvement program. The remodeled station will improve access for the elderly and disabled.

Street Station in Jersey City, and for permanent repairs to be made on the Wallis Avenue Bridge, which supports PATH and Conrail tracks over Routes 1 and 9 in Jersey City.

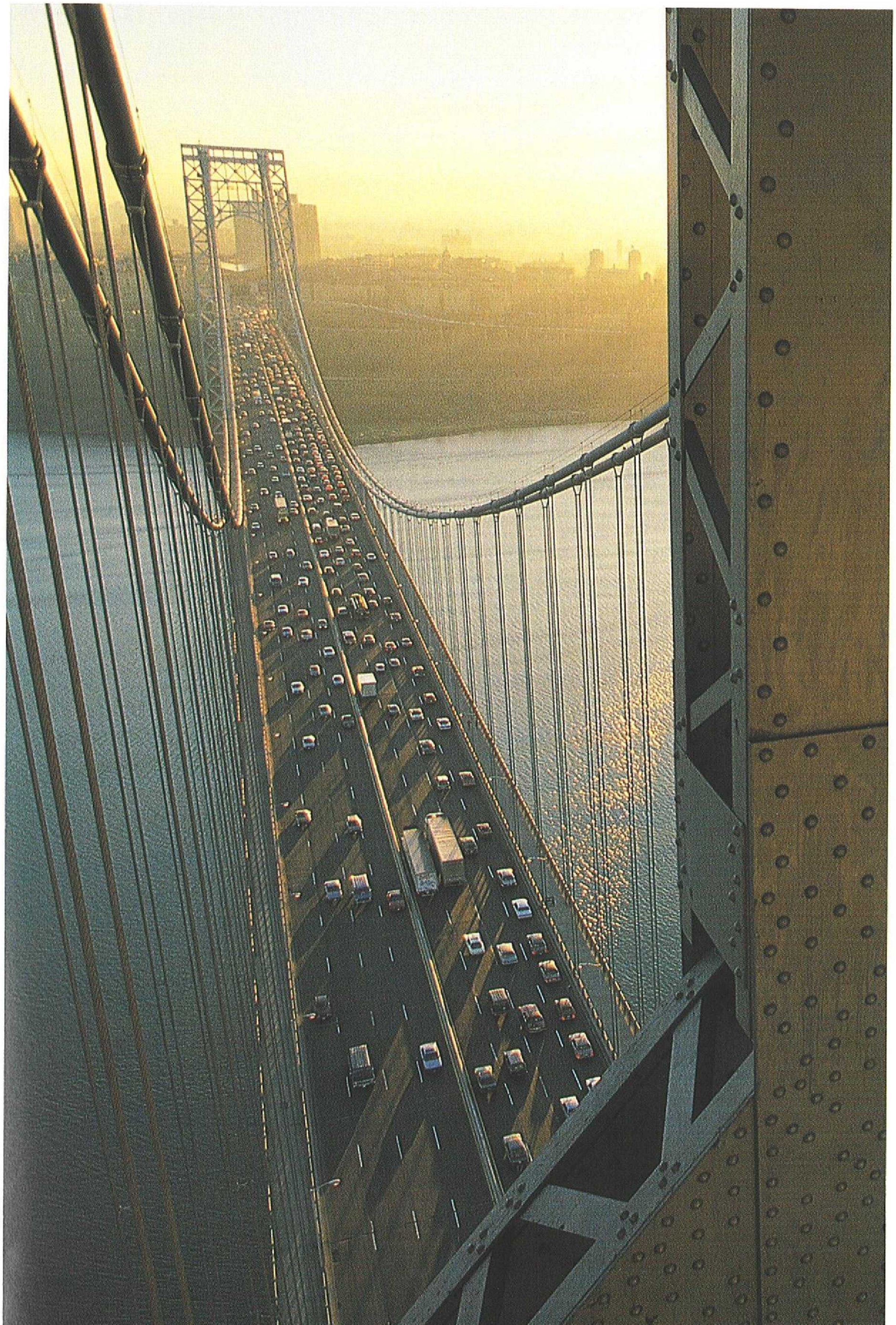
Port Authority Bus Programs

• By year's end, 95 percent of bus purchases had been completed under the Port Authority's $440 million bistate bus programs. These programs, initiated in 1979, have provided nearly 3,000 buses— about half of all the new buses purchased in the region during this period. The Port Authority will continue to administer the leases with the various operating agencies.

Ferry Service Nears Realization

Commuter ferry service between Hoboken and lower Manhattan came closer to realization in October 1988, when the Port Authority concluded agreements with Arcorp/Hartz Ferry Transportation Joint Venture, New Jersey Transit Corporation, Battery Park City Authority and the New York State Office of General Services. The passenger ferry service is slated to become operational by late spring 1989. The new ferry is expected to reduce peak passenger traffic on PATH's Hoboken-World Trade Center line. It will operate from 7 A.M. to 10 A.M. and 4 P.M. to 7 P.M. Plans call for employing four fast vessels, each capable of accommodating 350 passengers on runs between Hoboken and docking facilities at Battery Park City, adjacent to the World Trade Center.

Kenko Hasegawa, Chairman of Kawasaki Heavy Industries, Ltd., and Port Authority Chairman Philip D. Kaltenbacher continue a Japanese tradition of painting the second eye on a daruma figure at a ceremony marking completion of PATH's 247-car rehabilitation program.



The George Washington Bridge and other interstate crossings carried over 111 million eastbound vehicles.

Tunnels, Bridges & Terminals Stress More Efficient Operations

Eastbound traffic on the Port Authority's vehicular crossings grew to more than 111 million during 1988, slightly more than in 1987. While the growth of interstate traffic flattened in comparison to the traffic increases of the early 1980s, the heavy movement of people and goods within the region continued to place great demands on the capacity of all Port Authority tunnels and bridges. By year's end, the Port Authority had invested about $70 million in planned capital construction at its interstate crossings. Careful planning and work scheduling is being followed to accomplish the major construction projects with minimal traffic disruptions, while simultaneously providing public access and mobility through these vital regional links.

Capital Investments and Service Improvements

Progress in Tunnels, Bridges & Terminals included:

- Replacement of the Holland Tunnel ceiling, a major Port Authority undertaking, was completed in June 1988. This work included removal of the original ceiling and repaving the tunnel roadway. The new ceiling, composed of precast and pre-tiled concrete panels, assures both a structurally sound ceiling and an efficient ventilation system. Fluorescent lights, traffic signals, curb drains and niche doors were also replaced.

- The $54 million redevelopment of the Holland Tunnel's 60-year-old entrance roadway and plaza in Jersey City, authorized in 1988, will improve vehicular access and provide additional space for operations. The current design includes an additional toll lane, new toll booths, and widening of the tunnel entrance area.

- Rehabilitation of the north tube of the Lincoln Tunnel was authorized in October 1988, with construction scheduled to begin in the fall of 1989.

- Plans went forward during the year for testing an Automatic Vehicle Identification (AVI) system for trucks using the Goethals Bridge and buses using the Exclusive Bus Lane (XBL) at the Lincoln Tunnel. The system is designed to reduce delays at the toll booths and provide more efficient revenue control.

- TRANSCOM, a coalition of 14 New York and New Jersey transportation agencies, including the Port Authority and PATH, continued to serve as an increasingly important source of information on daily traffic management and regional traffic activities. The organization provided critically useful information when a building collapsed at 31st Street in Manhattan on October 24, 1988, disrupting a number of subway and commuter train services. Within minutes of notification, TRANSCOM alerted all traffic, transit and police agencies to the problem and began working to alleviate the traffic gridlock affecting hundreds of thousands of homeward bound travelers.

- A $2.2 million contract was awarded in January 1988 for the remaining modernization of sections of the Port Authority Bus Terminal, including the original South Wing's third and fourth floor commuter levels and bus platforms.

- Several steps were undertaken during 1988 to improve security at the Port Authority Bus Terminal. To enhance late night security, all bus operations between the hours of 1 A.M. and 6 A.M. were consolidated at the lower level of the North Wing. Concurrently, the entire South Wing was closed during those hours. A variety of closure gates and ticket sales booths also were installed to facilitate the new procedures. Further, the Terminal's new Operations Control Center began providing 24-hour surveillance and communications.

New York City Commissioner of Transportation Ross Sandler leads a seminar discussion at the first Regional Mobility Conference, hosted by the Port Authority.

The Port Authority Bus Terminal's new Operations Control Center provides 24-hour surveillance and communications. Further modernization of the terminal's commuter levels and bus platforms will continue into 1989.

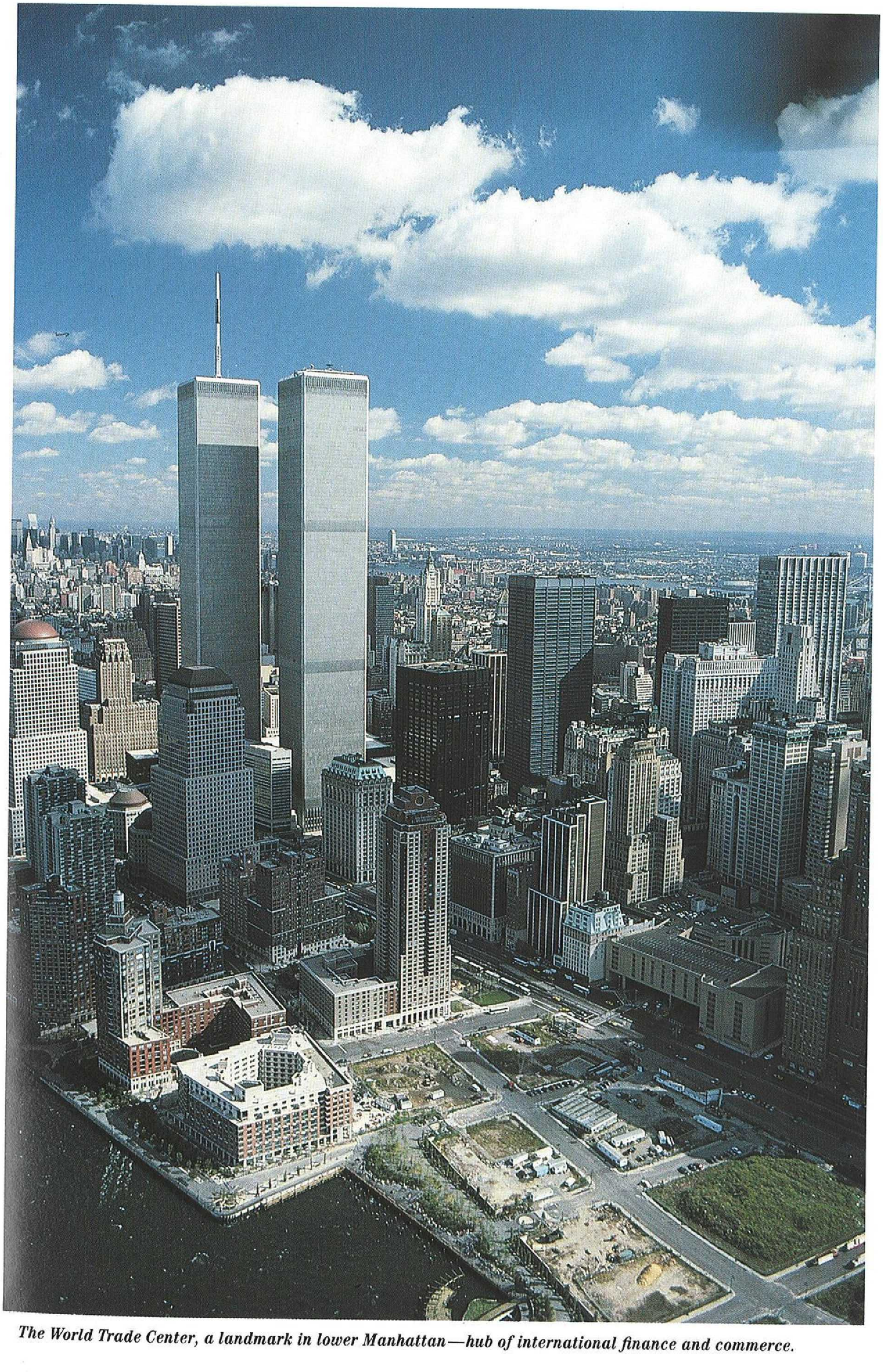
• The Port Authority continued its analysis of the need for additional interstate transportation capacity, including the provision of additional capacity between Staten Island and New Jersey. Studies have shown that traffic volumes and the use of wider trucks will increase, thereby adding to peak-period congestion and delays. Studies also were under way in 1988 to determine the most feasible alternatives for meeting future traffic demands at the Staten Island Bridges.

• An automated telephone answering system was introduced during the year to provide callers using an "800" hotline number with information on construction hot spots at the Port Authority's tunnels and bridges, tolls and reduced rate tickets, rules for drivers of recreational vehicles, and other transportation information. This phone line is accessible at no charge to callers from anywhere in the continental U.S.

Bistate Forum Seeks Improved Regional Network

During 1988, the leaders of the region's "Big Six" transportation agencies: the New York and New Jersey State Departments of Transportation, the New York City Department of Transportation, the Metropolitan Transportation Authority, New Jersey Transit Corporation and The Port Authority of New York and New Jersey, held a series of meetings to discuss their concerns and began shaping a common transportation strategy for the region. In an effort to begin building a regional consensus, a conference was hosted by the Port Authority at year's end involving participation by several hundred public and private leaders from throughout the region.

The most significant conference result was general agreement that region-wide, user-driven goals must be developed, and that broad-based public involvement and support will be essential for development of effective bistate solutions. Working through the New Jersey Transportation Coordinating Committee and the New York Metropolitan Transportation Committee, the Big Six are completing the region's first inter-agency assessment of the regional network and its future prospects. The inter-agency report is scheduled for distribution and public comment in the spring of 1989.



The World Trade Center, a landmark in lower Manhattan—hub of international finance and commerce.

WORLD TRADE AND ECONOMIC DEVELOPMENT: BUILDING NOW FOR FUTURE GAINS

Three interrelated Port Authority objectives—strengthening the New York-New Jersey Port's competitive position as the nation's foremost hub of international trade, encouraging foreign and domestic investment, and stimulating employment growth—were vigorously pursued in 1988. The agency succeeded in its efforts to boost exports of locally manufactured goods and in attracting new manufacturing and service companies to the region from overseas. Its Trade Development Offices in London, Zurich and Tokyo handled a growing agenda of international business activities.

Besides promoting investor interest in the region, the Port Authority itself continued to be a primary developer/operator of industrial parks, whose business tenants create new job opportunities, especially for residents of the region's older urban areas.

Construction Progress

• Steady construction progress was made in 1988 on the Essex County Resource Recovery Facility, New Jersey's largest mass burn waste-to-energy plant. By year end, 19 contractors with approximately 225 construction workers were on-site. The Port Authority's net capital outlay for 1988 was $72.3 million. A 4.2 million cu. ft. area was excavated for the facility's tipping hall and bunker, and a slurry wall 1,650 feet long by 60 feet deep was installed around them to prevent ground water infiltration. When completed in late 1990, the facility will help relieve northern New Jersey's waste disposal problem and also generate 60,000 kilowatts—enough power to service almost 37,500 homes.

• Newark's skyline changed in August as the 20-story Legal Center's structural steel was topped out. Almost a dozen New Jersey law firms will do business in the 475,000 square foot building once interior finishes have been completed.

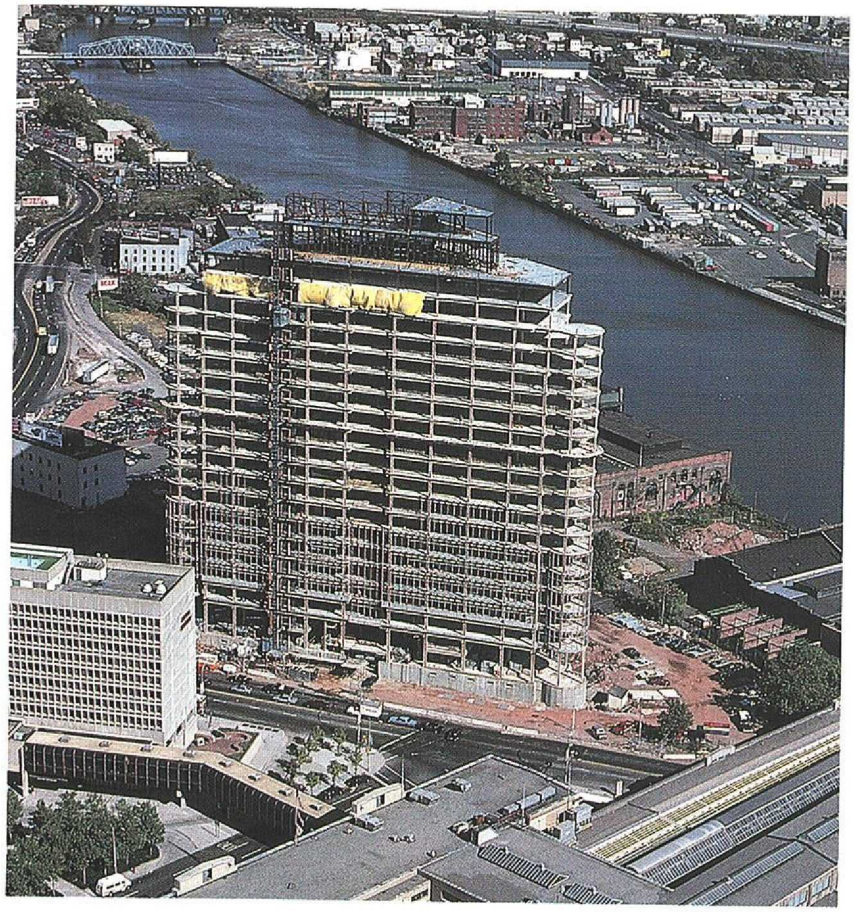
• At the Port Authority Industrial Park at Yonkers, major rehabilitation progressed with the installation of a totally new heating and largely new electrical system. In addition, several buildings were being modernized; and many other improvements, including a new boiler system and replacement of the park's power distribution equipment, were also undertaken. United Rail Car Corporation, a major tenant, delivered the last of 247 rehabilitated PATH rail transit cars by the end of 1988. Some 30 percent of the new jobs with United Rail have been filled by local residents.

• Port Authority involvement in the physical development of the Bathgate Industrial Park in the Bronx was completed by year end. The New York City Public Development Corporation will complete the remaining blocks with substantial private sector involvement. Some 90 percent of the jobs created by Bathgate's employers have gone to local residents.

• The City of Newark reached agreement with a private developer for development of the South Ward Industrial Park. At year's end, the Port Authority was amending its agreement with the City of Newark to permit private development of the entire site, creating an environment for private sector investment and job generation. At the State of New Jersey's request, the Port Authority will provide $3.5 million for the project from funds made available by the Governors' Agreement of 1983.

• The Port Authority Industrial Park at Elizabeth began to take shape in 1988. Groundbreaking ceremonies were held for IKEA Development Urban Renewal, Inc., which purchased 21.25 acres at the Elizabeth facility for its flagship home furnishings center. IKEA's operation will begin by the end of 1990.

Work advances on the 20-story Newark Legal Center. Slated for completion in mid-1989, it will house nearly a dozen New Jersey law firms.



Construction of the Essex County Resource Recovery Facility progressed steadily in 1988. Some 225 construction workers were on the job by year's end.

• By the end of 1988, seven of The Teleport's eight building sites were either leased or under option. Two 15-meter dishes were built during the year, raising to 18 the total number of satellite antennae operating at The Teleport. Merrill Lynch increased the size of its Data Center to 200,000 square feet in July by exercising an option to expand its site. The Data Center will house computer facilities for the firm's capital markets sector.

Foundations were laid by Teleport Associates in the third quarter for Teleport II, a 166,000 square foot building scheduled for completion by the end of 1989. Teleport Associates also announced plans to construct Teleport III, a 159,000 square foot office building. In addition, TELEHOUSE Corporation of America, a joint venture of 19 Japanese companies, is constructing a 160,000 sq. ft. office building that is expected to open in early 1989. More than 50 percent of the building has already been leased. Teleport Communications relocated its corporate headquarters and 75 employees to a 17,000 square foot space in Teleport I, the park's first building. In all, about 500 people are now employed at The Teleport.

Service Improvements

• Helping small manufacturers enter world markets and improve their export sales is a mission of XPORT, the Port Authority's Trading Company. In 1988, XPORT and its trade mission program provided marketing and sales assistance to more than 70 New York and New Jersey manufacturers, resulting in a new high of $16 million in export sales, a 33 percent increase over 1987.

• Successful trade missions to Italy, West Germany, Taiwan and Japan generated great interest among overseas distributors and buyers for New York and New Jersey manufactures. In addition, regional manufacturers of wood and home furnishing products were introduced to Japan's booming housing market.

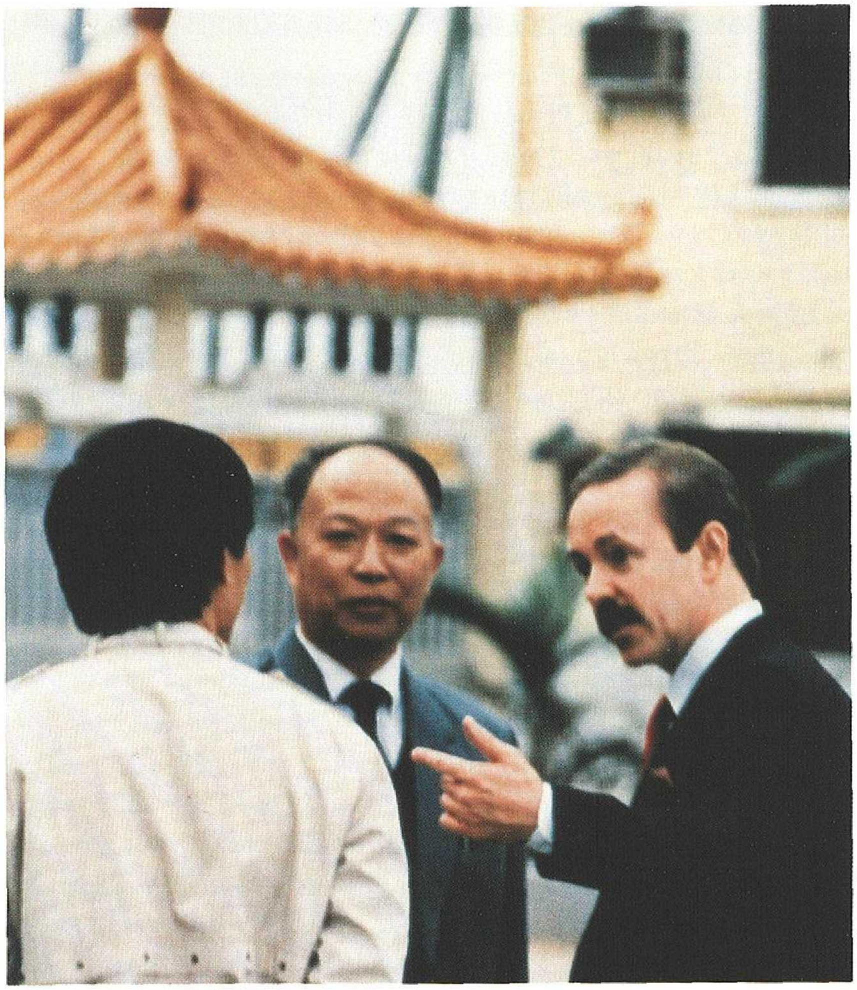
• During 1988, more than 600 seminars, courses and international training programs were offered by the World Trade Institute, including several innovative courses designed to help regional businesses compete internationally. More than 60 courses were offered by the Evening School of World Trade, as well as 400 Language School classes. Twelve international training programs were conducted for the benefit of participants from developing countries.

• A seminar was conducted in December 1988 to brief trade and business officials on how to conduct business with the 12-nation European Community, which plans to remove all barriers to trade within their new one-market system in 1992. In addition, a special executive seminar was held on trading with the Soviet Union and Eastern Europe.

• Port Authority staff also developed a business simulation game called "Export to Win" that can be "played" on a personal computer. It is designed to help staff of small and medium-sized companies improve their understanding of the export process and determine their exporting potential. Produced under a grant from the U.S. Economic Development Administration, the program simulates dynamic market conditions.

• More than 100 Chinese port officials participated in a port management training program in China organized by the World Trade Institute. Sponsored by the China Science and Technologies Exchange Center, the program was an outgrowth of a 1987 Port Authority trade mission to the People's Republic of China.

• During the year a new mixed-use waterfront development plan was proposed by the City of Hoboken. In July, the City announced its goal of forming a City-Port Authority alliance to advance the project and develop the basic infrastructure. The development aims to attract



Port officials in Guangzhou, China, meet with Vincent Seglior, Manager of International Training for the World Trade Institute, which organized port management training programs in Shanghai, Qingdao and Guangzhou.

The World Trade Center Observation Deck marked another record year with more than 1.8 million visitors, including Soviet leader Mikhail Gorbachev and his wife, Raisa, on special visit here in December with Port Authority Chairman Philip D. Kaltenbacher.

over $600 million in private investment through a competitive bid process.

• A master plan for Long Island City's Hunters Point waterfront development project was refined, and Preliminary Draft Environmental Impact Statement and Urban Land Use Review Procedure (ULURP) applications were submitted to appropriate New York City agencies for review. Resolution of outstanding issues is expected to pave the way for Board of Estimate approval and selection of developers for Port Authority-owned property. Identification of potential, large office space anchor tenants is under way, as is evaluation of using a Request for Proposal process to dispose of developable land parcels competitively.

• Improvements at the World Trade Center, both aesthetic and functional, were continued in 1988 to sustain its status as a world-class office complex. The World Trade Center was 98 percent rented in 1988, the eighth consecutive year of virtually full occupancy. The record was maintained despite a softening in New York City's office rentals market and the impact of the 1987 stock market crash on tenants, a significant number of which are in the financial services industry. Dean Witter Reynolds renewed its lease with the Port Authority at Five World Trade Center covering 300,000 sq. ft. In another major development, Salomon Brothers leased more than one million square feet, or just over half of the 47-story Seven World Trade Center.

THE PORT AUTHORITY AND THE COMMUNITIES IT SERVES

During the year the Port Authority made a number of long-term commitments and provided concrete support for a variety of social and community needs. Within the limits of its legislative mandate, the Port Authority continued to develop strategies aimed at improving economic opportunities for the disadvantaged and otherwise bolstering the region's economic environment.

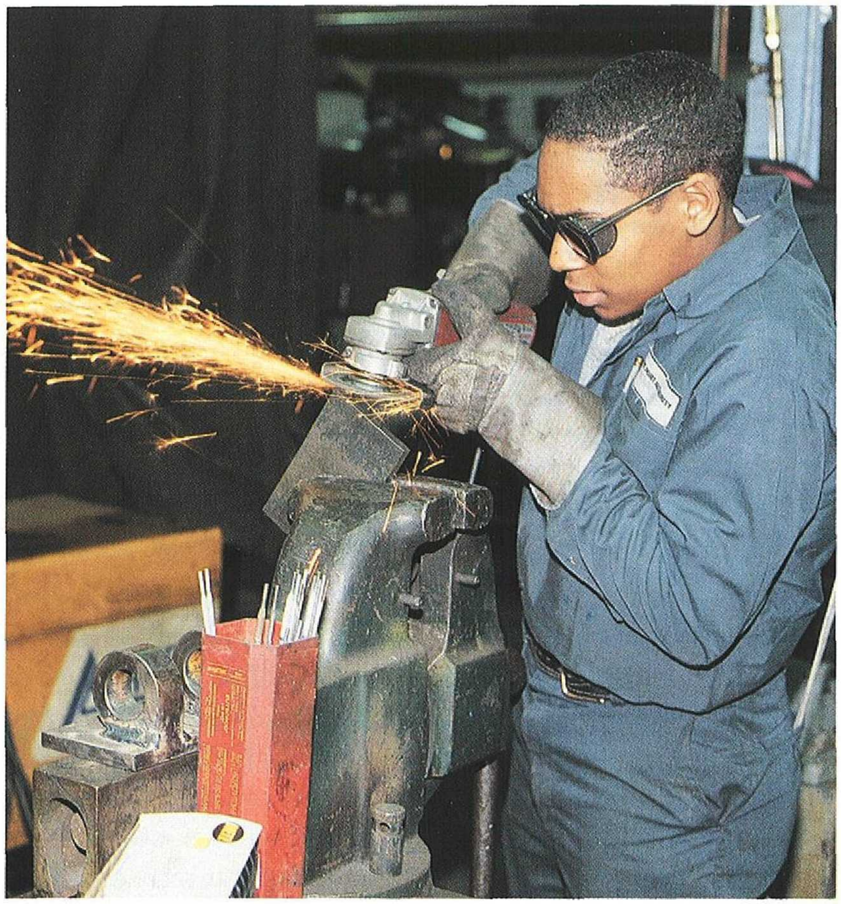
- Steps were taken during 1988 to increase economic opportunities in the region while supporting Port Authority businesses and tenants. In March, the Board of Commissioners established agency-wide programs for increasing participation by Minority Business Enterprises and Women-Owned Business Enterprises and called for the development of technical and financial assistance to such enterprises. By year's end, contracts for $63 million had been awarded. Further, in May, the Port Authority established the Office of Business and Job Opportunity with the mission of coordinating the development of minority and women's business enterprises and employment training initiatives.

- Efforts continued in 1988 to balance the needs of homeless people with those of patrons and users of Port Authority facilities. The Open Door drop-in center began operation in May in Port Authority-owned space adjacent to the Port Authority Bus Terminal. Operated by the nonprofit Westside Cluster and renovated with $350,000 in Port Authority funding, the center can serve 220 people. The Port Authority is also providing $1.5 million for a 12-month pilot project to operate the facility. In the World Trade Center area, work was completed in 1988 on the renovation of a city-owned site on Beaver Street to serve as a drop-in center. The Port Authority provided $600,000 for the renovation work. The center, which opened in December and can serve 100 people, is being operated by a subsidiary of Trinity Church and is funded by New York City. In addition, the Port Authority provided $150,000 to help fund Jersey City's homeless shelter and outreach program and continued efforts to establish a drop-in center near PATH's Journal Square Transportation Center.

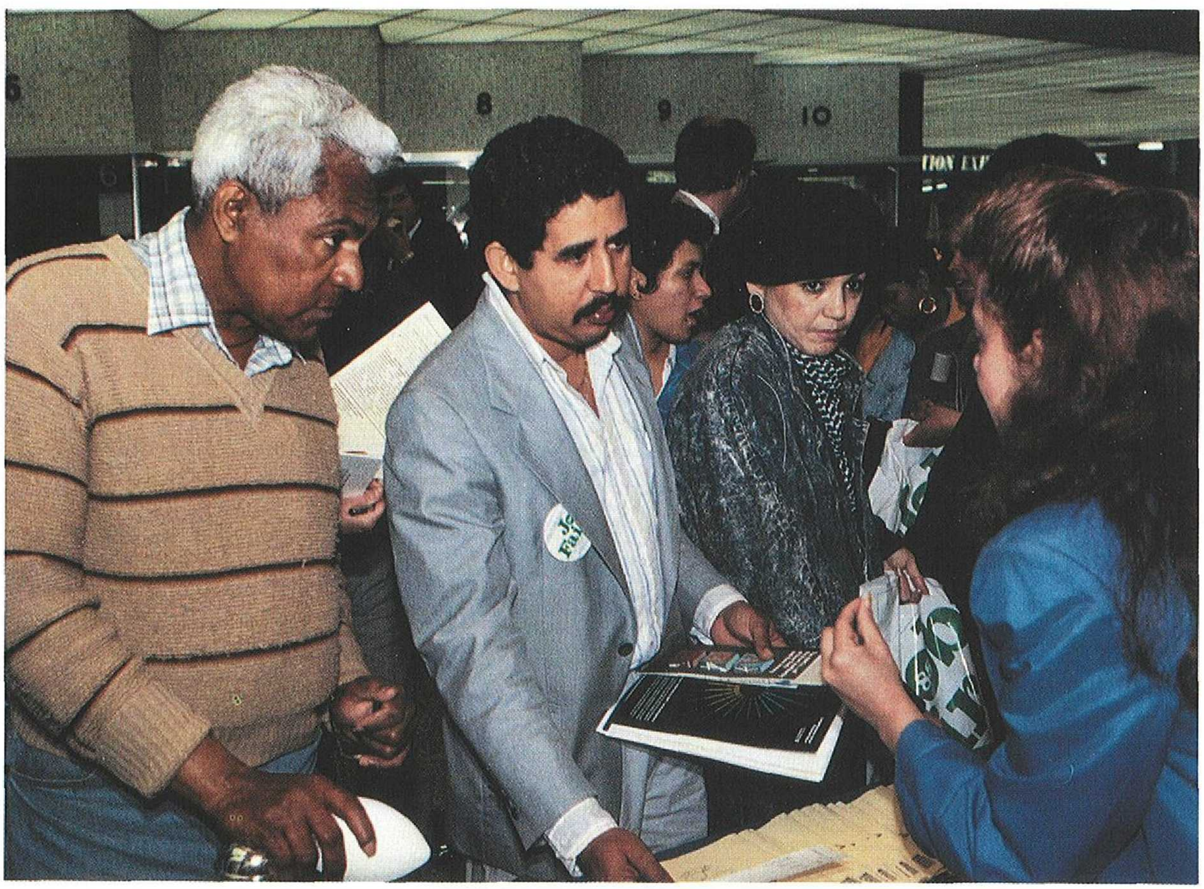
- The New Jersey Air Services Development Office (ASDO), a program to promote local purchasing by airlines and other major tenants at Newark International Airport, held networking conferences in February and June 1988. ASDO's goal is to make the aviation industry aware of the broad range of local goods and services available to them and help local businesses learn the best methods for providing their services to the aviation industry. During the year, ASDO increased its original data base of vendors from 100 to nearly 500 and published and distributed its first tri-county aviation vendor directory. The directory lists about 400 vendors by commodity or service, and provides information on purchasers as well as certification information for minority and women-owned business enterprises. A similar program organized earlier for Kennedy and LaGuardia Airports has resulted in local businesses gaining more than 125 contracts worth over $5 million.

- The Port Authority assisted the City of Jersey City and the Jersey City Economic Development Corporation in the development of a new industrial park in the Greenville section. The park will be constructed on 53 acres of property which previously had been part

Port Authority on-the-job training programs provided hands-on experience to youths from the region's inner city areas.



At the George Washington Bridge Bus Station, community residents get career guidance at "Job Fair '88," a model for similar programs to be conducted at other Port Authority facilities.



of land acquired by the Port Authority in 1981 for maritime and industrial purposes. When completed, the $12 million park is expected to provide some 4,000 manufacturing jobs. Under the agreement reached in 1988, the Port Authority will be providing land valued at $3 million and another $3 million towards infrastructure improvements. Through its Economic Development Corporation, Jersey City has primary responsibility to develop the site. The adjoining 145-acre Port Authority Auto Marine Terminal, now under construction, is expected to generate another 500 job opportunities when fully developed.

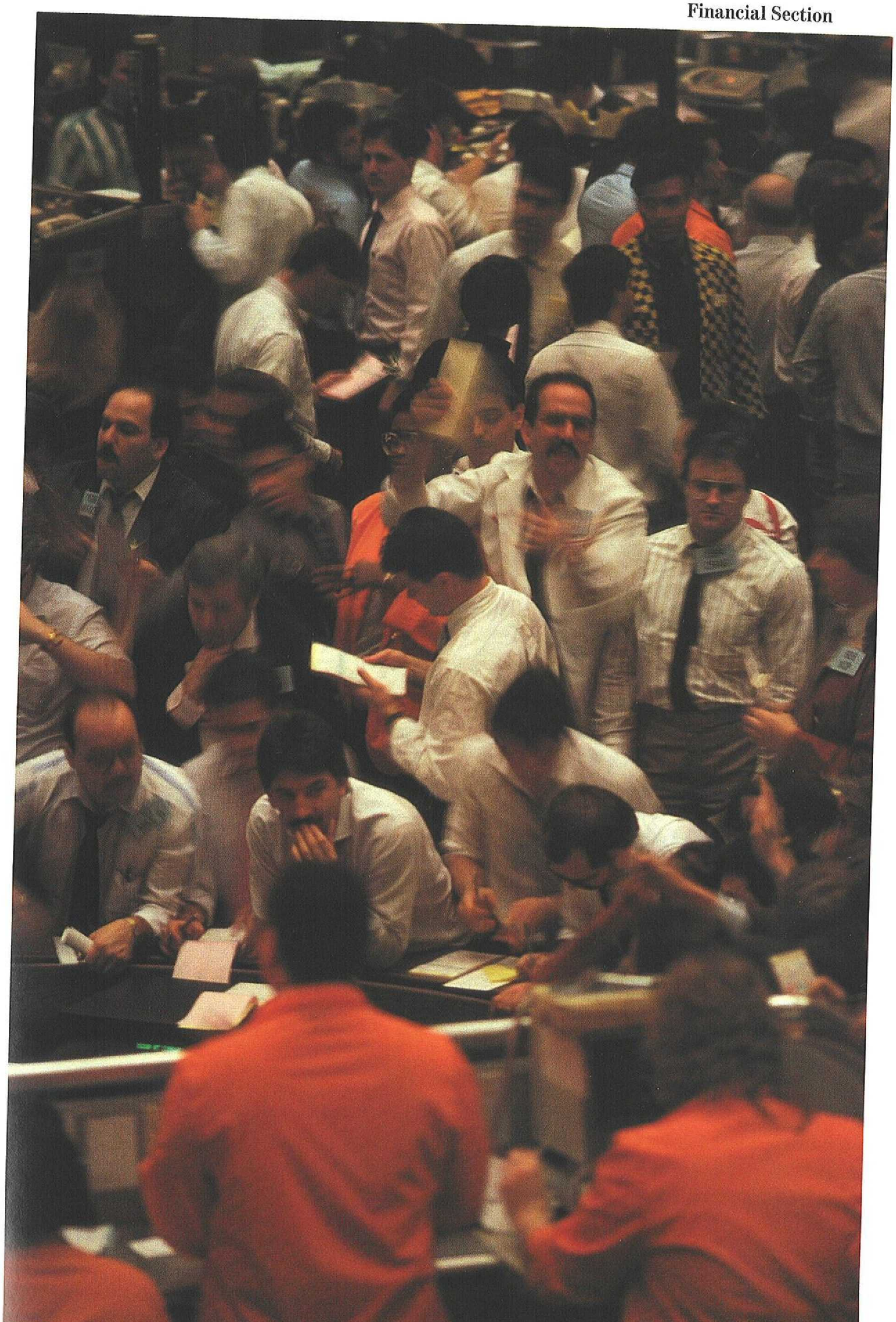
• In late 1988, the Port Authority presented the results of its Expanded East Coast Plan noise study to the Federal Aviation Administration (FAA). At year's end, the FAA was reviewing Port Authority data to determine what changes could be made to the federal air-route plan to mitigate aircraft noise, principally in northern New Jersey. The Plan, implemented by the FAA in February 1987, led to a 35 percent reduction in delays at the three major New York-New Jersey airports, but objections were raised by community groups and public officials in communities under the new flight paths, which previously had no air traffic. The Port Authority study, undertaken at the request of several New Jersey community groups and public officials, used flight track data and noise measurements to identify and quantify flight patterns and noise profiles.

• Since implementing its comprehensive asbestos program in 1985, the Port Authority has taken an active role in asbestos abatement, removal and control to provide a better, safer environment for its tenants, patrons and employees. During the year, major asbestos removal projects were undertaken at the World Trade Center and at the Central Terminal Building at LaGuardia Airport to permit space renovation. Additionally, a large number of smaller projects were undertaken, principally at port and aviation facilities in conjunction with maintenance and repair activity. Through year end, approximately $13 million in contract costs had been expended on 66 asbestos removal projects at Port Authority facilities.

• As part of a continuing effort to strengthen airport security, Port Authority Police officials intensified their liaison and criminal information sharing with local, national and international law enforcement and aviation agencies, including the FBI, Interpol, FAA and the Airport Operators Council International. Those liaison efforts took on added significance at the end of the year, following the terrorist bombing of Pan American's Flight 103 en route from Frankfurt, West Germany to John F. Kennedy International. The Port Authority Police also engaged in a number of joint task force operations during the year, working with the U.S. Drug Enforcement Administration (USDEA) on international investigations related to drug interdiction at our ports. The police also worked with USDEA on its assets seizure program and assisted on the development of profiles for the identification of drug couriers who pass through our transportation terminals. In addition, the Port Authority joined forces with the Essex County Prosecutor and Sheriff's Department and the Newark Police Department on an auto crime task force that was successful in reducing auto crime at our New Jersey facilities.

Social worker at Port Authority-initiated Open Door drop-in center in mid-Manhattan counsels a homeless person who has been provided with a meal, shower and fresh clothing. Job and social service referrals as well as basic medical care are made available daily to homeless people.

By the end of 1988, the Port Authority had undertaken 66 asbestos removal projects at its facilities. The agency's comprehensive asbestos program, begun in 1985, is providing a safer environment for tenants, patrons and employees.



Bustling trading floor at World Trade Center Commodity Exchange reflects worldwide economic activity.

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 wholly-owned subsidiaries, for the year ended December 31, 1988, is submitted herewith. This report fairly presents and fully discloses the Port Authority's financial results of operations, financial position, and changes in financial position in accordance with the requirements of generally accepted accounting principles and Port Authority bond resolutions, and briefly describes basic policies and major activities undertaken during the year ended December 31, 1988. The purpose 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 and political subdivision of the States of New York and New Jersey, created in 1921 by Compact between the two States and thereafter 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 and 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 their statutory power to review and 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 37 facilities through line and staff departments and guides proposals to the point of presentation to the Board of Commissioners. The Executive Director is also responsible for implementing such proposals after presentation to and approval by the Board.

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 raise the funds necessary for the construction or acquisition of facilities upon the basis of its own credit, taking into account its financial performance, 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.

Non-Financial Information

Information concerning current and future economic conditions and how they may impact on operations and the future commitment of the agency's resources are presented as part of the Introductory Section and in the Regional Almanac in the Statistical Section. Highlights of current and future initiatives and programs for each of the agency's major business areas are also presented in the Introductory Section.

Accounting System and Budgetary Control

The Port Authority's consolidated financial statements are prepared in accordance with generally accepted accounting principles, include information on Port Authority operations by operating segment, and are prepared on the accrual basis of accounting. 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. Reconciliations of the Consolidated Statement of Income to Schedule A, Revenues and Reserves, and the Consolidated Statement of Financial Position to Schedule B, Assets and Liabilities, are included in Note A of the

Consolidated Financial Statements on page 51.

In conformance with the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, "Defining the Reporting Entity", the accounts of Port Authority Trans-Hudson Corporation (PATH) and the Newark Legal and Communications Center Urban Renewal Corporation are consolidated in the accompanying financial statements, while 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 since neither meets the criteria for inclusion as part of the reporting entity.

To reasonably assure compliance with published policies and procedures and to protect the Port Authority's assets, a system of internal control, including budget guidelines, has been developed. This system is strengthened and supplemented by internal auditors who conduct examinations of the Port Authority's operations and report on management's performance to the Audit Committee of the Board of Commissioners. There are inherent limitations that should be recognized in considering the potential effectiveness 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 multi-year business strategies, programs, policies and projects, both operating and capital, required to carry out that mission. Approval of the budget, based on the business and 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 review of program expenditures to ensure they are made in accordance with the policies and financial decisions of the Board of Commissioners, and the requirements of the By-Laws of the Port Authority.

Results of Operations

Gross operating revenues totalled $1,436,940,000 in 1988, an increase of $105,502,000, or 7.9% over 1987. This growth is primarily attributable to the impact of a full year of revised tunnels and bridges tolls and PATH fares, higher flight fee revenues and increased service charges at the New York airports, initiation of Terminal C operations at Newark International Airport and higher revenues at the World Trade Center. Operating expenses totalled $1,092,502,000 in 1988, an increase of $89,572,000, or 8.9% over 1987, resulting primarily from increased contracted service costs for maintenance programs and janitorial services, health insurance cost increases, and new initiatives for the homeless and asbestos abatement at various facilities. In addition, higher costs were incurred for labor, equipment and materials purchases and other miscellaneous expenses. Further contributing to the increases in operating expenses were certain capital investments which were re-evaluated and subsequently written off to operations, as well as increased costs at Newark International Airport resulting from the initiation of Terminal C operations.

Cash Management

The Port Authority's long-term investments are in securities of or guaranteed by the United States Government and in Port Authority bonds. Earnings of $39,591,000 were recorded pursuant to Port Authority bond resolutions on average long-term investments of $458,618,000.

Short-term investments, consisting primarily of United States Government securities (including such securities held pursuant to repurchase agreements) and money market instruments, averaged $354,030,000 during the year. In addition to government securities, short-term investments are also made in limited amounts of certain investment grade negotiable Certificates of Deposit, negotiable Bankers' Acceptances, Commercial Paper and futures contracts. Income on short-term investments pursuant to Port Authority bond resolutions totalled $24,526,000.

Combined income on such long-term and short-term investments decreased from 1987 by approximately 14.9%, primarily due to a reduction in the amounts available for investment, reflecting the drawdown of funds borrowed for capital program purposes. The balance of Financial Income credited to operations and reserves pursuant to Port Authority bond resolutions is principally interest on advances in connection with the Fund for Regional Development and the Essex County Resource Recovery Facility.

Financial Position

The total assets of the Port Authority as of December 31, 1988, were $6,038,028,000, an increase of 8.9% over 1987.

The investment in Facilities, at Cost, rose by $476,907,000 to $6,453,479,000. This increase is partially due to the additional investment of $183,474,000 in Air Terminals as a result of Terminal C construction at Newark International Airport and various improvements and rehabilitations to roadways, taxiways and buildings at LaGuardia Airport and John F. Kennedy International Airport, and the JFK redevelopment project. Investment in other facilities rose by $293,433,000, led by Interstate Transportation Network facilities which increased by $168,684,000, primarily as a result of PATH's rail car, car shop and safety projects, the Holland Tunnel ceiling and curb replacement projects, and expenditures related to the George Washington Bridge. Continued construction at the Newark Legal and Communications Center, the Teleport, and expenditures at the World Trade Center were contributing factors to a $52,685,000 increase in investment in World Trade and Economic Development facilities. Investment in the remaining facilities increased by $72,064,000, mainly due to expenditures for Port Authority Auto Marine Terminal, Port Newark and Elizabeth-Port Authority Marine Terminal in New Jersey, and the Passenger Ship Terminal in New York.

Debt Administration

On December 31, 1988, outstanding Bonds, Notes and Other Obligations of the Port Authority pursuant to Port Authority bond resolutions totalled $3,384,585,000, as detailed in Note D of the Consolidated Financial Statements on pages 53-55.

Consolidated Bonds and Notes outstanding as of December 31, 1988, which are included in Bonds, Notes and Other Obligations totalled $3,105,675,000. In 1988, the Port Authority issued four series of Consolidated Bonds, each in the principal amount of $100,000,000. The Fifty-ninth Series, due 2023, bearing interest at a rate of 7¾% per annum, was issued for purposes of refunding certain commercial paper obligations. The Sixtieth Series, due 2023, bearing interest at a rate of 8¼% per annum, was issued for purposes of financing capital expenditures in connection with the Essex County Resource Recovery Facility. The Sixty-first Series, the first Consolidated Bonds in almost 25 years which included serial bonds, was also issued for purposes of refunding certain commercial paper obligations. It includes maturities in 1989 through 1995 and 2004 through 2010 at interest rates ranging from 6% to 8.10% per annum, and term bonds, bearing interest at the rate of 8⅛% per annum, due in 2023. The Sixty-second Series, also issued for purposes of financing capital expenditures in connection with the Essex County Resource Recovery Facility, included serial bonds maturing from 2004 to 2010 at interest rates ranging from 7¾% to 8% per annum and term bonds, bearing interest at the rate of 8% per annum, due in 2023.

The Port Authority also issued two series of Consolidated Notes during 1988, totalling $55,000,000. The Series OO Notes, in the principal amount of $15,000,000 due June 15, 1989, bearing interest at the rate of 6% per annum, were issued for the purposes of refunding maturing Consolidated Notes, Series LL and Series MM and certain commercial paper obligations. The Series PP Notes, in the principal amount of $40,000,000 due October 1, 1990, bearing interest at the rate of 5¾% per annum, were issued for purposes of refunding maturing Consolidated Notes, Series NN, and certain commercial paper obligations.

In 1988, the Port Authority Commercial Paper Program was expanded from $150,000,000 to a $300,000,000 maximum amount outstanding at any one time, consisting of two separate series of commercial paper obligations, each with a maximum aggregate principal amount outstanding at any one time of $150,000,000. The total amount outstanding for both series at December 31, 1988 was $131,684,000.

As of year-end 1988, outstanding Port Authority Consolidated Bonds were rated AA - by Standard & Poor's Corporation and Fitch Investors Service, Inc., and A1 by Moody's Investors Service; outstanding Consolidated Notes were rated SP-1+ by Standard & Poor's, FIN-1+ by Fitch's, and MIG-1 by Moody's, in each of the latter cases the highest short-term debt rating of each agency. As of year-end 1988, outstanding Commercial Paper Notes were rated A-1+ by Standard & Poor's Corporation, F-1+ by Fitch's, and P-1 by Moody's, the highest rating of each agency. A rating is an evaluation of creditworthiness performed from time to time by an independent service.

In 1988, a program was authorized which provided for variable rate master note agreements aggregating up to $250,000,000 outstanding at any one time. The Port Authority under the first of these variable rate master note agreements, borrowed $25,000,000 in principal amount at an interest rate calculated weekly on the basis of certain specified indices. The proceeds were used to refund certain commercial paper obligations.

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.

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% of the total par value of all 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 the manner and to the extent provided in the Consolidated Bond Resolution in support of all the Port Authority's outstanding bonds and notes other than New York State Guaranteed Commuter Car Bonds, special obligations established and issued in connection with the Port Authority Commercial Paper Program, and under variable rate master note agreements, and Special Project Bonds. Obligations of the Port Authority under its Operating Equipment-Lease Financing Program are an operating expense of the Authority, payable in the same manner and out of the same revenues as all other such expenses of the Authority.

Before the Port Authority may finance an additional facility for the first time with Consolidated Bonds (including Consolidated Notes) or other bonds secured by a pledge of the General Reserve Fund, the Port Authority's Board of Commissioners must first certify its opinion that the issuance of such bonds will not materially impair the Port Authority's sound credit standing, the investment status of Consolidated Bonds or the Port Authority's ability to fulfill its commitments, including its undertakings to the holders of Consolidated Bonds. Unless such certification is made, neither the General Reserve Fund nor the Consolidated Bond Reserve Fund may be applied for purposes in connection with the additional facility. In addition, a statutory covenant with Port Authority bondholders enacted by the legislatures of New York and New Jersey in 1962, and repealed in 1973 for bonds issued after Consolidated Bonds, Thirty-ninth Series, due 2007, limits the Port Authority's ability to apply pledged revenues and reserves to deficit passenger railroad facilities in addition to the basic PATH system.

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, 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.

Interest recorded on the Port Authority's debt charged to operations and reserves in 1988, pursuant to Port Authority bond resolutions, totalled $155,143,000. Bonded debt repayment through operations and reserves amounted to $52,397,000 which includes long-term bonds with a par value of $49,125,000 retired through mandatory sinking fund and maturity payments, long-term bonds with a par value of $2,750,000 retired in anticipation of future requirements and repayment of commercial paper obligations of $522,000. Therefore, total debt service charged to net revenues and reserves was $207,540,000, which does not include amounts relating to New York State Guaranteed Commuter Car Bonds and Special Project Bonds. Capitalized interest for the year ended 1988 totalled $44,788,000. During the year, net assets increased by 6.8% to a total of $4,726,489,000.

Reserve Funds

At year-end 1988, the General Reserve Fund balance was $335,886,000 and met the prescribed statutory amount of 10% of all outstanding bonds legal for investment as defined in the General Reserve Fund statutes. On December 31, 1988, the Consolidated Bond Reserve Fund had a balance of $428,212,000, after application of $215,854,000 to direct investment in facilities, $2,750,000 for the retirement of Consolidated Bonds in anticipation of future requirements, $522,000 for repayment of commercial paper obligations and an appropriation of $2,139,000 from the self-insurance reserve to the Consolidated Bond Reserve Fund. The sum of these Reserve Funds was $764,098,000, 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, $763,098,000 was invested in such securities and $1,000,000 was maintained as cash.

Independent Audit

A firm of independent certified public accountants is retained each year to conduct an audit of the financial statements of the Port Authority in accordance with generally accepted auditing standards. The firm 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.

The form of the opinion of the independent auditors has changed from prior years to conform to Statement of Auditing Standards No. 58. Principal differences are the inclusion of a statement that management is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, and an expanded discussion of the audit process.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting, for the fourth consecutive year, to The Port Authority of New York and New Jersey for its comprehensive annual financial report for the fiscal year ended December 31, 1987.

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

Executive Director

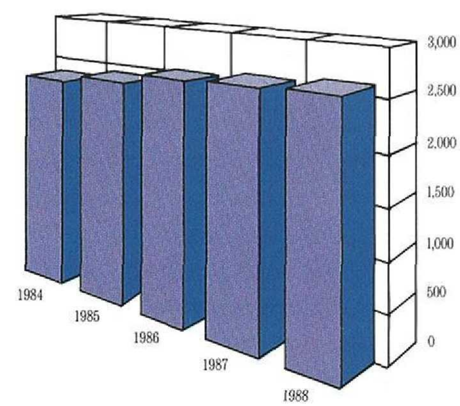
Chief Financial Officer

February 24, 1989

Selected Financial Information

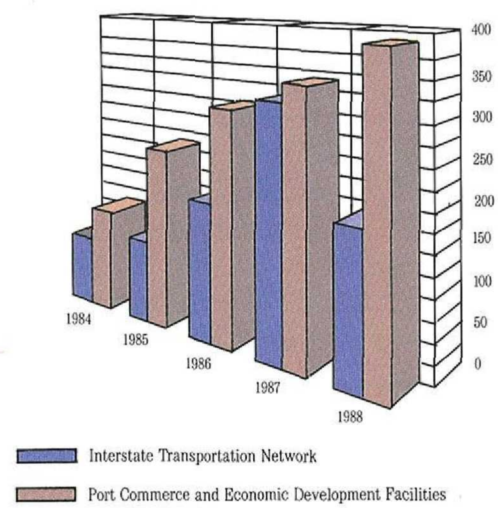
Highlights	1988	1987
	(In Millions)	
Gross Operating Revenues	**$1,437**	$1,331
Net Operating Revenues	**344**	338
Net Revenues Available for Debt Service and Reserves	**425**	403
Debt Service Charged to Revenues and Reserves	**208**	193
Cumulative Invested in Facilities	**7,050**	6,547
Bonded Debt Outstanding, in accordance with Port Authority bond resolutions	**3,385**	2,958
General Reserve Fund	**336**	293
Consolidated Bond Reserve Fund	**428**	468

Debt Retired Through Income—Cumulative (In Millions of Dollars)



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

Annual Investment in Facilities—(In Millions of Dollars)



Cumulative Port Authority investment totalled approximately $2.2 billion over the past five years. For the same period, outstanding debt increased by approximately $1,000 million.

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Touche Ross

November 23, 1988

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, 1988. 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, 1988.

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, 1988, 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.

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Certified Public Accountants

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OPINION OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated statements of financial position of The Port Authority of New York and New Jersey and its wholly-owned subsidiaries as of December 31, 1988 and 1987 and the related consolidated statements of income and changes in financial position for the years then ended. We also audited the financial information included in Schedules A through F. These financial statements and schedules are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Port Authority of New York and New Jersey and its wholly-owned subsidiaries as of December 31, 1988 and 1987, and the results of its operations and its changes in financial position for the years then ended in conformity with generally accepted accounting principles. The accompanying Schedules A through C have been prepared pursuant to the requirements of law and Port Authority bond resolutions. The accounting principles followed in the preparation of these schedules differ in some respects from generally accepted accounting principles as described in Note A-11. In our opinion, Schedules A, B and C present fairly, in all material respects, the consolidated assets and liabilities of the Authority at December 31, 1988 and the consolidated revenues and reserves for the year then ended in conformity with the accounting principles described in Note A-11.

Also, in our opinion, the supplementary information presented in Schedule D and the selected financial data for each of the years in the eight year period ended December 31, 1988 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, in all material respects, the assets and liabilities of the New York State Commuter Car Program at December 31, 1988 and 1987, in conformity with the basis of accounting described therein.

Touche Ross & Co.

Certified Public Accountants
February 24, 1989

Touche Ross International

Consolidated Statement of Income

	Year Ended December 31, (In Thousands)	
	1988	1987
Gross Operating Revenues (Note L)	**$1,436,940**	$1,331,438
Operating Expenses:		
Employee compensation, including benefits	**485,841**	455,732
Materials, equipment, supplies and contract services	**286,809**	255,384
Rents (primarily related to airport leases) and amounts in-lieu-of taxes	**131,702**	145,559
Heat, light and power	**66,389**	67,169
Other (Note K-5)	**121,761**	79,086
Total Operating Expenses	**1,092,502**	1,002,930
Depreciation on Facilities (Note B)	**163,415**	138,706
Amortization of Costs for Bus Programs	**34,681**	30,687
Income from Operations	**146,342**	159,115
Financial Income and Expense:		
Income on investments	**75,250**	58,017
Gain on purchase of Port Authority bonds in connection with current sinking fund requirements	**2,245**	2,923
Interest expense	**(153,729)**	(138,354)
Gain on Sale of Assets	**2,830**	—
Income Before Extraordinary Item	**72,938**	81,701
Extraordinary Item		
Gain on purchase of Port Authority bonds in connection with future sinking fund requirements	**976**	2,312
Net Income	**73,914**	84,013
Add: Depreciation on Assets Acquired with Government Contributions in Aid of Construction	**12,285**	11,372
Increase in Net Income Invested in Port Authority Facilities, Operations and Reserves	**86,199**	95,385
Balance, January 1	**1,928,699**	1,833,314
Net Income Invested in Port Authority Facilities, Operations and Reserves, December 31	**$2,014,898**	$1,928,699

See Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Position

	December 31, (In Thousands) 1988	1987
Assets		
Facilities, at Cost (Note B)	**$6,453,479**	$5,976,572
Less Accumulated Depreciation on Facilities	**2,150,648**	2,002,154
Facilities, Net	**4,302,831**	3,974,418
Cash (Note C)	**32,280**	29,376
Investments (Note C)	**885,275**	829,208
Accounts Receivable (net of allowance for doubtful accounts of $9,261,000 in 1988 and $11,024,000 in 1987)	**62,876**	69,572
Other Amounts Receivable (net of allowance for doubtful accounts of $1,824,000 in 1988 and $4,815,000 in 1987)	**348,526**	241,226
Unamortized Costs for Bus Programs (Note K-1)	**237,498**	264,698
Other Assets	**168,742**	134,205
Total Assets	**6,038,028**	5,542,703
Liabilities		
Bonds, Notes and Other Obligations (Note D)	**3,328,865**	2,901,651
Accounts Payable	**187,178**	231,647
Accrued Pension, Retirement and Other Employee Benefits (Note J)	**144,732**	129,616
Accrued Interest and Other Liabilities	**127,049**	137,505
Deferred Income	**13,936**	12,323
Total Liabilities	**3,801,760**	3,412,742
Net Assets	**$2,236,268**	$2,129,961
Net Assets are Composed of:		
Net Income Invested in Port Authority Facilities, Operations and Reserves	**$2,014,898**	$1,928,699
Government Contributions in Aid of Construction (Note G)	**221,370**	201,262
Net Assets	**$2,236,268**	$2,129,961

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31, (In Thousands)	
Funds Provided from:	1988	1987
Net Income Before Extraordinary Item	$ 72,938	$ 81,701
Extraordinary Item	976	2,312
Net Income	73,914	84,013
Add- Income charges not affecting funds in the period:		
Depreciation on facilities	163,415	138,706
Amortization of costs for Bus Programs	34,681	30,687
Amortization of certain other assets	45,454	22,518
Amortization of discount and premium on bonds and notes	242	4,272
Funds provided by operations	317,706	280,196
Bonds, notes and other obligations	2,929,478	934,178
Government contributions in aid of construction	32,393	21,130
Increase in accounts payable, accrued interest and other liabilities	—	71,870
Decrease in accounts receivable	6,696	—
Total Funds Provided	3,286,273	1,307,374
Funds Applied to:		
Cost of facilities	491,829	595,418
Retirement, refunding and repayment of bonds, notes and other obligations	2,502,505	868,761
Costs for Bus Programs	7,481	47,743
Other net changes in other assets and deferred income	78,378	52,977
Increase in accounts receivable	—	708
Increase in other amounts receivable	107,300	21,765
Decrease in accounts payable, accrued interest and other liabilities	39,809	—
Total Funds Applied	3,227,302	1,587,372
Net Increase (Decrease) in Cash and Investments	$ 58,971	($ 279,998)

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 and thereafter consented to by the Congress of the United States, 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 obligations 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 subsidiaries, Port Authority Trans-Hudson Corporation (PATH) and the Newark Legal and Communications Center Urban Renewal Corporation, consistent with the criteria set forth in the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, "Defining the Reporting Entity". In accordance with the provisions of law, Port Authority resolutions and agreements with others, and based upon the criteria contained in the Codification, the Port Authority does not have the ability to exercise oversight responsibility (as defined in the Codification) with respect to the Fund for Regional Development (see Note I) and the New York State Commuter Car Program (see Schedule F) and, therefore, the assets and liabilities of the Fund for Regional Development and the New York State Commuter Car Program are not included in the Port Authority's financial statements.

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 and Note G.)

4. Investments in long-term securities, other than the Port Authority's Consolidated Bonds, are valued at amortized cost. Investments in short-term securities, other than such Port Authority bonds, are valued at the lower of their aggregate amortized cost or market value. Port Authority Consolidated Bonds purchased by the Port Authority serve to reduce debt on Consolidated Bonds and Notes and are not included in investments. Interest expense and interest earnings relating to such Port Authority bonds so purchased are not included in interest expense and income on investments. Consistent with Financial Accounting Standard No. 64, "Extinguishments of Debt Made to Satisfy Sinking Fund Requirements", gains on purchase of such 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 paid for by government contributions. 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 and Note G.)

6. All expenditures for the Bus Programs are recorded as deferred charges. Costs for the Bus Programs are 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. (See Note F).

8. 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.

9. Gross operating revenues generated from operating leases are recognized and recorded in accordance with the provisions stipulated in the leases. (See Note H-1.)

10. The 1987 financial statements contain certain reclassifications which have been made in order to conform to the classifications used in 1988.

11. 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 direct investment 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 in 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. Consolidated Bonds and Notes are recorded at par value. Discounts and premiums are capitalized at time of issuance.

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. However, in the event of the sale of assets removed from service, the amount of proceeds received from such sale is deducted from Invested in Facilities.

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

Consolidated Statement of Income to Schedule A, Revenues and Reserves

	Year Ended December 31, (In Thousands)	
	1988	1987
Net Income reported on Consolidated Statement of Income	$ 73,914	$ 84,013
Add: Depreciation on Facilities	163,415	138,706
Amortization of Costs for Bus Programs	34,681	30,687
Amortization of Discount and Premium	194	4,272
Claims Expense (See Note K-6)	—	9,674
Sub-Total	272,204	267,352
Less: Serial Maturities and Sinking Fund Retirements	49,125	54,475
Repayment of Commercial Paper Obligations	522	—
Debt Retirement Acceleration	2,750	2,800
Direct Investment in Facilities	215,854	176,656
Gain on Sale of Assets	2,830	—
Appropriations for Self-Insurance	(2,139)	2,929
Sub-Total	268,942	236,860
Increase in Reserves reported on Schedule A, Revenues and Reserves (Pursuant to Port Authority bond resolutions)	$ 3,262	$ 30,492

Consolidated Statement of Financial Position to Schedule B, Assets and Liabilities

	December 31, (In Thousands)	
	1988	1987
Net Assets reported on Consolidated Statement of Financial Position	$2,236,268	$2,129,961
Add: Accumulated Depreciation on Facilities	2,150,648	2,002,154
Accumulated Retirements and Gains and Losses on Disposal of Invested in Facilities	134,670	122,580
Cumulative Amortization of Costs for Bus Programs	200,437	165,756
Amortized Discount and Premium	4,466	4,272
Net Assets reported on Schedule B, Assets and Liabilities (Pursuant to Port Authority bond resolutions)	$4,726,489	$4,424,723

Note B–Facilities:

Cost of facilities is composed of the following:

	December 31, (In Thousands)	
	1988	1987
Completed Construction:		
Interstate Transportation Network	$1,672,041	$1,454,623
Air Terminals	2,153,739	1,806,286
Marine & Other Facilities	698,879	627,562
World Trade & Economic Development Facilities	1,197,081	1,157,147
	5,721,740	5,045,618
Construction in Progress	731,739	930,954
Facilities, at Cost	$6,453,479	$5,976,572

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 $38,676,000 in 1988 and $36,860,000 in 1987.

Note C–Cash and Investments:

1. The components of cash and investments are:

	December 31, (In Thousands)			
	1988			1987
	Principal Amount	Quoted Market	Book Value	Book Value
CASH				
Cash on hand			$ 1,108	$ 1,191
Demand Deposits			31,172	28,185
Total Cash			$32,280	$29,376
INVESTMENTS				
Short-Term				
United States Treasury Bills	$355,290	$341,922	$342,795	$189,144
United States Treasury Notes	30,195	29,854	30,129	70,640
United States Treasury obligations held pursuant to repurchase agreement	49,254	49,254	49,254	—
Commercial Paper	9,000	8,993	8,993	—
Security Valuation Allowance	—	—	(1,148)	—
Total Short-Term	$443,739	$430,023	430,023	259,784
Long-Term				
Farmers' Home Administration (Department of Agriculture) Insured Notes	$ 5,000	$ 5,023	5,001	11,002
United States Treasury Bonds and Notes	440,000	434,145	438,743	545,345
Total Long-Term	$445,000	$439,168	443,744	556,347
Bonds of The Port Authority of New York and New Jersey	$ 32,702		32,702	39,259
Accrued Interest Receivable			11,508	13,077
Investments (pursuant to Port Authority bond resolutions)			917,977	868,467
Less: Bonds of The Port Authority of New York and New Jersey			32,702	39,259
Investments			$885,275	$829,208

2. Funds of the Port Authority are to be deposited in banks or banking institutions with offices located in the Port District provided that the total funds on deposit in any bank does not exceed 50 percent of the bank's combined capital and permanent surplus. Also, deposits must be fully secured to 110 percent of their amount by deposit of collateral for the amounts in excess of that part of the deposits secured through the Federal Deposit Insurance Corporation. The collateral must consist of obligations of the United States of America, the Port Authority, the State of New York or the State of New Jersey held in custodial bank accounts in banks or banking institutions in the Port District having combined capital and surplus in excess of $1,000,000.

At December 31, 1988 and 1987, the amount of cash held in demand deposits was $31,172,000 and $28,185,000, respectively. Average daily balances were $11,337,000 in 1988. Of this amount, $10,569,000 was insured by either federal depository insurance or was fully collateralized by collateral held in the Port Authority's name either by the financial institutions or their agents, $248,000 was fully collateralized by collateral held by the financial institutions or their agents not in the Port Authority's name and $520,000 was not collateralized.

3. The investment policies of the Port Authority are established in conformity with its agreements with the holders of its obligations, generally through resolutions of the Board of Commissioners or its Committee on Finance. Consistent therewith, proceeds from the sale of bonds or notes may be invested on an interim basis in obligations of (or fully guaranteed by) the United States (including such securities held pursuant to repurchase agreements) and collateralized time accounts; reserve funds may be invested in obligations of (or fully guaranteed by) the United States, the State of New York or the State of New Jersey, collateralized time accounts, and Port Authority bonds actually issued and negotiated and secured by a pledge of the General Reserve Fund; operating funds may be invested in direct obligations of the United States, obligations of United States Government agencies and sponsored enterprises and in limited amounts of investment grade negotiable certificates of deposit, negotiable bankers' acceptances and commercial paper, futures contracts traded on the Chicago Board of Trade for the sale and purchase of United States Treasury and municipal securities and, in connection with certain interest rate options, contracts with primary dealers in United States Treasury securities. Operating funds may also be invested in the amounts required by and in the instruments provided for under the New York State Deferred Compensation Plan for Employees of the State of New York and Other Participating Public Jurisdictions.

Pursuant to master repurchase agreements entered into by the Port Authority with certain banking institutions in 1988, the Port Authority purchases and sells obligations of (or fully guaranteed by) the United States.

The Treasurer of the Port Authority, consistent with the above mentioned agreements and the authorization and guidelines established by the Board of Commissioners of the Port Authority or the Committee on Finance, executes individual investment transactions which are reported on a monthly basis to the Committee on Finance. These investment transactions are presently executed with recognized and established securities dealers and commercial banks. Securities transactions are conducted in the open market at competitive prices. The securities (including securities held pursuant to repurchase agreements) are held by the Port Authority's custodian in the name of the Port Authority and payment for all transactions is upon receipt of the securities.

Investments, including interest receivable, in various types of securities totalled $885,275,000 and $829,208,000 for the years ended December 31, 1988 and 1987, respectively. Although no investments in bankers' acceptances were held at year-end 1988, investment balances in bankers' acceptances ranged as high as $23,000,000 during the year.

Note D–Bonds, Notes and Other Obligations:

1. Consolidated Bonds and Notes (See Note E-1)

		December 31, 1987	Issued	Refunded (In Thousands)	Retired	December 31, 1988
Consolidated Bonds (A)						
Fourteenth Series	3⅝% due 1989	$ 5,500	$ —	$ —	$ 5,500	$ —
Sixteenth Series	4¼% due 1989	2,500	—	—	1,250	1,250
Nineteenth Series	3½% due 1991	7,000	—	—	1,500	5,500
Twentieth Series	3¼% due 1993	13,650	—	—	2,275	11,375
Twenty-first Series	3.40% due 1993	9,750	—	—	1,625	8,125
Twenty-second Series	3⅜% due 1993	9,750	—	—	1,625	8,125
Twenty-third Series	3⅜% due 1994	11,250	—	—	1,500	9,750
Twenty-fourth Series	3½% due 1994	11,250	—	—	1,500	9,750
Twenty-sixth Series	3½% due 1995	18,025	—	—	2,100	15,925
Twenty-seventh Series	3⅜% due 1995	12,250	—	—	1,500	10,750
Twenty-eighth Series	3⅜% due 1996	14,500	—	—	1,500	13,000
Twenty-ninth Series	3½% due 1996	14,500	—	—	1,500	13,000
Thirtieth Series	3⅝% due 1998	14,000	—	—	1,250	12,750
Thirty-first Series	4% due 2002	74,000	—	—	4,000	70,000
Thirty-second Series	5% due 2003	78,000	—	—	4,000	74,000
Thirty-third Series	4¾% due 2003	78,000	—	—	4,000	74,000
Thirty-fourth Series	5½% due 2003	89,000	—	—	3,000	86,000
Thirty-fifth Series	6⅝% due 2005	93,000	—	—	2,000	91,000
Thirty-sixth Series	6.40% due 2005	46,500	—	—	1,000	45,500
Thirty-seventh Series	6% due 2006	94,500	—	—	1,500	93,000
Thirty-eighth Series	5⅜% due 2006	94,500	—	—	1,500	93,000
Thirty-ninth Series	5.80% due 2007	144,000	—	—	2,250	141,750
Fortieth Series	6% due 2008	97,000	—	—	1,000	96,000
Forty-first Series	5½% due 2008	97,000	—	—	1,000	96,000
Forty-second Series	8.20% due 2011	99,000	—	—	500	98,500
Forty-third Series	7% due 2011	49,500	—	—	250	49,250
Forty-fifth Series	6½% due 2012	74,625	—	—	375	74,250
Forty-sixth Series	6% due 2013	75,000	—	—	375	74,625
Forty-seventh Series	6½% due 2013	100,000	—	—	500	99,500
Forty-eighth Series	6¾% due 2014	75,000	—	—	—	75,000
Fiftieth Series	10⅛% due 2017	100,000	—	—	—	100,000
Fifty-first Series	11% due 2019	85,760	—	—	—	85,760
Series Fifty-one E	(B) due 2014	14,240	—	—	—	14,240
Fifty-second Series	(C) due 2014	100,000	—	—	—	100,000
Fifty-third Series	8.70% due 2020	100,000	—	—	—	100,000
Fifty-fourth Series	(D) due 2020	100,000	—	—	—	100,000
Fifty-fifth Series	(E) due 2020	200,000	—	—	—	200,000
Fifty-sixth Series	7⅛% due 2021	100,000	—	—	—	100,000
Fifty-seventh Series	6¾% due 2021	100,000	—	—	—	100,000
Fifty-eighth Series	7½% due 2017	100,000	—	—	—	100,000
Fifty-ninth Series	7¾% due 2023	—	100,000	—	—	100,000
Sixtieth Series	8¼ due 2023	—	100,000	—	—	100,000
Sixty-first Series	(F) due 1989-2023	—	100,000	—	—	100,000
Sixty-second Series	(G) due 2004-2023	—	100,000	—	—	100,000
		2,602,550	400,000	—	51,875	2,950,675
Consolidated Notes (A)						
Series KK	5.2% due May 1, 1989	100,000	—	—	—	100,000
Series LL	5% due August 1, 1988	10,000	—	10,000	—	—
Series MM	5% due September 1, 1988	1,000	—	1,000	—	—
Series NN	5.8% due November 1, 1988	5,000	—	5,000	—	—
Series OO	6% due June 15, 1989	—	15,000	—	—	15,000
Series PP	5¾% due October 1, 1990	—	40,000	—	—	40,000
		116,000	55,000	16,000	—	155,000
Total Consolidated Bonds and Notes pursuant to Port Authority bond resolutions		2,718,550	$455,000	$16,000	$51,875	3,105,675
Less: Amortized cost of Port Authority bonds purchased by the Port Authority		39,259				32,702
Unamortized discount and premium (H)		13,166				19,602
Consolidated Bonds and Notes (I)		$2,666,125				$3,053,371

(A) All Consolidated Bonds and Consolidated Notes are equally and ratably secured by a pledge of the net revenues as defined in the Consolidated Bond Resolution 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), in the manner and to the extent provided in the Consolidated Bond Resolution.

(B) Interest rate, 12% per annum, until June 1, 1994, and 7% per annum thereafter until maturity or prior redemption.

(C) 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.

(D) Interest rate, 7% per annum, 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, set on each semi-annual option date for the ensuing six months ranging from 5% to 10% per annum. As of December 1, 1988, conversion options on $3,765,000 were exercised.

(E) Interest rate, 6¾% per annum, 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, set on each semi-annual option date for the ensuing six months ranging from 5% to 9½% per annum. As of December 1, 1988, conversion options on $9,095,000 were exercised.

(F) Interest rates per annum and due dates are as follows:
$2,000,000, 6% - 1989; $2,000,000, 6¼% - 1990; $2,000,000, 6½% - 1991; $2,000,000, 6.70% - 1992; $2,000,000, 6.90% - 1993; $2,000,000, 7.10% - 1994; $2,000,000, 7.30% - 1995; $1,800,000, 7.90% - 2004; $2,000,000, 8% - 2005; $2,100,000, 8% - 2006; $2,300,000, 8% - 2007; $2,500,000, 8.10% - 2008; $2,700,000, 8.10% - 2009; $2,900,000, 8.10% - 2010; $69,700,000, 8⅛% - 2023.

(G) Interest rates per annum and due dates are as follows:
$3,000,000, 7¾% - 2004; $3,100,000, 7¾% - 2005; $3,200,000, 7⅞% - 2006; $3,200,000, 7.90% - 2007; $3,300,000, 7.90% - 2008; $3,300,000, 7.90% - 2009; $3,500,000, 8% - 2010; $77,400,000, 8% - 2023

(H) Gain on futures contracts transactions has been classified as premium.

(I) Five-year amortization of Consolidated Bonds and Consolidated Notes outstanding on December 31, 1988 is:

Year Ending December 31:	Principal (In Thousands)
1989	$167,569
1990	97,799
1991	61,153
1992	65,248
1993	69,994
Total	$461,763

2. Special Project Bonds

		December 31, 1987	Issued	Refunded	Retired	December 31, 1988
				(In Thousands)		
Series 1, Delta Air Lines, Inc. Project:						
First Installment	10½% due 2002	$ 10,015	$ —	$ —	$ —	$ 10,015
Second Installment	10½% due 2008	86,485	—	—	—	86,485
		96,500	$ —	$ —	$ —	96,500
Less: Unamortized discount and premium		3,465				3,416
Special Project Bonds		$ 93,035				$ 93,084

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 the bonds of such series, 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 Airlines has also agreed in the lease of the passenger terminal project 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-3.)

3. Commercial Paper Obligations (See Note E-2)

	December 31, 1987	Issued	Refundings and Repayments	December 31, 1988
		(In Thousands)		
Series A				
Commercial Paper Notes	$116,004	$1,778,412	$1,800,441	$ 93,975
Bank Line of Credit	1,879	171,464	169,661	3,682
Total Series A	117,883	1,949,876	1,970,102	97,657
Series B				
Commercial Paper Notes	—	388,312	356,462	31,850
Bank Line of Credit	—	104,844	102,667	2,177
Total Series B	—	493,156	459,129	34,027
Commercial Paper Obligations	$117,883	$2,443,032	$2,429,231	$131,684

Interest rates in 1988 from 3.8% to 8.0% per annum.

As of February 24, 1989, Commercial Paper Obligations outstanding totalled $140,289,000.

4. Variable Rate Master Notes (See Note E-3)

	December 31, 1987	Issued	Retired	December 31, 1988
		(In Thousands)		
Variable Rate Master Notes Agreement 1988-1	$ —	$25,000	$ —	$25,000

Interest rates, variable based upon specified indicies.

As of February 24, 1989, Variable Rate Master Notes outstanding totalled $50,000,000.

5. Operating Equipment - Lease Financing Obligations (See Note E-4)

	December 31, 1987	Additions	Payments	December 31, 1988
		(In Thousands)		
Master financing lease dated as of June 15, 1985	$24,608	$ —	$5,328	$19,280
Master financing lease dated as of December 1, 1988	—	6,446	—	6,446
	$24,608	$6,446	$5,328	$25,726

Interest rates, variable based upon specified indicies.

As of February 24, 1989, Operating Equipment - Lease Financing Obligations totalled $25,820,000.

6. The components of Bonds, Notes and Other Obligations are:

	December 31, 1988	1987
	(In Thousands)	
Consolidated Bonds and Notes	$3,053,371	$2,666,125
Special Project Bonds	93,084	93,035
Commercial Paper Obligations	131,684	117,883
Variable Rate Master Notes	25,000	—
Operating Equipment - Lease Financing Obligations	25,726	24,608
Bonds, Notes and Other Obligations	$3,328,865	$2,901,651

Note E–Financing:

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

1. On July 14, 1988, the Board of Commissioners established and authorized the issuance and sale by the Committee on Finance of Consolidated Bonds and Notes in the series described below:

Series	Due Date	Amount Authorized
62nd (Bonds)	October 1, 2023	$200,000,000
63rd (Bonds)	November 1, 2023	200,000,000
64th (Bonds)	December 1, 2023	200,000,000
65th (Bonds)	February 1, 2024	200,000,000
66th (Bonds)	May 1, 2024	200,000,000
67th (Bonds)	August 1, 2024	200,000,000
68th (Bonds)	October 1, 2024	200,000,000
69th (Bonds)	February 1, 2025	200,000,000
QQ (Notes)	October 1, 1991	100,000,000
RR (Notes)	November 1, 1991	100,000,000
SS (Notes)	April 1, 1992	100,000,000
TT (Notes)	May 1, 1992	100,000,000
UU (Notes)	August 1, 1992	100,000,000
VV (Notes)	September 1, 1992	100,000,000
WW (Notes)	April 1, 1993	100,000,000
XX (Notes)	June 1, 1993	100,000,000

The maximum aggregate principal amount of bonds of these series which may be sold is $1,000,000,000 and the maximum aggregate principal amount of notes of these series which may be sold is $300,000,000. The maximum interest rate which each series of bonds or notes may bear is 12% per annum. Among other actions, the Committee on Finance is authorized to adjust the maturity date of each series of bonds and notes prior to their issuance. (See Note D-1 for Consolidated Bonds and Notes described above which have been issued as of December 31, 1988.)

2. On September 9, 1982, the Port Authority established an issue of special obligations known as Port Authority Commercial Paper. The Port Authority's commercial paper program, which has been amended and supplemented from time to time, presently provides, as a result of the January 7, 1988 amendment and supplement, for Port Authority Commercial Paper Notes (and other obligations issued under this program) to be issued until December 31, 1990, in an aggregate principal amount of such obligations which may be outstanding at any one time not in excess of $300,000,000. The January 7, 1988 amendment and supplement established and authorized the issuance of two separate series of commercial paper obligations, each including Commercial Paper Notes, *a bank line of credit in* the amount of $15,000,000 to permit accumulation of capital expenditures under the program which would periodically be refunded by Commercial Paper Notes, and a bank stand-by revolving credit facility in the principal amount of up to $150,000,000 to provide program liquidity in the event Commercial Paper Notes cannot be refunded at maturity due to market conditions. Each such series is limited to a maximum aggregate principal amount outstanding at any one time of $150,000,000.

Under the terms of the commercial paper program, the payment of the principal of and interest on Commercial Paper Notes (not paid by subsequently issued Commerical Paper Notes) and advances under the stand-by revolving credit facilities and under the bank lines of credit is to be *made 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 for purposes of the commercial paper program) and, in the event such proceeds or net revenues are insufficient therefor, from other moneys legally available for such payments when due. Under the program, payment of the principal of and interest on these special obligations is not secured by or payable from the General Reserve Fund and is subject in all respects to the payment of debt service on Consolidated Bonds, as required by the applicable provisions of the Consolidated Bond Resolution and 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.

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

3. On July 14, 1988, the Board of Commissioners of the Port Authority authorized the Committee on Finance to establish terms and conditions for, and to approve, variable rate master note agreements with selected banks and trust companies providing for an aggregate principal amount of loans under such agreements not to exceed $250,000,000 outstanding at any one time.

Consistent with the authorization of July 14, 1988, the payment of the principal of and interest on such loans (and any notes issued in evidence thereof) under such variable rate master note agreements is a special obligation of the Port Authority payable solely from the proceeds of obligations of the Port Authority issued for such purpose, including Consolidated Bonds issued in whole or in part for such purpose or from net revenues as defined for purposes of such variable rate master note agreements, and, in the event such proceeds or net revenues are insufficient therefor, from other moneys legally available for such payments when due. Additionally, consistent with such authorization, payment of the principal of and interest on such loans (and any notes issued in evidence thereof) under such variable rate master note agreements is not secured by or payable from the General Reserve Fund and is subject in all respects to the payment of debt service on Consolidated Bonds as required by the applicable provisions of the Consolidated Bond Resolution and to the payment into the General Reserve Fund of the amount necessary to maintain said Fund at the amount specified in the General Reserve Fund statutes.

Variable Rate Master Notes, and the interest thereon, are not secured by or payable from the General Reserve Fund.

Pursuant to the authorization of July 14, 1988, on October 13, 1988, the Committee on Finance authorized certain variable rate master note agreements providing for loans in the total aggregate principal amount of $50,000,000 for thirty year terms from the dates of the loans, subject to prepayment, in whole or in part, at the option of the Port Authority or upon demand of the lender, with interest to be calculated weekly on the basis of certain specified indices. (See Note D-4.)

4. On April 11, 1985, the Port Authority established a program of lease-financing transactions to facilitate the purchase of a portion of the operating equipment used at its facilities (see Note A-7). The program, which has been amended and supplemented from time to time, presently provides, as a result of the October 13, 1988 amendment and supplement, for lease-financing transactions with an aggregate principal amount outstanding at any one time not to exceed $75,000,000. Lease-financing transactions under the program may be entered into on and prior to December 31, 1993. Expenses incurred with respect to each letting of equipment under the program are operating expenses of the Port Authority payable in the same manner and out of the same revenues as all other expenses. Obligations under the program are subject to the prepayment by either party to the transaction at any time on prior notice. (See Note D-5.)

Note F–Reserves:

1. General Reserve Fund statutes provide for the Port Authority to utilize surplus revenues, as defined in the statutes, from facilities financed by bonds legal for investment, as defined in the applicable statutes, to maintain the General Reserve Fund in an amount equal to at least 10 percent of outstanding bonds legal for investment, except for New York State Guaranteed Commuter Car Bonds. At December 31, 1988, the General Reserve Fund balance was $335,886,000 and met the prescribed statutory amount. The Port Authority has a long-standing 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. (See Note C-3.)

At December 31, 1988, the Port Authority met the requirements of the Consolidated Bond Resolution to maintain total reserve funds in cash and specified marketable securities.

2. All net revenues of the Port Authority's existing facilities (cars acquired under the New York State Commuter Car Program are not included in "facilities of the Port Authority" for these purposes, see Note A-2), after deducting payments for debt service upon all Consolidated Bonds and Notes 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 (as defined in the Consolidated Bond Resolution) of said facilities of the Port Authority and any additional facility financed by Consolidated Bonds. The moneys in the Consolidated Bond Reserve Fund may be applied only to the purposes stated in the Consolidated Bond Resolution.

3. At present time, the General Reserve Fund is pledged in support of all outstanding Consolidated Bonds and Consolidated Notes and all Consolidated Bonds and Consolidated Notes now or hereafter issued in the manner and to the extent specified in the Consolidated Bond Resolution. The General Reserve Fund is not pledged in support of New York State Guarantee Commuter Car Bonds, Special Project Bonds, or the special obligations established and issued in connection with the commercial paper program and under variable rate master note agreements.

4. 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. Commuter 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, 1988 totalled $81,610,000. (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 $32,361,000 in 1988 and $20,711,000 in 1987. Federal funding received through others totalled $32,000 in 1988 and $419,000 in 1987.

Charges representing depreciation on assets relating to government contributions were $12,285,000 in 1988 and $11,372,000 in 1987.

	December 31, 1988	December 31, 1987
	(In Thousands)	
Cumulative Government Contributions	$348,483	$316,090
Less: Accumulated Depreciation on Assets Acquired With Government Contributions	127,113	114,828
Government Contributions in Aid of Construction	$221,370	$201,262

Note H–Lease Commitments:

1. Gross operating revenues attributable to minimum rentals associated with operating leases amounted to approximately $450,951,000 in 1988 and approximately $405,581,000 in 1987 (see Note A-9).

2. Lease Transactions with the State of New York and The Fund For Regional Development
Gross operating revenues include rental income of $11,556,000 in 1988 and $8,200,000 in 1987 from the State of New York for office and other space in the World Trade Center, and $21,476,000 in 1988 and $17,375,000 in 1987 of rental income from the Fund for Regional Development for office and other space vacated by the State of New York (see Note I).

3. 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 air terminals, 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, 1988 are:

Year Ending December 31:	(In Thousands)
1989	$ 368,092
1990	323,378
1991	297,687
1992	277,713
1993	264,635
Later Years	1,856,378
Total Minimum Future Rentals	$3,387,883

Investments in air terminals, marine terminals, bus and truck terminals, rail facilities, industrial parks, the Teleport, and the World Trade Center, as of December 31 include property associated with minimum rentals derived from operating leases (see Note B). 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.

4. Property Leased From Others

Rental expenses under leases, including payments to the cities of New York and Newark for various air terminals, marine terminals and other facilities, aggregated $95,785,000 in 1988 and $114,044,000 in 1987. The lease terms expire at various times from 1989 to 2031 and may be renewed for additional periods. Minimum future rentals scheduled to be paid on operating leases in effect on December 31, 1988 are detailed below and additional rentals may be payable based on earnings of specified facilities under some of these leases.

Year Ending December 31:	(In Thousands)
1989	$ 24,192
1990	25,248
1991	25,846
1992	25,752
1993	25,665
Later Years	789,201
Total Minimum Future Rentals	$915,904

5. Safe Harbor Lease Transaction

Ninety-five (95) new PATH passenger rail cars and 178 of the 247 rehabilitated PATH passenger rail cars have been the subject of safe harbor lease transactions (which involve sales of the cars for tax purposes only). The $31,200,000 in lump sum cash payments received in connection with such transactions have been used to reduce the capital investment of PATH in the rail cars. No additional transactions are anticipated.

Note I–Fund For Regional Development:

In connection with the development of the World Trade Center, commencing in 1970, the Port Authority leased approximately two million square feet in the south tower building to the State of New York under a five-year lease with renewal options.

As of January 1, 1983, following the decision of the State of New York to move out of its space in Two World Trade Center and to relocate elsewhere, the States of New York and New Jersey and the Port Authority entered into a tripartite agreement which created the Fund for Regional Development (Fund).

Under the tripartite agreement, as space is vacated, it is leased to the Fund. The Fund's gross revenues result from subleasing that space to tenants at market rates. Net revenues of the Fund are the difference between market rents paid by new tenants of the space and a lower base rent and common costs which would have been paid to the Port Authority by the State of New York for said space after deduction of certain agreed-to costs, including the Fund's payments to the Port Authority for amounts which the Port Authority would have received from the State of New York had the State continued to occupy the space under its lease agreement. The tripartite agreement provides that expenditures from the Fund shall not be made without the express consent of the Governors of both States or their designees.

The Fund's assets and liabilities, revenues, expenses and reserves are not consolidated with those of the Port Authority and are excluded from all Port Authority financial statements (see Note A-2). Net revenues of the Fund are not pledged under the General Reserve Fund statutes, the Consolidated Bond Resolution or the resolutions creating various special limited obligations of the Port Authority (see Note F-1). Net revenues of the Fund are accumulated subject to disbursements to be made upon the concurrence of the Governors of New York and New Jersey for purposes authorized pursuant to the 1962 World Trade Center-PATH legislation. In addition, Fund resources can be used for any other purposes authorized for such resources in future bistate legislation.

As of December 31, 1988, the State of New York had vacated 1,800,000 square feet of its original lease and is expected to vacate the remaining 295,000 square feet over the next several years. The Fund, as of December 31, 1988, has signed subleases with tenants committing 47.5 floors in the south tower building and 65,000 square feet of subgrade space, totalling approximately 2,000,000 square feet.

The Fund for Regional Development remitted $21,476,000 in 1988 and $17,375,000 in 1987 to the Port Authority for rental of space that had been vacated by the State of New York (see Note H-2). From time to time, the Port Authority has advanced moneys to the Fund for payment of certain of the Fund's obligations. The Port Authority expects to continue to make these advances in the future. It is expected that the future revenues of the Fund will be more than sufficient to repay these advances as provided in the tripartite agreement and enable the Fund to meet its obligations without Port Authority advances. The outstanding balance of advances to the Fund was $110,748,000 as of December 31, 1988, and $75,028,000 as of December 31, 1987, and is included in Other Amounts Receivable on the Port Authority's Consolidated Statement of Financial Position.

The following is a summary of the operations and financial position of the Fund for Regional Development at December 31, 1988, and December 31, 1987:

Fund for Regional Development
Statement of Income

	Year Ended December 31, (In Thousands)	
	1988	**1987**
Revenues	$ 63,650	$ 49,481
Operating Expenses	48,666	37,960
Income from Operations	14,984	11,521
Financial Income	987	403
Financial Expense	(10,057)	(7,299)
Net Income (Loss)	$ 5,914	$ 4,625

Statement of Financial Position

	December 31, (In Thousands)	
	1988	**1987**
Assets	$171,320	$158,252
Liabilities	157,810	150,656
Net Assets	$ 13,510	$ 7,596

Note J–Pension and Retirement Plans and Related Benefits:

1. Employees of the Port Authority are covered by the Social Security Act and by one of two cost-sharing multiple-employer public employees' retirement systems: the New York State and Local Employees' Retirement System (ERS) or the New York State and Local Police and Fire Retirement System (PFRS). The ERS was established in 1921 while the PFRS was established in 1967, and the systems are governed by the New York Retirement and Social Security Law. The New York State Constitution provides that membership in a pension or retirement system of the State or of a civil division thereof is a contractual relationship, the benefits of which may not be diminished or impaired. As a general rule, all full-time employees (except those individuals who are currently receiving a pension from any retirement system on the basis of employment with New York State or any public entity in the state) are eligible to join one of the two public employees' retirement systems. All police personnel are required to become members of the PFRS immediately upon employment. All other employees of the Port Authority appointed to full-time positions are required to become members of the ERS.

The ERS and the PFRS provide retirement benefits related to years of service and final average salary, death and disability benefits, vesting of benefits after a set period of credited service, and optional methods of benefit payment. There are four ERS "tiers" of membership and two PFRS "tiers" related to date of initial membership; provisions for each tier differ as to the qualifying age or years-of-service requirement for service retirement, the benefit formula used in calculating the retirement allowance, the date of membership and the contributory or non-contributory nature of the plan. Generally, an employee has the right to a vested benefit after ten or more years of credited service.

Contributions are not required from police personnel or from those non-police employees who joined the ERS prior to July 27, 1976. Non-police personnel who became members of the ERS on July 27, 1976 and thereafter are presently required to contribute three percent of their annual gross wages. In May of each year, the ERS and PFRS bill participating employers for their share of total contributions based on salaries paid during the fiscal year ended March 31 of the prior year. In 1988, Port Authority contributions to the two retirement systems totalled $33,967,000 for salaries of approximately $293,216,000 for the period ending March 31, 1987; these contributions represented approximately 12% of the Port Authority covered payroll for the retirement systems' fiscal year ending March 31, 1987. Information is not available to calculate the percentage of which the Port Authority contributions represent of the amounts billed by the two retirement systems for this period, but for the last period for which this information is available, the Port Authority's contributions to the two systems amounted to approximately 2.7% of the total amount billed by the two systems to participating employers. The Port Authority has accrued $60,550,000 for the estimated contributions due to the retirement systems for the period April 1, 1987 through December 31, 1988. This amount is included in Accrued Pension, Retirement and Other Employee Benefits in the Consolidated Statement of Financial Position.

Governmental Accounting Standards Board Statement No. 5 requires employers participating in a cost-sharing multiple-employer public employees retirement system to disclose certain information which the standard requires the system itself to disclose. Therefore, information has been supplied by the Retirement Systems. Based on that information, the "total pension benefit obligation" shown below is the actuarial present value of credited projected benefits. It is the standardized disclosure measure prepared in accordance with Governmental Accounting Standards Board Statement No. 5, namely the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in future years as a result of employee service to date.

Also disclosed by the Retirement Systems, as of March 31, 1988, the assets in excess of pension benefit obligation were $4,039,000,000 as follows:

	ERS	PFRS	TOTAL
		(In Millions)	
Total pension benefit obligation	$28,794	$ 5,675	$34,469
Net assets available for pension benefits	32,663	5,845	38,508
Assets in excess of pension benefit obligation	$ 3,869	$ 170	$ 4,039

Furthermore, the systems also reported that there were no changes in actuarial assumptions that affected the pension benefit obligation for the year ended March 31, 1988. Changes in benefit provisions increased the pension benefit obligation by $319,000,000 and $51,000,000 for ERS and PFRS, respectively, for the year ended March 31, 1988.

In addition, in Note 5, Funding Policy, of the Supplement to the 1988 Annual Report of the New York State and Local Retirement Systems, it was disclosed that the actuarial cost method used "to determine the annual contributions from employers is the aggregate cost method. Under this method, the Actuarial Value of Assets and the Actuarial Present Value of Projected Benefits (actuarial liabilities) are determined by the actuary. The excess of the actuarial habilities over the actuarial assets is funded by employers as a level percentage of salary over the current members' future working lifetimes."

Calculations of total pension benefit obligation, valuation methods, and ten year historical trend information is available from the Comptroller of the State of New York, Albany, N.Y.

Port Authority Trans-Hudson Corporation (PATH) employees are covered by the provisions of the Railroad Retirement Act administered by the United States Railroad Retirement Board and by supplemental pension plans established by PATH.

In order to make pension benefits provided for PATH exempt employees (those not covered by collective bargaining agreements) generally comparable to those available to Port Authority employees, a non-contributory, supplemental pension plan was authorized by PATH on August 6, 1964, and amended from time to time thereafter. The PATH Exempt Employees' Supplemental Pension Plan provides an annual pension (for covered exempt employees) related to years of credited service and final average salary, death benefits, vesting of the service retirement benefit after a set period of credited service, and optional methods of benefit payment. A liability account has been established by the Port Authority with respect to the payment of future pension benefits for the PATH Exempt Employees' Supplemental Pension Plan. Review of the level of this unfunded pension liability is performed annually. At December 31, 1988, the balance of this liability was $4,537,000.

PATH has also entered into collective bargaining agreements with various unions under which PATH funds non-contributory supplemental pension plans for union employees. Trustees, appointed by the various unions, are responsible for the administration of these pension plans. For the year 1988, payments made by PATH in accordance with the terms of various collective bargaining agreements totalled $1,434,000. PATH employees active on or after March 1, 1982, who are members of a recognized collective bargaining unit are automatically plan members of these defined contribution plans. Newly hired employees become plan participants after a 60 day probationary period. Eligibility for all benefits prior to normal retirement requires the completion of at least ten years of vested service. The pension amount depends on the employee's years of credited service (up to a maximum of 30) and the monthly benefit rate in effect at the time of retirement.

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 costs 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 annual accrual in the amount of $10,000,000 for the prior service costs of these benefits for retired and active employees and their dependents. These accruals are to be made each year, on a consistent basis, until this amount is fully recognized. 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 of which $40,000,000 has been accrued to date. 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 in each year, totalled approximately $47,564,000 in 1988 and $37,744,000 in 1987. The cost of providing these benefits for retired employees, who comprise approximately 29 percent of those covered by one or more of these plans, is not separable from the cost of providing similar benefits for active employees of the Port Authority and PATH.

3. The Port Authority and PATH offers certain eligible employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code of 1986, as amended. The plan permits participants to defer a portion of their salary until future years. Amounts deferred are generally 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 these 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 participants' account.

Deferred compensation plan assets of approximately $23,290,000 in 1988 and $14,649,000 in 1987 are included at market value in Other Assets and the liability to participants is included in Accrued Pension, Retirement and Other Employee Benefits in the Consolidated Statement of Financial Position.

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 1982. As of December 31, 1988, the Port Authority had agreed to purchase 2,899 buses and related spare parts at a cost of approximately $438,300,000 to be used under the Bus Programs in the States of New York and New Jersey. A total of 2,899 buses were delivered by that date. The remaining balance of the programs, totalling $1,700,000, 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. Effective April 12, 1987, the PATH fare was increased from 75 cents per passenger trip to $1.00 per passenger trip. In addition, the tolls schedules were increased for the six tunnel and bridge facilities effective April 12, 1987. The significant revisions included an increase in passenger automobile tolls from $2.00 to $3.00, bus tolls from $2.00 to $3.00 and truck tolls from $1.50 per axle to $3.00 per axle.

3. In March, 1987, the Port Authority and the States of New York and New Jersey announced a 1987-1991 five year capital plan which included many capital projects and improvements at both existing and additional facilities. In connection with the Port Authority's current five year capital plan major projects including, but not limited to, redevelopment at Newark and Kennedy International Airports, roadway and taxiway modifications at Kennedy International Airport, central terminal building and roadway modifications at LaGuardia Airport, capital improvements related to safety, maintenance, rehabilitation and improvement of the PATH system, industrial development projects and facilities including Industrial Parks in Elizabeth, New Jersey and Yonkers, New York, the Essex County Resource Recovery Facility, the Newark Legal and Communications Center, redevelopment and rehabilitation of the Holland and Lincoln Tunnels, the Port Authority Auto Marine Terminal, a major rehabilitation program at marine terminals in Brooklyn and Manhattan, New York, and Newark and Elizabeth, New Jersey, are underway.

The Port Authority presently also has under study a number of additional projects or facilities. In this connection, the Port Authority presently is participating, either directly or with the assistance of outside consultants, in evaluating, with appropriate government officials and agencies in both States, certain port, airport and mixed-use waterfront development projects; development of foreign trade zones and distribution centers; diverse projects comprising portions of the Regional Development Facility; expansion of capacity at the Staten Island bridges; and activities to ease the burdens on and improve access to trans-Hudson transportation facilities.

In order for the Port Authority to undertake some of the additional projects currently under study, appropriate legislative authorization would be required and such projects could, if undertaken, involve capital expenditures by the Port Authority; in the case of additional facilities, moreover, no Port Authority capital funds are committed to capital projects without appropriate certifications and authorizations.

At December 31, 1988, approximately $413,723,000 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 1989 are anticipated to be approximately $682,597,000, 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, including expenses incurred with respect to operating equipment - lease financing transactions, payment of debt service, and the fulfillment of Port Authority statutory, contractual or other commitments 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 $121,761,000 in 1988 and $79,086,000 in 1987 include amounts for insurance, telephone, payment of interest on Special Project Bonds, write-offs and certain other operating, development and administrative expenses. (See Note K-6.)

6. Hoboken-Port Authority Marine Terminal is leased to the Port Authority under a 50-year lease from the City of Hoboken originally entered into with the United States in 1952. As a part of the settlement of certain litigation brought by a citizens group and the City of Hoboken in the Superior Court of New Jersey, the Port Authority would relinquish possession of its leasehold rights to this marine terminal facility, except for the reservation of certain non-exclusive navigational easements. In 1987, claims expense associated with the litigation totalled $9,674,000 (original $7,500,000 insurance proceeds, plus interest) and was included in Other Expenses.

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 amortization on Bus Programs. General Administrative and Development Expenses, Financial Income, and Interest Expense are not considered in calculating Gross Operating Income (Loss).

	Interstate Transportation Network	Air Terminals	Marine & Other Facilities	World Trade & Econ. Dev. Facilities	Combined 1988	Combined 1987
			(In Thousands)			
1988						
Gross Operating Revenues	$ 454,605	$ 622,580	$ 82,185	$ 277,570	$ 1,436,940	
Interdepartmental Revenues	2,751	—	1,156	47,888		
Revenues from Operations	$ 457,356	$ 622,580	$ 83,341	$ 325,458		
Gross Operating Income (Loss)	$ 79,984	$ 122,649	($ 658)	$ 104,997	$ 306,972	
General Administrative and Development Expenses	(89,849)	(46,006)	(5,875)	(18,900)	(160,630)	
Income (Loss) from Operations	($ 9,865)	$ 76,643	($ 6,533)	$ 86,097	146,342	
1987						
Gross Operating Revenues	$ 406,697	$ 591,368	$ 79,860	$ 253,513		$ 1,331,438
Interdepartmental Revenues	2,485	—	807	45,091		
Revenues from Operations	$ 409,182	$ 591,368	$ 80,667	$ 298,604		
Gross Operating Income (Loss)	$ 75,590	$ 131,476	$ 10,535	$ 105,866		$ 323,467
General Administrative and Development Expenses	(86,354)	(49,339)	(7,739)	(20,920)		(164,352)
Income (Loss) from Operations	($ 10,764)	$ 82,137	$ 2,796	$ 84,946		159,115
Financial Income					77,495	60,940
Interest Expense					(153,729)	(138,354)
Gain on Sale of Assets					2,830	—
Income Before Extraordinary Item					72,938	81,701
Extraordinary Item						
Gain on purchase of Port Authority bonds in connection with future sinking fund requirements					976	2,312
Net Income					$ 73,914	$ 84,013

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.

	Interstate Transportation Network	Air Terminals	Marine & Other Facilities	World Trade & Econ. Dev. Facilities	Total Assets
			(In Thousands)		
1988 Assets					
Facilities, net-beginning of year	$ 1,348,901	$ 1,120,075	$ 494,973	$ 1,010,469	$ 3,974,418
Net Capital Expenditures	179,461	185,605	73,656	53,106	491,828
Depreciation	(38,006)	(80,406)	(19,220)	(25,783)	(163,415)
Facilities, net-end of year	1,490,356	$ 1,225,274	$ 549,409	$ 1,037,792	4,302,831
Unamortized Costs for Bus Programs	237,498				237,498
Total	$ 1,727,854				4,540,329
Cash, investments, accounts receivable, other amounts receivable and other assets					1,497,699
Total Assets					$ 6,038,028
1987 Assets					
Facilities, net-beginning of year	$ 1,118,888	$ 947,708	$ 456,550	$ 994,560	$ 3,517,706
Net Capital Expenditures	260,507	238,822	55,450	40,639	595,418
Depreciation	(30,494)	(66,455)	(17,027)	(24,730)	(138,706)
Facilities, net-end of year	1,348,901	$ 1,120,075	$ 494,973	$ 1,010,469	3,974,418
Unamortized Costs for Bus Programs	264,698				264,698
Total	$ 1,613,599				4,239,116
Cash, investments, accounts receivable, other amounts receivable and other assets					1,303,587
Total Assets					$ 5,542,703

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

	1988 Operating Fund	1988 Reserve Funds (Schedule C)	1988 Combined Total	1987 Combined Total
	Year Ended December 31, (In Thousands)			
Gross Operating Revenues	$1,436,940	$ —	**$1,436,940**	$1,331,438
Operating Expenses:				
Employee compensation, including benefits	485,841	—	**485,841**	455,732
Materials, equipment, supplies and contract services	286,809	—	**286,809**	255,384
Rents (primarily related to airport leases) and amounts in-lieu-of taxes	131,702	—	**131,702**	145,559
Heat, light and power	66,389	—	**66,389**	67,169
Other (Note K-5)	121,761	—	**121,761**	69,412
Total Operating Expenses	1,092,502	—	**1,092,502**	993,256
Net Operating Revenues	344,438	—	**344,438**	338,182
Financial Income				
Income on investments (includes gain of $3,221,000 in 1988 and $5,235,000 in 1987 on purchase of Port Authority bonds)	28,669	51,410	**80,079**	64,848
Net Revenues Available for Debt Service and Reserves	373,107	51,410	**424,517**	403,030
Debt Service				
Interest on bonds and notes	155,143	—	**155,143**	135,678
Serial maturities and sinking fund retirements	49,125	—	**49,125**	54,475
Repayment of commercial paper obligations	—	522	**522**	—
Debt retirement acceleration	—	2,750	**2,750**	2,800
Total Debt Service	204,268	3,272	**207,540**	192,953
Transfers to Reserves	($ 168,839)	168,839	**—**	—
Revenues After Debt Service and Transfers to Reserves		216,977	**216,977**	210,077
Direct Investment in Facilities		(215,854)	**(215,854)**	(176,656)
Appropriations for Self-Insurance		2,139	**2,139**	(2,929)
Increase in Reserves		3,262	**3,262**	30,492
Reserve Balances, January 1		760,836	**760,836**	730,344
Reserve Balances, December 31 (Schedule C)		$764,098	**$ 764,098**	$ 760,836

See Notes to Consolidated Financial Statements.

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

	1988				1987
December 31, (In Thousands)	Operating Fund	Capital Fund	Reserve Funds	Combined Total	Combined Total
Assets					
Invested in Facilities	$ —	$7,050,152	$ —	**$7,050,152**	$6,547,044
Cash (Note C)	2,783	28,497	1,000	**32,280**	29,376
Investments (Note C)	13,786	141,093	763,098	**917,977**	868,467
Accounts Receivable (net of allowance for doubtful accounts of $9,261,000 in 1988 and $11,024,000 in 1987)	62,876	—	—	**62,876**	69,572
Other Amounts Receivable (net of allowance for doubtful accounts of $1,824,000 in 1988 and $4,815,000 in 1987)	176,512	172,014	—	**348,526**	241,226
Other Assets	164,246	7,912	—	**172,158**	137,670
Total Assets	420,203	7,399,668	764,098	**8,583,969**	7,893,355
Liabilities					
Bonds, Notes and Other Obligations (Note D)	25,726	3,358,859	—	**3,384,585**	2,957,541
Accounts Payable	71,929	115,249	—	**187,178**	231,647
Accrued Pension, Retirement and Other Employee Benefits (Note J)	144,732	—	—	**144,732**	129,616
Accrued Interest and Other Liabilities	124,222	2,827	—	**127,049**	137,505
Deferred Income	13,936	—	—	**13,936**	12,323
Total Liabilities	380,545	3,476,935	—	**3,857,480**	3,468,632
Net Assets	$ 39,658	$3,922,733	$764,098	**$4,726,489**	$4,424,723
Net Assets are Composed of:					
Debt Retired Through Income	$ —	$2,639,525	$ —	**$2,639,525**	$2,587,128
Reserves (Schedule C)	—	—	764,098	**764,098**	760,836
Government Contributions in Aid of Construction (Note G)	—	348,483	—	**348,483**	316,090
Appropriated Reserves Invested in Facilities	—	934,725	—	**934,725**	718,871
Appropriated Reserves for Self-Insurance	39,658	—	—	**39,658**	41,798
Net Assets	$ 39,658	$3,922,733	$764,098	**$4,726,489**	$4,424,723

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31, (In Thousands)			
	1988			1987
	General Reserve Fund	Consolidated Bond Reserve Fund	Combined Total	Combined Total
Balance, January 1 (Note F)	$293,294	$467,542	**$760,836**	$730,344
Income on investments (includes gain on purchase of Port Authority bonds)	23,004	28,406	**51,410**	54,385
Transfers from operating fund	19,588	149,251	**168,839**	158,492
	335,886	645,199	**981,085**	943,221
Applications:				
Repayment of commercial paper obligations	—	522	**522**	—
Debt retirement acceleration	—	2,750	**2,750**	2,800
Direct investment in facilities	—	215,854	**215,854**	176,656
Self-insurance	—	(2,139)	**(2,139)**	2,929
Total Applications	—	216,987	**216,987**	182,385
Balance, December 31 (Note F)	$335,886	$428,212	**$764,098**	$760,836

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, 1988 been used, the respective Reserve Fund balances at December 31, 1988 would be:

General Reserve Fund	Consolidated Bond Reserve Fund
$335,886	$423,636

See Notes to Consolidated Financial Statements.

Schedule D **Amortization of Consolidated Bonds and Consolidated Notes 1989–2023**

Year	Total	Interest	Amortization
	Year Ended December 31, (In Thousands) Total Debt Service Par Value $3,105,675		
1989	$ 382,537	$ 214,968	$ 167,569
1990	307,473	209,674	97,799
1991	266,270	205,117	61,153
1992	267,283	202,035	65,248
1993	268,607	198,613	69,994
1994	265,250	195,033	70,217
1995	267,061	193,370	73,691
1996	263,983	189,123	74,860
1997	262,720	184,770	77,950
1998	263,574	180,024	83,550
1999	263,539	174,939	88,600
2000	268,263	169,313	98,950
2001	268,661	162,711	105,950
2002	268,086	155,486	112,600
2003	268,328	147,828	120,500
2004	253,748	139,798	113,950
2005	254,425	131,515	122,910
2006	238,337	122,487	115,850
2007	222,793	113,843	108,950
2008	208,456	105,656	102,800
2009	193,777	97,627	96,150
2010	189,268	89,528	99,740
2011	186,974	81,074	105,900
2012	170,073	72,273	97,800
2013	160,171	64,121	96,050
2014	142,564	56,064	86,500
2015	126,862	48,762	78,100
2016	127,058	41,858	85,200
2017	122,495	33,995	88,500
2018	100,475	26,775	73,700
2019	96,462	19,962	76,500
2020	86,465	13,765	72,700
2021	55,599	8,099	47,500
2022	37,664	4,764	32,900
2023	37,294	1,294	36,000
Total	$7,162,595	$4,056,264	$3,106,331

NOTE: Total Amortization of $3,106,331,000 shown above differs from the Par Value of $3,105,675,000 because the above table includes call premiums of $656,000. Interest shown under "Total Debt Service" is computed on the assumption that amortization payments will be made each year on the latest permissible date. Neither the above table nor Par Value include amounts 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-3). 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 Consolidated 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. The above table also includes, for those series of Consolidated 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

	Year Ended December 31, (In Thousands)									
	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
REVENUES AND EXPENSES										
Gross Operating Revenues	**$1,436,940**	$1,331,438	$1,169,586	$1,100,840	$1,000,060	$ 848,584	$ 779,744	$ 699,113	$ 647,647	$ 588,064
Operating Expenses	**1,092,502**	993,256	937,820	859,843	706,895	610,287	557,303	487,758	437,199	391,517
Net Operating Revenues	**344,438**	338,182	231,766	240,997	293,165	238,297	222,441	211,355	210,448	196,547
Income on Investments	**76,858**	59,613	76,998	85,644	85,836	71,626	88,664	90,688	77,675	44,957
Gain on Purchase of Port Authority Bonds	**3,221**	5,235	3,571	6,077	5,501	8,596	13,533	13,116	12,323	10,067
Security Valuation Adjustment	—	—	—	—	(19)	11	—	1,135	(944)	(3,664)
Net Revenues Available for Debt Service and Reserves	**424,517**	403,030	312,335	332,718	384,483	318,530	324,638	316,294	299,502	247,907
DEBT SERVICE-OPERATIONS										
Interest on Bonds and Notes	**(155,143)**	(135,678)	(116,980)	(109,972)	(116,352)	(110,024)	(101,818)	(99,542)	(98,040)	(87,296)
Times, Interest Earned (A)	**2.74**	2.97	2.67	3.02	3.30	2.87	3.16	3.16	3.05	2.84
Serial Maturities and Sinking Fund Retirements	**(49,125)**	(54,475)	(55,350)	(48,074)	(18,593)	(32,433)	(30,387)	(42,344)	(38,092)	(36,944)
Times, Debt Service Earned (A)	**2.08**	2.12	1.81	2.08	2.33	2.05	2.26	2.24	2.16	2.00
DEBT SERVICE-RESERVES										
Debt Service on Bonds Secured by Trusts	—	—	(649)	(1,343)	(1,204)	(637)	(1,129)	(1,298)	(2,187)	(4,159)
Interest on Bank Loans	—	—	—	—	—	(2,777)	(4,300)	(6,456)	(5,749)	(6,370)
Repayment of Bank Loans	—	—	—	—	—	(31,250)	(31,250)	(31,250)	(31,250)	(40,000)
Repayment of Commercial Paper Obligations	**(522)**	—	(13,178)	(55,964)	(85,389)	(100,089)	(37,422)	—	—	—
Debt Retirement Acceleration	**(2,750)**	(2,800)	—	—	—	(20,000)	(20,000)	(20,000)	(10,000)	(7,500)
Direct Investment in Facilities-Reserves	**(215,854)**	(176,656)	(80,656)	(87,359)	(71,527)	(19,221)	(75,621)	(75,000)	(20,000)	(25,000)
Appropriation for Self-Insurance-Reserves	**2,139**	(2,929)	(4,260)	(4,063)	(489)	537	1,329	607	(1,896)	(3,444)
Net Increase in Reserves Before Cumulative Effect of Change in Accounting Principle	**3,262**	30,492	41,262	25,943	90,929	2,636	24,040	41,011	92,288	37,194
Cumulative Effect on Prior Years of Changing to a Different Security Valuation Method	—	—	—	—	—	—	—	—	9,503	—
Net Increase in Reserves (B)	**3,262**	30,492	41,262	25,943	90,929	2,636	24,040	41,011	101,791	37,194
RESERVE BALANCES										
January 1	**760,836**	730,344	689,082	663,139	572,210	569,574	545,534	504,523	402,732	365,538
December 31	**$ 764,098**	$ 760,836	$ 730,344	$ 689,082	$ 663,139	$ 572,210	$ 569,574	$ 545,534	$ 504,523	$ 402,732
Represented by:										
General Reserve	**$ 335,886**	$ 293,294	$ 287,357	$ 271,232	$ 236,166	$ 223,080	$ 223,080	$ 210,597	$ 210,597	$ 210,597
Special Reserve (C)	—	—	—	646	1,940	3,064	3,649	4,788	6,103	7,466
Air Terminal Reserve (C)	—	—	—	—	—	—	—	—	—	682
Marine Terminal Reserve (C)	—	—	—	—	—	—	—	—	—	157
Consolidated Bond Reserve	**428,212**	467,542	442,987	417,204	425,033	346,066	342,845	330,149	287,823	183,830
Total	**$ 764,098**	$ 760,836	$ 730,344	$ 689,082	$ 663,139	$ 572,210	$ 569,574	$ 545,534	$ 504,523	$ 402,732
DEBT AT DECEMBER 31										
General and Refunding Bonds (D)	**$ —**	$ —	$ —	$ 642	$ 1,915	$ 2,997	$ 3,528	$ 4,589	$ 5,805	$ 7,051
Air Terminal Bonds (D)	—	—	—	—	—	—	—	—	—	667
Marine Terminal Bonds (D)	—	—	—	—	—	—	—	—	—	154
Consolidated Bonds and Notes	**3,105,675**	2,718,550	2,759,825	2,615,175	2,263,249	2,075,842	2,127,275	1,967,662	1,925,006	1,973,098
Special Project Bonds	**96,500**	96,500	96,500	96,500	96,500	96,500	—	—	—	—
Total Bonds and Notes	**3,202,175**	2,815,050	2,856,325	2,712,317	2,361,664	2,175,339	2,130,803	1,972,251	1,930,811	1,980,970
Commercial Paper Obligations	**131,684**	117,883	17,240	37,870	—	—	—	—	—	—
Variable Rate Master Notes	**25,000**	—	—	—	—	—	—	—	—	—
Operating Equipment-Lease Financing Obligations	**25,726**	24,608	9,882	2,512	—	—	—	—	—	—
Bank Loans (D)	—	—	—	—	—	—	31,250	62,500	93,750	125,000
Total	**$3,384,585**	$2,957,541	$2,883,447	$2,752,699	$2,361,664	$2,175,339	$2,162,053	$2,034,751	$2,024,561	$2,105,970
INVESTED IN FACILITIES AT DECEMBER 31	**$7,050,152**	$6,547,044	$5,876,771	$5,396,493	$5,050,775	$4,838,351	$4,574,583	$4,375,490	$4,148,331	$3,985,354
DEBT RETIRED THROUGH INCOME										
Annual	**$ 52,399**	$ 57,275	$ 69,170	$ 105,310	$ 105,054	$ 184,303	$ 120,120	$ 94,810	$ 81,409	$ 88,343
Cumulative	**$2,639,527**	$2,587,128	$2,529,853	$2,460,683	$2,355,373	$2,250,309	$2,066,006	$1,945,886	$1,851,076	$1,769,667

(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:

1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
$ 2,800	$ —	$ —	($ 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
$ 34,390	$ 90,732	$ 36,881

(C) Reserve Funds established in connection with prior lien bonds maintained in Trust from December 31, 1970 through the retirement of such bonds.

(D) The Port Authority has fully satisfied, when due, as scheduled, all debt service requirements on all such obligations.

NOTE: This selected financial data is prepared from information contained in 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 ended 1979-1980 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, (In Thousands) 1988	1987
Assets		
Invested in Commuter Cars, at Cost (A)	**$156,015**	$156,078
Cash and Investments in U.S. Government Securities, at Cost (which approximates market)	**3,157**	2,954
Other Assets	**752**	828
Total Assets	**159,924**	159,860
Liabilities		
State Guaranteed Commuter Car Bonds	**81,610**	89,575
Other Liabilities	**10,764**	10,700
Total Liabilities	**92,374**	100,275
Debt Retired (A)	**$ 67,550**	$ 59,585

(A) Does not include $5,475,000 New York State Guaranteed Commuter Bonds, First Series, Due 1962-1966, all of which have been retired, or the Commuter Cars associated therewith. Does not include $8,250,000 New York State Guaranteed Commuter Bonds, Second Series, Due 1963-1987, all of which have been retired, or the Commuter Cars associated therewith.

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-4.)

See Notes to Consolidated Financial Statements.

Facility Traffic

Tunnels and Bridges (Eastbound Traffic in Thousands)	1988	1987
All Crossings		
Automobiles	**101,861**	99,911
Buses	**1,958**	1,967
Trucks	**7,587**	7,689
Total Vehicles	**111,406**	109,567
George Washington Bridge		
Automobiles	**45,906**	45,484
Buses	**262**	258
Trucks	**3,965**	3,939
Total Vehicles	**50,133**	49,681
Lincoln Tunnel		
Automobiles	**17,742**	17,719
Buses	**1,421**	1,440
Trucks	**991**	1,062
Total Vehicles	**20,154**	20,221
Holland Tunnel		
Automobiles	**13,587**	12,802
Buses	**116**	112
Trucks	**891**	930
Total Vehicles	**14,594**	13,844
Staten Island Bridges		
Automobiles	**24,626**	23,906
Buses	**159**	157
Trucks	**1,740**	1,758
Total Vehicles	**26,525**	25,821
Cumulative PA Investment In Tunnels and Bridges (In Thousands)	**$928,500**	$869,700

Air Terminals	1988	1987
Totals at the Three Major Airports		
Plane Movements	**1,036,900**	1,009,800
Passenger Traffic	**77,820,000**	77,894,000
Cargo-Tons	**1,807,200**	1,562,200
Revenue Mail-Tons	**243,500**	238,900
Kennedy International Airport		
Plane Movements	**304,500**	285,900
Passenger Traffic		
Total	**31,166,000**	30,193,000
Domestic	**12,861,000**	12,600,000
Overseas	**18,305,000**	17,593,000
Cargo-Tons	**1,300,900**	1,182,700
LaGuardia Airport		
Plane Movements	**362,100**	356,000
Passenger Traffic	**24,159,000**	24,226,000
Cargo-Tons	**56,500**	54,100
Newark International Airport		
Plane Movements	**370,300**	367,900
Passenger Traffic	**22,495,000**	23,475,000
Cargo-Tons	**449,800**	325,400
Cumulative PA Investment In Air Terminals (In Thousands)	**$2,383,500**	$2,195,300

Terminals	1988	1987
All Bus Facilities (A)		
Passengers	**63,300,000**	64,100,000
Bus Movements	**2,258,000**	2,340,000
Port Authority Bus Terminal		
Passengers	**58,500,000**	59,000,000
Bus Movements	**2,030,000**	2,100,000
George Washington Bridge Bus Station		
Passengers	**4,800,000**	5,100,000
Bus Movements	**228,000**	240,000
Cumulative PA Investment In Bus Facilities (In Thousands)	**$409,500**	$397,900

Marine Terminals (B)	1988	1987
All Terminals		
Ship Arrivals	**2,945**	3,282
Passengers	**403,153**	392,414
New Jersey Marine Terminals		
Ship Arrivals	**2,369**	2,638
New York Marine Terminals		
Ship Arrivals	**348**	446
Passenger Ship Terminals		
Ship Arrivals	**228**	198
Passengers	**403,153**	392,414
Cumulative PA Investment In Marine Terminals (In Thousands)	**$839,700**	$772,900

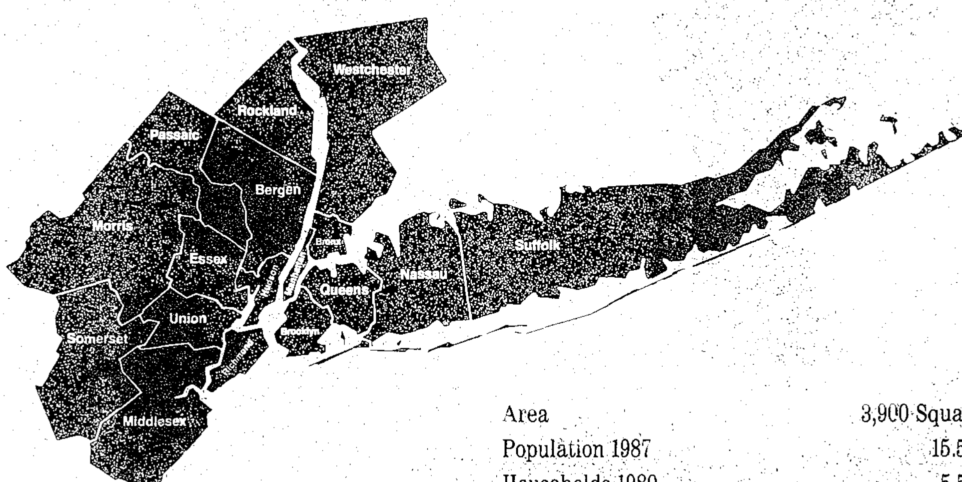
PATH	1988	1987
Total Passengers	**56,868,000**	58,191,000
Passenger Weekday Average	**202,300**	206,570
Cumulative PA Investment in PATH (In Thousands)	**$659,500**	$550,300

	1988	1987
Total Port Authority Cumulative Invested in Facilities, Including the Above (In Thousands)	**$7,125,000**	$6,547,000

(A) Excludes comparative statistics for PATH Journal Square Transportation Center Bus Station as data is not available.

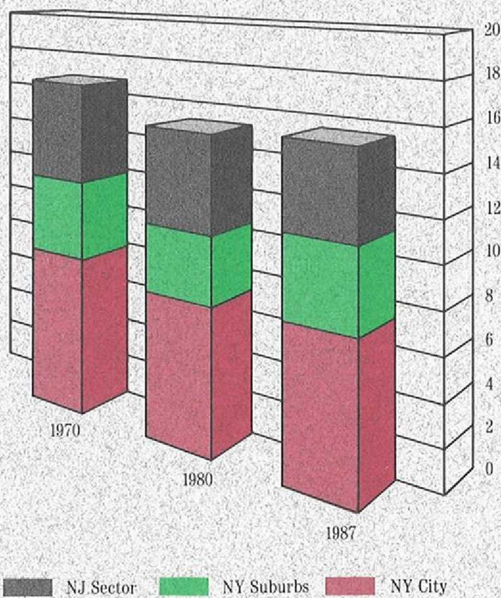
(B) International oceanborne general cargo in the New York-New Jersey Customs District amounted to 12,081,000 long tons in 1988 and 13,046,000 long tons in 1987.

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.



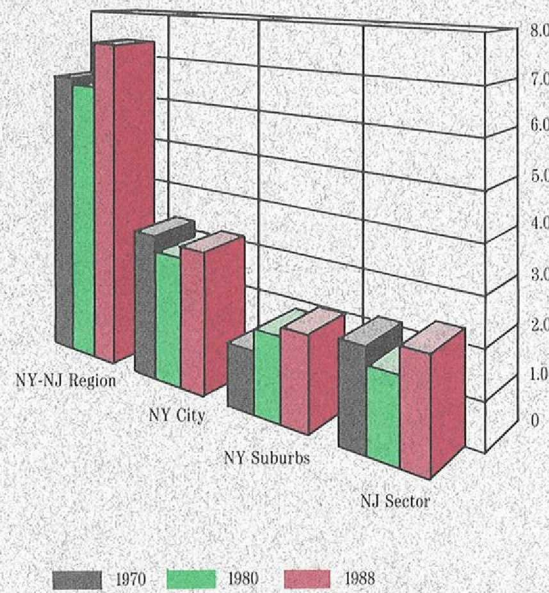
Area	3,900 Square Miles
Population 1987	15.5 Million
Households 1980	5.5 Million
Total Labor Force 1988	7.7 Million
Total Personal Income 1986	$295.2 Billion
Retail Sales 1988	$110 Billion
Total Wage and Salary Jobs—1988	7.6 Million

Population
N.Y.-N.J. Metropolitan Region
1970, 1980 and 1987
(in millions)



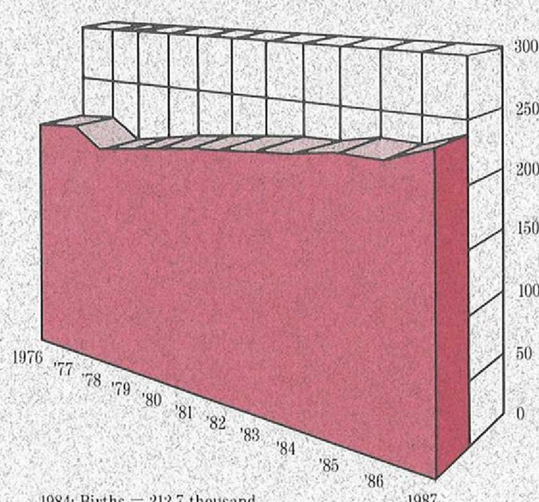
Source: U.S. Bureau of the Census, N.Y. State Dept. of Commerce, N.J. State Dept. of Labor

Employed Labor Force
N.Y.-N.J. Metropolitan Region
1970, 1980 and 1988
(in millions)



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

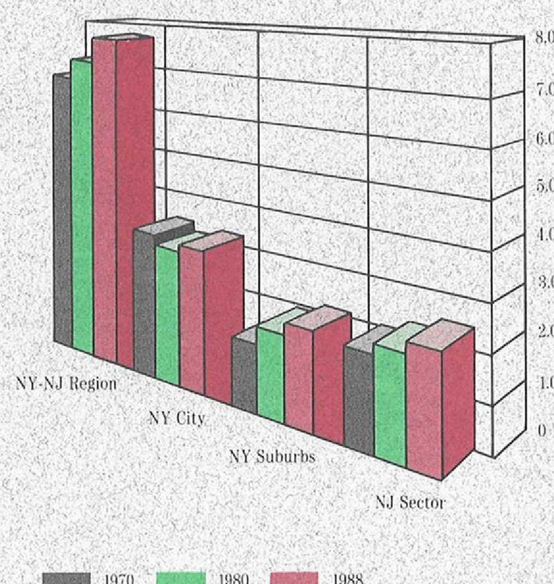
Number of Births
N.Y.-N.J. Metropolitan Region
1976-1987
(in thousands)



1984: Births = 212.7 thousand
1987: Births = 238.1 thousand

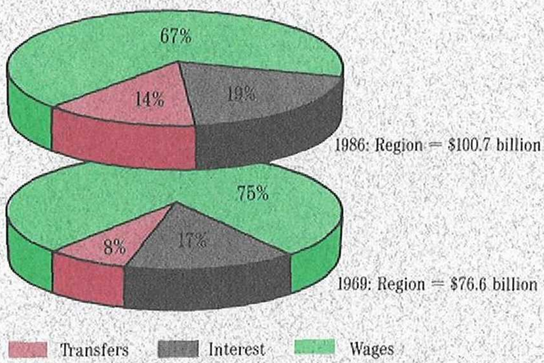
Source: N.Y. and N.J. State Depts. of Health

Total Labor Force
New York-New Jersey Region
1970, 1980, 1988
(in millions)

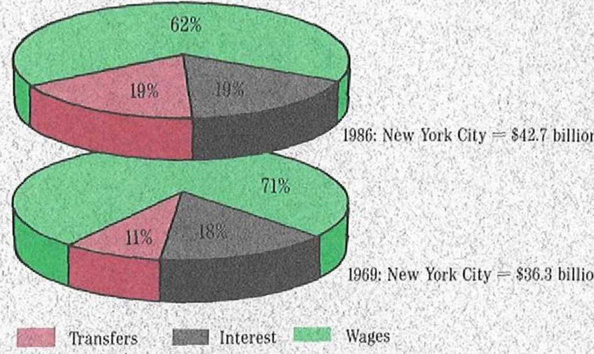


Source: N.Y. and N.J. State Depts. of Labor

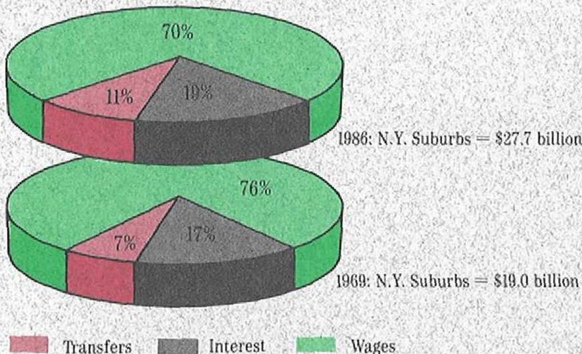
Total Personal Income in 1969 Constant Dollars by Type N.Y.-N.J. Metropolitan Region (percent)



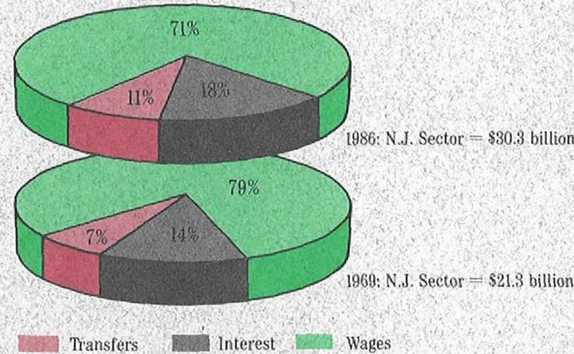
Total Personal Income in 1969 Constant Dollars by Type New York City (percent)



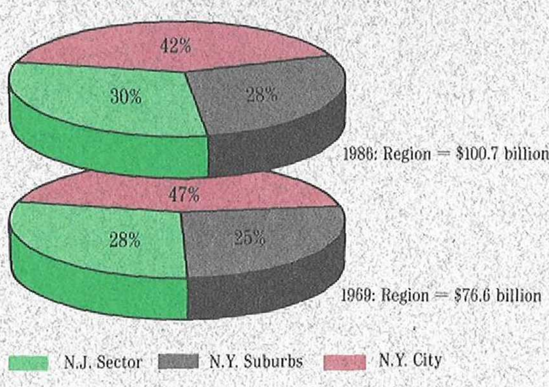
Total Personal Income in 1969 Constant Dollars by Type N.Y. Suburbs (percent)



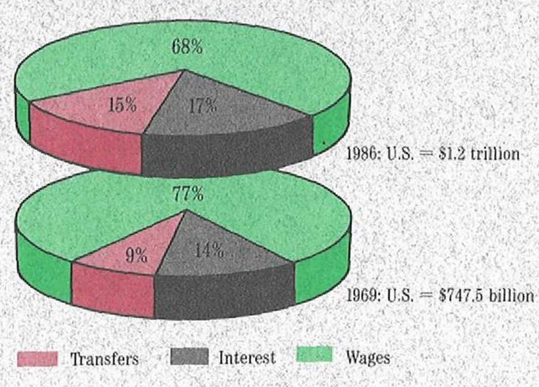
Total Personal Income in 1969 Constant Dollars by Type N.J. Sector (percent)



Total Personal Income in 1969 Constant Dollars N.Y.-N.J. Metropolitan Region (percent)



Total Personal Income in 1969 Constant Dollars by Type United States (percent)

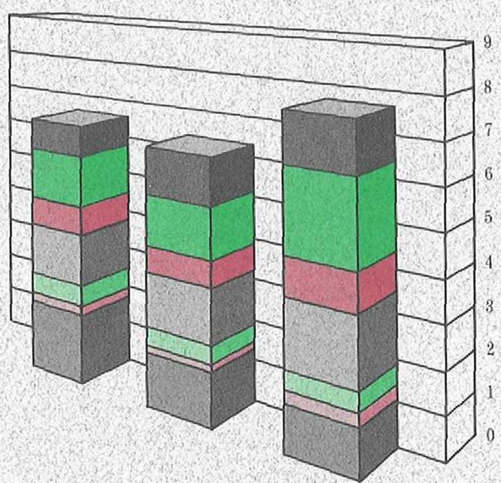


Source: U.S. Bureau of Economic Analysis
Wages = Net Labor and Proprietors Income
Interest = Dividends, Interest and Rent
Transfers = Transfer Payments

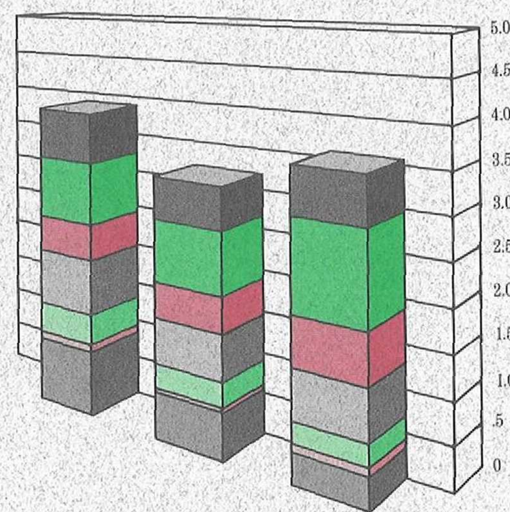
NOTE: National data deflated by National Consumer Price Index and regional data deflated by Regional Consumer Price Index

Employment

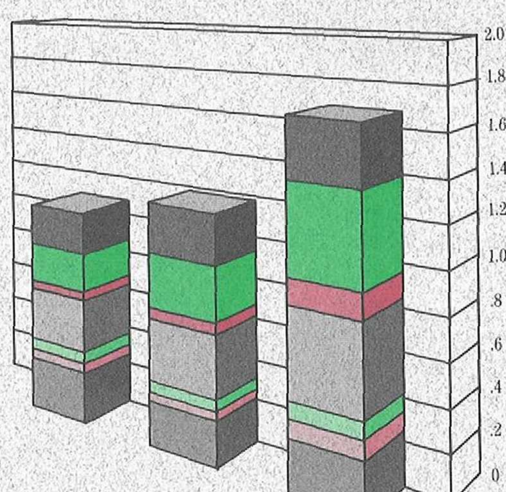
N.Y.-N.J. Metropolitan Region Wage & Salary Employment
in Millions by Major Industry
1969, 1975 and 1988



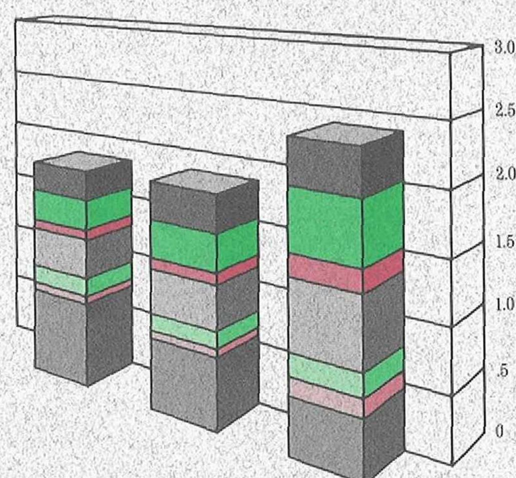
New York City Wage & Salary Employment
in Millions by Major Industry
1969, 1977 and 1988



New York Suburbs Wage & Salary Employment
in Millions by Major Industry
1969, 1975 and 1988



New Jersey Sector Wage & Salary Employment
in Millions by Major Industry
1969, 1975 and 1988

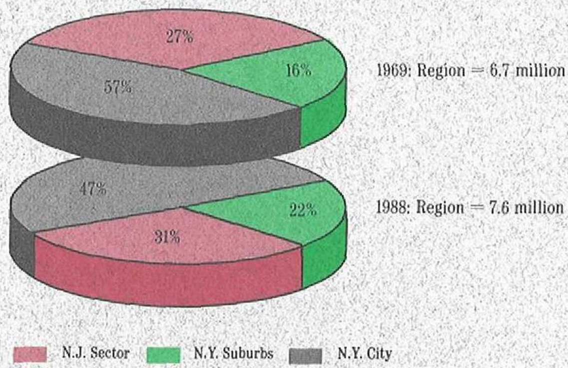


Government · Trade · Mfg.
Services · T.C. & P.U.
F.I.R.E. · Const.

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

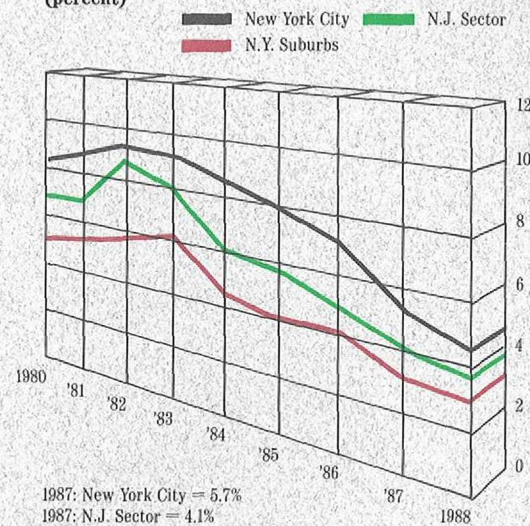
Unemployment

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

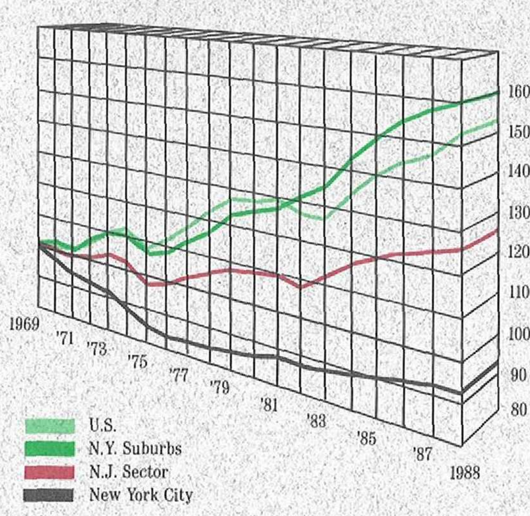
Unemployment Rates
N.Y.-N.J. Metropolitan Region
1980-1988
(percent)



1987: New York City = 5.7%
1987: N.J. Sector = 4.1%
1987: N.Y. Suburbs = 3.3%
1988: New York City = 4.7%
1988: N.J. Sector = 3.8%
1988: N.Y. Suburbs = 3.1%

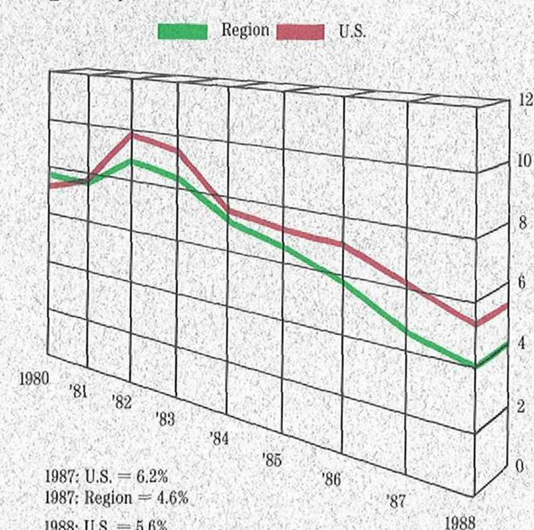
Source: N.Y. State Dept. of Labor
N.J. State Dept. of Labor

Index of Private Wage and Salary Employment
U.S. and N.Y.-N.J. Metropolitan Region
1969-1988
(index number: 1969 = 100)



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

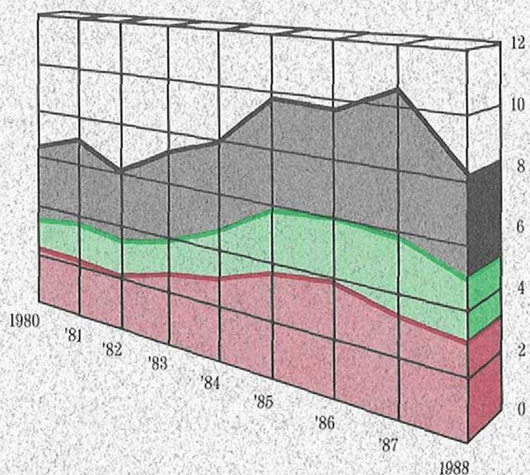
Unemployment Rates
U.S. and N.Y.-N.J. Metropolitan Region
1980-1988
(percent)



1987: U.S. = 6.2%
1987: Region = 4.6%
1988: U.S. = 5.6%
1988: Region = 4.0%

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

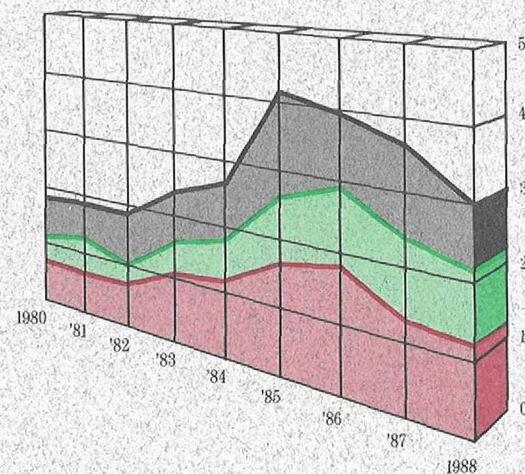
Total Construction Contract Awards
N.Y.-N.J. Metropolitan Region
1980-1988
(billions of 1982 dollars)



1987: Region = $13.9 billion (Current Dollars)
1988: Region = $11.3 billion (Current Dollars)

Source: F.W. Dodge

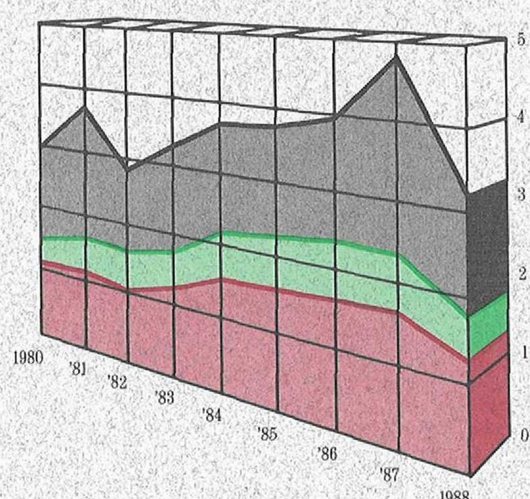
Residential Building Construction Contract Awards
N.Y.-N.J. Metropolitan Region
1980-1988
(billions of 1982 dollars)



1987: Region = $4.8 billion (Current Dollars)
1988: Region = $4.1 billion (Current Dollars)

Source: F.W. Dodge

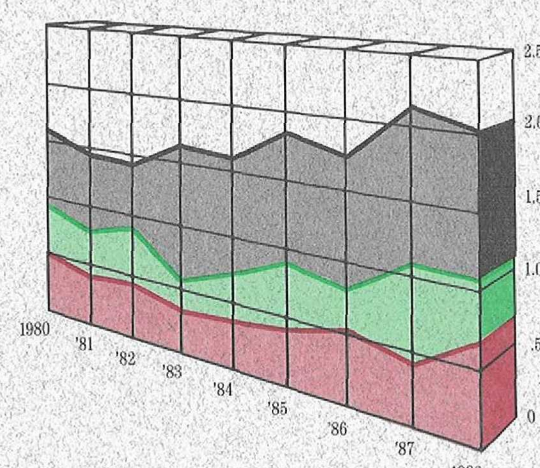
Commercial and Industrial Building
Construction Contract Awards
N.Y.-N.J. Metropolitan Region 1980-1988
(billions of 1982 dollars)



1987: Region = $6.3 billion (Current Dollars)
1988: Region = $4.4 billion (Current Dollars)

Source: F.W. Dodge

Infrastructure Construction Contract Awards
N.Y.-N.J. Metropolitan Region
1980-1988
(billions of 1982 dollars)



1987: Region = $2.8 billion (Current Dollars)
1988: Region = $2.8 billion (Current Dollars)

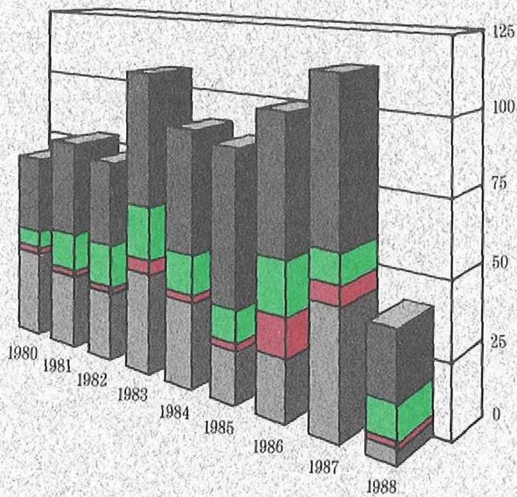
Source: F.W. Dodge

Note: Construction awards in 1982 dollars deflated by Engineering News Record's Building Cost Index

NY City NY Suburbs NJ Sector

Inflation

Office Building Contract Awards
in the N.Y.-N.J. Metropolitan Region
1980-1988
Index of square feet: 1986 = 100
(millions of square feet)



Source: F.W. Dodge Construction Awards
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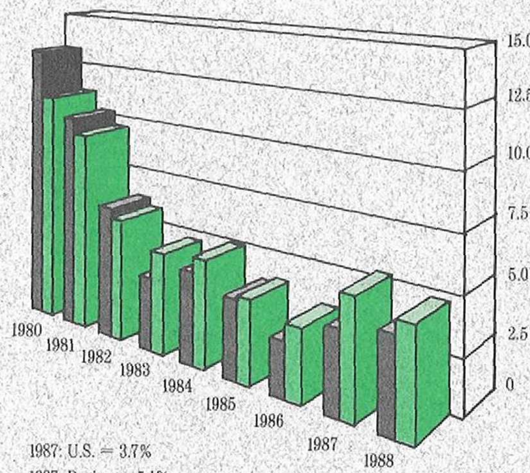
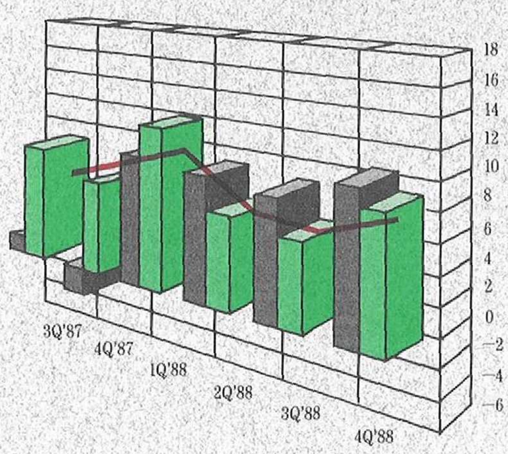
Percent Change in Consumer Price Index/All Items
U.S. and N.Y.-N.J. Metropolitan Region
1980-1988
(percent)



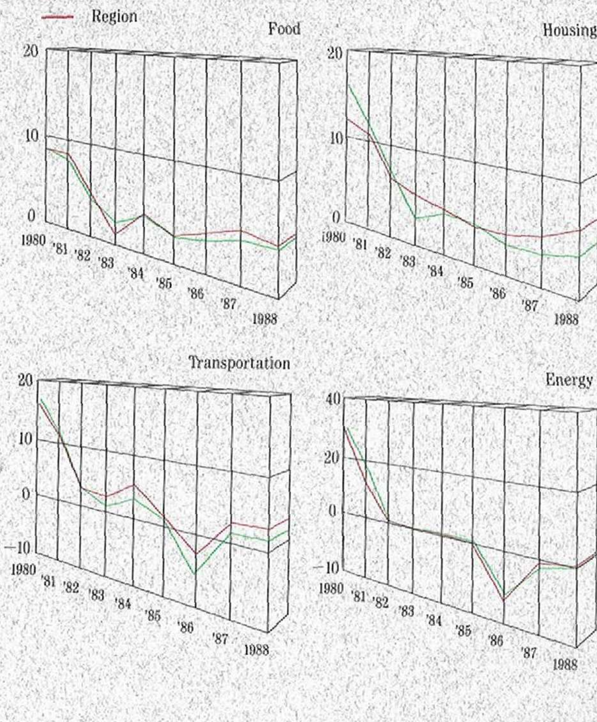
Source: U.S. Bureau of Labor Statistics

Percent Change in Retail Sales
in the N.Y.-N.J. Metropolitan Region and
the U.S. by Quarter: 1988 Over 1987
(percent)



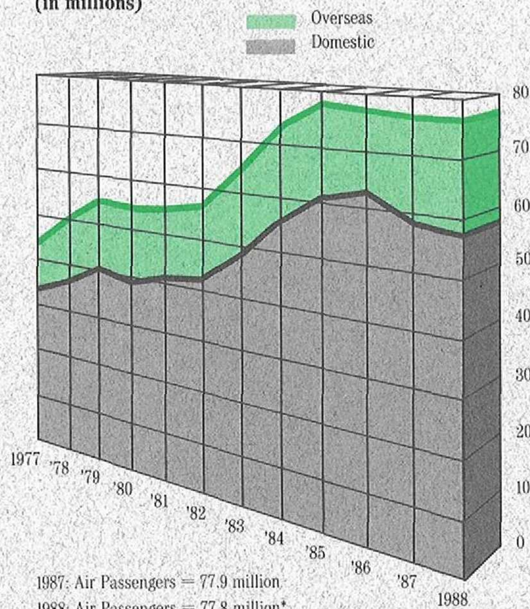
Source: U.S. Dept. of Commerce

Components of the Consumer Price Index
1980-1988
(percent)



Source: U.S. Bureau of Labor Statistics

Domestic and Overseas Air Passenger Traffic
N.Y.-N.J. Metropolitan Region
1977-1988
(in millions)

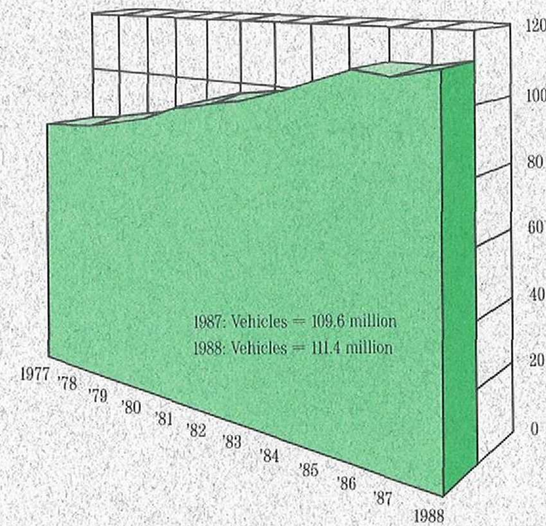


1987: Air Passengers = 77.9 million
1988: Air Passengers = 77.8 million*

*preliminary data

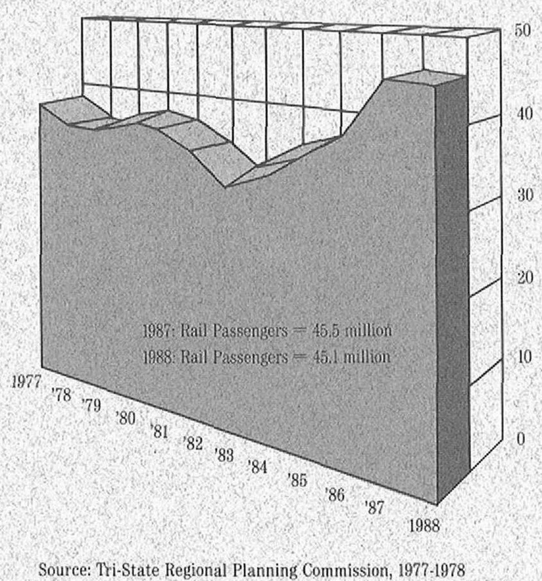
Source: The Port Authority of N.Y.-N.J.

Port Authority Tunnels and Bridges
Annual Eastbound Vehicular Traffic
1977-1988
(in millions)



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

New Jersey Transit Rail Passenger Traffic
1977-1988
(in millions)

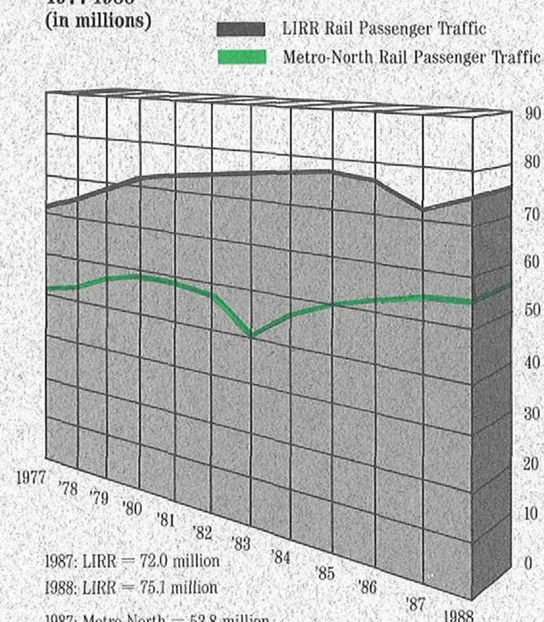


Source: Tri-State Regional Planning Commission, 1977-1978
New Jersey Transit, 1979-1988

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

Metropolitan Transportation Authority
Commuter Rail Revenue Passenger Traffic
1977-1988
(in millions)



1987: LIRR = 72.0 million
1988: LIRR = 75.1 million

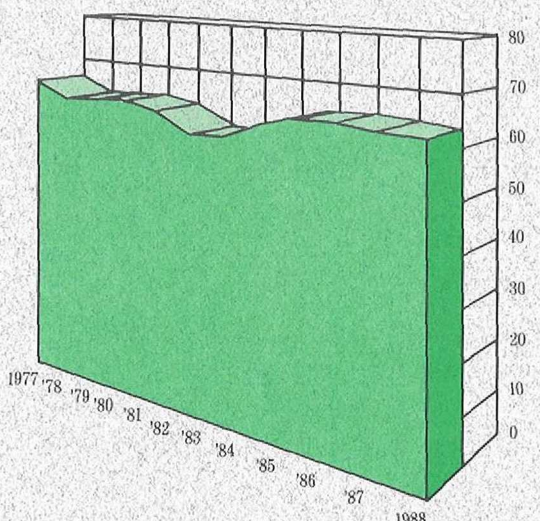
1987: Metro-North = 53.8 million
1988: Metro-North = 54.6 million

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 and 11-day LIRR strike in January, 1987

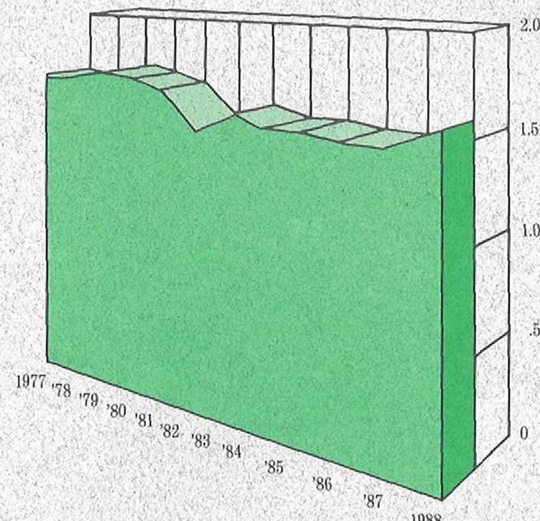
Bus Passenger Traffic: through Port Authority Terminals
N.Y.-N.J. Metropolitan Region
1977-1988
(in millions)



1987: Bus Passengers = 64.1 million
1988: Bus Passengers = 63.3 million

Source: The Port Authority of N.Y.-N.J.
Note: Information excluded for the Journal Square Transportation Center.

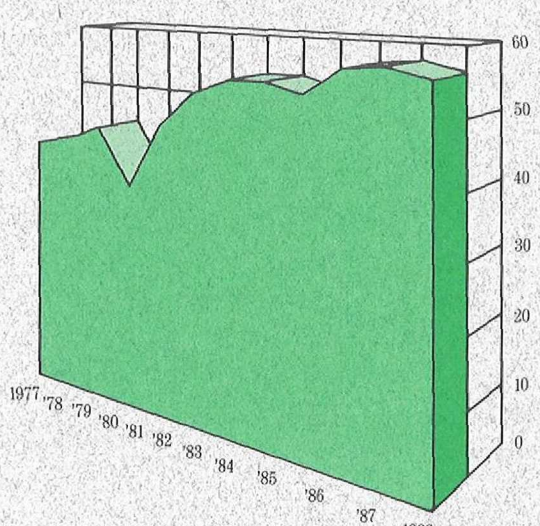
New York City Transit Authority
Bus and Subway Revenue Passenger Traffic
1977-1988
(in billions)



1987: Bus & Subway Passengers = 1.5 billion
1988: Bus & Subway Passengers = 1.6 billion

Source: New York City Transit Authority

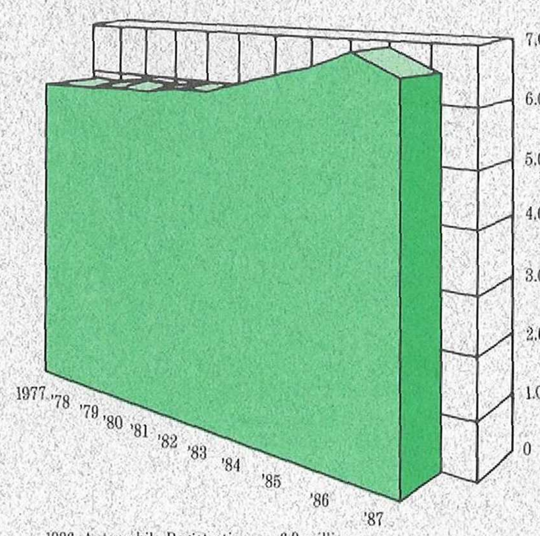
Port Authority Trans-Hudson Rail Passenger Traffic
1977-1988
(in millions)



1987: Rail Passengers = 58.2 million
1988: Rail Passengers = 56.9 million

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

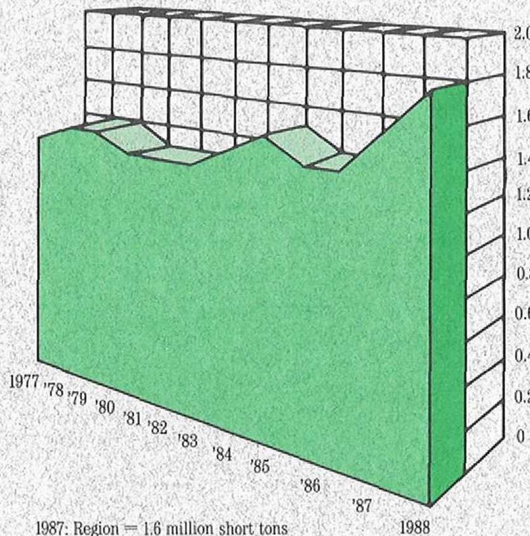
Passenger Automobile Registrations
N.Y.-N.J. Metropolitan Region
1977-1987
(in millions)



1986: Automobile Registrations = 6.9 million
1987: Automobile Registrations = 6.6 million

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

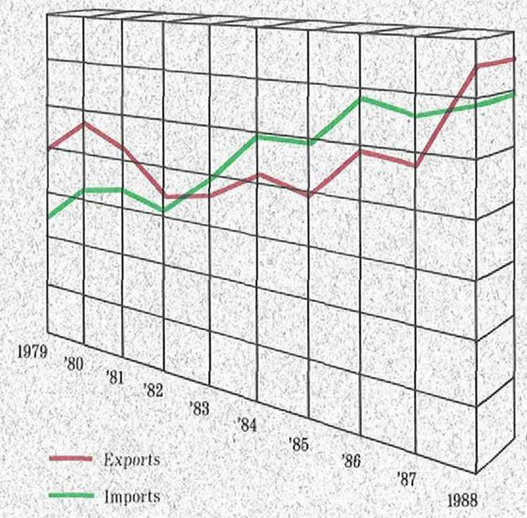
Air Cargo Traffic
N.Y.-N.J. Metropolitan Region
1977-1988
(in millions of short tons)



1987: Region = 1.6 million short tons
1988: Region = 1.8 million short tons

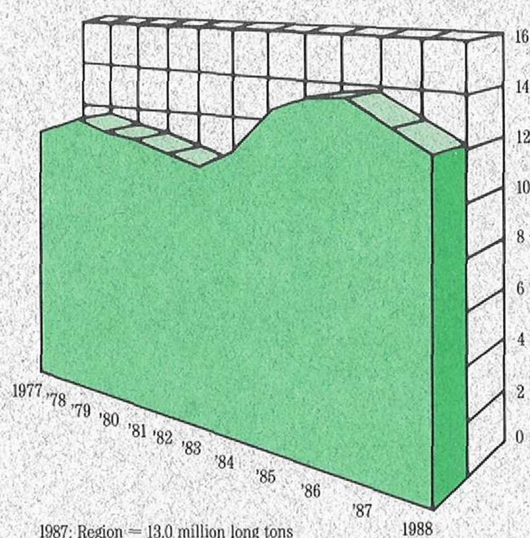
Source: The Port Authority of N.Y.-N.J.

New York Air Imports and Exports
1979-1988
(in billions)*



*Annual number based on nine months data.

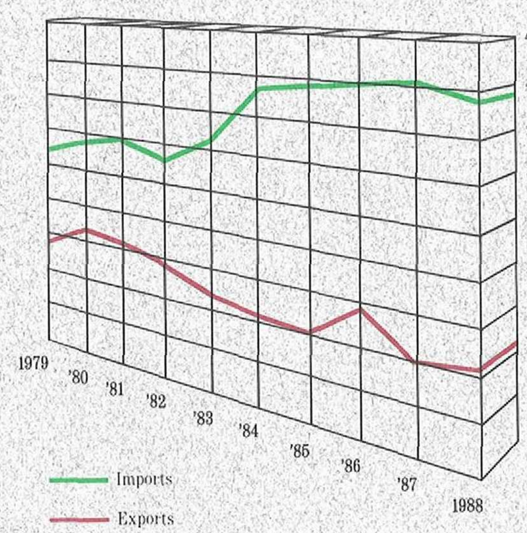
Oceanborne General Cargo
The Port of N.Y.-N.J.
1977-1988
(in millions of long tons)



1987: Region = 13.0 million long tons
1988: Region = 12.1 million long tons

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

New York Water Imports and Exports
1979-1988
(in billions)*



*Annual Number Based on Nine Months Data.

TUNNELS, BRIDGES & TERMINALS DEPARTMENT

- Bayonne Bridge
- George Washington Bridge and Bus Station
- Goethals Bridge
- Holland Tunnel
- Lincoln Tunnel
- Outerbridge Crossing
- Port Authority Bus Terminal
- New York Union Motor Truck Terminal

RAIL TRANSPORTATION DEPARTMENT

- Port Authority Trans-Hudson (PATH) System/ Journal Square Transportation Center
- P.A. Bus Programs
- New York State Commuter Railroad Car Program

AVIATION DEPARTMENT

- John F. Kennedy International Airport
- LaGuardia Airport
- Newark International Airport
- Port Authority Heliports:
  - Downtown Manhattan
  - West 30th Street
- Teterboro Airport

WORLD TRADE & ECONOMIC DEVELOPMENT DEPARTMENT

- World Trade Center
  World Trade Institute
- Bathgate Industrial Park
- Industrial Park at Elizabeth
- Essex County Resource Recovery Facility
- Hoboken Waterfront Project
- Hunters Point Waterfront Project
- Newark South Ward Industrial Park
- Newark Legal Center
- Teleport
- Industrial Park at Yonkers
- XPORT Trading Company

Trade Development Offices

- London
- Tokyo
- Zurich

PORT DEPARTMENT

- New York City Passenger Ship Terminal
- Port Authority Marine Terminals:
  - Brooklyn/Red Hook Container
  - Columbia Street
  - Elizabeth
  - Erie Basin/Fishport
  - Howland Hook
  - Port Newark
  - Port Jersey/Greenville
  - Auto
- Oak Point Rail Freight Link

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