

THE PORT AUTHORITY OF NY & NJ



Comprehensive

Annual Financial Report

for the Year Ended

December 31, 1997

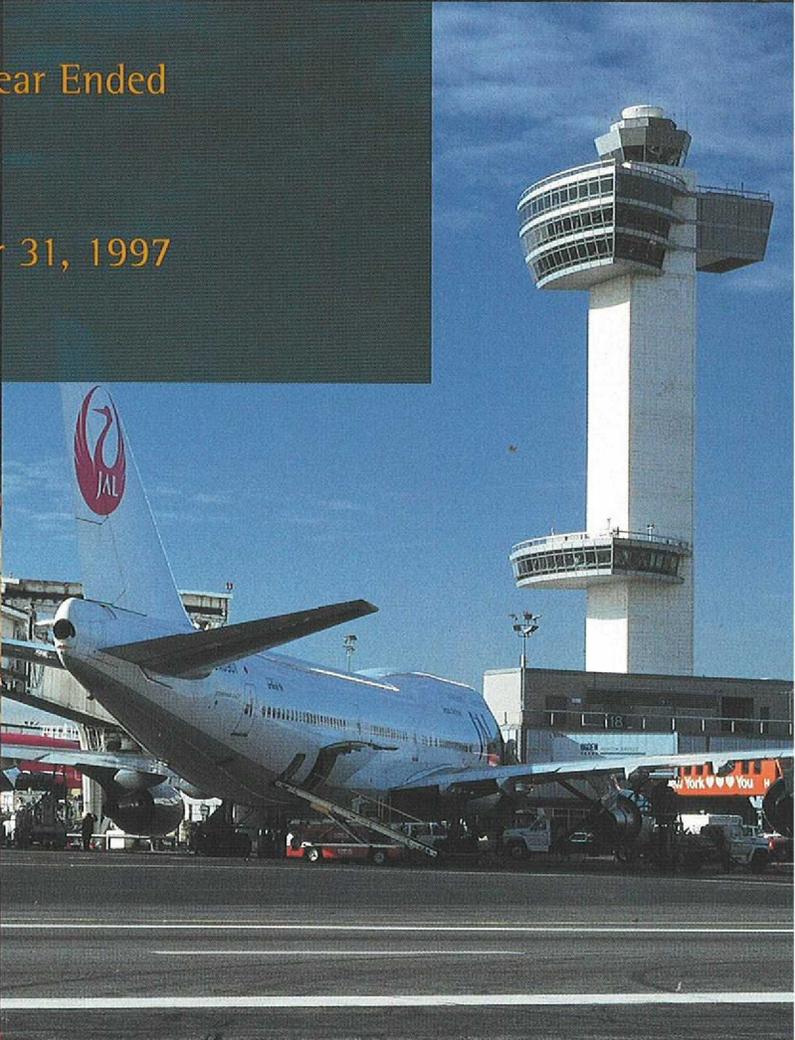
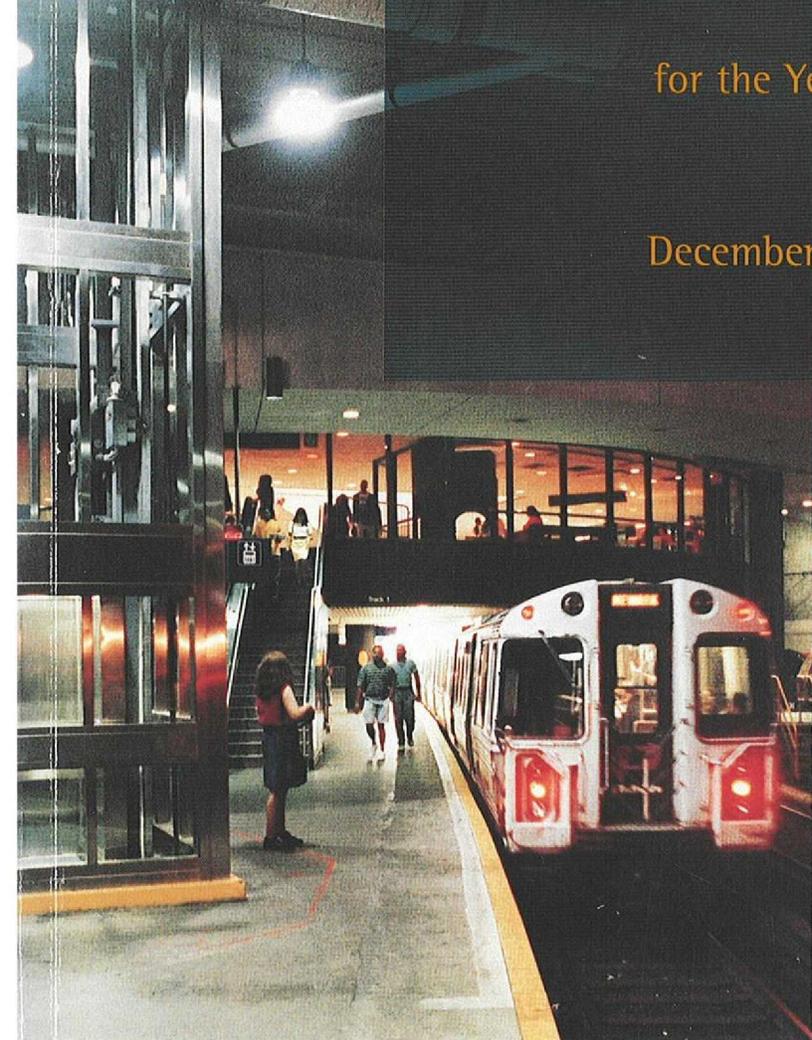
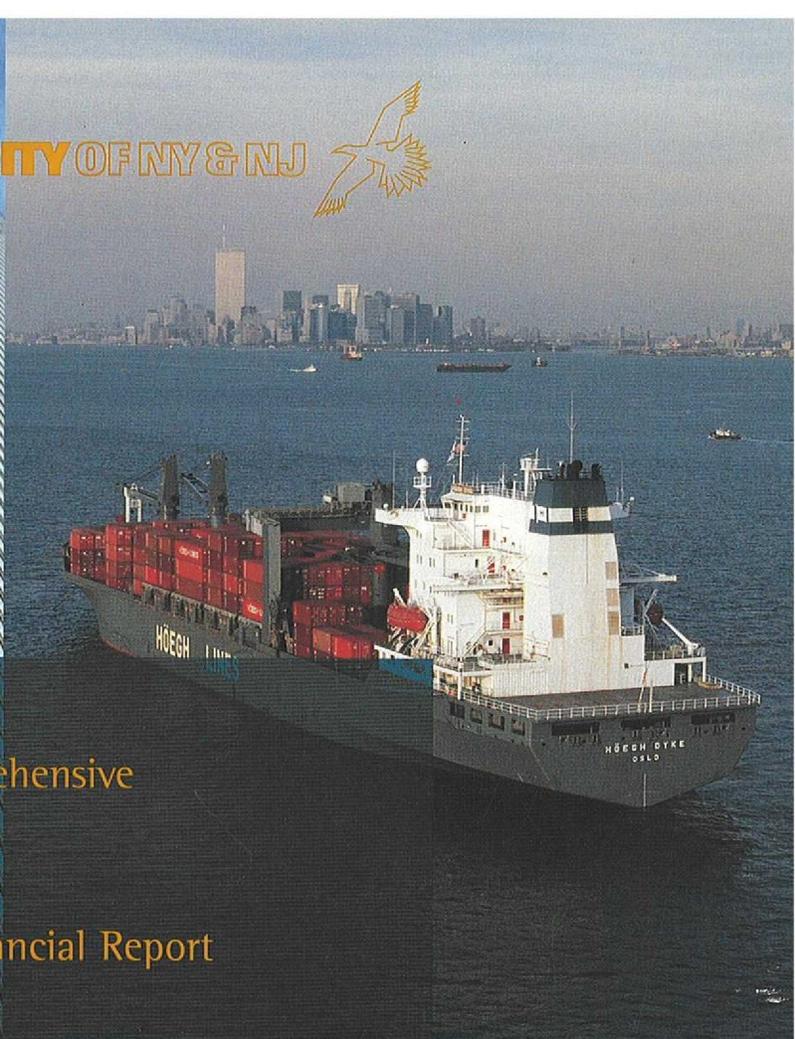
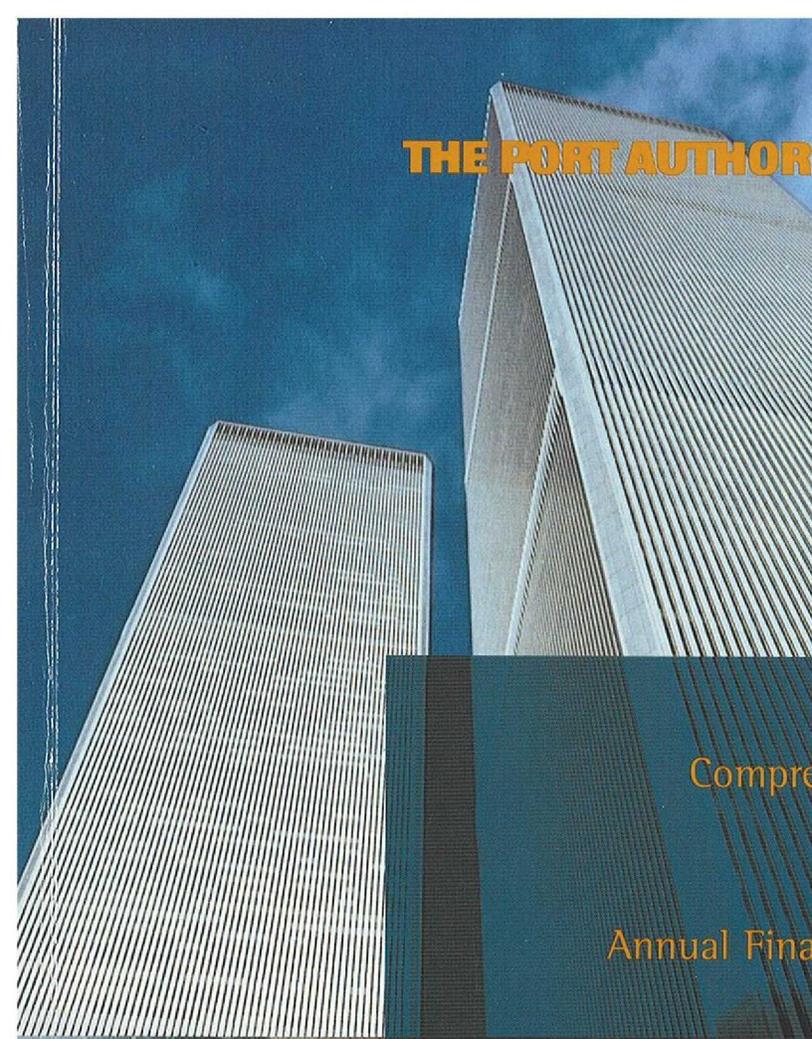
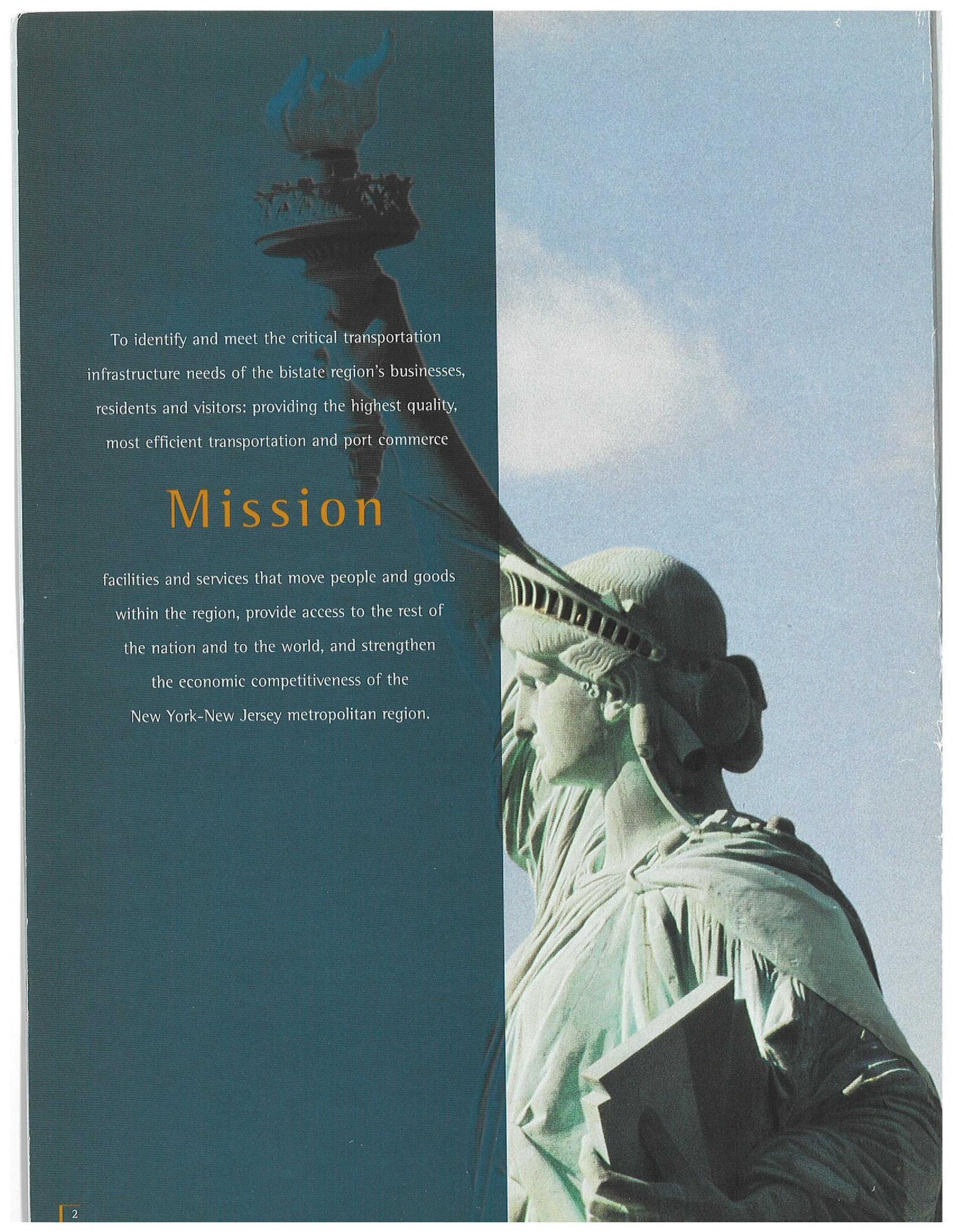


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Comprehensive Annual Financial Report
For The Year Ended December 31, 1997*

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A large, vertical photograph of the Statue of Liberty, showing her head, crown, and the torch she holds aloft. The image is split vertically: the left half is a dark, teal-tinted version of the image, and the right half is the original, natural-color image. The background is a clear, light blue sky.

To identify and meet the critical transportation infrastructure needs of the bistate region's businesses, residents and visitors: providing the highest quality, most efficient transportation and port commerce

Mission

facilities and services that move people and goods within the region, provide access to the rest of the nation and to the world, and strengthen the economic competitiveness of the New York-New Jersey metropolitan region.



The Honorable George E. Pataki, Governor
State of New York

The Honorable Christine Todd Whitman, Governor
State of New Jersey

Dear Governors:

We are pleased to submit to you and to the legislatures of New York and New Jersey this 1997 Annual Report of The Port Authority of New York and New Jersey, pursuant to the bistate Port Compact of 1921.

On behalf of the Port Authority and the Board of Commissioners, we thank you for your continued support. Your leadership has enabled us to energize this agency and raise our performance to new heights. So, it is with great pleasure that we report to you the fruits of our labors for the year 1997.

You will see by this Annual Report that the year was an unqualified success. In Aviation, earnings exceeded our most optimistic projections. Vital political and environmental issues were resolved in Port Commerce, thus allowing the critical dredging work necessary to keep our harbor open. At the same time, shipping volumes in our port posted strong growth. We continued to break traffic records on our Hudson River crossings. Passenger volume also reached a new high on PATH. And major leasing deals pushed occupancy to near capacity at the World Trade Center.

In 1997, the Port Authority also continued to streamline operations and cut costs, including a \$16 million reduction in the PATH deficit and significant reductions in police overtime. Cost-cutting and privatization initiatives also resulted in savings from the elimination of nearly 300 positions through attrition, a retirement incentive program and the privatization of the World Trade Institute and JFK's Terminal 4.

As impressive as our financial results, traffic postings, productivity gains and other achievements were in 1997, we cannot rest on our laurels. We are approaching a new century, and the critical decisions we face today will mean the difference tomorrow if we are to sustain and enhance our unique strength to build.

Very truly yours,

Lewis M. Eisenberg
Chairman

Charles A. Gargano
Vice Chairman

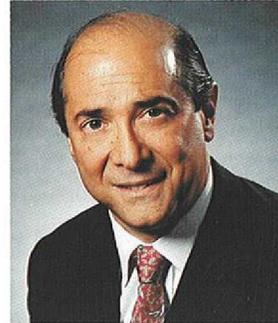
April 30, 1998

BOARD OF COMMISSIONERS

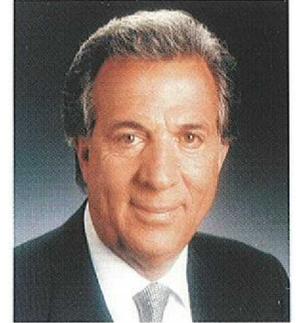
Origins of the Port Authority

The Port Authority of New York and New Jersey was established on April 30, 1921. 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 bistate region generally 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.



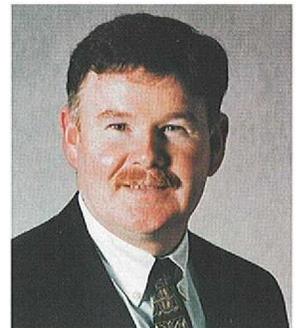
— Lewis M. Eisenberg
Co-Chairman
Granite Capital International Group



— Charles A. Gargano
Chairman & CEO
Empire State Development Corp.



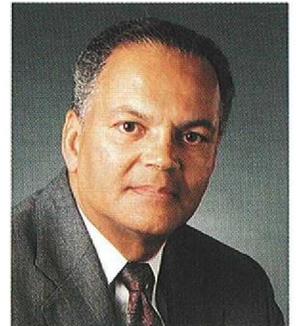
— Kathleen A. Donovan
County Clerk
Bergen County, New Jersey



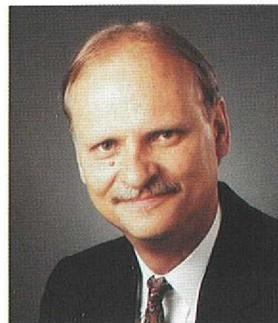
— John J. Haley Jr.
Commissioner
Department of Transportation of the
State of New Jersey



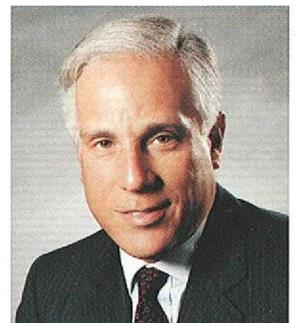
— James G. Hellmuth
Consultant



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



— Robert C. Janiszewski
County Executive
Hudson County, New Jersey



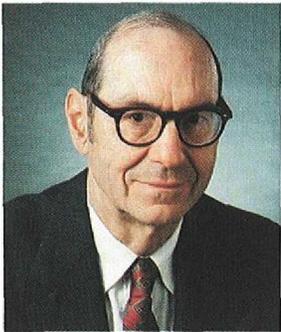
— Peter S. Kalikow
President
H. J. Kalikow & Co., LLC



Aubrey C. Lewis
Consultant



David S. Mack
Senior Partner
The Mack Company



George D. O'Neill
Chairman
Meriwether Capital Corporation



Alan G. Philibosian
Attorney-at-Law



Melvin L. Schweitzer
Partner
Rogers & Wells



Anastasia M. Song
Vice President
Sithe Energies



Madelon DeVoe Talley
Consultant



Robert E. Boyle
Executive Director

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 twelve Commissioners serve as public officials without remuneration.

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 Board of Commissioners appoints an Executive Director to effect its policies and manage day-to-day operations.

Board of Commissioners

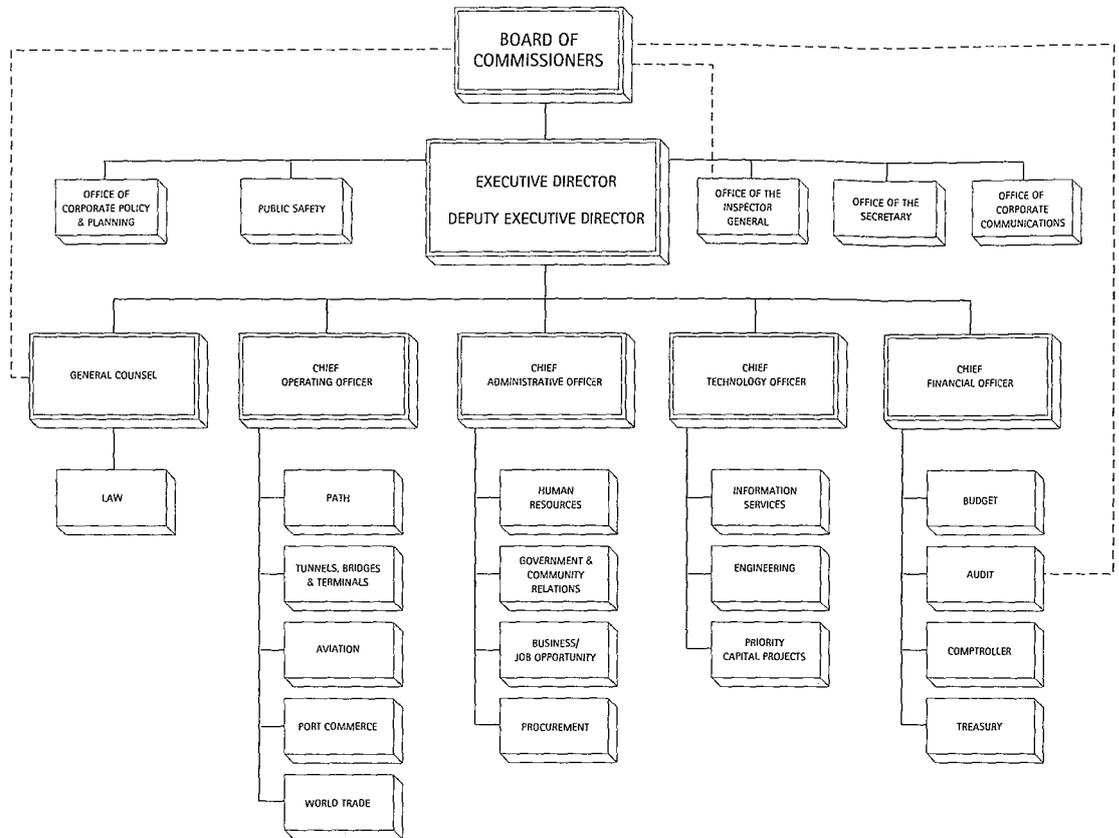
Lewis M. Eisenberg, Chairman
Charles A. Gargano, Vice Chairman
Kathleen A. Donovan
John J. Haley Jr.
James G. Hellmuth²
Henry F. Henderson Jr.¹
Robert C. Janiszewski
Peter S. Kalikow
Aubrey C. Lewis¹
David S. Mack²
George D. O'Neill
Alan G. Philibosian
Melvin L. Schweitzer
Anastasia M. Song³
Madelon DeVoe Talley³

1. Commissioner Lewis joined the Board on March 31, 1997, succeeding Commissioner Henderson.

2. Commissioner Mack joined the Board on August 8, 1997, succeeding Commissioner Hellmuth.

3. Commissioner Song joined the Board on March 25, 1998, succeeding Commissioner Talley, who died on July 18, 1997.

ORGANIZATION CHART*



OFFICERS AND DIRECTORS

Robert E. Boyle Executive Director
 Richard J. Lobron Deputy Executive Director
 Karen A. Antion Chief Technology Officer
 Daniel D. Bergstein Secretary
 A. Paul Blanco Chief Administrative Officer
 Bruce D. Bohlen Treasurer
 Lillian C. Borrone Port Commerce
 John D. Brill Audit
 Ernesto L. Butcher Tunnels, Bridges & Terminals
 Robert E. Catlin Jr. World Trade
 Richard Codd Government & Community Relations
 Michael P. DePallo PATH
 David F. Feeley¹ Chief Operating Officer
 Jeffrey S. Green General Counsel

Mark O. Hatfield Jr. Corporate Communications
 Robert J. Kelly Aviation
 Louis J. LaCapra² Human Resources
 Francis J. Lombardi Engineering
 Raymond P. Mannion⁴ Comptroller
 Michael G. Massiah Business/Job Opportunity
 Charles F. McClafferty Chief Financial Officer
 Fred V. Morrone Public Safety
 Roy S. Pleasant³ Information Services
 Michael J. Rienzi Procurement
 Cruz C. Russell Corporate Policy & Planning
 Robert E. Van Etten Inspector General
 Christopher O. Ward Port Planning & Redevelopment
 Margaret R. Zoch⁴ Budget

* As of December 31, 1997

¹ David F. Feeley resigned effective April 10, 1998

² Louis J. LaCapra was named Chief of Staff effective March 1, 1998

³ Roy S. Pleasant resigned effective February 27, 1998

⁴ Margaret R. Zoch was elected Comptroller on April 30, 1998, succeeding Raymond P. Mannion, who was named Senior Advisor to the Executive Director.

LETTER FROM THE EXECUTIVE DIRECTOR

This Annual Report highlights a Port Authority year of financial growth with continued reduction of operating expense.

While new volume records were being set in all Port Authority line operations, the combination of greater efficiency and greater volume has yielded the inevitable result of a vastly improved bottom line.

But the year's good news extended beyond the balance sheet. The Port Authority's focus on customers' needs set a new baseline for wide-spread service improvements. Increasingly, our customers have come to expect more. In 1997, we began to deliver. We added E-ZPass electronic toll collection at all of our bridges and tunnels, improving customer convenience and reducing time spent waiting in traffic. On PATH, we expanded weekend service and upgraded the telephone information system. New retail shops and restaurants were welcomed by our tenants at the World Trade Center. Our Port facilities also made strides in customer satisfaction with enhanced business services and expanded terminal facilities.

One of our most aggressive customer service improvement efforts has been launched at our airports. Free luggage carts for arriving international passengers, free emergency automobile services in parking lots, new food and retail services, new terminals coming on line and under construction, vastly improved road access and signage, and a commitment to a new landscape program will begin to make our facilities a proud improvement to the people and communities we serve.

This is just the beginning. Our vision clearly recognizes that meeting our customers' needs is the most important thing we do. Our customers, among other things, expect courtesy, cleanliness, clear signage, security, convenient parking, good and reasonably priced restaurants and retail shops, and dependable airport access. We are dedicated to exceeding expectations.

Conventional wisdom may hold that the strength of an organization is measured in bond ratings and asset values. While these markers provide indicators of the financial health of an institution, the customer and community satisfaction score is equally important, and will eventually have more long-term financial impact than any other single factor.

Just as our customers and the communities that we serve are important, so are the people inside our agency. The Port Authority's success in 1997 is testament to the hard work of talented and dedicated staff. I am grateful for their support. Nothing is accomplished without a great team working together in a clearly understood common effort.

The support and leadership of Governors Pataki and Whitman and their united effort to restart the Port Authority has been, in fact, the real engine behind this Authority's improvement. They can both look now with justifiable pride at the success of their efforts and look forward to a vital agency committed to do better at serving the regional economy.

The 1997 achievements covered in this Annual Report are sterling. As we look to the future, we will relentlessly pursue better ways to conduct our business. Knowing that, I can say with confidence – the best is yet to come.

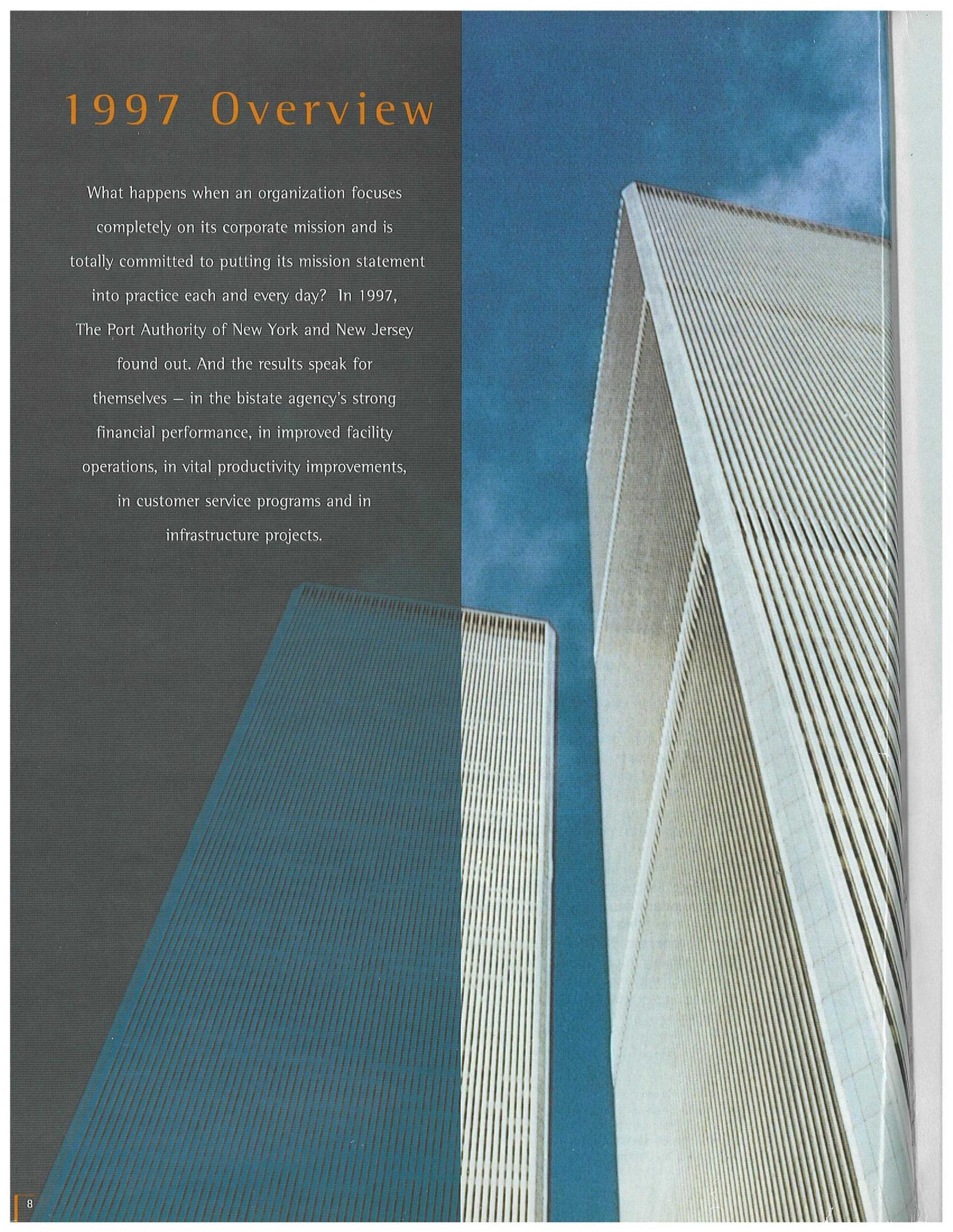
Sincerely,



Robert E. Boyle
Executive Director

1997 Overview

What happens when an organization focuses completely on its corporate mission and is totally committed to putting its mission statement into practice each and every day? In 1997, The Port Authority of New York and New Jersey found out. And the results speak for themselves – in the bistate agency's strong financial performance, in improved facility operations, in vital productivity improvements, in customer service programs and in infrastructure projects.



Port Authority gross operating revenues totaled \$2.2 billion in 1997, an increase of \$52 million from 1996. Operating expenses were cut by \$8 million to \$1.5 billion. The agency boosted net income to \$161 million, a \$72 million increase over 1996.

Improved efficiency of the Port Authority's tunnels, bridges, bus terminals and PATH reduced the subsidy required for our interstate transportation facilities by \$13 million. The three metropolitan airports had a combined net income of \$230 million, an increase of \$37 million over the previous year. Port Commerce facilities' operating deficit of \$46 million was virtually unchanged from last year.

The World Trade Center generated \$5 million in net income, \$9 million less than 1996. However, the World Trade Center had the best 12 months of leasing in its history. We leased nearly 2.3 million square feet of commercial office and retail space, representing 20 percent of the entire complex. By year's end, the occupancy rate soared to 90 percent for office space and 97 percent for retail. Revenues from new leases and tenant expansions will start to be reflected later in 1998, and their full effect will be felt in 1999.

The Port Authority also practiced sound fiscal management during 1997 to finance new projects, protect existing assets and maximize net revenues. Debt financing continued at an aggressive pace with the issuance of \$1.8 billion in debt obligations. Significant among these were:

- _ the largest single airport bond issue in U.S. history in the principal amount of \$934.1 million issued in connection with JFK International Air Terminal LLC's construction of a new terminal at John F. Kennedy International Airport.
- _ the lowest interest rate ever on a "new money" issue subject to the alternative minimum tax; and the lowest true interest cost attained on a "new money" governmental bond issued by the Port Authority in over three years.

- _ the eighth annual opportunity for over 30 smaller regional firms to participate as co-managers in a Port Authority bond sale for \$100 million Consolidated Bonds.

On the human resources side, we improved productivity by merging and consolidating Port Authority and PATH labor relations functions. This reorganization was instrumental in the successful negotiation of most of the expired union contracts. Sixteen of 20 expired contracts were successfully renegotiated.

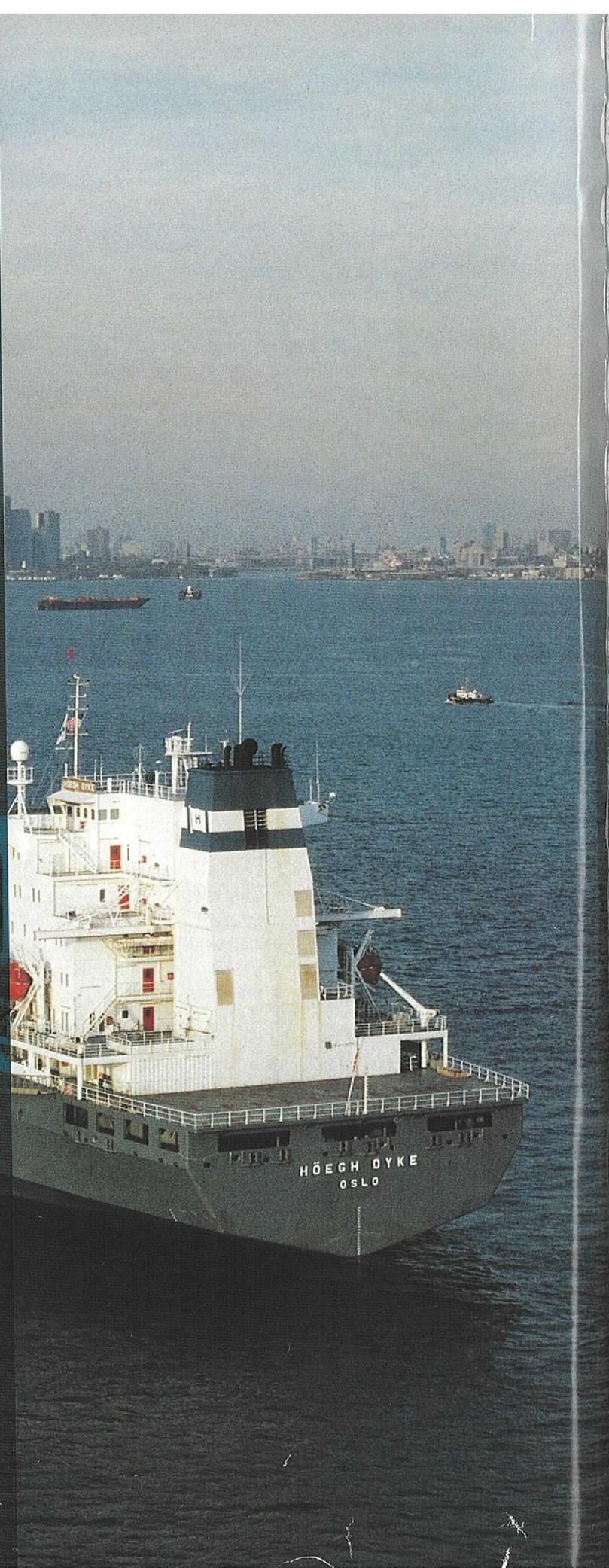
At our maritime facilities, labor-management cooperation resulted in further strengthening the competitive position of the Port of New York and New Jersey. In 1997, the port's dock laborers worked the first year of a five-year labor contract which has already resulted in lower port costs in the harbor. In February, cost-savings built into the agreement enabled the New York Shipping Association (NYSA) and the International Longshoremen's Association (ILA) to cut the tonnage assessment on cargoes moving to inland markets. At the end of the year, based on additional efficiencies, the NYSA and ILA announced further assessment reductions on cargo and automobile imports and exports.

In 1997, the Port Authority awarded \$120 million in contracts for construction, goods and services, and architectural and engineering services to minority, women-owned and small business enterprises through competitive processes. These awards helped support nearly 2,000 jobs in the region and \$72 million in wages, and generated \$186 million in regional economic activity.

To help certified minority, women-owned and small business enterprises compete successfully in the Port Authority's procurement process, we opened Business Outreach Offices in Newark, New Jersey, and in the Washington Heights section of Manhattan at the George Washington Bridge Bus Station. Business resource centers are also located at the World Trade Center and John F. Kennedy and Newark International airports.

People & Goods

A third consecutive year of new highs in traffic at our tunnels and bridges, a second consecutive year of record passengers at all three regional airports and an all-time best for ridership on the PATH rapid transit system contributed to the Port Authority's revenue gains in 1997.



1997 OVERVIEW

The New York-New Jersey Port posted strong gains in container traffic, motor vehicles and other key commodities.

Getting people and goods to their destinations fast and efficiently is vital to the New York-New Jersey regional economy. Transportation is the heart of our business, and 1997 traffic volumes reached new highs in almost every operation:

- a record 84 million passengers used Kennedy, LaGuardia and Newark airports, besting the 1996 high of 81 million.
- eastbound interstate traffic at our two tunnels and four bridges surpassed the previous year's growth by 4.4 million vehicles, totaling over 118 million.
- the Port Authority Bus Terminal handled a record 55.5 million customers, an increase of nearly 3 million patrons from 1996.
- ridership on the PATH rapid transit system rose 2.6 percent to about 62.2 million passengers, the most ever.

- service on the Hoboken-lower Manhattan ferry continued to be a popular way to commute across the Hudson River as nearly 2.4 million passengers took advantage of this alternative means of travel — and scenic crossing.
- total air cargo rose 4.4 percent over 1996 to a record 2.8 million tons, valued at \$156.5 billion.
- total oceanborne general cargo at the New York-New Jersey Port increased to 14.4 million long tons. In the highly competitive container market, volume increased 7 percent to 2.4 million twenty-foot equivalent units (TEUs). The overall value of the general cargo rose by 3.5 percent to \$60.2 billion.
- The on-dock rail facility, ExpressRail, at the Port Newark-Elizabeth Marine Terminal complex marked double-digit growth, with a volume of 127,527 containers, a 24 percent increase over 1996.



Customer Service

The Port Authority's focus on customers set a new baseline for widespread service improvements. Increasingly, customers have come to expect more. And in 1997, we began to deliver.

Bus Terminal

Information



1997 OVERVIEW

Port Authority customers are as varied as their needs. They may be travelers looking for better access to our airports – and a full range of amenities once they get there. Others commute on our interstate bridges and tunnels and expect reliability and convenience – and courtesy. If they're World Trade Center tenants, a responsive landlord, top-flight amenities and security are simply expected. PATH passengers want clean, safe stations and trains – and frequent service. At our marine terminals, shippers at home and abroad expect an efficient, cost-effective gateway to and from the regional marketplace – and beyond.

In 1997, the Port Authority met these customer expectations and more, with positive results. Surveys taken at the Port Authority Bus Terminal and PATH, for example, showed that users' positive opinions and satisfaction levels reached new highs. At the Bus Terminal, 85 percent of customers rated their overall experience of traveling through the facility as good

to very good, while seven out of 10 PATH passengers rated service as above average or excellent. The quarterly "Come Talk to Us" forum at the Bus Terminal and the weekly PATHursday program for commuters continued to give patrons direct lines of communication to management staff.

PATH station improvements kept on rolling, too. By year-end, renovations were complete at 11 of 13 stations, resulting in new high-intensity lighting and a host of improvements on handrails, stairs, ceilings, and walls. PATH also extended the lifespan of a QuickCard from 90 to 180 days and enhanced the capacity and quality of its bilingual automated telephone system.

In other PATH customer initiatives, weekend service was expanded to provide improved frequency to boost Saturday and Sunday ridership. PATH inaugurated direct train service from Journal Square to 33rd Street on Saturdays and Sundays.

Travel on Port Authority tunnels and bridges got a little easier in 1997, thanks to E-ZPass. The electronic toll collection system was installed at the Bayonne Bridge on June 29, followed later in the summer by the Goethals Bridge, Outerbridge Crossing and George Washington Bridge. Holland and Lincoln tunnel commuters welcomed E-ZPass in October. Each opening was accomplished without any measurable service disruptions. Customers eagerly enrolled in E-ZPass throughout the phased implementation, and by year-end, electronic toll collection users on weekdays averaged 38 percent.

In another deployment of high-technology and communications advances, the Port Authority awarded a contract to install the latest in traffic management equipment at the George Washington Bridge. The new Intelligent Transportation System will improve traffic flow along the corridor connecting New York and New Jersey through the automatic detection of traffic tie-ups, relay of information on traffic conditions and improved coordination with other transportation agencies.

Close working partnerships with state, regional and local transportation agencies advanced key programs to improve regional mobility in the future. In 1997, the Port Authority worked closely with New York and New Jersey transportation agencies in support of reauthorization of the Intermodal Surface



**Stop Throwing Money
Out The Window.**

And Start Saving Time.

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1997 OVERVIEW

Transportation Efficiency Act of 1991. This landmark legislation, which expired in September, is the primary source of federal funding for state highway and transit projects.

To help ensure the mobility of people and goods crossing the Hudson between New Jersey and midtown Manhattan, the Port Authority funded an inter-agency study of options for expanding and improving vital transit services. Entitled "Access to the Region's Core," the study is slated for completion in 1998.

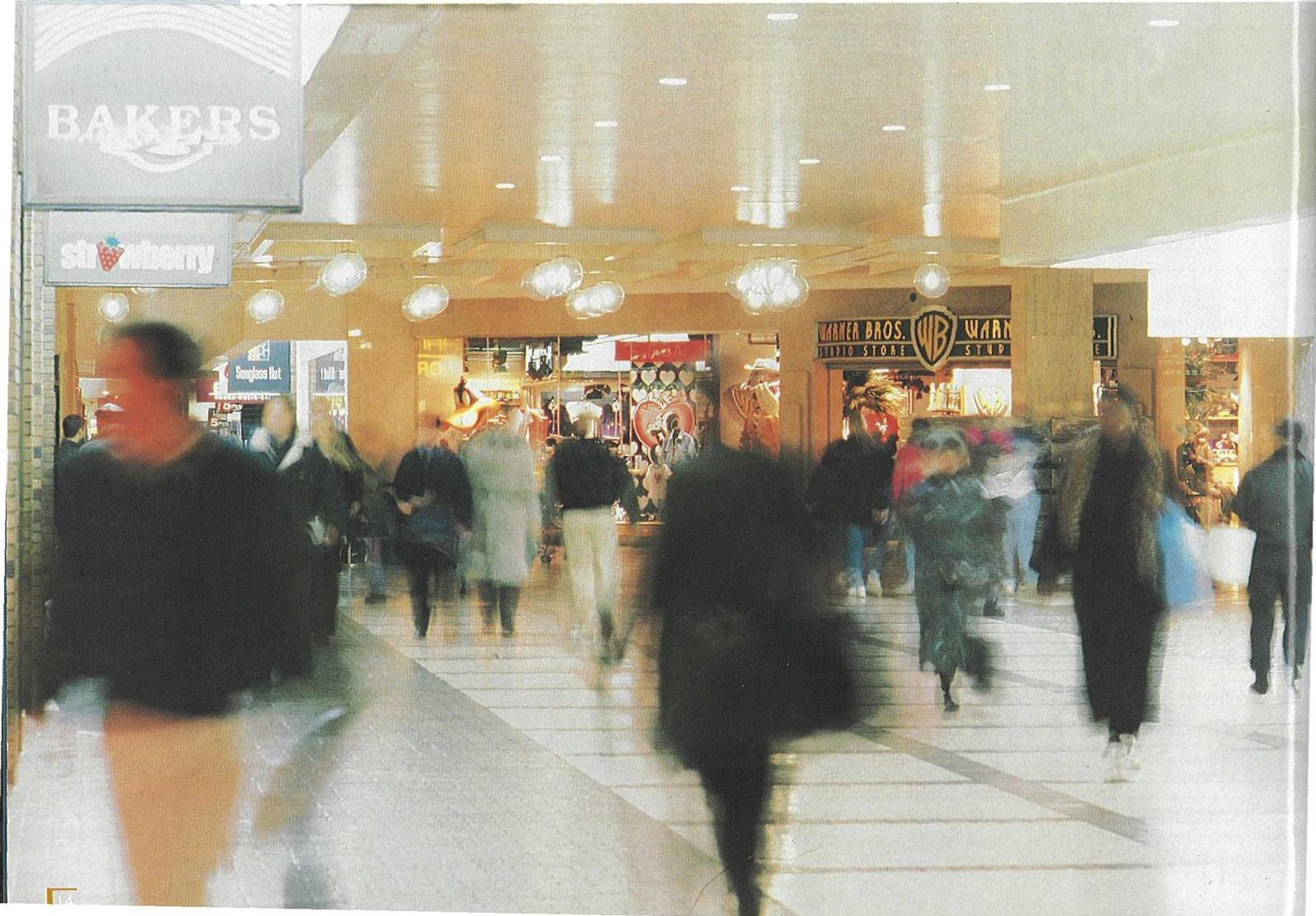
Complementing midtown Manhattan's 42nd Street neighborhood revival, eleven new food services and retail stores opened at the Port Authority Bus Terminal, adding even more diversity to the choices available to the nearly 200,000 daily patrons. Several existing tenants renovated and upgraded their stores.

Another vibrant retail center, the Mall at the World Trade Center, also enhanced its mix of retailers

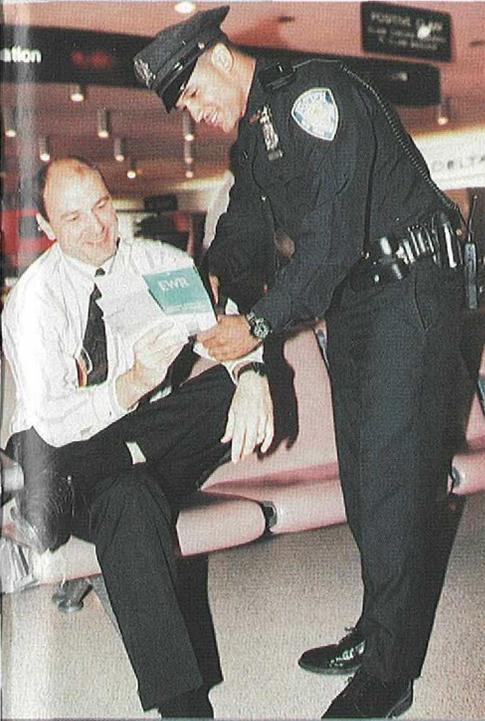
and restaurants with several new establishments opening in 1997. These include The Children's Place clothing store and Gemelli, an Italian bistro featuring regional cuisine and a plaza view. Coming in 1998 are Banana Republic, Godiva Chocolates, Krispy Kreme and Marché, among others. Improved building amenities and business services, expanded seasonal entertainment, and progress in the installation of an upgraded and expanded security program were among other World Trade Center initiatives to meet the varied needs of its customers.

The most ambitious and intensive customer service initiative launched in 1997 was aimed at Port Authority aviation facilities. Key to the success of this effort is restoring John F. Kennedy International Airport's reputation for excellence. JFK will celebrate its 50th anniversary in July 1998, and the Port Authority plans to mark that occasion by publicly proclaiming a new "vision" for the airport and restoring its pre-eminence as a world class facility.

The World Trade Center offers a range of shops and restaurants.



1997 OVERVIEW



New or upgraded airport customer services include free baggage carts for arriving international travelers; free emergency auto services in all parking lots; new food and retail services; improved roadways and signage; uniformed customer service representatives to help air travelers when they need it the most; and concentrated and expanded customer service training for all front-line airport staff.

These initiatives and others support the agency's commitment to provide airport amenities second to none in the world.

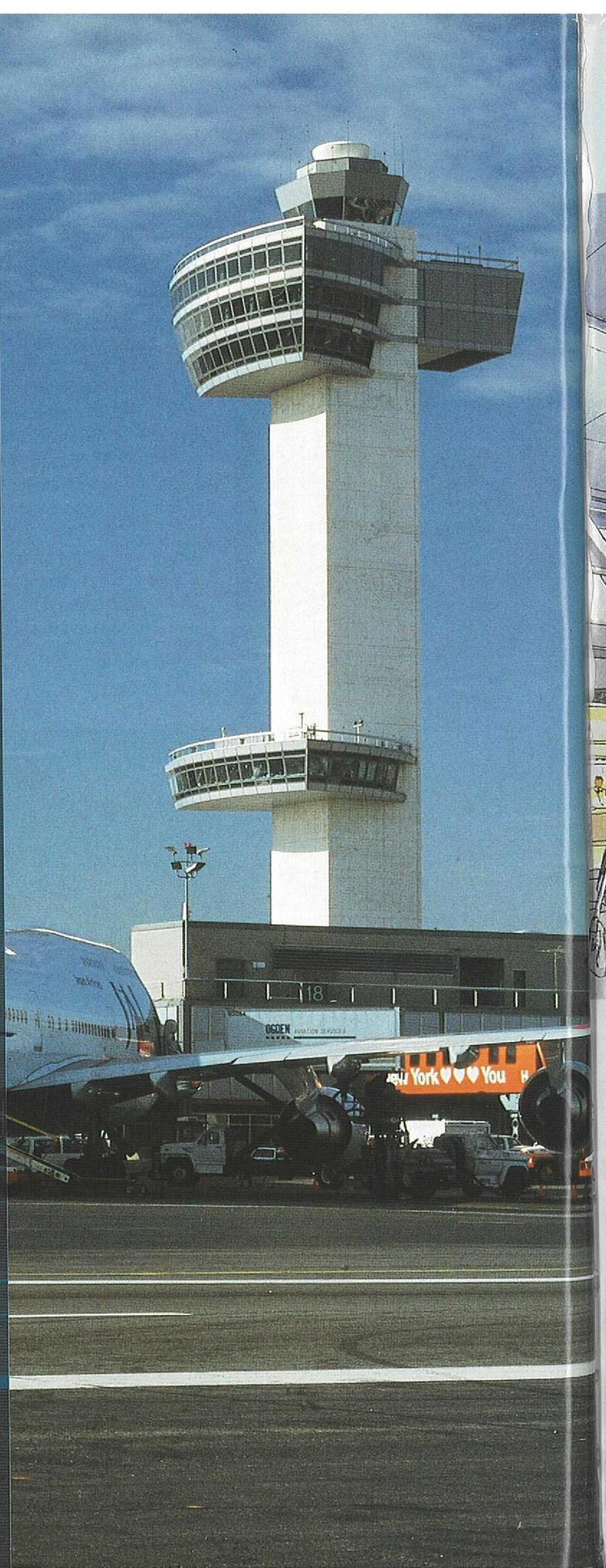
And there's more. At LaGuardia Airport, travelers gave the new business service centers top ratings. Available at two locations in the airport's Central Terminal Building, these service centers offer Internet access, fax machines, package delivery, travel insurance and ATMs. At Newark Airport, a new Concierge Center on the arrivals level of Terminal B provides a consolidated, one-stop source of information about hotels, sightseeing and entertainment. Newark's new international meet/greeter arrivals hall opened for partial operation at year-end 1997, providing a bright, comfortable waiting area for weary travelers and those meeting them.

At all three airports, CNN Airport Channel began installation of television monitors in the gate areas. Scheduled for completion in 1998, the service features news, information and entertainment for passengers waiting for their flights.

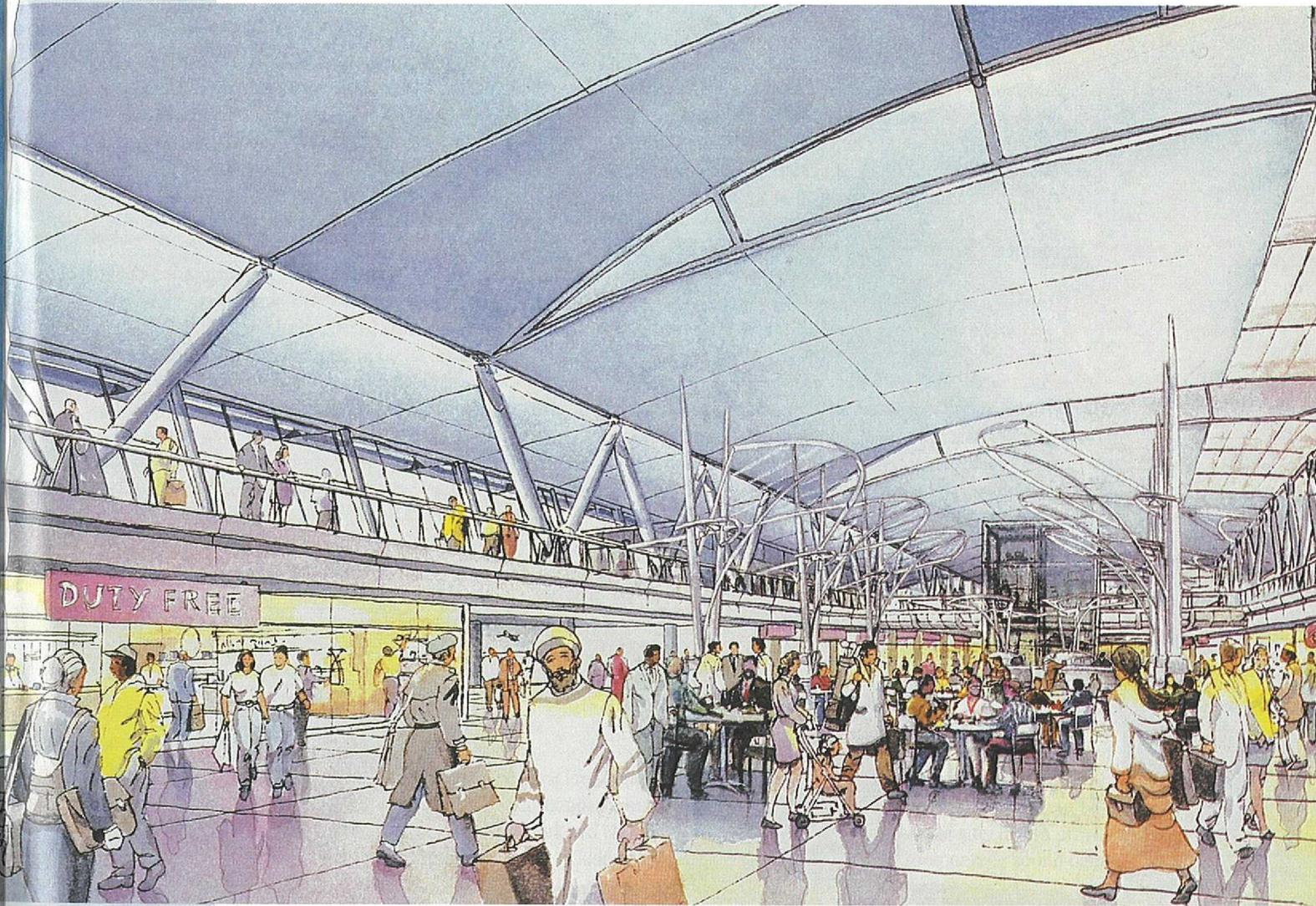


Building Business

Port Authority capital spending in 1997 totaled \$732 million, improving the agency's facility infrastructure and bolstering regional competitiveness at home and abroad.



1997 OVERVIEW



The new Terminal 4 at JFK will welcome international travelers in 2001.

A whole new airport is rising at JFK. A shiny, sleek new passenger terminal — the first in over 25 years — was getting finishing touches by year-end. Built by the Terminal One Group Association, including Air France, Japan Airlines, Korean Air and Lufthansa German Airlines, the \$435 million terminal is scheduled to open in May 1998. Terminal 1 will lead the way for many other modern and convenient facilities to come.

Among these, the biggest — and most anticipated — is the new Terminal 4. JFK International Air Terminal LLC broke ground in November for the \$1.2 billion state-of-the-art facility, to be completed in 2001. The largest public-private partnership ever undertaken in the U.S., it is a prime example of the design, build, operate and maintain approach to project development. Some of the design features will include

separate roadways to service arriving and departing flights on different levels, open airy spaces and soaring glass walls. For added convenience, the light-rail station will actually be inside the building.

The long-awaited JFK light-rail system (an elusive goal in the region for more than 30 years) will connect the airport's terminals, car rental facilities, and long-term parking lots with New York subway, rail and bus lines. This will enable travelers from Manhattan, Brooklyn, Queens, Long Island, and New Jersey to reach the airport conveniently via public transportation. Construction on the 8.4 mile light-rail line is expected to begin in 1998.

Meanwhile, at Newark International Airport, construction began on the Monorail/Northeast Corridor Connection, an automated transit link that will

1997 OVERVIEW

eventually connect the airport to the major area rail service. A decade of rebuilding totaling \$800 million has truly transformed the region's leading domestic and business travel gateway — LaGuardia Airport. The centerpiece of these improvements is the privately developed and operated LaGuardia Marketplace, which opened in November. This three-level, skylighted food and retail mall in the airport's Central Terminal Building offers a variety of shops and food services in a refreshingly bright and open new space.

Large-scale private investment at JFK, Newark and LaGuardia also is testimony to the healthy future of the region's three airports.

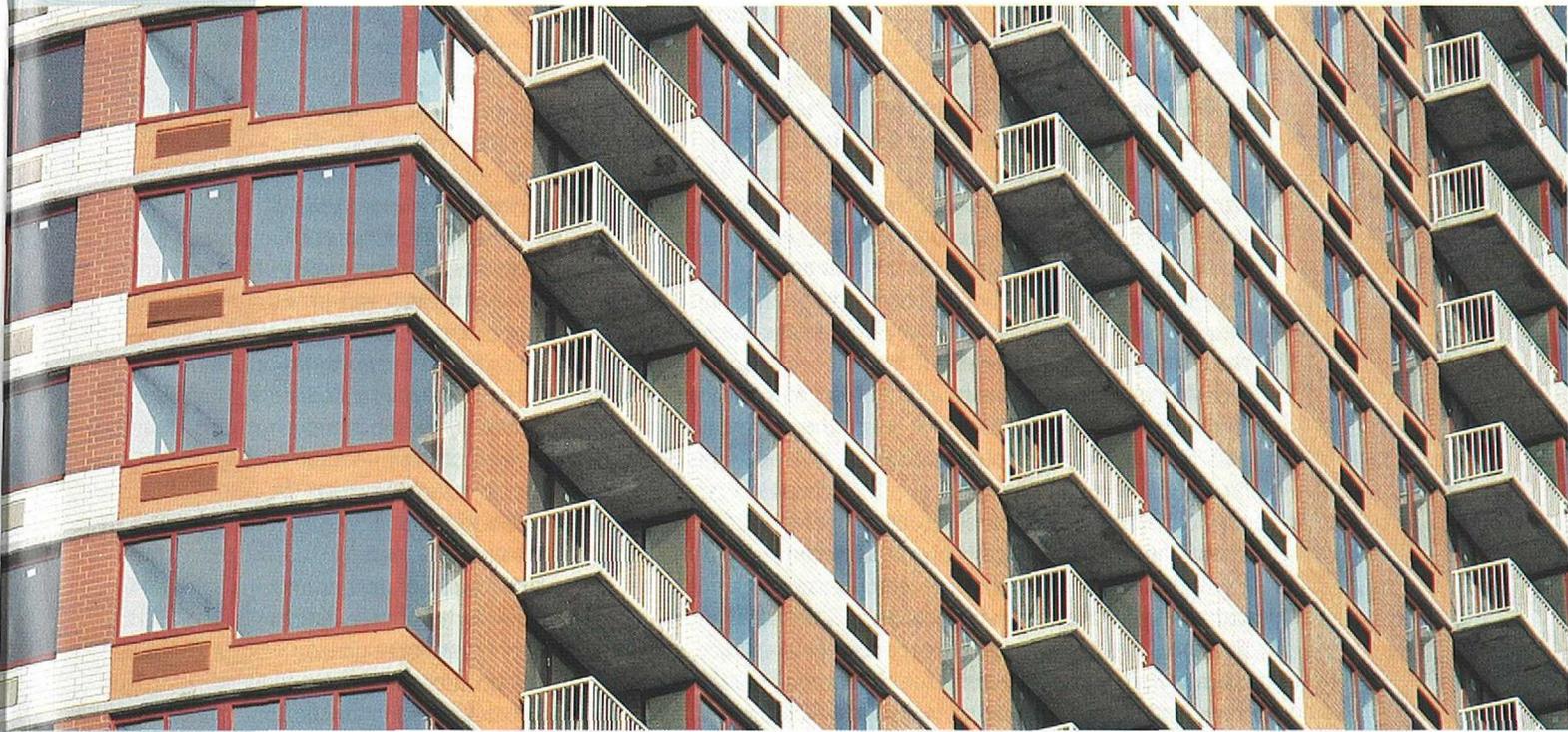
The health of our interstate crossings is also ensured through the Port Authority's 1997 investment of \$178 million in improvement projects. We completed the repainting of the underside of the George Washington Bridge and the main span of the Outerbridge Crossing. Painting the structures in

their entirety should be completed in 1998. The new and more durable coating will protect both bridges against rust and corrosion for the next 25 years, substantially reducing the need for on-going spot painting. Other improvements also progressed, including the final phase of the Lincoln Tunnel rehabilitation, better lighting systems at the New York entrance and exit plazas of the Lincoln and Holland tunnels, and paving of the Lincoln Tunnel helix.

Strategic capital investments in our marine facilities ensured business retention, job growth and new market-capture. In October, construction began on a 2.5 acre, 50,000-square-foot fruit terminal at Howland Hook, jointly funded by the Port Authority, New York City Economic Development Corporation and the Office of the Staten Island Borough President. When the region's last banana importer, Ecuadorian Line, indicated it was outgrowing its space at Port Newark and might leave the region, the Port Authority invited terminal operators in New York



1997 OVERVIEW



*"Citylights"
is the first
apartment
building to
open at
Queens
West.*

and New Jersey to submit bids. The operators of Howland Hook on Staten Island won, retaining jobs in the region.

As a result of both terminal and labor improvements, other shippers of diverse products shopped around and ultimately chose the Port of New York and New Jersey as their major U.S. import center. These include sparkling new Saabs and KIAs rolling off giant car containerships at Port Newark and the Auto Marine Terminal, and so much new cocoa at the Brooklyn Piers that we are now the number one cocoa port in the nation.

Ensuring that cargo can continue to reach our port on the increasingly larger containerships, channel and berth dredging remained at the forefront on our port improvement projects. We completed \$54 million in critical dredging projects in 1997 despite the closing of the designated ocean site for disposing dredged material. Berths at the Port Newark-Elizabeth Marine Terminal complex were dredged to their authorized depths, and selected berths at the Sea-Land and Maher Terminals were deepened to 45 feet to accommodate larger containerships already calling on the port. Maintenance dredging was completed at the Red Hook Container Terminal in Brooklyn. In April, the U.S. Army Corps of Engineers approved a project to deepen the Kill Van Kull and Newark Bay channels to 45 feet.

In partnership with the State of New Jersey, the Port Authority received the required permits and completed construction of the Newark Bay Confined Disposal Facility for dredged material. This facility is one element of the agency's strategy to find solutions for dredged material that cannot be disposed of in the ocean disposal site. It also provides a cost-effective and environmentally sound disposal option for dredged material from public and private facilities in the Newark Bay area.

Waterfront development projects in both New York and New Jersey moved forward. The last of federal, state and local permits was received for our cooperative Hoboken South Waterfront venture with the City of Hoboken. The Port Authority obtained title to all development parcels at Hoboken South and awarded a major contract for infrastructure and public improvements to the site. At the mixed-use Queens West Waterfront Development, a 42-story residential tower was completed, including space for an elementary school, retail shops and a parking garage.

The Queens West development is a \$2.3 billion joint venture of the private sector, the Port Authority, the Empire State Development Corporation, and the City of New York's Economic Development Corporation. Queens West is located along the East River across from the United Nations.



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, 1997, is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Port Authority. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the Port Authority's financial results of operations, financial position, and cash flows in accordance with the requirements of generally accepted accounting principles. The accompanying Schedules A, B, and C have been prepared pursuant to the requirements of law and Port Authority bond resolutions and are not intended to be a presentation in conformity with generally accepted accounting principles.

The comprehensive annual financial report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, the letter of transmittal to the Governors, the Executive Director's Letter, a listing of the Commissioners comprising the Board, and the Port Authority's organization chart, including a listing of Officers and Directors, and a Port Authority overview. The Financial Section includes the combined financial statements and appended notes as well as the auditor's opinion. The Statistical Section includes selected financial and demographic information presented on a multi-year basis.

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. The Port Authority presently has two wholly-owned subsidiaries, Port Authority Trans-Hudson Corporation and Newark Legal and Communications Center Urban Renewal Corporation. The Governor of each State appoints six of the twelve members of the governing Board of

Commissioners. Actions taken by the Commissioners at Port Authority meetings are subject to a gubernatorial review period. From time to time Governors have exercised their power to veto the actions of Commissioners from their respective State. The Compact envisions the Port Authority as being financially self-sustaining and, as such, it must raise the funds necessary for the improvement, construction or acquisition of facilities upon the basis of its own credit. The agency has neither the power to pledge the credit of either State or any municipality nor to levy taxes or assessments. 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.

Economic Condition and Outlook

The New York and New Jersey region registered its strongest growth in a decade, adding more than 133,000 wage and salary jobs in 1997, a 1.8 percent gain over 1996. Inflation continued to be very modest, growing only 2.3 percent. Throughout the region's five-year job expansion, services have accounted for nearly 80 percent of private sector job gains. These range from business services such as advertising and computer consultants, engineering and management services, legal services, motion picture and amusements and recreation which include theater and sporting events. The continued strength of Wall Street has led to growth in employment in that sector of the economy as well as generating significant incomes for the region. The strength of the regional and national economies strongly influenced growth in all Port Authority businesses. Information concerning current and future economic conditions and how they may impact on operations and the future commitment of Port Authority resources, as well as highlights of current and future initiatives and programs of the Port Authority are presented in the Introductory Section.

Financial Systems, Structure and Control:

Accounting Systems—The Port Authority's Combined Financial Statements include the accounts of the Port Authority and those of its wholly-owned subsidiaries, Port Authority Trans-Hudson Corporation (PATH) and Newark Legal and Communications Center Urban Renewal Corporation. The Combined Financial Statements are prepared in accordance with generally accepted accounting principles, and include information on Port Authority operations by operating segment. 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 application 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 Combined Statements of Income to Schedule A, Revenues and Reserves, and the Combined Statements of Financial Position to Schedule B, Assets and Liabilities, are included in Note A of the Combined Financial Statements.

Internal Controls—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 audits 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.

Financial Planning Structure—The Port Authority's annual budget provides an outline of estimated expenditures for the year. Approval of the budget by the Board of Commissioners, based upon financial projections developed as a part of the Port Authority business planning process, does not in itself authorize any specific expenditures, which are authorized by other actions of the Board of Commissioners consistent with statutory, contractual and other commitments

of the Port Authority, including agreements with the holders of its obligations. The budget, upon approval, becomes a mechanism which facilitates the systematic review of program expenditures to ensure they are made consistent with statutory, contractual and other commitments of the Port Authority, 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 totaled \$2.2 billion in 1997, an increase of \$52 million from 1996. This increase was primarily attributable to increased activities and services at LaGuardia (LGA), John F. Kennedy International (JFK) and Newark International (EWR) Airports, increased toll revenues due to higher vehicular activity at all Port Authority tunnels and bridges, and increased revenues at the Elizabeth Port Authority Marine Terminal related to escalated tenant revenues and increased activity at the ExpressRail facility. These increases were partially offset by decreased World Trade Center revenues.

Operating expenses totaled \$1.5 billion in 1997, approximately the same as 1996. A decline in operating expenses was due to the privatization of Terminal 4 at JFK, the transfer of the Passenger Ship Terminal to the City of New York at year-end 1996, a decrease in snow and ice removal costs due to a mild winter, reduction of contract costs for major work programs, and reductions in police overtime, combined with lower expenses throughout the agency as a result of reductions in workforce. The decreases were largely offset by higher costs for municipal rent payments related to improved operating results at JFK, LGA and EWR, an increase in dredging activity and related port maintenance programs and an increase in expense attributable to E-ZPass usage at the Port Authority's tunnels and bridges partially offset by labor savings from the E-ZPass Program.

Portfolio Management

The Port Authority's long-term investments are maintained in securities of or guaranteed by the United States Government and in Port Authority bonds. During 1997, earnings on long-term investments totaled \$52.4 million.

Short-term investments primarily consisted of United States Government securities (including such securities held pursuant to repurchase agreements and reverse repurchase agreements), securities of United States

government agencies, commercial paper, interest rate exchange contracts and interest rate options contracts. These investments included derivatives that are employed in hedging strategies to minimize interest rate risk. Earnings on short-term investments totaled \$57.3 million, which included earnings allocated to capital and to the Passenger Facility Charge Program. The increase in combined earnings on such long-term and short-term investments in 1997 was primarily due to higher short-term interest rates and higher average invested balances.

Invested In Facilities

Invested in facilities, pursuant to Port Authority bond resolutions, totaled \$13.1 billion at year-end 1997, which reflects a net increased investment of \$671 million for the operating segments and \$61 million for Regional and Other Programs. The additional investment in Port Authority operating segments, and the major projects of each segment, is primarily comprised of:

Air Terminals -- \$330 million

- Roadways, runways and taxiways;
- Improvements to buildings and parking facilities;
- Airport access transportation improvements.

Interstate Transportation Network -- \$178 million

- Roadway improvements;
- Mechanical, structural and security improvements;
- Bridge painting;
- Electronic toll collection.

Port Commerce Facilities -- \$80 million

- Berth and wharf rehabilitation;
- Roadway, utility and building improvements.

World Trade Center -- \$83 million

- Fire and security system enhancements;
- Electrical capacity and HVAC upgrades;
- Elevator/escalator and control center modernization.

Passenger Facility Charges/Program

The Federal Aviation Administration (FAA) granted the Port Authority the right, effective October 1, 1992, to impose a \$3 Passenger Facility Charge (PFC) per enplaned passenger at LGA, JFK and EWR to be collected by the airlines on behalf of the Port Authority. As of July 1996, the Port Authority was authorized to collect up to an aggregate amount (including interest thereon) of \$846 million, net of air carrier handling charges. In November 1996, the FAA also approved

expenditures of \$421 million attributable to amounts received from collection of PFCs to fund the EWR Airport monorail, northeast corridor connection, landside access program, and studies associated with ground access projects pertaining to each airport. On February 9, 1998, the FAA approved expenditures of \$1.2 billion for the light rail system at JFK. Future applications are to be submitted to the FAA for approval to continue the collection of PFCs at the airports and to spend PFCs on airport-related capital construction projects.

As of December 31, 1997, total cumulative gross investment provided by PFCs in connection with the ground access projects amounted to \$197 million and the amount of PFCs available for and restricted to future PFC project payments was \$359 million.

The Port Authority accounts for the Passenger Facility Charge Program as a separate enterprise fund because, pursuant to Federal law, amounts attributable to the collection and expenditure of PFCs are restricted to PFC eligible FAA approved projects.

Risk Management

As of December 31, 1997, property damage and loss of revenue insurance on Port Authority facilities totaled \$1 billion, while the public liability insurance totaled \$1 billion for aviation facilities and \$625 million for "non-aviation" facilities. In providing for uninsured potential losses, the Port Authority administers its self-insurance program by applications from the Consolidated Bond Reserve Fund and provides for losses by charging operating expenses as incurred. The Port Authority carries insurance or requires such insurance to be carried (if available) on or in connection with its facilities to protect against direct physical loss or damage and loss of revenue resulting therefrom, and against liability in connection therewith, in such amounts, with such self-insured retentions, exceptions, or exclusions of portions of facilities, and against such hazards, as it deems appropriate.

Debt Management

As of December 31, 1997, outstanding obligations of the Port Authority pursuant to Port Authority bond resolutions totaled \$7.9 billion. The following is a summary of these outstanding obligations:

Consolidated Bonds and Notes

- The total amount outstanding of Consolidated Bonds as of December 31, 1997 was \$5.1 billion.

- In 1997, the Port Authority issued Consolidated Bonds, one hundred eighth through one hundred eleventh series in the aggregate principal amount of \$500 million.
- Due to the suspension of negotiations to extend the lease agreement with the City of New York for JFK and LGA (which expires in 2015), the Port Authority continued a program initiated in 1994 to accelerate the retirement of certain Consolidated Bonds that were outstanding as of December 31, 1994 and which had maturities extending beyond 2015, the expiration of such lease agreement. As of December 31, 1997, the Port Authority has achieved its program goals through the year 2001 with the retirement of \$472,770,000 in principal amount of such Consolidated Bonds, through open-market purchases and refundings. If such lease agreement is not extended beyond 2015 and the program continues through 2015, all Consolidated Bonds outstanding as of December 31, 1994, with maturities beyond 2015 (other than Consolidated Bonds, Ninety-third Series) would be retired.
- At December 31, 1997, outstanding Port Authority Consolidated Bonds were rated AA- by Standard & Poor's Rating Group and Fitch Investors Service, L.P., and A1 by Moody's Investors Service.

Commercial Paper Program

- The total amount outstanding of Port Authority Commercial Paper Obligations at December 31, 1997 was \$124 million.
- Commercial Paper Obligations may be issued in two separate series, in an aggregate principal amount outstanding at any one time not in excess of \$300 million.
- Each of such series includes commercial paper notes and a bank stand-by revolving credit facility in the principal amount of up to \$150 million outstanding at any one time to provide program liquidity in the event commercial paper notes cannot be refunded at their maturity due to market conditions.
- At December 31, 1997, outstanding Commercial Paper Notes were rated A-1+ by Standard & Poor's, F-1+ by Fitch, and P-1 by Moody's, the highest short-term ratings given by each of the rating agencies.

Variable Rate Master Notes

- The total principal amount outstanding of Variable Rate Master Notes as of December 31, 1997 was \$203 million.
- Variable Rate Master Notes may be issued in an aggregate principal amount outstanding at any one time not in excess of \$400 million.
- In 1997, \$19 million in Variable Rate Master Notes were issued and \$49 million of Variable Rate Master Notes were refunded.
- Credit ratings are not assigned to Variable Rate Master Notes.

Versatile Structure Obligations

- The total amount outstanding of Versatile Structure Obligations at December 31, 1997 was \$584 million.
- In 1997, the Port Authority issued Series 1R & 6 Versatile Structure Obligations, each in the amount of \$100 million.
- The Port Authority has entered into stand-by certificate purchase agreements with certain banks for each series providing for the purchase of unregistered certificates.
- Because outstanding Versatile Structure Obligations were issued on a "multi-modal" basis, initially paying interest on a daily rate, they received short-term credit ratings from each rating agency. Since these obligations may be converted to a longer term at the option of the Port Authority, the rating agencies also issued long-term ratings. As of year-end 1997, the obligations were rated A-1+ by Standard & Poor's, F-1+ by Fitch, and VMIG1 by Moody's, the highest short-term variable debt rating given by each of the rating agencies. Long-term ratings for these obligations were A-, A+ and A2 respectively.

Equipment Notes

- The total principal amount outstanding as of December 31, 1997 of Equipment Notes was \$74.8 million of which \$38.7 million was issued in 1997.
- Equipment Notes are authorized to be issued in an aggregate principal amount not to exceed \$100 million.
- Credit ratings are not assigned to Equipment Notes.

Fund Buy-out Obligation

- As of December 31, 1997, the Port Authority had an outstanding obligation to pay \$405 million to the States of New York and New Jersey as a result of termination of the Fund for Regional Development.

Special Project Bonds

- As of December 31, 1997, the total obligation outstanding in connection with the four separate series of Special Project Bonds, excluding unamortized discount and premium, was \$1.5 billion.
- In 1997, the Port Authority issued \$934 million for Series 6, JFK International Air Terminal LLC Project Bonds.
- The principal of and interest on Special Project Bonds are special obligations of the Port Authority, payable from the sources of payment and to the extent provided in the resolutions establishing and authorizing the issuance of each series of such bonds.

During 1997, total debt service including amounts charged to net revenues and reserves was \$398 million exclusive of interest expense relating to the Equipment Notes, Special Project Bonds and the Fund Buy-out Obligation. Capitalized interest for the year ended December 31, 1997 totaled \$43 million.

Reserve Funds

At December 31, 1997, the General Reserve Fund balance was approximately \$755 million and met the amount prescribed by the General Reserve Fund statutes. The Consolidated Bond Reserve Fund had a balance of approximately \$433 million. The sum of the reserve fund balances exceeded the next two years' mandatory debt service on bonds secured by a pledge of the General Reserve Fund, and they were invested in certain government securities or 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 and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the

United States. In planning and performing such audits, consideration is given to the internal control structure in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements. The firm meets directly with the Audit Committee of the Board of Commissioners. The audit report is included in the Comprehensive Annual Financial Report.

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 to The Port Authority of New York and New Jersey for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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. The Port Authority of New York and New Jersey has received a Certificate of Achievement for the last thirteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

February 27, 1998



Chief Financial Officer

Financial Section

Prepared by
The Comptroller's Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Port Authority of
New York and New Jersey

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1996

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.



Linda K. Savitsky
President

Jeffrey L. Escoe
Executive Director

For the thirteenth 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 1996 Comprehensive Annual Financial Report.



Opinion of Independent Auditors

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

We have audited the accompanying combined statements of financial position of The Port Authority of New York and New Jersey (which includes its wholly-owned subsidiaries) as of December 31, 1997 and 1996, and the related combined statements of income and cash flows for the years then ended. We also audited the financial information included in Schedules A, B, and C. These financial statements and schedules are the responsibility of the Port 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Port Authority of New York and New Jersey (Port Authority) as of December 31, 1997 and 1996, and the combined results of its operations and its combined cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying Schedules A, B, and C have been prepared pursuant to the requirements of law and Port Authority bond resolutions and are not intended to be a presentation in conformity with generally accepted accounting principles. However, in our opinion, Schedules A, B, and C present fairly, in all material respects, the assets and liabilities, of the Port Authority at December 31, 1997 and 1996, and the revenues and reserves for the years then ended in conformity with the accounting principles described in Note A-2.

Our audits were conducted for the purpose of forming opinions on the combined financial statements and Schedules A, B, and C taken as a whole. The supplemental information, which is the responsibility of the Port Authority's management, presented in Schedules D and E, is presented for purposes of additional analysis and is not a required part of the combined financial statements or schedules. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and schedules, and in our opinion, is fairly stated in all material respects when considered in relation to the combined financial statements and schedules taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 1998, on our consideration of the Port Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Deloitte & Touche LLP

February 27, 1998

Combined Statements of Financial Position

	December 31, 1997			December 31, 1996
	Port Authority Operations	PFC Program	Combined	Combined
	(In thousands)			
Assets				
Facilities	\$11,326,373	\$196,645	\$11,523,018	\$10,945,230
Less accumulated amortization of facilities	4,237,896	8,094	4,245,990	3,975,305
Facilities, net (Note B-1)	7,088,477	188,551	7,277,028	6,969,925
Cash (Note C)	41,151	—	41,151	42,851
Investments (Note C)	1,724,899	344,408	2,069,307	1,550,718
Accounts receivable (net of allowance for doubtful accounts of \$17,766 in 1997 and \$22,961 in 1996)	56,908	—	56,908	70,178
Other amounts receivable (net of allowance for doubtful accounts of \$6,548 in 1997 and \$6,788 in 1996)	377,661	14,339	392,000	425,479
Amounts receivable in connection with Special Project Bonds	1,461,620	—	1,461,620	535,018
Unamortized costs for Regional and Other Programs (Note H-2)	459,928	—	459,928	469,437
Unamortized costs for Fund buy-out (Note H-1)	411,593	—	411,593	414,645
Deferred compensation plan assets (Note I-3)	—	—	—	183,063
Other assets	324,106	—	324,106	295,532
Total assets	11,946,343	547,298	12,493,641	10,956,846
Liabilities				
Consolidated Bonds and Notes (Note D-1)	4,933,227	—	4,933,227	4,585,095
Obligations in connection with other capital asset financing (Note D-2)	911,545	—	911,545	881,550
Obligations in connection with operating asset financing (Note D-3)	479,420	—	479,420	436,443
Amounts payable in connection with Special Project Bonds (Note D-4)	1,461,620	—	1,461,620	535,018
Accounts payable	299,291	—	299,291	269,035
Accrued pension, retirement and other employee benefits (Note I)	313,432	—	313,432	280,729
Deferred compensation plan obligation (Note I-3)	—	—	—	183,063
Accrued interest and other liabilities	246,245	—	246,245	247,391
Total liabilities	8,644,780	—	8,644,780	7,418,324
Net assets	\$ 3,301,563	\$547,298	\$ 3,848,861	\$ 3,538,522
Net assets are composed of:				
Retained earnings invested in Port Authority facilities, operations and reserves	\$ 2,923,635	\$547,298	\$ 3,470,933	\$ 3,159,251
Government contributions in aid of construction (Note F)	377,928	—	377,928	379,271
Net assets	\$ 3,301,563	\$547,298	\$ 3,848,861	\$ 3,538,522

See Notes to Combined Financial Statements.

Combined Statements of Cash Flows (continued)

	Year Ended December 31,			1996
	Port Authority Operations	1997		Combined
		PFC Program	Combined	
	(in thousands)			
2. Reconciliation of income from operations to net cash provided by operating activities:				
Income from operations	\$362,848	(\$5,115)	\$357,733	\$319,652
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Amortization of Facilities	345,350	5,115	350,465	341,651
Amortization of costs for Regional and Other Programs	36,185	—	36,185	23,508
Amortization of other assets	44,196	—	44,196	45,722
Extraordinary item				
Reduction to prior net loss on World Trade Center explosion	29,450	—	29,450	—
Change in operating assets and operating liabilities:				
Decrease in receivables	54,669	—	54,669	41,367
(Increase) in prepaid expenses	(69,235)	—	(69,235)	(56,793)
Decrease in deferred costs	3,052	—	3,052	2,259
Increase (decrease) in payables	34,232	—	34,232	(11,176)
Increase in employee benefits	32,702	—	32,702	36,509
(Decrease) increase in other liabilities	(12,159)	—	(12,159)	13,373
(Decrease) in deferred income	(4,785)	—	(4,785)	(1,061)
Total adjustments	493,657	5,115	498,772	435,359
Net cash provided by operating activities	\$856,505	\$ —	\$856,505	\$755,011

3. Capital obligations:

Consolidated Bonds and Notes, commercial paper, variable rate master notes and versatile structure obligations.

4. Noncash capital financing activity:

Noncash activity of \$1,014,639,000 in 1997 and \$122,490,000 in 1996 includes amounts payable in connection with Special Project Bonds, amortization of discount and premium on Consolidated Bonds and Notes, accretion associated with capital appreciation bonds and the gain on the purchase of Port Authority bonds for sinking fund purposes.

Notes to Combined Financial Statements

Note A – Summary of Significant Accounting Policies

1. Accounting Policies

a. The Port Authority of New York and New Jersey was created in 1921 by Compact between the two States and thereafter consented to by the Congress of the United States. Cash derived from Port Authority operations and other cash received may be disbursed only 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 tolls, fares, fees, rentals and other user charges.

b. 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.

In its accounting and financial reporting, the Port Authority follows the pronouncements of the Governmental Accounting Standards Board (GASB). In addition, the Port Authority follows the pronouncements of all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

c. The Passenger Facility Charge (PFC) Program is accounted for as a separate enterprise fund of the Port Authority since, pursuant to Federal law, amounts attributable to collection and investment of PFCs are restricted and can only be used for Federal Aviation Administration approved airport related, PFC eligible, projects pertaining to safety, capacity, security, noise reduction or enhancement of air carrier competition. Revenue derived from the collection of PFCs, net of the air carriers' handling charges, is recognized and reported as non-operating revenue in the year the fees are due from the air carriers. PFC revenue applied to eligible projects is reflected as a component of "Facilities" on the Combined Statements of Financial Position.

d. "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 (see Note F). "Facilities" do not include Regional and Other Programs, undertaken at the request of the Governor of the State of New Jersey or the Governor of the State of New York (see Note H-2). Capital costs for "Facilities" include net interest expense

incurred from the date of issuance of debt for purposes of a capital project until such project is completed and ready for its intended use (see Note B-2).

e. "Amortization of facilities" 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 amortization of assets acquired with government contributions is made against the related contribution accounts. Costs of Regional and Other Programs are amortized on a straight-line basis; the buy-out of the Fund for Regional Development is amortized in proportion to its future expected revenue flow (see Note H). Certain operating costs which provide benefits for periods exceeding one year are deferred and amortized over the period benefited. These unamortized deferred operating costs are included in "Other assets".

f. 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 Port Authority bonds, are valued at the lower of their aggregate amortized cost or market value. During 1997, GASB issued Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", which is effective for fiscal periods beginning after June 15, 1997. The effect of adopting the pronouncement as of January 1, 1997 would have been an increase in net assets of \$923,000.

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 in connection with bonds, notes and other capital asset financing, net of capitalized interest" and "Income on investments".

The Port Authority is authorized to use a variety of financial instruments, including derivatives, to assist in the management of its financing and investment objectives, and employs hedging strategies to minimize interest rate risk. To enhance interest earnings, the Port Authority may enter into interest rate option contracts, repurchase and reverse repurchase (yield maintenance) agreements (see Note C-3). To reduce the impact of interest rate fluctuations, the Port Authority may enter into United States Treasury and municipal bond futures contracts (see Note C-3) and into interest rate exchange contracts ("swaps") (see Note D-5).

g. When issuing new debt, the proceeds of which are used to repay previously issued debt, the difference between the acquisition price of the new debt and the net carrying amount of the

refunded debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

h. "Net income (loss) Port Authority operations" presented by operating segment consists of "Income (loss) from operations" less net interest expense and gain (loss) on disposition of assets (see Note K). Net interest expense (interest expense less financial income) that cannot be specifically identified with any particular operating segment is allocated to all operating segments on the basis of unamortized investment in use (completed construction less accumulated amortization). Financial income or interest expense which can be specifically identified with a particular facility within an operating segment is credited/charged directly to that segment. Gain or loss generated by the disposition of assets is included in the calculation of net income (loss) for the operating segment from which the assets were included.

i. Inventories, which are included in "Other assets" on the Combined Statements of Financial Position, are valued at average cost.

j. Environmental contamination treatment costs, including costs associated with the Port Authority's comprehensive dredging and disposal plan, are generally charged as an operating expense. However, such costs, when they result in the construction of a new asset or the improvement of an existing asset compared with its condition when it was constructed or acquired, are capitalized. Improved asset conditions include the extension of the useful life, increased capacity, or improvement of safety or efficiency.

k. For purposes of the Combined Statements of Cash Flows, cash consists of cash on hand and demand deposits.

l. The 1996 financial statements contain the reclassification of certain amounts, which have been made in order to conform to the classifications used in 1997.

2. Reconciliation of Combined Statements to Schedules Prepared Pursuant to Bond Resolutions

Schedules A, B, and C, which follow the notes to combined financial statements, have been prepared in accordance with legal requirements and Port Authority bond resolutions which differ in some respects from generally accepted accounting principles, as follows:

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.

The Port Authority's bond resolutions provide that net operating revenues shall not include an allowance for depreciation on (amortization of) facilities other than of ancillary equipment. Thus, depreciation (amortization) is not a significant 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 through direct investment in facilities. These amounts are credited at par to "Debt retired through income" and to "Appropriated reserves invested in facilities", respectively.

Costs incurred in connection with financing the acquisition of operating assets are paid in the same manner and out of the same revenues as operating expenses of the Port Authority.

Charges for Regional and Other 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 "Consolidated Bonds and Notes" until retirement. Interest expense and interest earnings relating to such Port Authority bonds purchased are included as "Interest on bonds, notes and other capital obligations" and "Income on investments". Consolidated Bonds and Notes are recorded at par value. Discounts and premiums are capitalized at time of issuance.

In accordance with the Port Authority's bond resolutions, Consolidated Bonds and Notes are recorded as outstanding on the date that the Port Authority is contractually obligated to issue and sell such obligations.

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 Combined Statements to Schedules A and B follows:

Combined Statements of Income to Schedule A, Revenues and Reserves

	Year ended December 31,	
	1997	1996
	(In thousands)	
Net income reported on Combined Statements of Income	\$282,448	\$198,911
Add: Amortization of facilities	350,465	341,651
Amortization of costs for		
Regional and Other Programs	36,185	23,508
Appropriations for self-insurance	(3,749)	5,057
Amortization of discount and premium	8,111	8,966
Loss on disposition of assets	257	4,875
	<u>673,717</u>	<u>582,968</u>
Less: Debt maturities and retirements	105,450	87,443
Repayment of commercial paper obligations	395	780
Debt retirement acceleration	—	100,000
Direct investment in facilities	246,232	162,471
Net PFC revenue	107,345	101,872
PFC income on investments	18,844	10,894
Call premium on refunded bonds	—	7,740
	<u>478,266</u>	<u>471,200</u>
Increase in reserves reported on Schedule A, Revenues and Reserves (pursuant to Port Authority bond resolutions)	<u>\$195,451</u>	<u>\$111,768</u>

Combined Statements of Financial Position to Schedule B, Assets and Liabilities

	December 31,	
	1997	1996
	(In thousands)	
Net assets reported on Combined Statements of Financial Position	\$3,848,861	\$3,538,522
Add: Accumulated amortization of facilities	4,245,990	3,975,305
Accumulated retirements and gains and losses on disposal of invested in facilities	407,772	326,989
Cumulative amortization of costs for Regional and Other Programs (including retired assets)	515,395	479,211
Amortized discount and premium	19,064	11,698
Deferred income in connection with PFCs	<u>(358,746)</u>	<u>(265,824)</u>
Net assets reported on Schedule B, Assets and Liabilities (pursuant to Port Authority bond resolutions)	<u>\$8,678,336</u>	<u>\$8,065,901</u>

Passenger Facility Charges are deferred until spent on approved project costs consistent with Port Authority bond resolutions. Unspent PFC program amounts are a Port Authority liability,

which are reflected as "Deferred income in connection with PFCs". A reconciliation of net income, PFC program to net income from sources other than operations attributable to PFCs (pursuant to Port Authority bond resolutions) follows:

	Year ended December 31,	
	1997	1996
	(In thousands)	
Net income, PFC program	\$121,074	\$109,787
Add: Amortization of PFC facilities	5,115	2,979
Less: Direct PFC project payments	(33,266)	(29,437)
Transfer to deferred income in connection with PFCs	<u>(92,923)</u>	<u>(83,329)</u>
Net income from sources other than operations attributable to PFCs (pursuant to Port Authority bond resolutions)	<u>\$ 0</u>	<u>\$ 0</u>

Note B - Facilities

1. Facilities, net is comprised of the following:

	December 31,	
	1997	1996
	(In thousands)	
Completed construction:		
Interstate Transportation Network	\$3,064,232	\$2,935,049
Air Terminals	4,485,780	4,145,308
Port Commerce	1,448,649	1,460,664
World Trade	<u>1,396,890</u>	<u>1,313,178</u>
	10,395,551	9,854,199
Construction in progress	<u>1,127,467</u>	<u>1,091,031</u>
Facilities	11,523,018	10,945,230
Less accumulated amortization	<u>4,245,990</u>	<u>3,975,305</u>
Facilities, net	<u>\$7,277,028</u>	<u>\$6,969,925</u>

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

Tunnels and bridges	100 years
Buildings	25 to 50 years
Runways and other paving	10 to 20 years
Machinery and equipment	5 to 35 years

2. Net interest expense added to the cost of facilities was \$36,955,000 in 1997 and \$36,772,000 in 1996.

3. During 1997, fifteen buildings located at the Elizabeth-Port Authority Marine Terminal were identified for demolition in 1998 as part of a redevelopment effort at that facility. The anticipated demolition has resulted in a reduction of \$3,385,000 to the buildings' book value in 1997.

During 1996, the Board of Commissioners and the PATH Board of Directors authorized the sale of land at the Industrial Park at Elizabeth and land associated with PATH, respectively, on the basis of determinations that such land was no longer required for the purpose for which it was originally acquired. These pending sales, resulted in a reduction of \$13,000,000 to the assets' book value in 1996.

Note C - Cash and Investments

1. The components of cash and investments are:

CASH	December 31,	
	1997	1996
	(In thousands)	
Cash on hand	\$ 1,165	\$ 1,295
Demand deposits	39,986	41,556
Total cash	<u>\$41,151</u>	<u>\$42,851</u>

INVESTMENTS	December 31,			
	Principal Amount	1997 Quoted Market	Book Value	1996 Book Value
	(In thousands)			
Short-term				
United States Treasury				
Bills and Notes	\$ 1,085,411	\$ 1,068,114	\$ 1,068,100	\$ 476,552
United States Treasury obligations held pursuant to repurchase agreements	197,575	197,575	197,575	164,110
Total short-term	<u>\$1,282,986</u>	<u>\$1,265,689</u>	<u>1,265,675</u>	<u>640,662</u>
Long-term				
United States Treasury				
Bonds and Notes	\$ 820,823	\$ 795,224	794,315	899,679
Total long-term	<u>\$ 820,823</u>	<u>\$ 795,224</u>	<u>794,315</u>	<u>899,679</u>
Accrued interest receivable			9,317	10,377
Total investments		<u>\$2,069,307</u>	<u>\$1,550,718</u>	

2. Port Authority policy provides for funds of the Port Authority 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 do not exceed 50 percent of the bank's combined capital and permanent surplus. Also, funds of the Port Authority must be fully secured by deposit of collateral having a minimum market value of 110 percent of targeted average daily balances in excess of that part of the deposits secured through the Federal Deposit Insurance Corporation (FDIC). Actual daily balances may differ from the targeted daily balance. 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.

Total actual bank balances were \$37,084,000 as of December 31, 1997. In accordance with the aforementioned policy, \$30,631,000 was either secured through the FDIC or was fully collateralized by collateral held by a third party financial institution acting as the Port Authority's agent and held by such institution in the Port Authority's name, and \$5,377,000 was fully collateralized by collateral held by a financial institution's trust department or the financial institution's agent in the Port Authority's name. The balance of \$1,076,000 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. The Treasurer, consistent with authorizations of the Board or the Committee and established guidelines, executes individual investment transactions and reports on a periodic basis to the Committee. These investment transactions are executed with recognized and established securities dealers and commercial banks. Securities transactions, generally on a book-entry basis, are conducted in the open market at competitive prices. Transactions (including repurchase and reverse repurchase agreement transactions) are completed when the Port Authority's custodian, in the Port Authority's name, makes or receives payment upon receipt of confirmation that the securities have been transferred at the Federal Reserve Bank of New York or other repository in accordance with Port Authority instructions.

Proceeds of Port Authority obligations are invested, on an interim basis, pursuant to the above mentioned agreements, authorizations and guidelines and in conformance with applicable Federal law and regulations, in obligations of (or fully guaranteed by) the United States of America (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 of America, the State of New York or the State of New Jersey, collateralized time accounts, and Port Authority bonds actually issued and secured by a pledge of the General Reserve Fund. Operating funds may presently be invested in direct obligations of the United States of America and obligations of United States government agencies and sponsored enterprises, investment grade negotiable certificates of deposit, negotiable bankers' acceptances, commercial paper, United States Treasury and municipal bond futures contracts and in connection with certain interest rate exchange contracts with investment firms and banking institutions and certain interest rate options contracts with primary dealers in United States Treasury securities. The Board has from time to time authorized certain other investments of operating funds.

The Port Authority has entered into reverse repurchase agreements whereby the Port Authority contracted to sell a security to a counterparty and simultaneously agreed to purchase it back from that party at a predetermined price and future date. All reverse repurchase agreements sold are matched to repurchase agreements bought, thereby minimizing market risk. The credit risk is managed by a daily evaluation of the market value of the underlying securities and periodic cash adjustments, as necessary, in accordance with the terms of the repurchase agreements. During 1997, repurchase agreements in effect at

any one time ranged as high as \$646,160,000. Although there were no investments in reverse repurchase agreements at December 31, 1997, during 1997 reverse repurchase (yield maintenance) agreements in effect at any one time ranged as high as \$356,850,000.

Although no investments in obligations of United States government agencies or commercial paper were held at December 31, 1997, during the year balances of United States government agency obligations and commercial paper investments ranged as high as \$100,000,000 and \$60,000,000, respectively. During 1997, premiums on interest rate option contracts, written on underlying United States Treasury securities of \$20,000,000, ranged as high as \$44,000. (See Note A-1.)

Note D - Outstanding Obligations and Financing

The obligations noted with "(*)" on original issuance were subject to the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended, with respect to individuals and corporations. Obligations noted with "(**)" are subject to Federal taxation.

1. Consolidated Bonds and Notes

The Port Authority issues Consolidated Bonds and Notes for purposes of capital expenditures in connection with Port Authority facilities and/or refunding bonds, notes or other obligations.

		Dec. 31, 1996	Issued/ Accreted	Refunded/ Retired	Dec. 31, 1997
		(In thousands)			
A. Consolidated Bonds:					
Thirtieth series	3 5/8% due 1998	\$ 2,750	\$ —	\$ 1,250	\$ 1,500
Thirty-first series	4% due 2002	30,000	—	5,000	25,000
Thirty-second series	5% due 2003	35,000	—	5,000	30,000
Thirty-third series	4 3/4% due 2003	31,705	—	1,705	30,000
Thirty-ninth series	5.8% due 2007	105,000	—	7,500	97,500
Forty-first series	5 1/2% due 2008	75,000	—	5,000	70,000
Forty-sixth series	6% due 2013	68,250	—	1,500	66,750
Series fifty-one E	7% due 2014	14,240	—	1,150	13,090
Fifty-second series (a)	due 2014	100,000	—	—	100,000
Sixty-seventh series	6.8%-6.9% due 2005-2025	100,000	—	—	100,000
Sixty-eighth series*	7 1/8%-7 1/4% due 2005-2025	100,000	—	—	100,000
Sixty-ninth series (b)	6.5%-7 1/8% due 1997-2025	100,280	1,390	1,080	100,590
Seventieth series*	7%-7 1/4% due 2005-2025	100,000	—	—	100,000
Seventy-first series	6.5%-7% due 2006-2026	78,000	—	—	78,000
Seventy-second series	7.4% due 2012, 7.35% due 2027	100,000	—	—	100,000
Seventy-third series*	6 1/2%-6 3/4% due 2006-2026	100,000	—	—	100,000
Seventy-fourth series (c)	5.75%-6 3/4% due 1997-2026	103,930	1,358	1,335	103,953
Seventy-sixth series*	6.3%-6 1/2% due 2006-2026	100,000	—	—	100,000
Seventy-seventh series*	6 1/8%-6 1/4% due 2007-2027	100,000	—	—	100,000
Seventy-eighth series	5.4%-6 1/2% due 1997-2011	92,100	—	3,500	88,600
Seventy-ninth series	5%-6% due 1997-2005	60,230	—	6,400	53,830
Eightieth series	5%-6% due 1997-2005	30,265	—	3,190	27,075
Eighty-first series	4.4%-5.8% due 1997-2014	111,530	—	3,500	108,030
Eighty-second series	4.4%-5.8% due 1997-2014	88,925	—	2,225	86,700
Eighty-third series	4 3/4%-6 3/8% due 1997-2017	92,705	—	2,065	90,640
Eighty-fourth series*	5 3/4%-6% due 2008-2028	97,250	—	—	97,250
Eighty-fifth series	5%-5 3/8% due 2008-2028	98,000	—	—	98,000
Eighty-sixth series	3.8%-5.2% due 1997-2012	128,130	—	9,170	118,960
Eighty-seventh series	4%-7 1/2% due 1997-2021	98,295	—	1,785	96,510
Eighty-eighth series	3.7%-4 3/4% due 1997-2008	189,490	—	18,260	171,230
Eighty-ninth series	4 1/4%-5 1/8% due 2001-2021	94,000	—	—	94,000
Ninetieth series**	4.95%-6 1/8% due 1997-2005	60,205	—	5,360	54,845
Ninety-first series	3.8%-5.2% due 1997-2020	284,795	—	3,665	281,130
Ninety-second series	4 3/4%-5 5/8% due 2009-2029	90,680	—	—	90,680
Ninety-third series	6 1/8% due 2094	100,000	—	—	100,000
Ninety-fourth series	5.1%-6% due 2003-2017	100,000	—	—	100,000
Ninety-fifth series*	5 1/2%-6 1/8% due 2005-2029	95,000	—	—	95,000
Ninety-sixth series*	5.6%-6.6% due 2003-2023	100,000	—	—	100,000
Ninety-seventh series	6%-7.1% due 2003-2023	100,000	—	—	100,000
Ninety-eighth series*	5.7%-6.2% due 2005-2015	100,000	—	—	100,000
Ninety-ninth series*	5 1/4%-7% due 2004-2015	86,000	—	—	86,000
One hundredth series	5 5/8%-5 3/4% due 2010-2030	135,000	—	—	135,000
One hundred first series*	5%-6% due 1997-2015	97,080	—	3,255	93,825
One hundred second series (d)	5.1%-5 7/8% due 2007-2027	120,000	—	—	120,000
One hundred third series	3.9%-5 1/4% due 1997-2014	84,500	—	3,000	81,500
One hundred fourth series	4 3/4%-5.2% due 2011-2026	150,000	—	—	150,000
One hundred fifth series*	5%-6 1/4% due 1997-2016	150,000	—	5,055	144,945
One hundred sixth series*	4% - 6% due 1997-2016	100,000	—	3,000	97,000
One hundred seventh series*	4.9%-6% due 2004-2016	100,000	—	—	100,000
One hundred eighth series*	4 3/4%-6% due 1998-2017	—	150,000	—	150,000
One hundred ninth series	5 3/8%-5 1/2% due 2012-2032	—	150,000	—	150,000
One hundred tenth series*	4.25%-5.375% due 1998-2017	—	100,000	—	100,000
One hundred eleventh series	5% due 2012-2032	—	100,000	—	100,000
Total Consolidated Bonds pursuant to Port Authority bond resolutions		4,678,335	502,748	103,950	5,077,133

1. Consolidated Bonds and Notes (continued)

	<u>Dec. 31, 1996</u>	<u>Issued/ Accreted</u>	<u>Refunded/ Retired</u>	<u>Dec. 31, 1997</u>
		(In thousands)		
B. Consolidated Notes:				
Series SS* 4.9% due September 1, 1997	45,000	—	45,000	—
Total Consolidated Notes pursuant to Port Authority bond resolutions	<u>45,000</u>	<u>—</u>	<u>45,000</u>	<u>—</u>
Total Consolidated Bonds and Notes pursuant to Port Authority bond resolutions	4,723,335	<u>\$502,748</u>	<u>\$148,950</u>	5,077,133
Less: Unamortized discount and premium (e)	<u>138,240</u>			<u>143,906</u>
Consolidated Bonds and Notes (f)	<u>\$4,585,095</u>			<u>\$4,933,227</u>

- (a) Interest rate, 9% per annum, 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, set on each semi-annual interest payment date for the ensuing six months, ranging from 8% to 12% per annum. As of December 31, 1997, \$1,140,000 of this series was so converted.
- (b) Includes \$12,388,000 (initial amounts) serial bonds issued on a capital appreciation basis; the only payments with respect to these bonds will be made at their respective maturities, ranging from years 2000 to 2011, in total aggregate maturity amounts of \$38,270,000.
- (c) Includes \$14,204,000 (initial amounts) serial bonds issued on a capital appreciation basis; the only payments with respect to these bonds will be made at their respective maturities, ranging from years 2002 to 2014, in total aggregate maturity amounts of \$44,555,000.
- (d) Approximately \$110,000,000 of the proceeds of the Consolidated Bonds, one hundred second series was allocated to the purchase of U.S. Treasury securities which are expected to provide for the payment of interest on Consolidated Bonds, seventy-second series until October 1, 2002 and to permit the Port Authority to refund the Consolidated Bonds, seventy-second series at their first call date on October 1, 2002.
- (e) Gain or loss on futures contracts transactions have been classified as premium or discount, respectively. Amount also includes the unamortized difference between acquisition price and carrying amount on refunded debt.
- (f) Debt service on Consolidated Bonds and Notes outstanding on December 31, 1997 is:

<u>Year Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
		(In thousands)	
1998	\$ 120,745	\$ 292,012	\$ 412,757
1999	126,595	286,159	412,754
2000	136,995	279,761	416,756
2001	144,670	272,489	417,159
2002	152,635	264,752	417,387
2003-2094	<u>4,435,940</u>	<u>3,698,839</u>	<u>8,134,779</u>
Total	<u>\$5,117,580</u>	<u>\$5,094,012</u>	<u>\$10,211,592</u>

Total principal of \$5,117,580 shown above differs from the total Consolidated Bonds and Notes pursuant to Port Authority bond resolutions of \$5,077,133 because of differences in the par value at maturity of the capital appreciation bonds of \$40,447.

The Board of Commissioners has authorized the issuance of Consolidated Bonds one hundred twelfth series through one hundred twenty-second series, in aggregate principal amount of up to \$300 million of each series, and Consolidated Notes, Series TT, UU, VV, WW and XX of up to \$200 million in aggregate principal amount of each series.

The Port Authority operates John F. Kennedy International Airport and LaGuardia Airport under a lease agreement with the City of New York, which expires in 2015. During 1994 the City of New York suspended negotiations to extend the lease term. In this context, the Port Authority initiated a program to accelerate the retirement of certain Consolidated Bonds that were outstanding as of December 31, 1994, with maturities extending beyond 2015. If the lease agreement is not extended beyond 2015 and the program continues through the year 2015, all such Consolidated Bonds (with the exception of Consolidated Bonds, ninety-third series) outstanding as of December 31, 1994, with maturities beyond 2015 would be retired. Additionally, the Port Authority is limiting the maturity on its future private activity Consolidated Bonds (proceeds of which are used primarily at the airports) to twenty years from the date of issue. The continuation of the program of accelerated retirements and the maturity limitations, in each case, is subject to change at the discretion of the Port Authority. (See Note G-4.)

2. Obligations in Connection with Other Capital Asset Financing

The components of obligations in connection with other capital asset financing are:

	Dec. 31, 1996	Dec. 31, 1997
	(In thousands)	
Commercial paper notes	\$163,850	\$124,445
Variable rate master notes	233,000	202,900
Versatile structure obligations	484,700	584,200
	<u>\$881,550</u>	<u>\$911,545</u>

A. Commercial paper notes

Port Authority commercial paper obligations may be issued until December 31, 2000, in an aggregate principal amount at any one time outstanding not in excess of \$300,000,000 in two separate series. Each of such series includes a standby revolving credit facility and is limited to a maximum aggregate principal amount outstanding at any one time of \$150,000,000.

	Dec. 31, 1996	Issued	Refunded/ Repaid	Dec. 31, 1997
	(In thousands)			
Series A*	\$ 87,915	\$369,215	\$391,090	\$ 66,040
Series B	75,935	387,810	405,340	58,405
Total commercial paper obligations	<u>\$163,850</u>	<u>\$757,025</u>	<u>\$796,430</u>	<u>\$124,445</u>

Interest rates for all commercial paper obligations ranged in 1997 from 2% to 4.85%.

As of February 27, 1998, commercial paper obligations outstanding totalled \$116,180,000.

B. Variable rate master notes

Variable rate master notes may be issued in aggregate principal amounts outstanding at any one time not to exceed \$400,000,000.

	Dec. 31, 1996	Issued	Refunded/ Repaid	Dec. 31, 1997
	(In thousands)			
Agreements 1989-1995*	\$125,000	\$ —	\$ 30,100	\$ 94,900
Agreements 1989-1997	108,000	19,300	19,300	108,000
	<u>\$233,000</u>	<u>\$ 19,300</u>	<u>\$ 49,400</u>	<u>\$202,900</u>

Interest rates, variable, ranged in 1997 from 3.38% to 4.5%.

Variable rate master notes are subject to prepayment at the option of the Port Authority or upon demand of the holders.

C. Versatile structure obligations

	Dec. 31, 1996	Issued	Refunded/ Repaid	Dec. 31, 1997
	(In thousands)			
Series 1*, 1R*, 4*, 6*	\$200,000	\$200,000	\$100,000	\$300,000
Series 2, 3, 5	284,700	—	500	284,200
	<u>\$484,700</u>	<u>\$200,000</u>	<u>\$100,500</u>	<u>\$584,200</u>

Interest rate, variable based upon contractual agreements, ranged in 1997 from 1.95% to 5.6%.

Versatile structure obligations are subject to prepayment at the option of the Port Authority or upon demand of the holders.

2. Obligations in Connection with Other Capital Asset Financing (Con't.)

The Port Authority has entered into standby certificate purchase agreements pertaining to the versatile structure obligations with certain banks, which provide that during the term of the banks' commitment (generally three years, subject to renewal for equivalent periods while the obligations are outstanding), if the remarketing agent fails to remarket any obligations that are tendered by the holders, the banks may be required, subject to certain conditions, to purchase such unremarketed portion of the obligations. If not purchased prior thereto at the Port Authority's option, the Port Authority has agreed to purchase such portion of the obligations within 90 business days after the purchase thereof by the banks. Bank commitment fees during 1997 in connection with the agreements were \$583,000. The banks were not required to purchase any of the obligations under the agreements in 1997.

3. Obligations in Connection with Operating Asset Financing

The components of obligations in connection with operating asset financing are:

	Dec. 31, 1996	Dec. 31, 1997
	(In thousands)	
Port Authority equipment notes	\$ 36,138	\$ 74,838
Fund buy-out obligation	400,305	404,582
	<u>\$436,443</u>	<u>\$479,420</u>

A. Port Authority equipment notes

Equipment notes may be issued in aggregate principal amounts outstanding at any one time not to exceed \$100,000,000.

	Dec. 31, 1996	Issued	Refunded/ Repaid	Dec. 31, 1997
	(In thousands)			
Notes 1995-1997	\$29,688	\$32,800	\$ —	\$ 62,488
Notes 1995-1997*	6,450	5,900	—	12,350
	<u>\$36,138</u>	<u>\$38,700</u>	<u>\$ —</u>	<u>\$ 74,838</u>

Interest rates, variable, ranged in 1997 from 3.05% to 4.8%.

Equipment notes are subject to prepayment at the option of the Port Authority or upon demand of the holders.

B. Fund buy-out obligation

	Dec. 31, 1996	Accretion (a)	Refunded/ Repaid	Dec. 31, 1997
	(In thousands)			
	<u>\$400,305</u>	<u>\$32,340</u>	<u>\$ 28,063</u>	<u>\$404,582</u>

(a) Represents the annual implicit interest cost (8.25%) contained in the present value of amounts due to the States of New York and New Jersey upon termination of the Fund for Regional Development.

Payment requirements of the Fund buy-out obligation outstanding on December 31, 1997 are:

Year Ending December 31:	Payments
	(In thousands)
1998	\$28,063
1999	28,063
2000	28,063
2001	28,063
2002	35,215
2003-2021	879,424
	<u>\$1,026,891</u>

As of February 27, 1998, the Fund buy-out obligation outstanding totalled \$409,996,000.

4. Amounts Payable in Connection with Special Project Bonds

Neither the full faith and credit of the Port Authority, nor the General Reserve Fund, nor the Consolidated Bond Reserve Fund are pledged to the payment of the principal and interest on Special Project Bonds. Principal and interest on each series of Special Project Bonds are secured solely by a mortgage by the Port Authority of facility rental (to the extent received by the Port Authority from a lessee) 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 interest 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.

	<u>Dec. 31, 1996</u>	<u>Issued</u>	<u>Refunded/ Repaid</u>	<u>Dec. 31, 1997</u>
		(In thousands)		
<u>Series 1R, Delta Air Lines, Inc. Project (a)</u>				
6.95% term bonds, due 2008	\$ 96,500	\$ —	\$ —	\$ 96,500
<u>Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project (b)*</u>				
9%-9 1/8%, due 2006-2015	202,075	\$ —	\$ —	202,075
Less: unamortized discount and premium	9,273			8,853
Total - Series 2	<u>192,802</u>			<u>193,222</u>
<u>Series 4, KIAC Partners Project (c)*</u>				
6 1/4%-7%, due 1999-2019	250,000	\$ —	\$ —	250,000
Less: unamortized discount and premium	4,284			4,108
Total - Series 4	<u>245,716</u>			<u>245,892</u>
<u>Series 6, JFK International Air Terminal LLC Project (d)*</u>				
5.125%-7%, due 2003-2025	—	\$934,100	\$ —	\$934,100
Less: unamortized discount and premium		8,098		8,094
Total - Series 6		<u>\$926,002</u>		<u>926,006</u>
Grand total	<u>\$535,018</u>			<u>\$1,461,620</u>

- (a) Special Project Bonds, Series 1R, Delta Air Lines, Inc. Project, were issued in connection with a project including the construction of a passenger terminal building at LaGuardia Airport leased to Delta Air Lines, Inc.
- (b) Special Project Bonds, Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project, were issued in connection with a project including the construction of a passenger terminal at LaGuardia Airport leased to and to be occupied by Continental Airlines, Inc., and Eastern Air Lines, Inc. The leasehold interest of Eastern Air Lines, Inc. was assigned to Continental Airlines, Inc. Continental's leasehold interest in such passenger terminal, including the previously acquired leasehold interest of Eastern was subsequently assigned to USAir, Inc. (with Continental to remain liable under both underlying leases).
- (c) Special Project Bonds, Series 4, KIAC Partners Project, were issued to refund the Series 3 Bonds, and in connection with a project at John F. Kennedy International Airport, which includes the construction of a cogeneration facility, the renovation and expansion of the central heating and refrigeration plant, and the renovation and expansion of the thermal distribution system.
- (d) Special Project Bonds, Series 6, JFK International Air Terminal LLC Project, were issued in connection with a project that includes the development and construction of a new passenger terminal at John F. Kennedy International Airport.

5. Interest Rate Exchange Contracts ("Swaps")

The Port Authority records interest rate exchange contracts pursuant to the settlement method of accounting whereby cash paid or received under the terms of the swap is charged or credited to the related interest expense account for the purpose of managing interest rate exposure. Each swap transaction involves the exchange of fixed and variable rate interest payment obligations calculated with respect to an agreed upon nominal principal amount called a "notional amount". As of December 31, 1997, 11 interest rate exchange contracts were in place with notional amounts aggregating \$779,560,000, including offsetting swap agreements with aggregate notional amounts of \$220,000,000 (see Note A-1).

Entering into interest rate exchange contracts subjects the Port Authority to the possibility of financial loss in the event of nonperformance by the counterparty to the swap and/or with respect to changes in market rates.

Note E – Reserves

The General Reserve Fund is pledged in support of all outstanding Consolidated Bonds and Notes and all Consolidated Bonds and Notes now or hereafter issued and is not pledged in support of any other obligation of the Port Authority. Statutes which require the Port Authority to create the General Reserve Fund also established the principle of pooling revenues from facilities with established earning power to aid the development of new projects. The statutes also require that the Port Authority apply surplus revenues from all of its existing facilities to maintain the General Reserve Fund in an amount at least equal to 10 percent of the par value of outstanding bonds legal for investment. Other capital asset financing obligations, and the interest thereon, are not secured by or payable from the General Reserve Fund. At December 31, 1997, the General Reserve Fund balance was \$754,619,000 and met the prescribed statutory amount.

The balance remaining of all net revenues of the Port Authority's existing facilities 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, which is pledged as additional security for all outstanding Consolidated Bonds and Notes. Consolidated Bonds and Notes have a first lien upon the net revenues (as defined in the Consolidated Bond Resolution) of all existing facilities of the Port Authority and any additional facility financed by Consolidated Bonds.

The payment of the principal of, and interest on, other capital asset financing obligations (versatile structure obligations, commercial paper obligations, variable rate master notes) is payable solely from the proceeds of obligations issued for such purposes or from net revenues paid into the Consolidated Bond Reserve Fund and, in the event such proceeds or net revenues are insufficient therefor, from other moneys of the Port Authority legally available for such payments.

The Port Authority has a long-standing policy of maintaining total reserve funds in an amount equal to at least the next two years' bonded debt service on outstanding debt secured by a pledge of the General Reserve Fund.

At December 31, 1997, the Port Authority met the requirements of the Consolidated Bond Resolution to maintain total reserve funds in cash and specified marketable securities (see Note C).

Note F – Government Contributions in Aid of Construction

The Port Authority receives contributions in aid of construction for capital purposes from government agencies. Federal funding (including amounts receivable) from the Airport Improvement Program was \$27,892,000 in 1997 and \$38,517,000 in 1996.

Charges representing amortization of assets relating to government contributions were \$29,234,000 in 1997 and \$28,985,000 in 1996.

	December 31,	
	1997	1996
	(In thousands)	
Cumulative government contributions	\$699,204	\$671,312
Less accumulated amortization of assets acquired with government contributions	<u>321,276</u>	<u>292,041</u>
Government contributions in aid of construction	<u>\$377,928</u>	<u>\$379,271</u>

Note G – Lease Commitments

1. Operating lease revenues

Gross operating revenues attributable to fixed rentals associated with operating leases amounted to \$691,888,000 in 1997 and \$677,912,000 in 1996.

2. Property held for lease

The Port Authority, or one of its subsidiaries, 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 terminals, rail facilities, industrial parks, the Newark Legal and Communications Center, the Teleport and the World Trade Center.

Minimum future rentals scheduled to be received on operating leases in effect on December 31, 1997 are:

Year ending December 31:	(In thousands)
1998	\$ 585,671
1999	530,928
2000	504,793
2001	492,398
2002	474,369
Later years	<u>4,538,722</u>
Total minimum future rentals	<u>\$7,126,881</u>

Investments in such facilities as of December 31, 1997 include property associated with minimum rentals derived from operating leases. It is not reasonably practicable to segregate the value of assets associated with producing minimum rental revenue from the value of assets associated with an entire facility.

3. Property leased from others

Rental expenses under leases, including payments to the cities of New York and Newark for various air terminals, marine terminals and other facilities, aggregated \$74,587,000 in 1997 and \$80,549,000 in 1996. The terms of such leases expire at various times from 1998 to 2031 and may be renewed for additional periods. Minimum future rentals scheduled to be paid on operating leases in effect on December 31, 1997 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)
1998	\$ 35,964
1999	35,579
2000	35,554
2001	36,076
2002	37,073
Later years	<u>805,919</u>
Total minimum future rentals	<u>\$986,165</u>

4. Information with respect to the suspension of New York City lease negotiations

The Port Authority operates John F. Kennedy International and LaGuardia Airports under a lease agreement with the City of New York which expires in 2015. During 1994, the City of New York suspended negotiations to extend the term of the lease, and has since expressed an unwillingness to negotiate an extension of the lease and a willingness to negotiate only a transfer of the airports back to the control of the City, with appropriate consideration given to administrative, financial and bond covenant issues (see Note D-1).

On December 14, 1995, the City of New York demanded arbitration by a panel of certified public accountants of certain matters involved in the determination of the amount due to the City as rent under the lease agreement, requesting that it be awarded in excess of \$400,000,000, which the City alleges represents underpayment of rent by the Port Authority. In addition to other items, the City alleges that passenger facility charges collected pursuant to Federal law should be included in gross revenue in the calculation of rent.

On November 20, 1996, the Federal Aviation Administration (FAA), in an advisory opinion, stated that Congress intended the passenger facility charge to represent a separate revenue stream distinct from other airport revenue and beyond the control of the airlines and state and local governments. Additionally, the opinion stated that the passenger facility charge revenues collected by a public agency should not be used either to increase or decrease the amount of rent owed under a lease; rather the passenger facility charge revenues collected should be excluded from any calculation of airport revenue used to determine rental payments owed to the

City of New York. Additionally, the Chief Counsel of the FAA has stated that an advisory opinion, by its nature, is not binding, but it puts the parties on clear notice of the agency's view of the law.

The Port Authority is continuing to dispute the City's allegations in the above described arbitration process, and discovery under arbitration rules agreed to with the City is proceeding.

Note H - Deferred Costs

1. Buy-out of Fund for Regional Development

In 1983, the Fund for Regional Development (Fund) was established to sublease space in the World Trade Center that was previously held by the State of New York as tenant. An agreement between the Port Authority and the States of New York and New Jersey with respect to the Fund provided that net revenues from the subleasing were to be accumulated subject to disbursements to be made upon the concurrence of the Governors of New York and New Jersey. In 1990, the Port Authority and the States of New York and New Jersey agreed to terminate the Fund. The present value (calculated at the time of the termination agreement) of the cost to the Port Authority of its purchase of the Fund's interest in the World Trade Center subleased space was approximately \$430,500,000, including semi-annual payments to the States to be made over a period of years ending in 2021.

	<u>Dec. 31,</u> <u>1996</u>	<u>Amortization</u> (In thousands)	<u>Dec. 31,</u> <u>1997</u>
Unamortized costs for Fund buy-out	\$414,645	\$3,052	\$411,593

2. Regional and Other Programs

Pursuant to recommendations outlined by the Governors of New York and New Jersey and to existing legislation, the Port Authority has certified several facilities described briefly below under which certain projects, not otherwise a part of Port Authority facilities, have been and/or will in the future be undertaken.

Regional Programs

Regional Development Facility. This facility was established in conjunction with a program of up to \$250,000,000 for transportation, economic development and infrastructure renewal projects authorized in connection with the Governors' Program of June 1983. Some of the projects in this program have been associated with other existing Port Authority facilities. The balance of \$139,479,000 is associated with the Regional Development Facility.

Regional Economic Development Program. This facility was established in conjunction with a centralized program of up to \$400,000,000 for transportation, economic development and infrastructure renewal projects authorized pursuant to gubernatorial request. As of December 31, 1997, \$394,000,000 had been authorized of which \$325,650,000 was associated with the Regional Economic Development Program facility and the balance has been associated with other existing Port Authority facilities.

Other Programs

Oak Point Rail Freight Link. The Port Authority is participating with the New York State Department of Transportation in the development of the Oak Point Rail Freight Link. As authorized by the Board of Commissioners, costs to the Port Authority in connection with this project are not to exceed \$101,650,000. Any of such costs in excess of \$38,750,000 are to be allocated against moneys made available through the Regional Development Facility and the Regional Economic Development Program.

The New Jersey Marine Development Program. This Program was undertaken to fund certain fishery, marine or port development projects in the State of New Jersey with a total cost of \$27,000,000.

Bus Programs. The Port Authority has completed provision of bus and ancillary bus facilities in each State in an authorized amount of up to \$440,000,000, approximately \$220,000,000 in each State, for the purpose of leasing, selling or transferring such buses and ancillary bus facilities to either State or to any public authority, agency, commission, city or county thereof. The Port Authority is not permitted to incur operating or maintenance expenses under the Port Authority Bus Programs and does not expect to derive any revenue from this capital investment. Further, the bus or ancillary bus facility lessees are required to defend and to provide for indemnification of the Port Authority against any liability by reason of the programs, subject to appropriations or other funds which are or become legally available for this purpose. As of December 31, 1997, title has been transferred to NJ Transit for all buses leased to NJ Transit under the New Jersey portion of the Port Authority Bus Programs.

As of December 31, 1997, \$1,149,750,000 was authorized for regional and other programs of which \$1,097,261,000 has been expended. Costs for regional and other programs (as well as costs associated with existing Port Authority facilities) are deferred and amortized over the period benefited. As of December 31, 1997, the unamortized costs of the regional and other programs are as follows:

	Dec. 31, 1996	Additional Project Expendi- tures	Amorti- zation	Dec. 31, 1997
		(In thousands)		
Unamortized cost of regional programs	\$404,344	\$26,439	\$16,135	\$414,648
Unamortized cost of Oak Point Freight Link	30,821	—	1,274	29,547
Unamortized cost of New Jersey Marine Development	14,429	237	566	14,100
Unamortized cost of Bus Programs	19,843	—	18,210	1,633
Unamortized cost of Regional and Other Programs	<u>\$469,437</u>	<u>\$26,676</u>	<u>\$36,185</u>	<u>\$459,928</u>

Note I - Pension and Retirement Plans and Other Employee Benefits

1. Employees of the Port Authority are covered by the Social Security Act administered by the Social Security Administration and by one of two cost-sharing multiple-employer defined benefit pension plans, the New York State and Local Employees' Retirement System (ERS) or the New York State and Local Police and Fire Retirement System (PFRS), collectively referred to as the "Retirement Systems". 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 Port Authority employees (except those individuals who are currently receiving a pension on the basis of employment with New York State or public entities in the State) join one of these two public employees' retirement systems.

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 public service (generally ten years), 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.

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. The Port Authority's payroll expense for 1997 was \$408,493,000 of which \$301,836,000 and \$97,949,000 represent the cost for

employees covered by ERS and PFRS, respectively. Participating employers are required to pay for funding the Retirement Systems on a current basis. In November of each year, the ERS and PFRS bill participating employers for their share of total estimated contributions due for the Retirement Systems' fiscal year ending March 31 of the succeeding year. The prepayment of \$3,324,000 for the first three months of 1998 is included in "Other assets" in the Combined Statements of Financial Position.

Effective April 1, 1990, the funding policy for the Retirement Systems changed from the aggregate cost method to the modified projected unit credit method. As a result of this legislated change, employer contributions were lower than would have been the case under the aggregate cost funding method. The New York Court of Appeals subsequently held that the change to the unit credit actuarial method was unconstitutional. Consequently, the Retirement Systems returned to the aggregate method on April 1, 1994, using a phase-in for ERS and full aggregate for PFRS. As of the Retirement Systems' fiscal year ended March 31, 1997, the ERS required contribution reached full aggregate.

Port Authority contributions to the Retirement Systems include costs for participation in the retirement incentive programs. The contributions, which were the actuarially determined funding requirements, calculated in accordance with GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, are as follows:

Year Ended	ERS	(In thousands)		% of Covered Payroll
		% of Covered Payroll	PFRS	
1997	\$16,807	4.2%	\$11,001	2.8%
1996	19,359	4.4%	14,362	3.3%
1995	4,979	1.1%	17,438	3.7%

Employee contributions of \$6,645,000 to the ERS represented 1.7% of the total Port Authority covered payroll in 1997.

During 1996 and 1997, the Port Authority participated in retirement incentive programs authorized by law and administered by the ERS. In 1996 and 1997, a total of 439 employees retired resulting in position abolition or compensation savings as required by law. Without regard to the resulting savings, based upon an ERS formula, the cost for the Port Authority's participation was \$12,407,000 for 1996 and has been estimated to be \$5,464,000 for 1997. These amounts are included in "Employee compensation, including benefits" on the Combined Statements of Income.

The Annual Report of the New York State and Local Retirement Systems, which provides details on valuation methods and ten year historical trend information, is available from the Comptroller of the State of New York, Smith Building, Albany, NY, 12244.

Employees of Port Authority Trans-Hudson Corporation (PATH), a wholly-owned subsidiary of the Port Authority, are covered by the provisions of the Railroad Retirement Act administered by the United States Railroad Retirement Board and by one of several supplemental pension plans established or funded 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, single employer supplemental pension plan was authorized in 1964. The PATH Exempt Employees' Supplemental Pension Plan (Plan) currently provides, as a matter of policy, an annual pension (for covered retired 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 (generally 10 years), and optional methods of benefit payment. The PATH payroll expense for 1997 was \$65,480,000 of which \$8,217,000 represented the cost for exempt employees.

There are a total of 110 active and 45 retired employees covered under the Plan. The actuarially determined valuation of this unfunded pension benefit obligation was reviewed in 1997 for the purpose of adjusting the annual accruals and updating the valuation of the accrued pension obligation. At December 31, 1997 the actuarial plan valuation, based on the projected unit credit cost method, was estimated to be \$20,365,000 of which \$10,576,000 and \$9,789,000 represent the cost for active and retired employees, respectively. Actuarial assumptions utilized in the calculation of this liability include a salary scale adjustment of 4% per annum (based on 3.5% cost of living and 0.5% for merit) and interest at the rate of 7% per annum. In 1997, PATH recognized an annual pension cost of \$2,347,000, \$1,486,000 for the annual required contribution plus \$861,000 for interest in connection with the net pension obligation. A liability account has been established by the Port Authority with respect to the payment of future pension benefits for the Plan. Since this is an unfunded, pay-as-you-go, pension plan there are no available plan assets to be reported. As of December 31, 1997, the amount of the unfunded actuarial accrued liability was \$13,527,000 and is included in "Accrued pension, retirement and other employee benefits" on the Combined Statements of Financial Position.

The following is supplementary information required by GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers (unaudited):

Year Ended	(A)	(B)	(C)	Percentage (B)/(C)
	Actuarial plan valuation	Unfunded actuarial accrued liability	Annual covered payroll	
	(In thousands)			
1997	\$20,365	\$13,527	\$8,217	164.6
1996	19,712	12,295	8,351	147.2
1995	16,595	11,008	8,490	129.7

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. PATH payroll expense in 1997 for these employees was \$57,263,000. For the year 1997, contributions made by PATH in accordance with the terms of various collective bargaining agreements totalled \$3,099,000, which represented approximately 4.7% of the total PATH covered payroll for 1997. 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, dental 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. 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 for 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 prior service cost is fully recognized. The actuarially determined valuation, last completed in 1989, is reviewed periodically for the purpose of adjusting the annual accruals. That study estimated the actuarial present value of future benefits for prior service by active and retired employees and their dependents, to be paid after retirement, to be \$355,200,000 as of December 31, 1997, consisting of the following:

	Port Authority	PATH	Total
	(In millions)		
Retirees	\$182.9	\$ 7.7	\$190.6
Active	156.0	8.6	164.6
Total	<u>\$338.9</u>	<u>\$16.3</u>	<u>\$355.2</u>

The obligation accrued as of December 31, 1997 is \$214,826,000.

The cost of providing health care, dental and life insurance benefits, not including the accrual for prior service costs, totalled approximately \$79,487,000 in 1997 and \$82,484,000 in 1996. Retired employees constitute 43 percent of the total of active and retired employees of the Port Authority and PATH covered by one or more of these plans. The cost of providing these benefits for such retired employees (and their eligible dependents) is not separable from the cost of providing similar benefits for active employees (and their eligible dependents).

3. The Port Authority and PATH offer 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.

Section 457 was amended during 1996 to require that all amounts held under the plan must be held for the exclusive benefit of the plan participants and their beneficiaries. Effective October 1, 1997, the New York State Deferred Compensation Board established a trust for the plan in which the plan assets are no longer the property of the Port Authority. Therefore, both the assets of the plan and the corresponding liability to the employees have been removed from the 1997 financial statements.

Note J - Commitments and Certain Charges to Operations

1. On January 29, 1998, the Board of Commissioners adopted the annual budget for 1998. Approval of the budget by the Board of Commissioners of the Port Authority, based on financial projections developed as part of the Port Authority planning process, does not in itself authorize any specific expenditures, which are authorized from time to time by or as contemplated by other actions of the Board of Commissioners of the Port Authority consistent with statutory, contractual and other commitments of the Port Authority, including agreements with the holders of its obligations.

The 1998 budget anticipates gross capital expenditures for the year 1998 to be approximately \$1,056,606,000 including a portion of the allocations related to the contracts and programs described below, as well as other ongoing capital construction programs of the Port Authority. At December 31, 1997, the Port Authority has entered into various construction contracts totaling approximately \$904,226,000, which are expected to be completed within the next three years.

It is expected that costs with respect to individual Port Authority facilities will continue to increase and that there will be an increasing need for capital investment for the renovation or rehabilitation of existing and additional facilities in order for the Port Authority to continue to maintain appropriate levels of service. Construction costs in connection with Port Authority facilities are subject to, among other things, the effects of national and regional economic conditions and the nature of governmental regulations with respect to transportation, commerce, energy and environmental permits and approvals and environmental impact analyses. Port Authority operating revenues are also subject to the effects of national and regional economic conditions, including fuel availability and costs, labor and equipment costs and the nature of Federal legislation, governmental regulations and judicial proceedings with respect to transportation, commerce, energy and environmental protection. Port Authority operating revenues and capital requirements may also be affected by enacted or proposed reductions in various Federal programs. Additionally, resolution of environmental matters and associated proceedings which may arise during the course of construction or operation of Port Authority facilities, including those pertaining to channel

improvements and dredging, may result in substantial delays in such construction and may give rise to substantially increased costs to the Port Authority. It is also expected that increases from time to time will continue to be necessary in the Port Authority's tolls, fares, landing and dockage fees, rentals and other charges, or that either planned capital expenditures will be curtailed or reductions in services and associated expenditures will occur.

2. Other operating expenses of \$105,950,000 in 1997 and \$95,409,000 in 1996 include amounts for insurance, claims, payment of interest on Special Project Bonds, the expensing of certain capital costs that no longer provide future economic benefit, and certain other operating, development and administrative expenses.

3. The Port Authority's Essex County Resource Recovery Facility is being operated by a private full service vendor that provides municipal solid waste disposal services. As of December 31, 1997, the Port Authority had provided a net amount of \$165,239,000 to such private full service vendor under a conditional sale agreement through which such vendor has financed a portion of the construction costs of the plant. This amount provided by the Port Authority is included in "Other amounts receivable" on the Combined Statements of Financial Position and is to be repaid by the vendor with interest through October 1, 2010.

As a result of a decision of the United States Court of Appeals for the Third Circuit holding New Jersey's solid waste disposal system unconstitutional, Essex County and the Essex County Utilities Authority filed an action alleging that certain contracts and agreements, by which the Essex County Resource Recovery Facility was developed and under which it is currently operated, are void. Changes resulting from the Court of Appeals decision or the above litigation are not expected to cause a substantial reduction in the quantity of solid waste delivered to the plant in the future. Tipping fees for waste originating in Essex County may be less than the tipping fee provided under the Essex County and Essex County Utilities Authority contracts with the Port Authority; however, the overall impact in any given year is not expected to exceed \$10 million.

4. During 1996 certain land and improvements at the Industrial Park at Yonkers and the Lincoln Tunnel, determined by the Port Authority to be no longer required for the purposes for which they were originally acquired, were sold at a net loss of \$1,144,000.

In 1996, fire destroyed a warehouse in the Industrial Park at Elizabeth. The unamortized cost of the warehouse exceeded the estimated insurance proceeds to be received by \$3,700,000. During May 1996, the New York State Department of Transportation assumed direct management of the site upon which the West 30th Street Heliport facility was located. The loss associated with the return of this facility to the State of New York was \$31,000.

5. The extraordinary item in 1997 consists of an adjustment of \$29,450,000, resulting from the settlement of insurance claims relating to the February 26, 1993 explosion at the World Trade Center.

6. The Port Authority carries insurance or requires such insurance to be carried (if available) on or in connection with its facilities to protect against direct physical loss or damage and loss of revenue resulting therefrom, and against liability in connection therewith, in such amounts, with such self-insured retentions, exceptions, or exclusions of portions of facilities, and against such hazards, as it deems appropriate. As of December 31, 1997, the property damage and loss of revenue insurance on Port Authority facilities totalled \$1 billion, while the public liability insurance totalled \$1 billion for aviation

facilities and \$625 million for "non-aviation" facilities. In providing for uninsured potential losses, the Port Authority administers its self-insurance program by applications from the Consolidated Bond Reserve Fund and provides for losses by charging expenses as liabilities are incurred.

A liability is recognized when it is probable that the Port Authority has incurred a loss and the amount of the loss can be reasonably estimated. The liability for unpaid claims is based upon the estimated ultimate cost of settling the claims, which includes a review of estimated claims expenses and estimated recoveries. Changes in the liability amounts in 1996 and 1997 were:

	<u>Beginning Balance</u>	<u>Additions and Changes</u>	<u>Payments</u>	<u>Year-end Balance</u>
	(In thousands)			
1996	\$31,580	\$16,601	(\$14,900)	\$33,281
1997	\$33,281	\$ 8,190	(\$13,021)	\$28,450

During each of the past three years, claims payments have not exceeded insurance coverage.

Note K—Information on Port Authority Operations by Operating Segment

1. Operating Results (a)

Gross operating income (loss) consists of revenues from operations less operating and maintenance expenses and amortization. Net income Port Authority operations consists of income (loss) from operations and (loss) gain on disposition of assets less net interest expense (interest expense less financial income).

	Interstate Transportation Network	Air Terminals	Port Commerce	World Trade	Combined Total
1997					
		(In thousands)			
Gross operating revenues	\$ 610,124	\$ 1,149,863	\$ 182,439	\$ 263,221	\$ 2,205,647
Interdepartmental revenues	1,644	—	1,504	33,304	
Revenues from operations	\$ 611,768	\$ 1,149,863	\$ 183,943	\$ 296,525	
Gross operating income (loss)	\$ 97,980	\$ 346,881	(\$ 18,656)	\$ 72,079	\$ 498,284
General administrative and development expenses	(70,678)	(51,034)	(5,966)	(7,758)	(135,436)
Income (loss) from operations	\$ 27,302	\$ 295,847	(\$ 24,622)	\$ 64,321	\$ 362,848
Net income (loss) Port Authority operations	(\$ 54,489)	\$ 228,304	(\$ 46,403)	\$ 4,512	131,924
Net income PFC program					121,074
Extraordinary item					
Reduction to prior net loss on World Trade Center explosion					29,450
Combined net income					\$ 282,448

1996

Gross operating revenues	\$ 594,824	\$ 1,094,956	\$ 194,106	\$ 270,234	\$ 2,154,120
Interdepartmental revenues	4,439	—	1,560	46,497	
Revenues from operations	\$ 599,263	\$ 1,094,956	\$ 195,666	\$ 316,731	
Gross operating income (loss)	\$ 76,909	\$ 309,933	(\$ 15,903)	\$ 84,326	\$ 455,265
General administrative and development expenses	(64,957)	(52,198)	(7,044)	(8,435)	(132,634)
Income (loss) from operations	\$ 11,952	\$ 257,735	(\$ 22,947)	\$ 75,891	\$ 322,631
Net income (loss) Port Authority operations	(\$ 67,113)	\$ 188,816	(\$ 45,969)	\$ 13,390	\$ 89,124
Net income PFC program					109,787
Combined net income					\$ 198,911

(a) See Schedule E for detailed information on Port Authority operations for each segment.

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 amortization.

	Interstate Transportation Network	Air Terminals	Port Commerce	World Trade	PFC Program	Combined Total
1997 Assets						
		(In thousands)				
Facilities, net—beginning of year	\$ 2,342,074	\$ 2,481,550	\$ 995,170	\$ 990,731	\$ 160,400	\$ 6,969,925
Net capital expenditures	209,191	288,817	78,481	80,467	33,266	690,222
Disposition of assets	—	(20,000)	(12,654)	—	—	(32,654)
Amortization	(87,370)	(178,056)	(44,612)	(35,312)	(5,115)	(350,465)
Facilities, net—end of year	2,463,895	2,572,311	1,016,385	1,035,886	188,551	7,277,028
Unamortized costs for Regional and Other Programs	416,282	—	43,646	—	—	459,928
Total	\$ 2,880,177	\$ 2,572,311	\$ 1,060,031	\$ 1,035,886	\$ 188,551	7,736,956
Cash, investments, accounts receivable, other amounts receivable, amounts receivable in connection with Special Project						4,756,685
Bonds, unamortized costs for Fund buy-out and other assets						
Total assets						\$ 12,493,641

1996 Assets

Facilities, net—beginning of year	\$ 2,286,955	\$ 2,431,509	\$ 988,071	\$ 949,377	\$ 133,942	6,789,854
Net capital expenditures	139,743	214,904	77,705	72,537	29,437	534,326
Disposition of assets	(56)	(31)	(12,517)	—	—	(12,604)
Amortization	(84,568)	(164,832)	(58,089)	(31,183)	(2,979)	(341,651)
Facilities, net—end of year	2,342,074	2,481,550	995,170	990,731	160,400	6,969,925
Unamortized costs for Regional and Other Programs	424,187	—	45,250	—	—	469,437
Total	\$ 2,766,261	\$ 2,481,550	\$ 1,040,420	\$ 990,731	\$ 160,400	7,439,362
Cash, investments, accounts receivable, other amounts receivable, amounts receivable in connection with Special Project						3,517,484
Bonds, unamortized costs for Fund buy-out, deferred compensation plan assets and other assets						
Total assets						\$ 10,956,846

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

	Year ended December 31, 1997			1996
	Operating Fund	Reserve Funds	Combined Total	Combined Total
	(In thousands)			
Gross operating revenues	\$2,205,647	\$ —	\$2,205,647	\$2,154,120
Operating expenses:				
Employee compensation, including benefits	575,582	—	575,582	636,637
Contract and consultant services	468,241	—	468,241	415,852
Utilities	120,199	—	120,199	125,820
Rents and amounts in-lieu-of-taxes	117,381	—	117,381	105,272
Materials, equipment and supplies	73,911	—	73,911	90,319
Other (Note J-2)	105,950	—	105,950	95,409
Total operating expenses	1,461,264	—	1,461,264	1,469,309
Amounts in connection with operating asset financings	34,675	—	34,675	33,126
Net operating revenues	709,708	—	709,708	651,685
Financial income				
Income on investments	51,441	52,443	103,884	98,707
Extraordinary item				
Reduction to prior net loss on World Trade Center explosion	29,450	—	29,450	—
Net revenues available for debt service and reserves	790,599	52,443	843,042	750,392
Debt service				
Interest on bonds, notes and other capital obligations	291,765	—	291,765	292,987
Debt maturities and retirements	105,450	—	105,450	87,443
Repayment of commercial paper obligations	—	395	395	780
Debt retirement acceleration	—	—	—	100,000
Total debt service	397,215	395	397,610	481,210
Transfers to reserves	(\$ 393,384)	393,384	—	—
Revenues after debt service and transfers to reserves		445,432	445,432	269,182
Direct investment in facilities		(246,232)	(246,232)	(162,471)
Appropriations for self-insurance		(3,749)	(3,749)	5,057
Increase in reserves		195,451	195,451	111,768
Reserve balances, January 1		991,744	991,744	879,976
Reserve balances, December 31 (Schedule C)		\$1,187,195	\$1,187,195	\$ 991,744

See Notes to Combined Financial Statements.

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

	December 31,				1996
	Operating Fund	Capital Fund	Reserve Funds	Combined Total	Combined Total
	1997				
	(In thousands)				
Assets					
Invested in facilities	\$ —	\$13,069,084	\$ —	\$13,069,084	\$12,370,806
Cash (Note C)	39,616	535	1,000	41,151	42,851
Investments (Note C)	644,766	238,346	1,186,195	2,069,307	1,550,718
Accounts receivable (net of allowance for doubtful accounts of \$17,766 in 1997 and \$22,961 in 1996)	55,908	1,000	—	56,908	70,178
Other amounts receivable (net of allowance for doubtful accounts of \$6,548 in 1997 and \$6,788 in 1996)	138,901	253,099	—	392,000	425,479
Amounts receivable in connection with Special Project Bonds	—	1,461,620	—	1,461,620	535,018
Unamortized costs for Fund buy-out (Note H-1)	411,593	—	—	411,593	414,645
Deferred compensation plan assets (Note I-3)	—	—	—	—	183,063
Other assets	298,068	47,092	—	345,160	309,088
Total assets	1,588,852	15,070,776	1,187,195	17,846,823	15,901,846
Liabilities					
Consolidated Bonds and Notes (Note D-1)	—	5,077,133	—	5,077,133	4,723,335
Obligations in connection with other capital asset financing (Note D-2)	—	911,545	—	911,545	881,550
Obligations in connection with operating asset financing (Note D-3)	479,420	—	—	479,420	436,443
Amounts payable in connection with Special Project Bonds (Note D-4)	—	1,482,675	—	1,482,675	548,575
Accounts payable	162,155	137,136	—	299,291	269,035
Accrued pension, retirement and other employee benefits (Note I)	313,432	—	—	313,432	280,729
Deferred compensation plan obligation (Note I-3)	—	—	—	—	183,063
Accrued interest and other liabilities	238,822	7,423	—	246,245	247,391
Deferred income in connection with PFCs	358,746	—	—	358,746	265,824
Total liabilities	1,552,575	7,615,912	—	9,168,487	7,835,945
Net assets	\$ 36,277	\$ 7,454,864	\$1,187,195	\$ 8,678,336	\$ 8,065,901
Net assets are composed of:					
Debt retired through income	\$ —	\$ 3,480,553	\$ —	\$ 3,480,553	\$ 3,374,708
Reserves (Schedule C)	—	—	1,187,195	1,187,195	991,744
Government contributions in aid of construction (Note F)	—	699,204	—	699,204	671,312
PFCs invested in facilities	—	196,645	—	196,645	163,379
Appropriated reserves invested in facilities	—	3,078,462	—	3,078,462	2,832,230
Appropriated reserves for self-insurance	36,277	—	—	36,277	32,528
Net assets	\$ 36,277	\$ 7,454,864	\$1,187,195	\$ 8,678,336	\$ 8,065,901

See Notes to Combined Financial Statements.

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

	Year ended December 31, 1997			1996
	General Reserve Fund	Consolidated Bond Reserve Fund	Combined Total	Combined Total
	(In thousands)			
Balance, January 1	\$618,960	\$372,784	\$ 991,744	\$879,976
Income on investments	35,955	16,488	52,443	54,608
Transfers from operating fund	—	393,384	393,384	315,354
Reserve fund transfers	99,704	(99,704)	—	—
	754,619	682,952	1,437,571	1,249,938
Applications:				
Repayment of commercial paper obligations	—	395	395	780
Debt retirement acceleration	—	—	—	100,000
Direct investment in facilities	—	246,232	246,232	162,471
Self-insurance	—	3,749	3,749	(5,057)
Total applications	—	250,376	250,376	258,194
Balance, December 31 (Note E)	\$754,619	\$432,576	\$1,187,195	\$991,744

NOTE: The above schedule reflects the valuation of securities in accordance with the accounting principles stated in Note A-1. Had the market value of securities at December 31, 1997 been used, the respective reserve fund balances at December 31, 1997 would be:

General Reserve Fund	Consolidated Bond Reserve Fund
\$754,619	\$433,499

Schedule D - Selected Statistical Financial Data

	Year ended December 31,									
	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
	(In thousands)									
REVENUES AND EXPENSES										
Gross operating revenues (a)	\$ 2,205,647	\$ 2,154,120	\$ 2,082,624	\$ 1,979,674	\$ 1,920,904	\$ 1,933,512	\$ 1,856,895	\$ 1,690,730	\$ 1,526,780	\$ 1,436,940
Operating expenses	1,461,264	1,469,309	1,469,881	1,407,938	1,340,283	1,348,392	1,337,406	1,282,298	1,124,218	1,092,502
Amounts in connection with operating asset financings	34,675	33,126	32,254	32,103	32,774	31,745	30,669	29,052	1,533	—
Net operating revenues	709,708	651,685	580,489	539,633	547,847	553,375	488,820	379,380	401,029	344,438
Income on investments	103,873	98,707	70,830	73,723	76,404	88,054	84,054	86,014	92,094	76,858
Gain on purchase of Port Authority bonds	11	—	439	4,797	146	724	4,788	2,131	4,871	3,221
Net loss on WTC explosion	29,450	—	—	—	(32,500)	—	—	—	—	—
Net revenues available for debt service and reserves	843,042	750,392	651,758	618,153	591,897	642,153	577,662	467,525	497,994	424,517
DEBT SERVICE—OPERATIONS										
Interest on bonds, notes and other capital obligations	(291,765)	(292,987)	(266,903)	(259,400)	(258,458)	(254,435)	(227,619)	(195,176)	(174,673)	(155,143)
Times, interest earned	2.89	2.56	2.44	2.38	2.29	2.52	2.54	2.40	2.85	2.74
Debt maturities and retirements b	(105,450)	(87,443)	(86,865)	(75,745)	(67,675)	(59,925)	(66,537)	(59,675)	(52,425)	(49,125)
Times, debt service earned (b)	2.12	1.95	1.84	1.83	1.81	2.04	1.99	1.83	2.17	2.05
DEBT SERVICE—RESERVES										
Direct investment in facilities	(246,232)	(162,471)	(268,711)	(224,622)	(185,071)	(370,497)	(187,305)	(235,984)	(262,844)	(215,854)
Payments in connection with leasehold acquisition	—	—	—	—	(35,687)	(4,015)	(4,005)	(4,097)	(1,941)	—
Debt retirement acceleration	—	(100,000)	(112,680)	(27,062)	(3,458)	—	—	—	—	(2,750)
Application from PFC program	—	—	105,000	—	—	—	—	—	—	—
Appropriations for self-insurance	(3,749)	5,057	(3,444)	710	7,081	865	(1,218)	351	(2,272)	2,139
Repayment of commercial paper obligations	(395)	(780)	(878)	(343)	(178)	(126)	(520)	(1,734)	(1,068)	(522)
Net increase (decrease) in reserves	195,451	111,768	17,277	31,691	48,451	(45,980)	90,458	(28,790)	2,771	3,262
RESERVE BALANCES										
January 1	991,744	879,976	862,699	831,008	782,557	828,537	738,079	766,869	764,098	760,836
December 31	\$ 1,187,195	\$ 991,744	\$ 879,976	\$ 862,699	\$ 831,008	\$ 782,557	\$ 828,537	\$ 738,079	\$ 766,869	\$ 764,098
Reserve fund balances represented by:										
General Reserve	\$ 754,619	\$ 618,960	\$ 605,167	\$ 579,329	\$ 534,011	\$ 494,486	\$ 471,281	\$ 441,614	\$ 373,129	\$ 335,886
Consolidated Bond Reserve	432,576	372,784	274,809	283,370	296,997	288,071	357,256	296,465	393,740	428,212
Total	\$ 1,187,195	\$ 991,744	\$ 879,976	\$ 862,699	\$ 831,008	\$ 782,557	\$ 828,537	\$ 738,079	\$ 766,869	\$ 764,098
OBLIGATIONS AT DECEMBER 31										
Consolidated Bonds and Notes	\$ 5,077,133	\$ 4,723,335	\$ 4,795,207	\$ 4,650,350	\$ 4,286,668	\$ 4,198,785	\$ 4,056,744	\$ 3,739,020	\$ 3,338,250	\$ 3,105,675
Fund buy-out obligation	404,582	400,305	396,360	392,722	389,366	386,290	383,433	357,067	—	—
Amounts payable in connection with										
Special Project Bonds	1,482,675	548,575	472,675	473,575	473,575	298,575	298,575	298,575	96,500	96,500
Variable rate master notes	202,900	233,000	308,000	283,000	270,000	250,000	217,000	182,000	135,000	25,000
Commercial paper obligations	124,445	163,850	176,955	187,106	189,963	170,492	116,430	172,140	161,537	131,684
Versatile structure obligations	584,200	484,700	285,200	185,700	100,000	—	—	—	—	—
Leasehold acquisition obligation	—	—	—	—	—	33,213	33,809	34,349	34,839	—
Operating equipment—lease financing obligations	—	—	—	13,563	19,903	27,008	24,060	24,060	26,476	25,726
Port Authority equipment notes	74,838	36,138	13,638	—	—	—	—	—	—	—
Total obligations	\$ 7,950,773	\$ 6,589,903	\$ 6,448,035	\$ 6,186,016	\$ 5,729,475	\$ 5,364,363	\$ 5,130,051	\$ 4,807,211	\$ 3,792,602	\$ 3,384,585
INVESTED IN FACILITIES AT DECEMBER 31										
	\$13,069,084	\$12,370,806	\$11,752,783	\$11,118,503	\$10,432,103	\$9,848,280	\$9,161,865	\$8,532,632	\$7,825,014	\$7,050,152
DEBT RETIRED THROUGH INCOME:										
Annual	\$ 105,845	\$ 188,223	\$ 95,423	\$ 103,150	\$ 104,523	\$ 60,647	\$ 67,599	\$ 61,897	\$ 53,719	\$ 52,399
Cumulative	\$ 3,480,553	\$ 3,374,708	\$ 3,186,485	\$ 3,091,062	\$ 2,987,912	\$ 2,883,389	\$ 2,822,742	\$ 2,755,143	\$ 2,693,246	\$ 2,639,527
(a) Gross operating revenues reflect increased tolls adopted in 1991.										
(b) In computing "times, debt service earned", "debt maturities and retirements" has been adjusted to exclude the retirement of Consolidated Bonds and debt retirement accelerations from operations, and to include scheduled retirement of debt previously accelerated as follows:										
	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
	(\$208)	(\$3,774)	(\$1,250)	(\$3,250)	—	—	\$3,352	—	(\$2,750)	(\$2,800)

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.

Schedule E – Information on Port Authority Operations

	Year ended December 31,							1996
	Gross Operating Revenues	Operating & Maintenance Expenses	Allocated Expenses	Amortization	Income (Loss) from Operations	Net Interest & Other Expense (a)	Net Income (Loss)	Net Income (Loss)
	(In thousands)							
INTERSTATE TRANSPORTATION NETWORK								
G.W. Bridge & Bus Station	\$ 232,748	\$ 55,382	\$ 16,446	\$ 10,942	\$ 149,978	\$ 10,759	\$ 139,219	\$ 134,032
Holland Tunnel	73,661	41,421	6,338	7,800	18,102	5,809	12,293	11,283
Lincoln Tunnel	85,053	51,539	7,576	9,293	16,645	8,635	8,010	7,314
Bayonne Bridge	11,050	8,182	1,110	3,260	(1,502)	2,004	(3,506)	(2,769)
Goethals Bridge	55,430	15,269	4,136	2,651	33,374	767	32,607	31,510
Outerbridge Crossing	57,220	12,848	4,132	3,878	36,362	1,579	34,783	35,690
P. A. Bus Terminal	28,585	56,721	6,887	8,090	(43,113)	8,135	(51,248)	(60,228)
Bus Programs	—	—	—	18,209	(18,209)	583	(18,792)	(8,522)
Regional and Other Programs	—	—	—	16,135	(16,135)	13,322	(29,457)	(21,191)
Subtotal – Tunnels, Bridges & Terminals	543,747	241,362	46,625	80,258	175,502	51,593	123,909	127,119
PATH	64,658	141,060	23,400	38,851	(138,653)	28,163	(166,816)	(182,567)
Journal Square Transportation Center	1,719	7,338	565	2,443	(8,627)	1,859	(10,486)	(10,284)
Subtotal – PATH	66,377	148,398	23,965	41,294	(147,280)	30,022	(177,302)	(192,851)
Ferry Service	—	670	88	162	(920)	176	(1,096)	(1,381)
Total Interstate Transportation Network	610,124	390,430	70,678	121,714	27,302	81,791	(54,489)	(67,113)
AIR TERMINALS								
LaGuardia	219,979	141,241	10,741	31,937	36,060	10,972	25,088	21,735
JFK International	543,882	299,004	23,727	82,616	138,535	32,110	106,425	100,483
Newark International	384,434	183,188	16,366	62,081	122,799	23,829	98,970	71,459
Teterboro	988	353	32	720	(117)	382	(499)	(169)
Heliports	580	1,140	168	702	(1,430)	250	(1,680)	(4,692)
Total Air Terminals	1,149,863	624,926	51,034	178,056	295,847	67,543	228,304	188,816
PORT COMMERCE								
Columbia Street	—	2	2	7	(11)	(1,614)	1,603	(234)
Port Newark	38,616	31,976	2,343	11,858	(7,561)	7,193	(14,754)	(11,141)
Elizabeth Marine Terminal	47,621	17,415	1,495	13,265	15,446	7,016	8,430	13,387
Brooklyn	3,909	9,740	749	2,250	(8,830)	2,203	(11,033)	(10,323)
Red Hook	2,244	7,333	206	1,628	(6,923)	1,090	(8,013)	(7,490)
N.Y.C. Passenger Ship Terminal	—	—	—	—	—	—	—	(6,802)
Howland Hook	2,338	4,185	197	2,136	(4,180)	1,208	(5,388)	(5,306)
Greenville Yard	220	34	—	—	186	—	186	186
Auto Marine	7,226	1,707	86	2,174	3,259	1,987	1,272	1,008
Oak Point	—	—	—	1,274	(1,274)	1,030	(2,304)	(2,433)
N.J. Fisheries	—	—	—	566	(566)	482	(1,048)	(1,096)
Essex County Resource Recovery	49,973	59,414	122	1,429	(10,992)	(7,167)	(3,825)	7,889
Industrial Park at Elizabeth	281	755	35	141	(650)	(159)	(491)	(16,675)
Bathgate	3,152	1,621	117	1,914	(500)	919	(1,419)	(1,312)
Yonkers	3,173	3,570	140	1,419	(1,956)	4,723	(6,679)	(4,293)
Teleport	14,603	9,937	262	2,801	1,603	1,549	54	2,694
Newark Legal & Communications Center	9,083	6,953	212	3,591	(1,673)	1,321	(2,994)	(4,028)
Total Port Commerce	182,439	154,642	5,966	46,453	(24,622)	21,781	(46,403)	(45,969)
WORLD TRADE CENTER	263,221	155,830	7,758	35,312	64,321	59,809	4,512	13,390
Total Port Authority Operations	\$2,205,647	\$1,325,828	\$135,436	\$381,535	\$ 362,848	\$230,924	131,924	89,124
Extraordinary item							29,450	—
Reduction to prior net loss on World Trade Center explosion								—
Total Port Authority Operations							161,374	89,124
PFC Program							121,074	109,787
Combined Total							\$ 282,448	\$ 198,911

(a) Amounts include net interest (interest expense less financial income) expense and gain or loss generated by the disposition of assets.

Facility Traffic*

TUNNELS AND BRIDGES		
(Eastbound Traffic in Thousands)	1997	1996
All Crossings		
Automobiles	108,030,000	104,056,000
Buses	2,395,000	2,306,000
Trucks	7,578,000	7,210,000
Total vehicles	118,003,000	113,572,000
George Washington Bridge		
Automobiles	46,531,000	44,686,000
Buses	273,000	268,000
Trucks	3,714,000	3,603,000
Total vehicles	50,518,000	48,557,000
Lincoln Tunnel		
Automobiles	17,989,000	17,677,000
Buses	1,801,000	1,723,000
Trucks	879,000	863,000
Total vehicles	20,669,000	20,263,000
Holland Tunnel		
Automobiles	15,910,000	15,260,000
Buses	113,000	123,000
Trucks	1,022,000	965,000
Total vehicles	17,045,000	16,348,000
Staten Island Bridges		
Automobiles	27,600,000	26,432,000
Buses	208,000	192,000
Trucks	1,963,000	1,780,000
Total vehicles	29,771,000	28,404,000
Cumulative PA Investment in Tunnels and Bridges		
(In thousands)	\$1,726,966	\$1,565,800

AIR TERMINALS

	1997	1996
Totals at the Three Major Airports		
Plane movements	1,170,600	1,151,800
Passenger traffic	83,864,300	80,962,000
Cargo-tons	2,790,100	2,671,100
Revenue mail-tons	291,000	285,300
Kennedy International Airport		
Plane movements	353,300	355,200
Passenger traffic		
Total	31,351,500	31,155,400
Domestic	13,975,500	13,702,200
Overseas	17,376,000	17,453,200
Cargo-tons	1,699,000	1,668,000
LaGuardia Airport		
Plane movements	354,900	345,700
Passenger traffic	21,596,900	20,699,100
Cargo-tons	26,700	27,700
Newark International Airport		
Plane movements	462,400	450,900
Passenger traffic	30,915,900	29,107,500
Cargo-tons	1,064,400	976,000
Cumulative PA Investment in Air Terminals		
(In thousands)	\$5,111,310	\$4,803,100

TERMINALS

	1997	1996
All Bus Facilities		
Passengers	68,320,000	66,337,800
Bus movements	3,553,500	3,226,400
Port Authority Bus Terminal		
Passengers	55,535,000	52,705,000
Bus movements	2,270,000	2,142,500
George Washington Bridge Bus Station		
Passengers	4,185,000	4,248,000
Bus movements	195,500	198,500
PATH Journal Square Transportation Center Bus Station		
Passengers	8,600,000	9,384,800
Bus movements	1,088,000	885,400
Cumulative PA Investment in Bus Facilities		
(In thousands)	\$529,652	\$516,100

MARINE TERMINALS

	1997	1996
All Terminals		
Ship arrivals	2,827	3,014
General cargo (a)		
(Long tons)	14,448,340	14,331,107
New Jersey Marine Terminals		
Ship arrivals	2,287	2,470
New York Marine Terminals		
Ship arrivals	540	312
Cumulative PA Investment in Marine Terminals		
(In thousands)	\$1,316,884	\$1,327,700

PATH

	1997	1996
Total passengers	62,200,000	60,651,000
Passenger weekday average	215,000	210,100
Cumulative PA Investment in PATH		
(In thousands)	\$1,333,911	\$1,298,500

	1997	1996
Total Port Authority Cumulative Invested in Facilities, including the above		
(In thousands)	\$13,069,084	\$12,370,800

(a) International oceanborne general cargo as recorded in the New York-New Jersey Customs District.

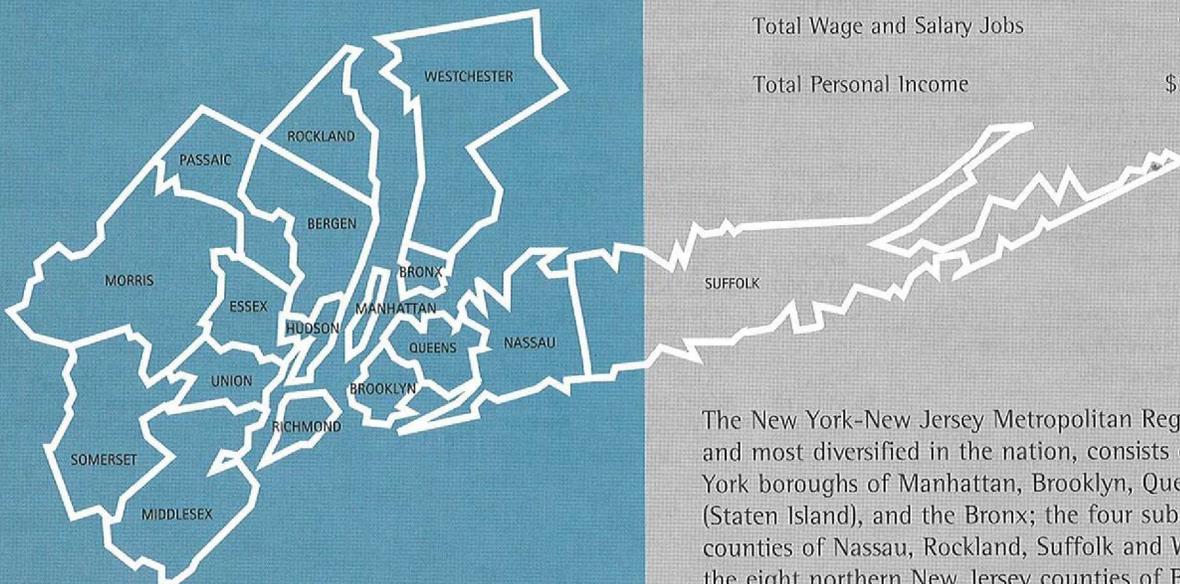
* Some 1996 numbers reflect revised data.

A Look to the Future

The achievements chronicled in the pages of this 1997 Port Authority Annual Report show an agency stronger, better positioned and better able to meet the ever growing transportation and trade needs of the region we serve.

The principles of sound management, quality customer service and employee commitment that are the backbone of our organization today, promise to uphold us as we reach for even higher levels of performance in the new millennium.

NY - NJ METROPOLITAN REGION



Area	3,900 Square Miles
Population	15.8 Million
Total Labor Force	7.8 Million
Total Wage and Salary Jobs	7.3 Million
Total Personal Income	\$555 Billion

The New York-New Jersey Metropolitan Region, the largest and most diversified in the nation, consists of the five New York boroughs of Manhattan, Brooklyn, Queens, Richmond (Staten Island), and the Bronx; the four suburban New York counties of Nassau, Rockland, Suffolk and Westchester; and the eight northern New Jersey counties of Bergen, Essex, Hudson, Middlesex, Morris, Passaic, Somerset and Union.

Port Authority Facilities and Services

Tunnels, Bridges & Terminals

- Bayonne Bridge
- George Washington Bridge and Bus Station
- Goethals Bridge
- Holland Tunnel
- Lincoln Tunnel
- Outerbridge Crossing
- Port Authority Bus Terminal

Port Authority Trans-Hudson

- PATH Rapid Transit System
- Journal Square Transportation Center

Aviation Department

- John F. Kennedy International Airport
- LaGuardia Airport
- Newark International Airport
- Downtown Manhattan Heliport
- Teterboro Airport

Port Commerce Department

- Port Authority Marine Terminals:
 - Auto
 - Brooklyn/Red Hook
 - Elizabeth
 - Howland Hook
 - Greenville Yard
 - Port Newark
- Oak Point Rail Freight Link
- Industrial Parks:
 - Bathgate
 - Elizabeth
 - Yonkers
- Essex County Resource Recovery Facility
- The South Waterfront at Hoboken
- Queens West Waterfront Development
- Newark Legal Center
- The Teleport
- Business Development Offices: London, Tokyo;
representatives in Belgium, Germany, Hong Kong,
Seoul and Singapore

World Trade Department

- World Trade Center

Other Programs

- Ferry Transportation

1997 Annual Report

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