comprehensive annual financial report

for the year ended december 31, 1998

THE PORT AUTHORITY OF NY & NJ

The Port Authority of New York and New Jersey comprehensive annual financial report for the year ended december 31, 1998

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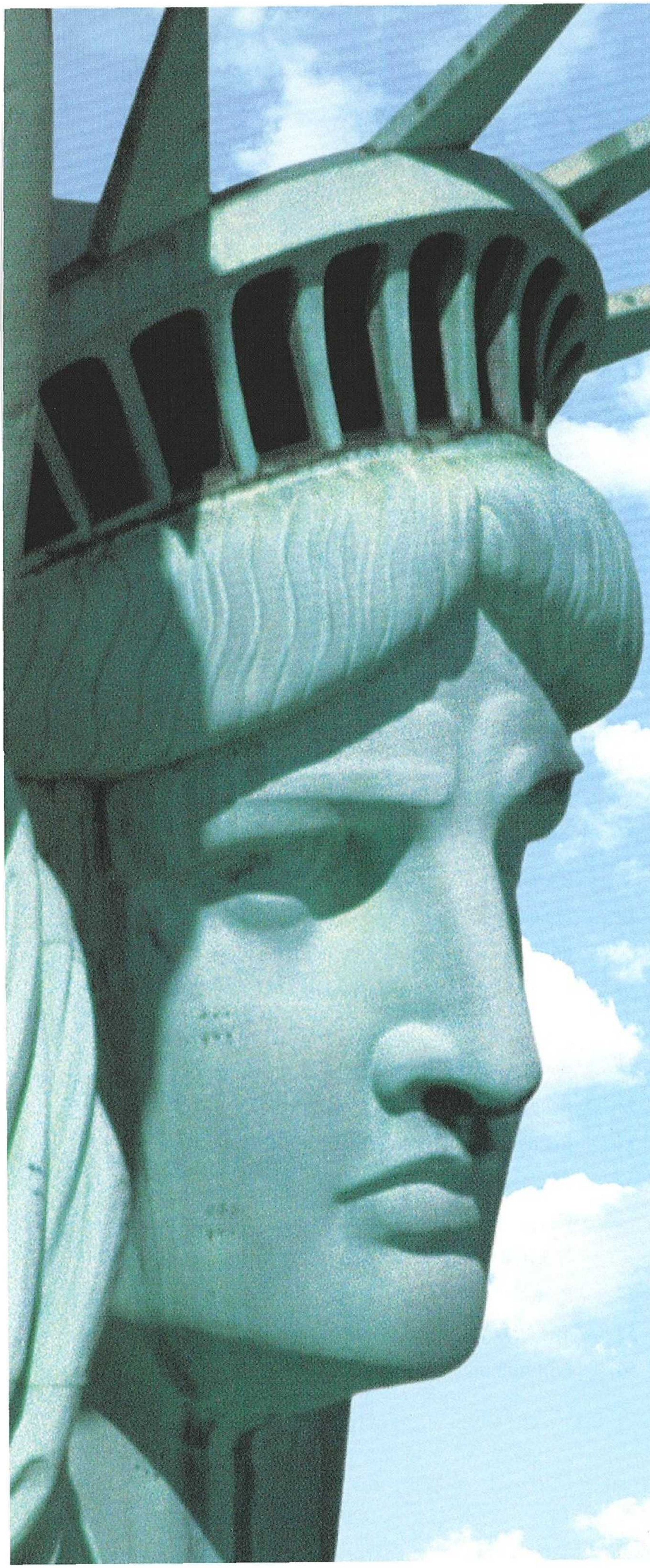
About the cover

The employees featured on the cover of this Annual Report represent the great team of hard working, dedicated staff who made the Port Authority's 1998 achievements possible.



mission

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 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 Christine Todd Whitman, Governor
State of New Jersey

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

Dear Governors:

We are pleased to submit to you and to the legislatures of New Jersey and New York this 1998 Annual Report of The Port Authority of New York and New Jersey, pursuant to the bistate Port Compact of 1921. During the past year, the Port Authority made great strides as we continue to become more efficient and cost-effective.

Revenues rose throughout the Port Authority in 1998. Meanwhile, we cut spending in significant areas, reduced staff levels, reduced police overtime costs and reached collective bargaining agreements that will guarantee labor stability for the next several years. Rising revenues and tight management led to an exceptionally strong bottom line, as net income reached a record $167 million.

The Port Authority's financial strength made possible a number of successes. Our 1998 capital investment, $860 million, was the largest in agency history. We moved ahead with important projects such as John F. Kennedy International Airport's Airtrain and Newark International's monorail extension.

In the all-important field of customer service, we won public acclaim on the first anniversary success of E-ZPass electronic toll collection and the introduction of such programs as the "red coats," airport customer service representatives.

Kennedy, Newark and LaGuardia airports comprise a bistate airport system that offers the people of New York and New Jersey an unparalleled range of destinations and travel choices. Modern port facilities provide access to markets in every corner of the globe. The Port Authority also remains committed to waterfront development projects in both states – the South Waterfront in Hoboken, NJ, and the Queens West Waterfront Development in Long Island City, NY. And Port Authority bridges and tunnels and the PATH rail transit system keep people and goods moving swiftly and efficiently through one of the most complex and densely populated regions in the world.

Very truly yours,

Lewis M. Eisenberg
Chairman

Charles A. Gargano
Vice Chairman

April 29, 1999

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.

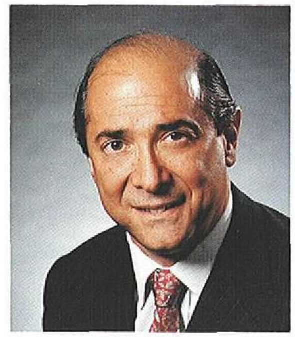
Governance of the Port Authority

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.

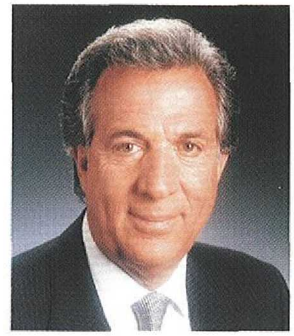
The twelve Commissioners serve as public officials without remuneration.

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.

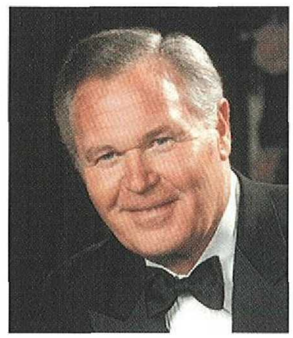
The Board of Commissioners appoints an Executive Director to effect its policies and manage day-to-day operations.



Lewis M. Eisenberg
Co-Chairman
Granite Capital International Group

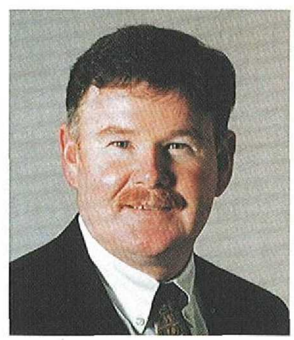


Charles A. Gargano
Chairman & CEO
Empire State Development Corp.

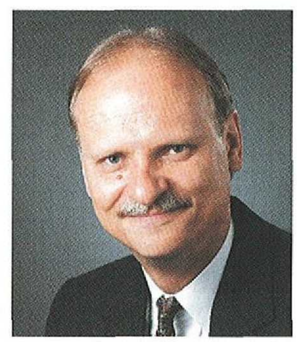


Michael J. Chasanoff
Managing Partner
Chasanoff Properties

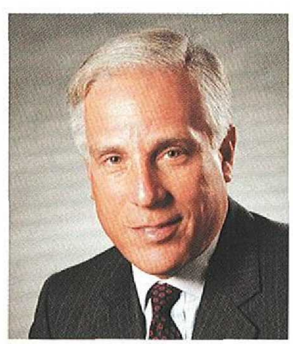
Kathleen A. Donovan
County Clerk
Bergen County, New Jersey



John J. Haley Jr
Consultant



Robert C. Janiszewski
County Executive
Hudson County, New Jersey



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

Aubrey C. Lewis
Consultant

Board of Commissioners

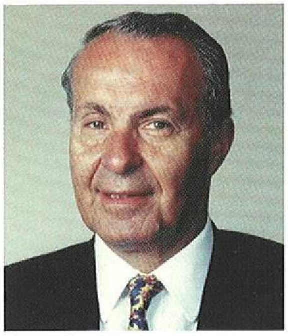
Lewis M. Eisenberg, Chairman
Charles A. Gargano, Vice Chairman
Michael J. Chasanoff [1]
Kathleen A. Donovan
John J. Haley Jr. [2]
Robert C. Janiszewski [3]
Peter S. Kalikow
Aubrey C. Lewis [4]
David S. Mack
William J. Martini [2]
George D. O'Neill [1]
Alan G. Philibosian
Anthony J. Sartor [4]
Melvin L. Schweitzer
Anastasia M. Song
James Weinstein [3]

1. Commissioner Chasanoff joined the Board on April 5, 1999, succeeding Commissioner O'Neill.

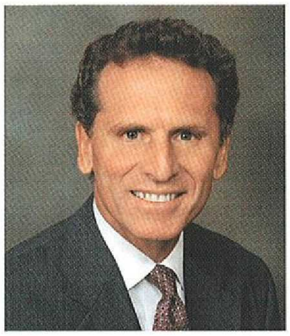
2. Commissioner Martini joined the Board on January 12, 1999, succeeding Commissioner Haley.

3. Commissioner Weinstein joined the Board on March 1, 1999, succeeding Commissioner Janiszewski.

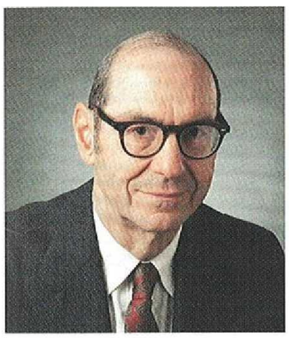
4. Commissioner Sartor joined the Board on March 25, 1999, succeeding Commissioner Lewis.



David S. Mack
Senior Partner
The Mack Company

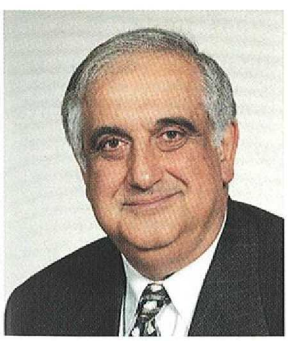


William J. Martini
Attorney
Sills Cummis Radin Tischman
Epstein & Gross, PA



George D. O'Neill
Chairman
Meriwether Capital Corporation

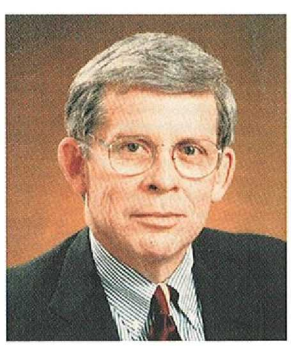
Alan G. Philibosian
Attorney-at-Law



Anthony J. Sartor
Co-Chairman
Paulus, Sokolowski and Sartor, Inc.

Melvin L. Schweitzer
Of Counsel
Rogers & Wells, LLP

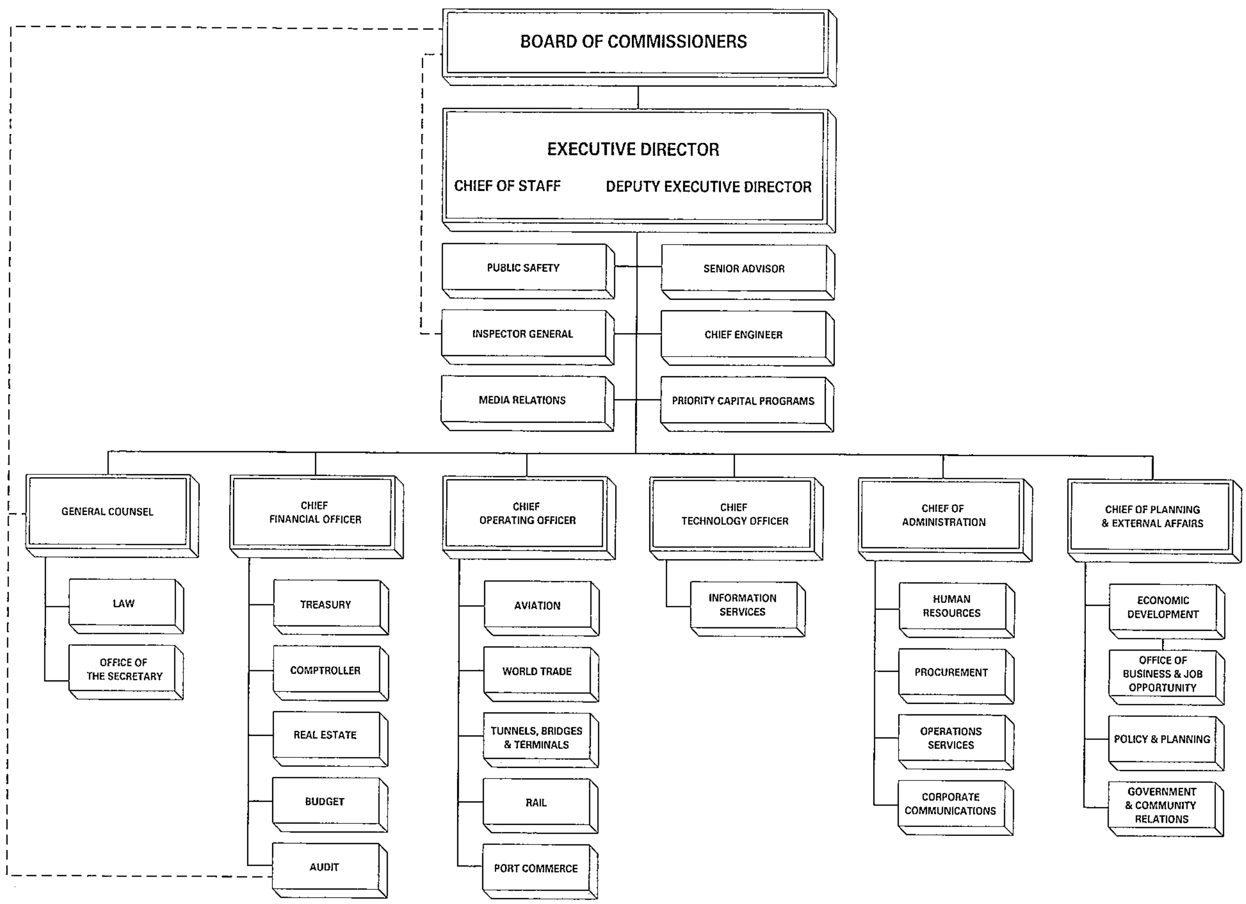
Anastasia M. Song
Vice President
Sithe Energies



James Weinstein
Commissioner
Department of Transportation
of the State of New Jersey

Robert E. Boyle
Executive Director

organization chart*



Officers and Directors

Executive Director .... **Robert E. Boyle**
Deputy Executive Director .... **Ronald H. Shiftan**
Chief of Staff .... **Louis J. LaCapra**

Audit .... **John D. Brill**
Aviation .... **Robert J. Kelly**
Budget .... **Douglas L. Smith (Acting)**
Chief of Administration .... **(Vacant)**
Chief Engineer .... **Francis J. Lombardi**
Chief Financial Officer .... **Charles F. McClafferty**
Chief Operating Officer .... **Ernesto L. Butcher**
Chief of Planning & External Affairs .... **Christopher O. Ward**
Chief Technology Officer .... **Gregory G. Burnham**
Comptroller .... **Margaret R. Zoch**
Corporate Communications .... **Carolyne Bowers**
Economic Development .... **A. Paul Blanco**
General Counsel .... **Jeffrey S. Green**
Government & Community Relations .... **Richard Codd**
Human Resources .... **Paul D. Segalini**
Information Services .... **(Vacant)**
Inspector General .... **Robert E. Van Etten**
Media Relations .... **Kayla Bergeron**
Office of Business & Job Opportunity .... **Michael G. Massiah**
Office of the Secretary .... **Daniel D. Bergstein**
Operations Services .... **Alan I. Rhome**
Policy & Planning .... **Cruz C. Russell**
Port Commerce .... **Lillian C. Borrone**
Priority Capital Programs .... **Anthony G. Cracchiolo**
Procurement .... **Michael J. Rienzi**
Public Safety .... **Fred V. Morrone**
Rail .... **Michael P. DePallo**
Real Estate .... **Cherrie L. Nanninga**
Senior Advisor .... **Raymond P. Mannion**[1]
Treasury .... **Bruce D. Bohlen**
Tunnels, Bridges & Terminals .... **Kenneth P. Philmus**
World Trade .... **Alan L. Reiss**

* As of March 26, 1999

[1] Raymond P. Mannion retired April 30, 1999.

letter from the executive director

We take great pride in reporting that 1998 was another banner year for The Port Authority of New York and New Jersey. With the guidance and support of Governors Pataki and Whitman, the agency accomplished new levels in all areas of performance: gross revenue, net income, capital plan expenditures, productivity, facility activity and customer service. The Port Authority's continued investment in trade and transportation infrastructure has helped to maintain the bistate region's premier position in the global marketplace.

Due to the expanding international and regional economies and the agency's own investment strategy, record-setting activity levels at almost every major facility generated nearly $2.4 billion in gross operating revenues, more than a 7 percent increase over the previous year. In 1998, our investment in the region's infrastructure was $860 million, the highest in the agency's history. This level of investment speaks to the agency's unwavering commitment to provide premier transportation facilities and customer services well into the coming century.

Importantly, this enormous growth was accompanied by enhanced productivity. Net operating income in 1998 increased by 26.3 percent, indicating our ongoing success at cost containment. An agency-wide emphasis on improving efficiency resulted in ongoing staff reductions, the advancement of disposition opportunities for several real estate ventures, and creative refinancing programs.

Maintaining our efforts to improve efficiency, the Port Authority has, over the past year, placed even more importance on customer service. Most noteworthy were dramatic improvements at the region's airports. At JFK, the agency and our partners have begun a $7.4 billion reinvestment program that will completely transform the facility. In 1998, the new Terminal 1 was opened and construction was begun on the new $1 billion Terminal 4 to replace the International Arrivals Building and on the $1.3 billion Airtrain which, when completed, will provide fast and easy ground access to and around the airport. Similar efforts to improve the accessibility, comfort and convenience of our passengers were made at both Newark International and LaGuardia airports. These capital investments were further enhanced with the introduction of customer service representatives at all three airports.

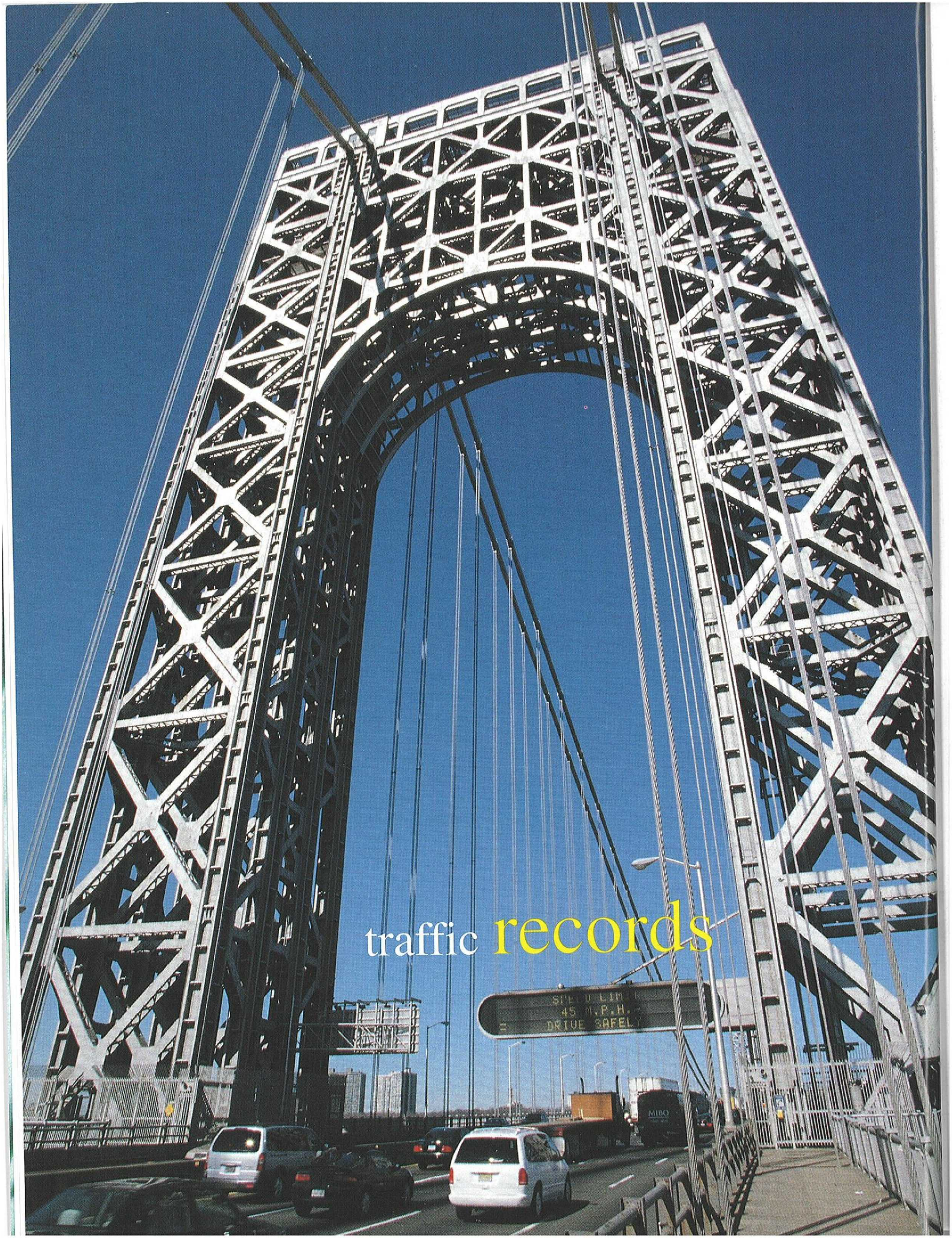
In addition to the Port Authority's investment programs at the region's airports, we have spent the last year planning the strategic redevelopment of the New York-New Jersey port, interstate crossings and other assets. These planned investments, which we expect to pass the $1 billion mark by the end of 1999, attest to this agency's commitment to the future economic development of this region.

With the continued support of Governors Whitman and Pataki, a public-spirited Board of Commissioners, and a dedicated and talented staff, I am confident that the Port Authority's accomplishments in 1999 will surpass even those of 1998.

Sincerely,

Robert E. Boyle
Executive Director

traffic records



1998 overview

A new vitality energized The Port Authority of New York and New Jersey in 1998. The air resounded with pile drivers as important construction projects moved ahead. Customer service became a way of life. Performance records continued to climb in key business areas. And our financial picture never looked better.

Port Authority gross operating revenues totaled nearly $2.4 billion, a $156 million increase over 1997. That's a 13 percent rise since 1995, when we refocused our mission on transportation and trade and on finding new and better ways to meet the needs of our customers. The result: in 1998, Port Authority net income rose to $167 million – a record-breaking achievement boosted by outstanding traffic volumes and business activity in almost every operation.

record results

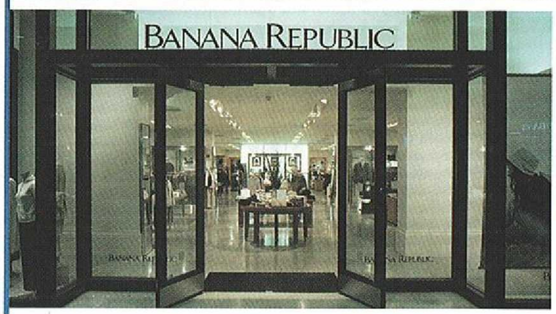
Interstate transportation facilities posted all-time high traffic for the fourth straight year as eastbound volume totaled more than 121 million vehicles, compared to 118 million in 1997. New traffic records were set at the Holland Tunnel, George Washington Bridge, Outerbridge Crossing, Goethals Bridge and Bayonne Bridge.

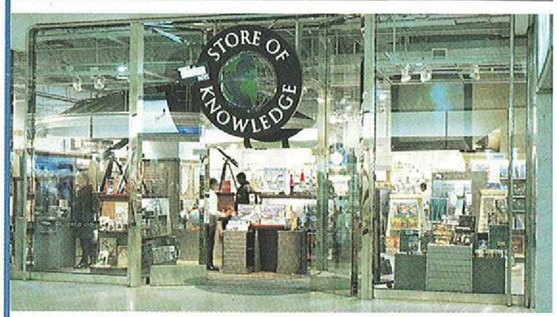
The Port Authority Bus Terminal also enjoyed a banner year, with a record 57.4 million customers, compared to 56.5 the previous year. Volume at the George Washington Bridge Bus Station was up to 4.4 million passengers. On the PATH rail transit system, ridership increased 4.5 percent to 65 million passengers. PATH also received the American Public Transit Association's Award of Excellence for exemplary service.

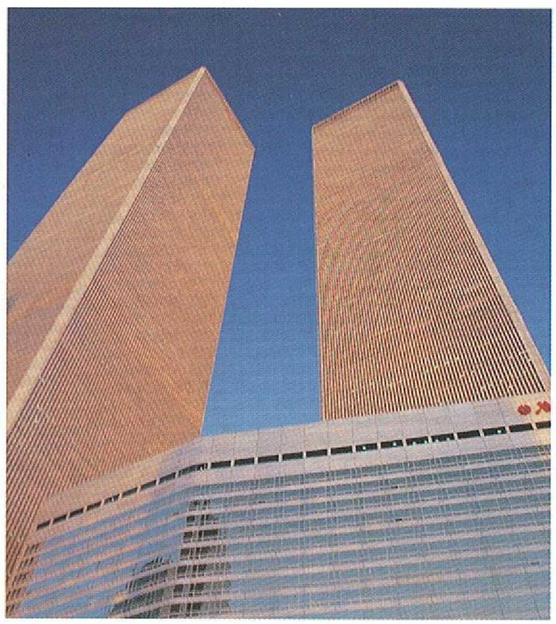
Passenger traffic reached new heights at the Port Authority's three major airports – John F. Kennedy International, Newark International and LaGuardia. In 1998, more than 86 million travelers used the world's busiest regional airport network, surpassing 1997's high of 84 million. Cargo held steady at 3 million tons.

At the New York-New Jersey port, business was never better than in 1998. Total oceanborne general cargo rose to 16.7 million long tons, an 11 percent increase over 1997. In addition, automobile trade posted great gains, handling more than 448,000 vehicles and generating more than $21 million in revenue for the Port Authority. Container volume was 2.5 million twenty-foot equivalent units (TEUs). The overall value of general cargo was $66 billion, up 5 percent.

ExpressRail, the on-dock ship-to-rail facility at the Port Newark/Elizabeth Marine Terminal, handled 155,062 containers, a 22 percent jump over 1997. In March, the Port Authority reached an agreement with Norfolk Southern and CSX Corporation that satisfied concerns about rail freight service to the New York-New Jersey port after the railroads acquired Conrail's routes and assets.







The Mall at the World Trade Center is a vibrant shopping center featuring more than 70 nationally known shops and food services. The World Trade Center complex accommodates an average daily working population of 40,000 and another 150,000 business and leisure visitors.

The 2,100-acre Port Newark/ Elizabeth complex is also the site of the New York-New Jersey region's Foreign Trade Zone (FTZ) Number 49, which allows for the deferral, reduction and possible elimination of U.S. customs duties on imported goods. For the year, FTZ 49 outperformed its counterparts throughout the country, receiving nearly $1.8 billion in total merchandise.

Office and retail leasing at Port Authority facilities also registered notable gains in 1998. The World Trade Center ended the year with an occupancy of 93.4 percent, up 4.4 percent over 1997 and the highest occupancy in more than a decade. The World Trade Center Mall, fast becoming a downtown shopping magnet, welcomed a bevy of new shops and services, including Krispy Kreme, Godiva Chocolatier, Banana Republic, Store of Knowledge, Ecce Panis, J. Crew and Cosmetics Plus.

In a historic development in September, the Port Authority announced plans to put the landmark World Trade Center on the market — seeking a private operator under a long-term lease. Plans also progressed for the sale of the Industrial Park at Yonkers by first quarter 1999.

productivity improvements

Along with impressive business successes, tight management and carefully focused use of resources contributed to the Port Authority's strong financial results. Staff levels continued to be reduced, largely through a strict vacancy management program. Port Authority and PATH employees totaled just over 7,200 at year-end 1998, down sharply from the 9,100 on staff just four years earlier. That's a 20 percent decrease at a time when activity at our facilities has increased by nearly 10 percent and our achievements have continued unabated.

Of course, the agency can only perform at its best if employees work together. In 1998, the Port Authority and PATH reached labor settlements with 19 of 20 represented groups. Some of these agreements extend through 2003, providing labor stability for years to come.

Important economies were also achieved in financing. Taking advantage of the lowest interest rates in more than 25 years, the Port Authority sold six Consolidated Bond issues in 1998 totaling over $1 billion. Approximately $600 million was used to refund outstanding higher coupon bonds, which generated about $86 million in present value savings.

the Port Authority applied new technologies to increase productivity and improve efficiency.

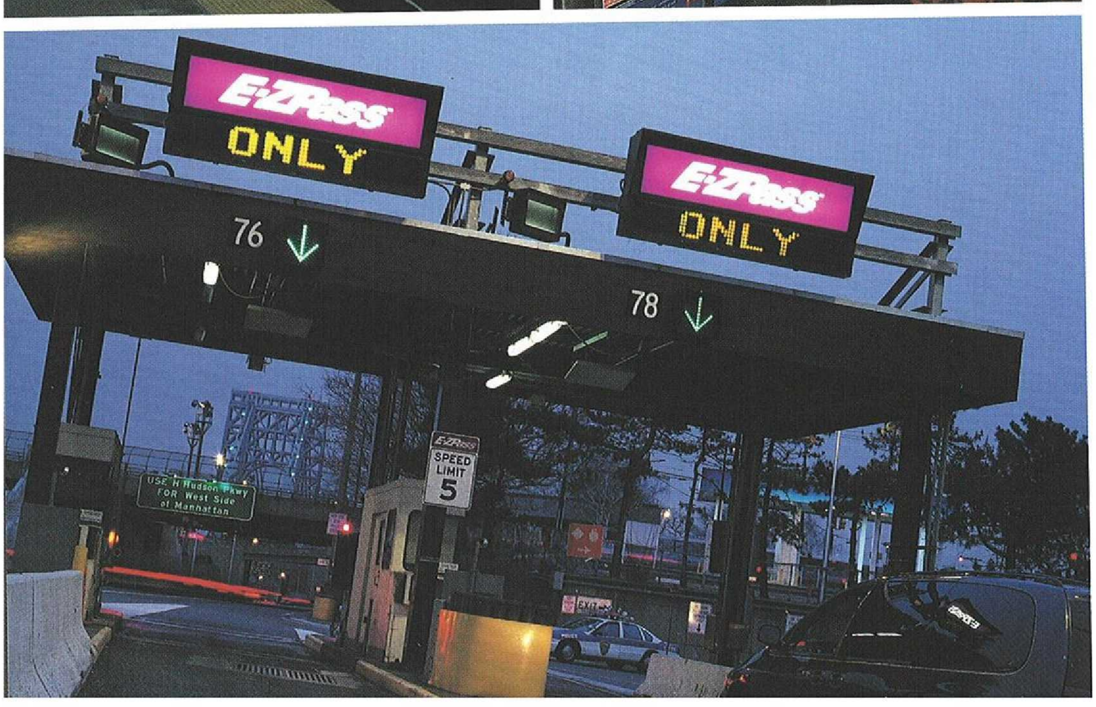
In another innovative step, the Port Authority sold Consolidated Bonds, one hundred seventeenth series, on a negotiated basis to a syndicate composed of 15 small regional firms. The syndicate sold the entire $100 million issue at very attractive rates.

To manage business and financial procedures, the Port Authority continued to apply new technologies to increase productivity, improve efficiency and prepare for Year 2000 compliance. By year-end 1998, we had replaced our core administrative systems with two of the industry's leading, fully integrated software products.

At the same time, we redesigned and rebuilt the communications network connecting the airports, bus terminal, marine terminals, World Trade Center and other facilities. All are now linked by a modern, high-speed system capable of carrying data, voice and video transmissions.

New York Governor George Pataki helps drive the first spikes to signal the start of Airtrain construction, ably assisted by (left to right) Port Authority Executive Director Robert Boyle, Congressman Gregory Meeks and Queens Borough President Claire Shulman.

Adding the two-trip QuickCard ticket to vending machines at PATH stations and the availability of monthly QuickCards at newsstands help make purchases more convenient.



Cash is going out of style at Port Authority crossings, with rush hour E-ZPass usage rising to nearly 60 percent in 1998.

our customers always come first

A key element in reshaping the Port Authority has been our recommitment to customer service. To improve customer satisfaction at John F. Kennedy International, Newark International and LaGuardia airports, the Port Authority launched a comprehensive program that enlisted J.D. Power and Associates to assist. This effort involved surveying customers to identify important aspects of their airport experience, establishing performance standards, evaluating service, making improvements, and checking back with our customers to see if their satisfaction with the airports had improved.

One of the first and most significant initiatives in this program was the deployment of over 200 red-jacketed customer service representatives at all three airports. These highly trained professionals, who speak a total of 30 different languages, are assigned to terminals and parking lots to help customers in every way possible. And we were already beginning to see positive results by the end of the year. Air passengers ranked JFK among the world's best airports in two separate surveys in the British editions of *Business Traveller* and *Condé Nast Traveller.*

The Port Authority's commitment to customer service is also stronger than ever at our tunnels, bridges and terminals. E-ZPass electronic toll collection, an increasingly popular customer convenience, marked its first full year of operation at our facilities in 1998. By year-end, 46 percent of all vehicles at Port Authority bridges and tunnels were using E-ZPass on a typical week day, and there are now more than 2 million E-ZPass customers throughout the region. E-ZPass increases convenience and reduces congestion at toll plazas by improving traffic flow.

Our customers will also benefit from a new integrated traffic management system at the George Washington Bridge that will significantly improve signage and traveler information. It will help us detect and respond to incidents faster and improve traffic flow on New York and New Jersey highways leading to and from the bridge.

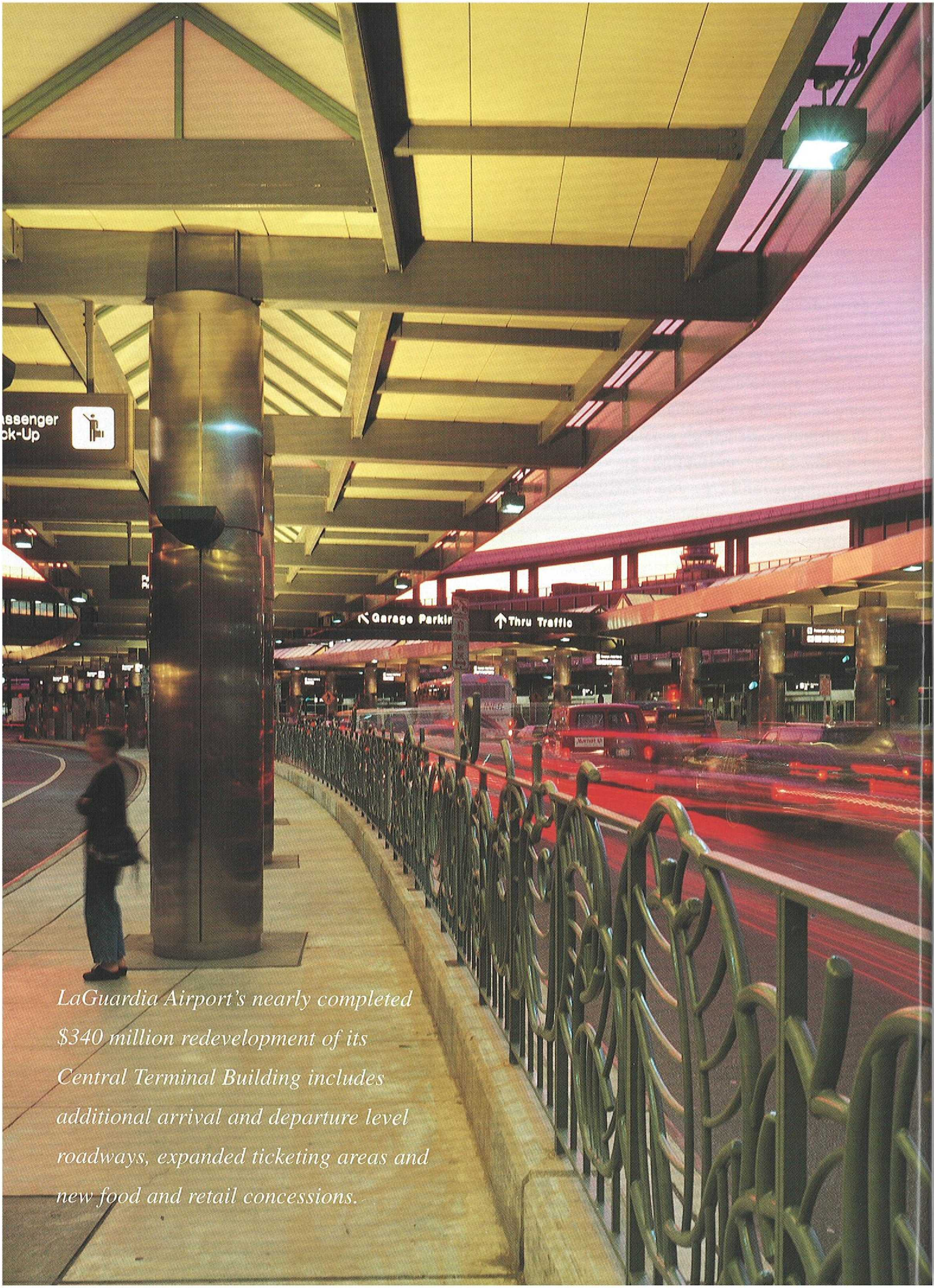
Also in 1998, the Port Authority, the New York Metropolitan Transportation Authority, and New Jersey Transit, partners in the *Access to the Region's Core* study to improve regional mobility, agreed to complete development of a plan to expand commuter rail service to Penn Station in midtown Manhattan.

To better serve its customers, PATH expanded morning rush hour and late night weekend schedules. PATH also introduced a new two-trip QuickCard in vending machines and began selling monthly QuickCards at most newsstands in mid-December, to complement the convenience of its already highly successful mail order program.

Customer service comes in many forms. Port Authority police are among the most helpful and best trained in the region, and in 1998 the agency set even higher qualifications for new recruits. We also began a residential training program that provides more thorough training in less time than in the past. The first police recruit class in three years will graduate in spring 1999.

infrastructure improvements

The Port Authority's commitment to customer service is also manifest in our capital improvement program. The bistate agency has invested the equivalent of nearly $30 billion in regional infrastructure renewal and redevelopment since we were established in 1921. Total capital investment in 1998 was $860 million – the highest in our history.



LaGuardia Airport's nearly completed $340 million redevelopment of its Central Terminal Building includes additional arrival and departure level roadways, expanded ticketing areas and new food and retail concessions.

More than half of 1998's capital investment, $484 million, supported capital improvement projects at the region's three major airports. John F. Kennedy International's 50th birthday year found the Port Authority and our airline partners carrying out a complete transformation of the airport, with virtually every terminal being rebuilt or expanded as part of a $7.4 billion redevelopment program. In May, JFK's spectacular new Terminal 1 was opened by Lufthansa German Airlines, Air France, Japan Air Lines and Korean Air. A private consortium known as JFK International Air Terminal LLC began construction of Terminal 4 which will open in 2001 and replace the antiquated International Arrivals Building. The consortium includes Schiphol USA, the American affiliate of the firm that operates Amsterdam's widely praised airport.

New roadways, parking garages, cargo facilities and other improvements were completed at JFK in 1998. Developments by United Airlines, Air Express International and Northwest Airlines added more than 300,000 square feet of cargo handling spaces. In addition, a state-of-the-art fire/rescue training facility was dedicated in June. The training center enables the Aircraft Rescue/Firefighting units of the Port Authority Police to practice the most advanced techniques in a realistic simulation of an aircraft emergency.

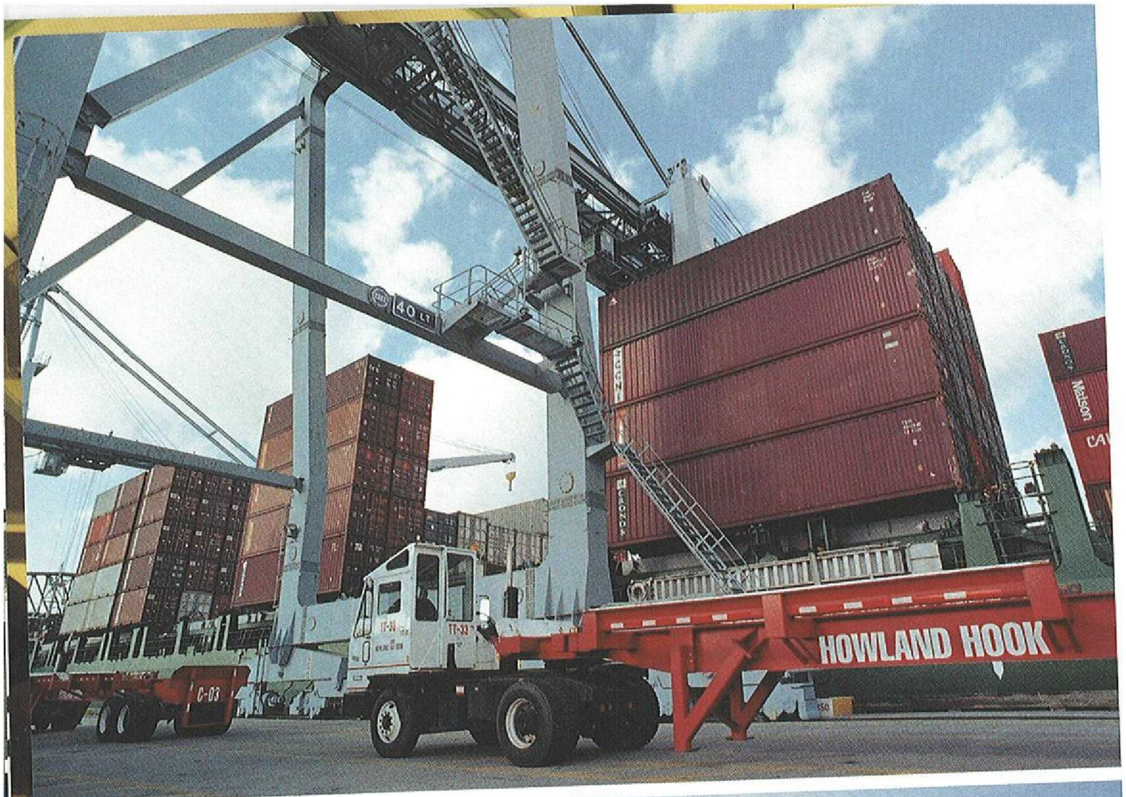
Airtrain will whisk travelers to and from the epicenter of world travel.

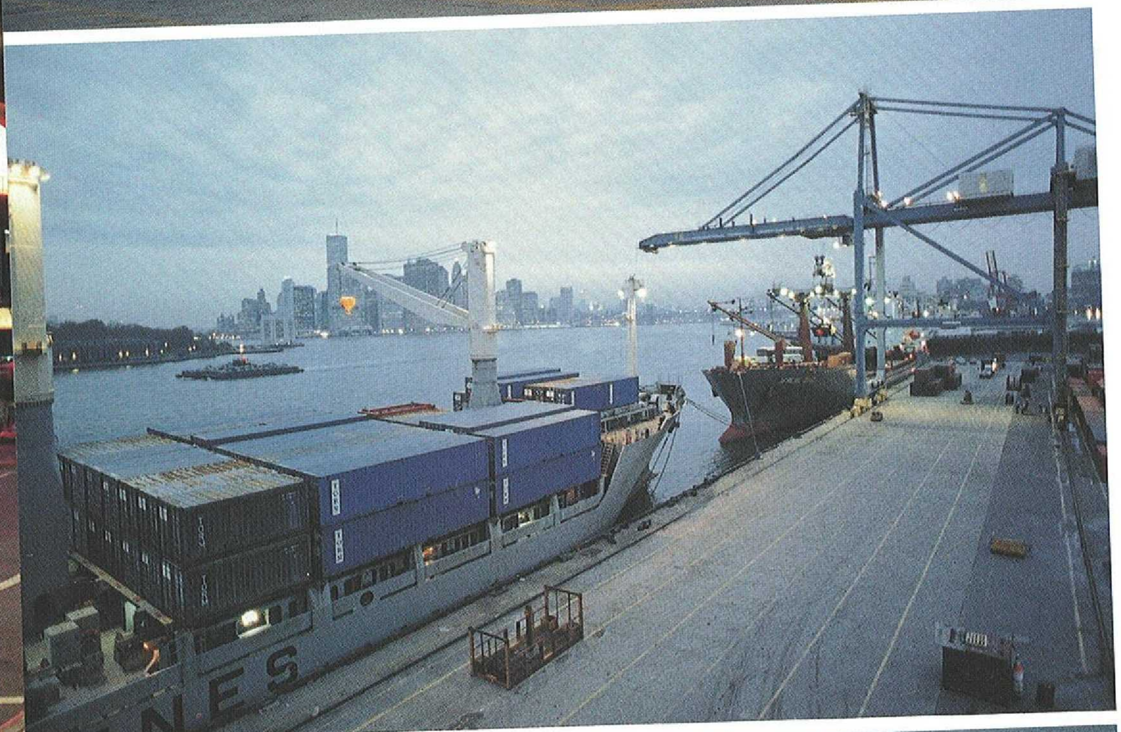
In September, work began on JFK's Airtrain — a long-sought project that will whisk travelers to and from the epicenter of world travel. The $1.5 billion light rail line will transport passengers from terminal to terminal and link the airport to New York's network of rail, subway and bus lines. By 2003, travelers will have fast, dependable and affordable access to JFK.

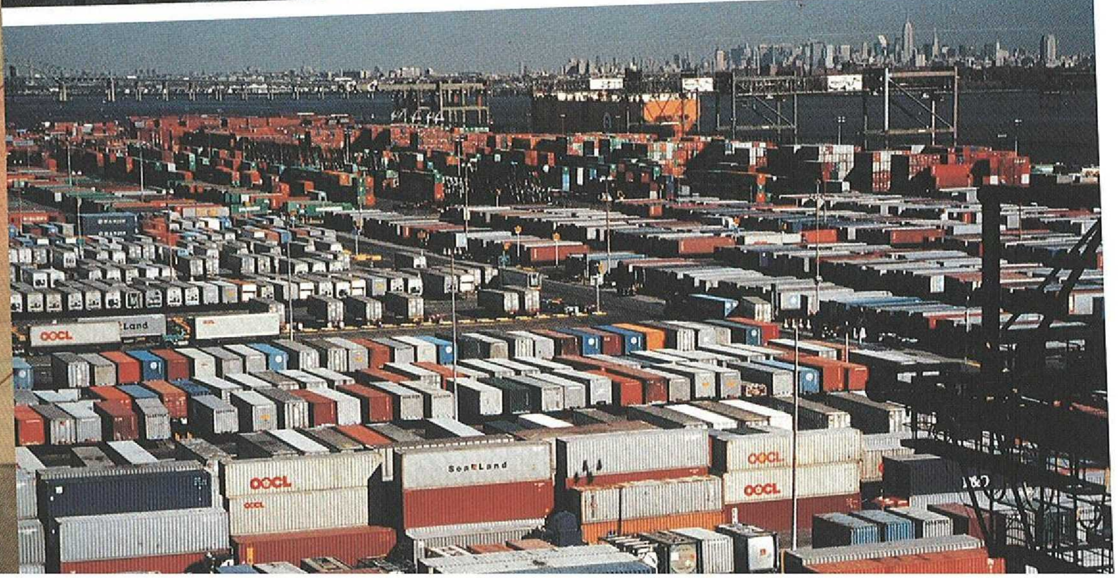
At Newark International Airport, extension of the popular monorail, which speeds passengers between terminals and from the terminal area to rental car areas and long-term parking lots, made steady progress. Guideway foundations rose to support the extension of the monorail to the nearby Northeast Corridor and provide rail access for Newark Airport passengers via New Jersey Transit and Amtrak. Other improvements at Newark Airport helped cut delays and increase convenience. The first phase of an extension of a key runway was completed to keep flights on schedule and allow more non-stop service to distant destinations. Passengers coming into Terminal B on international flights, meanwhile, now have a spacious new lobby to meet friends and relatives. Part of the complete redevelopment of the international arrivals area, the lobby also provides an easy transition for international passengers connecting to domestic flights or to ground transportation services.

LaGuardia, one of the country's premier domestic airports, saw redevelopment of the Central Terminal Building and renovation of Delta Airlines' main terminal headed for completion in 1999. And as part of the Port Authority's continuing program to enhance airport safety, a foam arrestor bed was installed at the end of one runway, with installation on the second runway slated for completion in 1999. The aerated concrete blocks will bring an aircraft that overshoots the runway to a safe, gradual stop. The LaGuardia installation is only the second of its kind in the world. The prototype was tested at JFK in 1996.

Maritime projects also progressed. Capital spending totaled $90 million to help strengthen the New York-New Jersey port's competitive position. The Port Authority's investment analysis released in 1998 identifies between $5 billion and $7 billion in capital construction to improve maritime facilities in both states over the next 40 years. In addition, the plan proposes $1 billion for continued dredging to accommodate the new generation of container







Port Authority marine terminals in Staten Island, Brooklyn and Port Newark/Elizabeth, NJ, posted an 11 percent growth in general cargo tonnage in 1998. The New York-New Jersey port's share of the U.S. North Atlantic market rose to 39 percent.

ships drawing 50 feet or more. In New York, the proposal foresees new or expanded facilities in South Brooklyn and at Howland Hook in Staten Island. In New Jersey, investment would be at Port Newark/Elizabeth, Port Jersey and the Military Ocean Terminal in Bayonne. Projected benefits include 233,000 jobs and $30 billion in economic activity for the bistate region.

Major steps were taken toward deepening the Kill Van Kull, the waterway leading to the Port Newark/Elizabeth and Howland Hook marine terminals. Congress appropriated $30 million to begin the project and, in December, the Port Authority approved the local share. The Kill Van Kull deepening will begin in the spring of 1999.

PATH rail transit system capital investment in 1998 was $39 million, including ongoing station improvements and the start of the Journal Square Transportation Center modernization project.

Capital investment in tunnels, bridges, and terminals was $133 million. Work included the successful completion of a 10-year program to renovate all three tubes of the Lincoln Tunnel, total renovation of the exteriors of the Holland Tunnel New York Ventilation Buildings and the start of much-needed repairs and rehabilitation of the 54 escalators serving the 185,000 customers who use the

continual maintenance
ensures dependable service
into the next century.

midtown Manhattan Port Authority Bus Terminal every day. In upper Manhattan, George Washington Bridge Bus Station commuters and local community residents enjoyed physical and service improvements, from new water fountains to a new ceiling and lighting on the main concourse.

The Outerbridge Crossing and Goethals Bridge turned 70 years old in 1998. These facilities are the Port Authority's oldest bridges, but all of our other interstate crossings have also seen decades of service. Carefully planned improvements and continual maintenance ensure that all of our facilities will provide dependable service into the next century.

At the World Trade Center, capital spending was $96 million. Several major improvements were completed, including the installation of a new sprinkler system on the Mall and the ongoing modernization of the facility's fleet of 243 elevators. The project began in the mid-1990s and is slated for completion in 2003. Total renovation of the World Trade Center's Austin J. Tobin Plaza got under way in July. The newly renovated plaza will reopen in early summer 1999, just in time for an expanded outdoor entertainment program.

Agency-wide, the Port Authority's 1998 capital program provided expanded opportunities to minority, women-owned, disadvantaged and small business enterprises (M/W/D/SBE's). In competitive processes, contract awards to M/W/D/SBE's totaled more than $185 million for construction, goods and services, and architectural and engineering services. These awards helped create 2,700 jobs in the bistate region, $100 million in wages and $270 million in regional economic activity.

a look back to the future

When people look back on the Port Authority at the close of the twentieth century, they will see many tangible improvements that resulted from fundamental changes at the agency in 1998. We have established a sharper sense of mission. We have increased efficiency. We have united employees into a team working together to achieve common goals. We have laid a strong foundation to ensure that our new vitality at the close of this century sustains the Port Authority and this great region for decades to come.

THE PORT AUTHORITY OF NY & NJ

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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, 1998, 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, 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, appended notes and required supplementary information, as well as the auditor's opinion. The required supplementary information contains disclosures about Year 2000 issues. 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 three wholly-owned subsidiaries, Port Authority Trans-Hudson Corporation, Newark Legal and Communications Center Urban Renewal Corporation and New York and New Jersey Railroad 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 generally 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, as described and defined in the statutes creating the Port Authority, 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 over a decade, adding over 171,000 wage and salary jobs in 1998, a 2.3 percent gain over 1997. In fact, this was the best performance of the region's economy since 1985. As growth accelerated, inflation receded and the Consumer Price Index rose only 1.6 percent over 1997. The region's job growth was broad-based with the service sector continuing to lead the expansion, gaining almost 100,000 jobs. Within services, business services including management consulting and engineering, advertising and computer consulting registered significant job gains with additional gains by motion picture production, recreation services, educational services and health services. Other sectors contributing to employment gains include wholesale and retail trade, up 27,000 jobs, finance, insurance and real estate up 18,000 jobs, construction up 17,000 jobs and transportation, communication and public utilities up 6,000 jobs. The manufacturing sector of the economy, which continually sheds employment, performed well by losing only 3,000 jobs.

The United States economy remained the bastion of strength among world economies. Confident consumers who continued to spend faster than their incomes grew led United States real economic growth of 4 percent. In 1998 real consumption increased by 5 percent while disposable incomes gained 3 percent. Consumer spending will continue to drive the United States economic growth but consumption is expected to grow more in line with income growth. The region weathered the turbulence in world economies, aided by diverse trade, business and tourism linkages to world markets. With most of Asia in serious recession, this region's strong links to Western Europe, which grew by 2.7 percent, benefited trade and commerce in this region.

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 throughout 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. 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 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 that 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 $2.4 billion in 1998, an increase of $156 million from 1997. This increase was primarily attributable to record levels of passenger and facility activity at Port Authority facilities. Significant increases were incurred by the following facilities:

- Additional 2.5 million passengers at LaGuardia (LGA), John F. Kennedy International (JFK) and Newark International (EWR) Airports contributed to increased service and flight fee revenues;
- A 93.4% occupancy rate at the World Trade Center produced additional rental revenues from office and retail space;
- Toll revenues at Port Authority tunnels and bridges increased due to an additional 3.4 million vehicles using the Hudson River crossings;
- Additional ship arrivals and increased marine cargo at the port facilities.

Operating expenses totaled $1.6 billion in 1998, an increase of $108 million over 1997. The increase was primarily the result of customer service enhancements at LGA, JFK and EWR Airports, increased tenant preparation work and security at the World Trade Center due to high occupancy levels and increased expenses at Port Authority tunnels and bridges related to the E-ZPass℠ customer service center. There were also increased expenses for information system replacements and enhancements as part of our Year 2000 compliance efforts.

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 1998, earnings on long-term investments totaled $53.8 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 and interest rate options contracts. The Port Authority also employs interest rate exchange contracts in hedging strategies to minimize interest rate risk. Earnings on short-term investments totaled $79.9 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 1998 was primarily due to higher average invested balances and the fair valuation of all Port Authority investments in accordance with the Governmental Accounting Standards Board (GASB) requirements.

Invested In Facilities

Invested in facilities, pursuant to Port Authority bond resolutions, totaled $13.9 billion at year-end 1998, which reflects a net increased investment of $844 million for the operating segments and $16 million for Regional and Other Programs. The additional investment in Port Authority operating segments, and the major projects for each segment, is primarily comprised of:

Air Terminals—$484 million

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

Interstate Transportation Network—$172 million

- Roadway improvements;
- Mechanical, structural and electrical improvements;
- Bridge painting;
- Security and safety improvements.

Port Commerce Facilities—$92 million

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

World Trade Center—$96 million

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

Passenger Facility Charge 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 Airports to be collected by the airlines on behalf of the Port Authority. As of February 9, 1998, the Port Authority has been authorized to collect up to an aggregate amount (including interest thereon) of $1.7 billion, net of air carrier handling charges. The FAA also approved application of $1.2 billion attributable to amounts received from collection of PFCs for the implementation of a light rail system linking the terminals in the Central Terminal area of JFK with each other and with existing transit lines in Jamaica, Queens and Howard Beach, Queens.

In 1998, an association of air carriers requested that the U.S. Court of Appeals review the FAA's decision, alleging that the FAA unlawfully and improperly approved the use of PFCs for the light rail system. On March 5, 1999, the court held that while the FAA had reasonably interpreted the PFC legislation as authorizing the approval of a ground access project, the FAA had failed to follow appropriate procedures when it relied on supplemental material it had requested after the close of the comment period and on which the air carriers' association did not have an opportunity to respond. As a result of the court's decision, it will be necessary for the FAA to take further action.

Previously approved applications by the FAA include the application of $250 million to fund a monorail extension linked to the northeast corridor rail line and $171 million related to EWR Airport monorail, landside access program, and studies associated with ground access projects at each airport. 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, 1998, total cumulative gross investment provided by PFCs in connection with the ground access projects amounted to $351 million and the amount of PFCs available for and restricted to future PFC project payments was $342 million.

The Port Authority accounts for the PFC 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

The Port Authority carries insurance in connection with its facilities to protect against direct physical loss or damage, loss of revenue and against liability in connection with such loss or damage in amounts, together with self-insurance as it deems appropriate. As of December 31, 1998, property damage and loss of revenue insurance on Port Authority facilities totaled $1 billion, while the public liability insurance totaled $1.25 billion for aviation facilities and $650 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 attempts to avoid losses resulting from property damage and personal injury through structured safety management and loss control programs.

Debt Management

As of December 31, 1998, outstanding obligations of the Port Authority pursuant to Port Authority bond resolutions totaled $8.6 billion. The total debt service was $434 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, 1998 totaled $40 million. The following is a summary of outstanding obligations pursuant to bond resolutions:

Consolidated Bonds and Notes

- The total amount outstanding of Consolidated Bonds as of December 31, 1998 was $5.7 billion.

- In 1998, the Port Authority issued Consolidated Bonds, one hundred twelfth through one hundred seventeenth series in an aggregate principal amount of $1.02 billion.

- At December 31, 1998, 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, 1998 was $125 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, 1998, 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, 1998 was $216 million of which $13.1 million was issued in 1998.

- Variable Rate Master Notes may be issued in an aggregate principal amount outstanding at any one time not in excess of $400 million.

- Credit ratings are not assigned to Variable Rate Master Notes.

Versatile Structure Obligations

- The total amount outstanding of Versatile Structure Obligations at December 31, 1998 was $580 million.

- The Port Authority has entered into stand-by certificate purchase agreements with certain banks for each series providing for the purchase of unremarketed certificates.

- Because outstanding Versatile Structure Obligations have been 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 1998, 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 of Equipment Notes as of December 31, 1998 was $87.1 million.

- In 1998, $18 million in Equipment Notes were issued and $5.7 million of Equipment Notes were redeemed at maturity.

- 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, 1998, the Port Authority had an outstanding obligation to pay $409 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, 1998, the total obligation outstanding in connection with the four separate series of Special Project Bonds, each of which had been issued for a separate project, excluding unamortized discount and premium, was $1.5 billion.

- 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.

Reserve Funds

At December 31, 1998, the General Reserve Fund balance was approximately $824 million and met the amount prescribed by the General Reserve Fund statutes. The Consolidated Bond Reserve Fund had a balance of approximately $558 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.

Year 2000

The GASB issued a Technical Bulletin "Disclosures about Year 2000 Issues" to address issues and concerns regarding computers and other electronic equipment that are dependent upon date-sensitive coding. The technical bulletin requires organizations to disclose among other things: a general description of the year 2000 issue as it relates to the entity, the stages of work in process or completed for computer systems or equipment critical to conducting operations, and the resources committed to address year 2000 issues for computer systems and other electronic equipment. This information is more fully disclosed following the appended notes under Required Supplementary Information.

While the Port Authority is progressing with its Year 2000 plan, there can be no assurance that full compliance will be achieved in a timely manner. Business continuity and contingency plans are being developed for certain business processes with the aim of ensuring that they continue at acceptable levels of operation in the event of any Year 2000-related disruption. The Port Authority does not currently expect that there will be any significant operational or financial impact on the Port Authority as a result of any failure of its critical systems to be fully compliant or from the failure of those entities with which it does business or otherwise interacts to be fully compliant.

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 auditors' opinion 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, 1997. 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 fourteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

March 30, 1999

C. F. McCluff

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, 1997

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.

Douglas R. Ellsworth
President

Jeffrey L. Esser
Executive Director

For the fourteenth 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 1997 Comprehensive Annual Financial Report.

Deloitte & Touche

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Opinion of Independent Auditors

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

We have audited the accompanying combined statements of financial position of The Port Authority of New York and New Jersey, which includes its wholly-owned subsidiaries, (the Port Authority) as of December 31, 1998 and 1997, 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 as of December 31, 1998 and 1997, 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, 1998 and 1997, 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.

The Disclosures about Year 2000 Issues included in the Required Supplementary Information is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We did not audit and do not express an opinion on such information. Further, we were unable to apply to the information required to be provided by GASB Technical Bulletin No. 99-1, certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Port Authority is or will become year 2000 compliant, that the Port Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Port Authority does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 1999, 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

March 30, 1999

Deloitte Touche Tohmatsu

Combined Statements of Income

	Year Ended December 31, 1998			1997
	Port Authority Operations	PFC Program	Combined	Combined
	(In thousands)			
Gross operating revenues	$2,361,202	$ –	**$2,361,202**	$2,205,647
Operating expenses:				
Employee compensation, including benefits	608,192	–	**608,192**	575,582
Contract and consultant services	506,010	–	**506,010**	468,241
Utilities	128,759	–	**128,759**	120,199
Materials, equipment and supplies	80,883	–	**80,883**	73,911
Rents and amounts in-lieu-of-taxes	71,810	–	**71,810**	117,381
Other (Note J-2)	173,604	–	**173,604**	105,950
Total operating expenses	1,569,258	–	**1,569,258**	1,461,264
Depreciation of facilities	369,917	5,209	**375,126**	350,465
Amortization of costs for Regional and Other Programs (Note H-2)	20,612	–	**20,612**	36,185
Income from operations	401,415	(5,209)	**396,206**	357,733
Net PFC revenues	–	113,020	**113,020**	107,345
Financial income and expense:				
Income on investments	80,443	6,515	**86,958**	122,558
Net increase in fair value of investments	37,760	18,421	**56,181**	–
Interest expense in connection with bonds and other capital asset financings, net of capitalized interest	(317,258)	–	**(317,258)**	(299,706)
Interest expense in connection with operating asset financings	(35,605)	–	**(35,605)**	(34,675)
Loss on disposition of assets	(172)	–	**(172)**	(257)
Income before extraordinary item	166,583	132,747	**299,330**	252,998
Extraordinary item				
Reduction to prior net loss on World Trade Center explosion (Note J-4)	–	–	**–**	29,450
Net income	166,583	132,747	**299,330**	282,448
Add depreciation of assets acquired with capital funding provided by others (Note F)	30,308	–	**30,308**	29,234
Net income invested in Port Authority facilities, operations and reserves	196,891	132,747	**329,638**	311,682
Retained earnings, January 1	2,923,635	547,298	**3,470,933**	3,159,251
Retained earnings invested in Port Authority facilities, operations and reserves, December 31	$3,120,526	$680,045	**$3,800,571**	$3,470,933

See Notes to Combined Financial Statements.

Combined Statements of Financial Position

	December 31, 1998			December 31, 1997
	Port Authority Operations	PFC Program	Combined	Combined
	(In thousands)			
Assets				
Facilities	$11,979,820	$351,113	**$12,330,933**	$11,523,018
Less accumulated depreciation of facilities	4,596,836	13,303	**4,610,139**	4,245,990
Facilities, net (Note B-1)	7,382,984	337,810	**7,720,794**	7,277,028
Cash (Note C)	44,942	–	**44,942**	41,151
Investments (Note C)	2,281,452	326,341	**2,607,793**	2,069,307
Accounts receivable (net of allowance for doubtful accounts of $12,954 in 1998 and $17,766 in 1997)	55,154		**55,154**	56,908
Other amounts receivable (net of allowance for doubtful accounts of $2,272 in 1998 and $6,548 in 1997)	385,098	15,894	**400,992**	392,000
Amounts receivable in connection with Special Project Bonds	1,459,570	–	**1,459,570**	1,461,620
Unamortized costs for Regional and Other Programs (Note H-2)	454,886	–	**454,886**	459,928
Unamortized costs for Fund buy-out (Note H-1)	408,460	–	**408,460**	411,593
Other assets	409,853	–	**409,853**	328,969
Total assets	12,882,399	680,045	**13,562,444**	12,498,504
Liabilities				
Consolidated Bonds (Note D-1)	5,587,130	–	**5,587,130**	4,933,227
Obligations in connection with other capital asset financing (Note D-2)	921,300	–	**921,300**	911,545
Obligations in connection with operating asset financing (Note D-3)	496,369	–	**496,369**	479,420
Amounts payable in connection with Special Project Bonds (Note D-4)	1,459,570	–	**1,459,570**	1,461,620
Accounts payable	335,546	–	**335,546**	299,291
Accrued pension, retirement and other employee benefits (Note I)	330,178	–	**330,178**	313,432
Accrued interest and other liabilities	247,170	–	**247,170**	251,108
Total liabilities	9,377,263	–	**9,377,263**	8,649,643
Net assets	$ 3,505,136	$680,045	**$ 4,185,181**	$ 3,848,861
Net assets are composed of:				
Retained earnings invested in Port Authority facilities, operations and reserves	$ 3,120,526	$680,045	**$ 3,800,571**	$ 3,470,933
Capital funding provided by others (Note F)	384,610	–	**384,610**	377,928
Net assets	$ 3,505,136	$680,045	**$ 4,185,181**	$ 3,848,861

See Notes to Combined Financial Statements.

Combined Statements of Cash Flows

	Year Ended December 31, 1998			1997
	Port Authority Operations	PFC Program	Combined	Combined
	(In thousands)			
1. Cash flows from operating activities:				
Cash received from operations	$2,231,934	$ –	**$2,231,934**	$2,143,605
Cash paid to suppliers	(831,882)	–	**(831,882)**	(703,335)
Cash paid to or on behalf of employees	(591,445)	–	**(591,445)**	(542,880)
Cash paid to municipalities	(85,427)	–	**(85,427)**	(102,319)
Cash received from insurance	–	–	—	61,434
Net cash provided by operating activities	723,180	–	**723,180**	856,505
Cash flows from capital and related financing activities:				
Proceeds from sales of capital obligations	772,855	–	**772,855**	472,113
Principal paid on capital obligations	(120,352)	–	**(120,352)**	(104,834)
Proceeds from capital obligations issued for refunding purposes	811,930	–	**811,930**	990,435
Principal paid through capital obligations refundings	(811,930)	–	**(811,930)**	(990,435)
Interest paid on capital obligations	(343,917)	–	**(343,917)**	(324,022)
Investment in facilities and construction of capital assets	(594,782)	(154,467)	**(749,249)**	(630,257)
Investment in Regional and Other Programs	(17,215)	–	**(17,215)**	(34,573)
Proceeds from disposition of facilities	1,600	–	**1,600**	12,571
Proceeds from financing the sale of assets	743	–	**743**	1,073
Proceeds from passenger facility charges	–	111,464	**111,464**	103,082
Financial income allocated to capital projects	2,435	–	**2,435**	7,461
Proceeds from sale of equipment notes	18,000	–	**18,000**	38,700
Interest paid on equipment notes	(2,905)	–	**(2,905)**	(2,197)
Principal paid on equipment notes	(5,688)	–	**(5,688)**	–
Payments for Fund buy-out obligation	(28,063)	–	**(28,063)**	(28,063)
Capital funding provided by others	36,990	–	**36,990**	27,728
Net cash (used for) capital and related financing activities	(280,299)	(43,003)	**(323,302)**	(461,218)
Cash flows from investing activities:				
Purchase of investment securities	(5,190,371)	(111,464)	**(5,301,835)**	(4,832,002)
Proceeds from maturity and sale of investment securities	4,688,549	147,952	**4,836,501**	4,356,253
Interest received on investment securities	44,917	6,515	**51,432**	59,889
Miscellaneous financial income	17,815	–	**17,815**	18,873
Net cash (used for) provided by investing activities	(439,090)	43,003	**(396,087)**	(396,987)
Net increase (decrease) in cash	3,791	–	**3,791**	(1,700)
Cash at beginning of year	41,151	–	**41,151**	42,851
Cash at end of year	$ 44,942	$ –	**$ 44,942**	$ 41,151

(Combined Statements of Cash Flows continued on next page.)

See Notes to Combined Financial Statements.

Combined Statements of Cash Flows (continued)

	Year Ended December 31, 1998			1997
	Port Authority Operations	PFC Program	Combined	Combined
	(In thousands)			
2. Reconciliation of income from operations to net cash provided by operating activities:				
Income from operations	$401,415	($5,209)	**$396,206**	$357,733
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation of facilities	369,917	5,209	**375,126**	350,465
Amortization of costs for Regional and Other Programs	20,612	–	**20,612**	36,185
Amortization of other assets	40,498	–	**40,498**	44,196
Extraordinary item				
Reduction to prior net loss on World Trade Center explosion	–	–	—	29,450
Change in operating assets and operating liabilities:				
Decrease in receivables	1,892	–	**1,892**	54,669
(Increase) in prepaid expenses	(135,638)	–	**(135,638)**	(69,235)
Decrease in deferred costs	3,133	–	**3,133**	3,052
Increase in payables	6,986	–	**6,986**	34,232
Increase in employee benefits	16,747	–	**16,747**	32,702
Increase (decrease) in other liabilities	2,661	–	**2,661**	(12,159)
(Decrease) in deferred income	(5,043)	–	**(5,043)**	(4,785)
Total adjustments	321,765	5,209	**326,974**	498,772
Net cash provided by operating activities	$723,180	$ –	**$723,180**	$856,505

3. Capital obligations:

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

4. Noncash capital financing activity:

Noncash activity of $106,620,000 in 1998 and $1,014,639,000 in 1997 includes amounts payable in connection with Special Project Bonds, amortization of discount and premium on Consolidated Bonds, accretion associated with capital appreciation bonds and the gain on the purchase of Port Authority Bonds for sinking fund purposes.

See Notes to Combined Financial Statements.

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), the Newark Legal and Communications Center Urban Renewal Corporation and the New York and New Jersey Railroad 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 Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins 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 capital funding provided by federal, state and other entities 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. "Depreciation of facilities" is computed on the straight-line method based on estimated useful lives of the related assets. In distributing net income to retained earnings, a charge representing depreciation of assets acquired with capital funding provided by federal, state and other entities is made against the related contribution accounts (see Note F). 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. Effective January 1, 1998, in accordance with GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", all Port Authority investments whose values are affected by market (interest rate) changes have been reported at their fair value. As defined by Statement No. 31, "fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale". The effect of adopting GASB Statement No. 31 was not material to the 1997 financial statements and, therefore, prior year investment balances have not been restated to fair value.

Port Authority Consolidated Bonds purchased by the Port Authority serve to reduce debt on Consolidated Bonds 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 depreciation). 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, and 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 1997 financial statements contain the reclassification of certain amounts, which have been made in order to conform to the classifications used in 1998.

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 facilities other than of ancillary equipment. Thus, depreciation 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" until retirement. Interest expense and interest earnings relating to such Port Authority bonds purchased are included as "Interest on bonds and other capital obligations" and "Income on investments". Consolidated Bonds 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 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, 1998	1997
	(In thousands)	
Net income reported on Combined Statements of Income	$299,330	$282,448
Add: Depreciation of facilities	375,126	350,465
Amortization of costs for Regional and Other Programs	20,612	36,185
Amortization of discount and premium	8,217	8,111
Loss on disposition of assets	172	257
	703,457	677,466
Less: Debt maturities and retirements	123,395	105,450
Call premium on refunded bonds	907	—
Repayment of commercial paper obligations	757	395
Appropriations for self-insurance	3,785	3,749
Direct investment in facilities	242,311	246,232
Net PFC revenue	113,020	107,345
PFC income on investments	24,936	18,844
	509,111	482,015
Increase in reserves reported on Schedule A, Revenues and Reserves (pursuant to Port Authority bond resolutions)	$194,346	$195,451

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

	December 31, 1998	1997
	(In thousands)	
Net assets reported on Combined Statements of Financial Position	$4,185,181	$3,848,861
Add: Accumulated depreciation of facilities	4,610,139	4,245,990
Accumulated retirements and gains and losses on disposal of invested in facilities	418,922	407,772
Cumulative amortization of costs for Regional and Other Programs (including retired assets)	536,007	515,395
Amortized discount and premium	26,373	19,064
	9,776,622	9,037,082
Less: Deferred income in connection with PFCs	342,235	358,746
Net assets reported on Schedule B, Assets and Liabilities (pursuant to Port Authority bond resolutions)	$9,434,387	$8,678,336

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, 1998	1997
	(In thousands)	
Net income, PFC program	$132,747	$121,074
Add: Depreciation of PFC facilities	5,209	5,115
Less: Direct PFC project payments	(154,468)	(33,266)
Transfer from (to) deferred income in connection with PFCs	16,512	(92,923)
Net income from sources other than operations attributable to PFCs (pursuant to Port Authority bond resolutions)	$ 0	$ 0

Note B – Facilities

1. Facilities, net is comprised of the following:

	December 31, 1998	1997
	(In thousands)	
Completed construction:		
Interstate Transportation Network	$3,334,326	$3,064,232
Air Terminals (including PFC Program)	4,748,425	4,485,780
Port Commerce	1,190,704	1,161,588
Economic Development	296,704	287,061
World Trade	1,490,805	1,396,890
	11,060,964	10,395,551
Construction in progress	1,269,969	1,127,467
Facilities	12,330,933	11,523,018
Less accumulated depreciation	4,610,139	4,245,990
Facilities, net	$7,720,794	$7,277,028

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

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

Assets located at facilities leased by the Port Authority from others are depreciated over the remaining term of the facility lease or the asset life stated above, whichever is shorter.

2. Net interest expense added to the cost of facilities was $38,909,000 in 1998 and $36,955,000 in 1997.

3. During 1998, the Board of Commissioners authorized the sale of the Industrial Park at Yonkers and consequently the assets' book value was reduced by $19,200,000. Transfer of title took place on March 3, 1999.

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

Note C – Cash and Investments

1. The components of cash and investments are:

	December 31, 1998	December 31, 1997
CASH	(In thousands)	
Cash on hand	$ 1,147	$ 1,165
Demand deposits	43,795	39,986
Total cash	$44,942	$41,151

	December 31, 1998	December 31, 1997
INVESTMENTS*	(In thousands)	
Short-term		
United States Treasury Bills and Notes	$1,232,890	$1,068,100
United States Treasury obligations held pursuant to repurchase agreements	125,274	197,575
United States government agency obligations	99,811	–
Commercial paper notes	49,904	–
Total short-term	1,507,879	1,265,675
Long-term		
United States Treasury Bonds and Notes	1,089,932	794,315
Total long-term	1,089,932	794,315
Accrued interest receivable	9,982	9,317
Total investments	$2,607,793	$2,069,307

*Effective January 1, 1998, all Port Authority investments whose values are affected by market (interest rate) changes are reported at fair value, using published market prices. In 1997, investments were valued at amortized cost (see Note A-1).

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 $44,329,000 as of December 31, 1998. In accordance with the aforementioned policy, $36,074,000 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 $7,423,000 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 $832,000 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. All Port Authority investments are maintained, generally on a book entry basis, by a third party financial institution in the Port Authority's name. Securities transactions 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. Investments with respect to each series of Special Project Bonds are made in accordance with the resolution establishing such series. 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 1998, repurchase agreements in effect at any one time ranged as high as $549,000,000. Although there were no investments in reverse repurchase agreements at December 31, 1998, during 1998 reverse repurchase (yield maintenance) agreements in effect at any one time ranged as high as $293,000,000.

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

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

		Dec. 31, 1997	Issued/ Accreted	Refunded/ Retired	Dec. 31, 1998
Consolidated Bonds:			(In thousands)		
Thirtieth series	3 5/8% due 1998	$ 1,500	$ –	$ 1,500	$ –
Thirty-first series	4% due 2002	25,000	–	5,000	20,000
Thirty-second series	5% due 2003	30,000	–	5,000	25,000
Thirty-third series	4 3/4% due 2003	30,000	–	5,000	25,000
Thirty-ninth series	5.8% due 2007	97,500	–	97,500	–
Forty-first series	5 1/2% due 2008	70,000	–	70,000	–
Forty-sixth series	6% due 2013	66,750	–	66,750	–
Series fifty-one E	7% due 2014	13,090	–	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)	6.6%-7 1/8% due 1998-2025	100,590	1,490	1,055	101,025
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)	5.9%-6 3/4% due 1998-2026	103,953	1,449	1,410	103,992
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 1/2%-6 1/2% due 1998-2011	88,600	–	4,300	84,300
Seventy-ninth series	5 1/8%-6% due 1998-2005	53,830	–	6,325	47,505
Eightieth series	5 1/8%-6% due 1998-2005	27,075	–	3,155	23,920
Eighty-first series	4.6%-5.8% due 1998-2014	108,030	–	3,960	104,070
Eighty-second series	4.6%-5.8% due 1998-2014	86,700	–	3,400	83,300
Eighty-third series	5%-6 3/8% due 1998-2017	90,640	–	2,555	88,085
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	4%-5.2% due 1998-2012	118,960	–	9,015	109,945
Eighty-seventh series	4%-7 1/2% due 1998-2021	96,510	–	1,860	94,650
Eighty-eighth series	3.8%-4 3/4% due 1998-2008	171,230	–	18,030	153,200
Eighty-ninth series	4 1/4%-5 1/8% due 2001-2021	94,000	–	–	94,000
Ninetieth series**	5.18%-6 1/8% due 1998-2005	54,845	–	5,625	49,220
Ninety-first series	4%-5.2% due 1998-2020	281,130	–	3,715	277,415
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 1998-2015	93,825	–	3,385	90,440
One hundred second series (d)	5.1%-5 7/8% due 2007-2027	120,000	–	–	120,000
One hundred third series	4.1%-5 1/4% due 1998-2014	81,500	–	3,000	78,500
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 1998-2016	144,945	–	5,220	139,725
One hundred sixth series*	4.5% - 6% due 1998-2016	97,000	–	3,100	93,900
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	–	4,690	145,310
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	–	3,045	96,955
One hundred eleventh series	5% due 2012-2032	100,000	–	–	100,000
One hundred twelfth series*	4 1/2%-5 1/4% due 1999-2018	–	150,000	–	150,000
One hundred thirteenth series	3.8%-4 3/4% due 1999-2013	–	153,000	–	153,000
One hundred fourteenth series	4 3/4%-5 1/2% due 2013-2033	–	100,000	–	100,000
One hundred fifteenth series	3.6%-4 3/8% due 1999-2008	–	65,000	–	65,000
One hundred sixteenth series (e)	4 1/4%-5 1/4% due 2006-2033	–	450,000	–	450,000
One hundred seventeenth series*	4%-5 1/8% due 1999-2018	–	100,000	–	100,000
Total Consolidated Bonds pursuant to Port Authority bond resolutions		$5,077,133	$1,020,939	$350,685	$5,747,387

1. Consolidated Bonds (continued)

	Dec. 31, 1997	Issued/ Accreted	Refunded/ Retired	Dec. 31, 1998
			(In thousands)	
Total Consolidated Bonds pursuant to Port Authority bond resolutions	$5,077,133	$1,020,939	$350,685	$5,747,387
Less: Unamortized discount and premium (f)	143,906			160,257
Consolidated Bonds (g)	$4,933,227			$5,587,130

(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, 1998, $2,070,000 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 Consolidated Bonds, one hundred second series was allocated to the purchase of U.S. Treasury securities which are expected to provide for both the refunding on the first call date and the payment of interest through the first call date (October 1, 2002) on Consolidated Bonds, seventy-second series.

(e) Approximately $357,155,000 of the proceeds of Consolidated Bonds, one hundred sixteenth series was allocated to the purchase of U.S. Treasury securities which are expected to provide for both the refunding on the first call date and the payment of interest through the first call date on the following series of consolidated bonds:

Consolidated Bonds	Amount to be refunded	First call date
Sixty-seventh series	$100,000,000	Jan. 1, 2000
Sixty-ninth series (third installment)	$ 77,705,000	Jun. 1, 2000
Seventy-first series	$ 78,000,000	Jan. 15, 2001
Seventy-fourth series (third installment)	$ 76,215,000	Aug. 1, 2001

(f) Amount includes the unamortized difference between acquisition price and carrying amount on refunded debt and gain or loss on futures contracts transactions, if any.

(g) Debt service on Consolidated Bonds outstanding on December 31, 1998 is:

Year Ending December 31:	Principal	Interest	Debt Service
		(In thousands)	
1999	$ 133,725	$ 319,303	$ 453,028
2000	144,235	312,978	457,213
2001	152,440	305,753	458,193
2002	160,755	298,034	458,789
2003	169,855	289,985	459,840
2004-2094	5,023,885	3,944,766	8,968,651
Total	$5,784,895	$5,470,819	$11,255,714

Total principal of $5,784,895 shown above differs from the total Consolidated Bonds pursuant to Port Authority bond resolutions of $5,747,387 because of differences in the par value at maturity of the capital appreciation bonds of $37,508.

The Board of Commissioners has authorized the issuance of Consolidated Bonds one hundred eighteenth 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 has continued 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, 1997	Dec. 31, 1998
	(In thousands)	
Commercial paper notes	$124,445	$124,910
Variable rate master notes	202,900	215,990
Versatile structure obligations	584,200	580,400
	$911,545	$921,300

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, 1997	Issued	Refunded/ Repaid	Dec. 31, 1998
		(In thousands)		
Series A*	$ 66,040	$326,835	$315,890	$ 76,985
Series B	58,405	250,520	261,000	47,925
Total commercial paper obligations	$124,445	$577,355	$576,890	$124,910

Interest rates for all commercial paper obligations ranged in 1998 from 1.25% to 3.85%.

As of March 30, 1999, commercial paper obligations outstanding totalled $129,015,000.

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, 1997	Issued	Refunded/ Repaid	Dec. 31, 1998
		(In thousands)		
Agreements 1989-1995*	$ 94,900	$ –	$ –	$ 94,900
Agreements 1989-1998	108,000	13,090	–	121,090
	$202,900	$ 13,090	$ –	$215,990

Interest rates, variable, ranged in 1998 from 2.6% to 4.4%.

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, 1997	Issued	Refunded/ Repaid	Dec. 31, 1998
		(In thousands)		
Series 1R*, 4*, 6*	$300,000	$ –	$ 3,300	$296,700
Series 2, 3, 5	284,200	–	500	283,700
	$584,200	$ –	$ 3,800	$580,400

Interest rates, variable based upon contractual agreements, ranged in 1998 from 1.25% to 5.25%.

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

The Port Authority has entered into a separate standby certificate purchase agreement pertaining to each series of versatile structure obligations with certain banks, which provides that during the term of the banks' commitment (generally three years, subject to renewal), if the remarketing agent fails to remarket any obligations that are tendered by the holders, the bank 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 bank. Bank commitment fees during 1998 in connection with the agreements were $624,000. No bank was required to purchase any of the obligations under the agreements in 1998.

3. Obligations in Connection with Operating Asset Financing

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

	Dec. 31, 1997	Dec. 31, 1998
	(In thousands)	
Port Authority equipment notes	$ 74,838	$ 87,150
Fund buy-out obligation	404,582	409,219
	$479,420	$496,369

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, 1997	Issued	Refunded/ Repaid	Dec. 31, 1998
		(In thousands)		
Notes 1995-1998	$62,488	$14,500	$ 5,688	$ 71,300
Notes 1995-1998*	12,350	3,500	—	15,850
	$74,838	$18,000	$ 5,688	$ 87,150

Interest rates, variable, ranged in 1998 from 2.8% to 4.7%.

B. Fund buy-out obligation

Dec. 31, 1997	Accretion (a)	Refunded/ Repaid	Dec. 31, 1998
	(In thousands)		
$404,582	$32,700	$28,063	$409,219

(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, 1998 are:

Year Ending December 31:	Payments
	(In thousands)
1999	$ 28,063
2000	28,063
2001	28,063
2002	35,215
2003	35,213
2004-2021	844,211
	$998,828

As of March 30, 1999, the Fund buy-out obligation outstanding totalled $403,418,000.

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.

	Dec. 31, 1997	Issued	Refunded/ Repaid	Dec. 31, 1998
		(In thousands)		
Series 1R, Delta Air Lines, Inc. Project (a)				
6.95% term bonds, due 2008	$ 96,500	$ –	$ –	$ 96,500
Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project (b)*				
9%-9 1/8%, due 2006-2015	202,075	$ –	$ –	202,075
Less: unamortized discount and premium	8,853			8,390
Total—Series 2	193,222			193,685
Series 4, KIAC Partners Project (c)*				
6 1/4%-7%, due 1999-2019	250,000	$ –	$ 2,700	247,300
Less: unamortized discount and premium	4,108			3,923
Total—Series 4	245,892			243,377
Series 6, JFK International Air Terminal LLC Project (d)*				
5.125%-7%, due 2003-2025	934,100	$ –	$ –	934,100
Less: unamortized discount and premium	8,094			8,092
Total—Series 6	926,006			926,008
Grand total	$1,461,620			$1,459,570

(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, 1998, 11 interest rate exchange contracts were in place with notional amounts aggregating $778,960,000, including offsetting swaps 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 (versatile structure obligations, commercial paper obligations, and variable rate master notes), and the interest thereon, are not secured by or payable from the General Reserve Fund. At December 31, 1998, the General Reserve Fund balance was $823,581,000 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 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, 1998, the Port Authority met the requirements of the Consolidated Bond Resolution to maintain total reserve funds in cash and certain specified securities (see Note C).

Note F – Capital Funding Provided by Others

The Port Authority receives capital funding with respect to its facilities from federal, state and other entities. Federal funding (including amounts receivable) from the Airport Improvement Program was $27,066,000 in 1998 and $27,892,000 in 1997. Funding from other entities was $9,924,000 in 1998.

Charges representing depreciation of assets relating to capital funding provided by others were $30,308,000 in 1998 and $29,234,000 in 1997.

	December 31, 1998	1997
	(In thousands)	
Cumulative capital funding provided by others	$736,194	$699,204
Less accumulated depreciation of assets acquired with capital funding provided by others	351,584	321,276
Capital funding provided by others	$384,610	$377,928

Note G – Lease Commitments

1. Operating lease revenues

Gross operating revenues attributable to fixed rentals associated with operating leases amounted to $728,073,000 in 1998 and $691,888,000 in 1997.

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, 1998 are:

Year ending December 31:	(In thousands)
1999	$ 634,251
2000	581,689
2001	566,963
2002	547,639
2003	523,232
Later years	4,658,563
Total minimum future rentals	$7,512,337

Investments in such facilities as of December 31, 1998 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 $70,633,000 in 1998 and $74,587,000 in 1997. The terms of such leases expire at various times from 1999 to 2031 and may be renewed for additional periods. Minimum future rentals scheduled to be paid on operating leases in effect on December 31, 1998 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)
1999	$ 37,154
2000	37,082
2001	37,586
2002	38,566
2003	38,401
Later years	791,720
Total minimum future rent payments	$980,509

4. Information with respect to the suspension of lease negotiations relating to the New York City Airports and with respect to a dispute relating to the lease for Newark International Airport and Port Newark and certain agreements relating to other Port Authority facilities located within the City of Newark.

The City of New York has expressed its unwillingness to negotiate an extension of the lease, currently scheduled to expire in 2015, under which the Port Authority operates John F. Kennedy International and LaGuardia Airports. The City of New York, in December 1995, demanded arbitration of certain matters involved in the determination of the amount due the City as rent under the lease, requesting at that time that the City be awarded in excess of $400,000,000, which the City alleges represents underpayment of rent by the Port Authority. The Port Authority is disputing the City's allegations in such arbitration proceedings.

The members of the Newark Municipal Council have demanded arbitration regarding the determination of the amount due as rent under the lease between the City of Newark and the Port Authority dated October 22, 1947, pertaining to Newark International Airport and Port Newark. The demand for arbitration states that such amount may exceed $1 billion. Additionally, the members of the Municipal Council have commenced suit regarding payments under the aforementioned lease and the agreements with respect to the Essex County Resource Recovery Facility and the Newark Legal and Communications Center. The Port Authority is disputing the allegations of the Newark Municipal Council members as well as their standing to bring such proceedings on behalf of the City of Newark.

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.

	Dec. 31, 1997	**Amortization**	**Dec. 31, 1998**
		(In thousands)	
Unamortized costs for Fund buy-out	$411,593	$3,133	$408,460

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, 1998, $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. 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 — In 1979, the States of New York and New Jersey adopted legislation which, as amended in 1982, authorized the Port Authority to acquire, develop, finance and transfer, subject to appropriate certifications, up to $440,000,000 of buses and ancillary bus facilities, with up to $220,000,000 allocated in each State, to any public authority, agency, commission, city or county thereof. As of June 30, 1998, title to all buses leased under such programs was transferred to the respective lessees thereof.

As of December 31, 1998, $1,149,750,000 was authorized for regional and other programs of which $1,112,985,000 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, 1998, the unamortized costs of the regional and other programs are as follows:

	Dec. 31, 1997	Additional Project Expenditures	Amortization	Dec. 31, 1998
		(In thousands)		
Unamortized cost of Regional Programs	$414,648	$15,431	$17,130	$412,949
Unamortized cost of Oak Point Freight Link	29,547	—	1,275	28,272
Unamortized cost of New Jersey Marine Development	14,100	139	574	13,665
Unamortized cost of Bus Programs	1,633	—	1,633	—
Unamortized cost of Regional and Other Programs	$459,928	$15,570	$20,612	$454,886

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 five 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 1998 was $454,226,000 of which $295,594,000 and $151,490,000 represent the cost for employees covered by ERS and PFRS, respectively.

Port Authority employer 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	% of Covered Payroll	PFRS	% of Covered Payroll
		(In thousands)		
1998	$ 6,353	1.4%	$ 6,083	1.4%
1997	16,807	4.2%	11,001	2.8%
1996	19,359	4.4%	14,362	3.3%

Employee contributions of $6,717,000 to the ERS represented 1.5% of the total Port Authority covered payroll in 1998.

During 1997 and 1998, the Port Authority participated in retirement incentive programs authorized by law and administered by the ERS. In 1997 and 1998, a total of 226 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 $4,583,000 for 1997 and has been estimated to be $4,086,000 for 1998. 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 five years), and optional methods of benefit payment. The PATH payroll expense for 1998 was $63,612,000 of which $8,128,000 represented the cost for exempt employees.

There are a total of 120 active and 31 retired employees covered under the Plan. The actuarially determined valuation of this unfunded pension benefit obligation was reviewed in 1998 for the purpose of adjusting the annual accruals and updating the valuation of the accrued pension obligation. At December 31, 1998 the actuarial plan valuation, based on the projected unit credit cost method, was estimated to be $20,983,000 of which $10,932,000 and $10,051,000 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. An annual pension cost of $2,441,000, was recognized in 1998. This cost consists of $1,494,000 for the annual required contribution plus $947,000 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, 1998, the amount of the unfunded actuarial accrued liability was $14,617,000 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) Actuarial plan valuation	(B) Unfunded actuarial accrued liability	(C) Annual covered payroll	Percentage (B)/(C)
		(In thousands)		
1998	$20,983	$14,617	$8,128	179.8
1997	20,365	13,527	8,217	164.6
1996	19,712	12,295	8,351	147.2

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 1998 for these employees was $55,484,000. For the year 1998, contributions made by PATH in accordance with the terms of various collective bargaining agreements totalled $3,215,000, which represented approximately 5.1% of the total PATH covered payroll for 1998. 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, vision 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. The actuarially determined valuation, last completed in 1998, 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 $657,300,000 as of December 31, 1998, consisting of the following:

	Port Authority	PATH	Total
		(In millions)	
Retirees	$435.0	$38.5	$473.5
Active	152.7	31.1	183.8
Total	$587.7	$69.6	$657.3

The obligation accrued as of December 31, 1998 is $252,812,000. The difference between the actuarial present value of future benefits for prior service and the amount accrued as of December 31, 1998 is being amortized over a twenty-year period.

The cost of providing health care, dental, vision and life insurance benefits, not including the accrual for prior service costs, totalled approximately $92,025,000 in 1998 and $79,487,000 in 1997. Providing these benefits for retired employees (and their eligible dependents) cost approximately $29,048,000 in 1998 and $25,305,000 in 1997.

Note J – Commitments and Certain Charges to Operations

1. The proposed annual budget for 1999 is under review by the Board of Commissioners and by the States of New York and New Jersey. Pending adoption of a budget for 1999, the Port Authority will continue to make expenditures, undertake commitments and authorize projects and other activities, consistent with appropriate existing authorizations. Approval of the budget by the Board of Commissioners 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.

At December 31, 1998, the Port Authority has entered into various construction contracts totaling approximately $1,693,018,000, 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 or both, so that the costs of operations, including expenses incurred with respect to obligations issued in connection with the acquisition of certain equipment by the Port Authority, the payment of debt service and the fulfillment of Port Authority statutory, contractual and other commitments will continue to be provided for in accordance with the requirements therefor and agreements with the holders of Port Authority obligations.

2. Other operating expenses of $173,604,000 in 1998 and $105,950,000 in 1997 include amounts for insurance, claims, payment of interest on Special Project Bonds, 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, 1998, the Port Authority had provided a net amount of $157,939,000 to the vendor under a conditional sale agreement through which the 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.

A New Jersey judicial decision has precluded Essex County from continuing to designate the Facility as the exclusive site for the receipt of solid waste generated within the County. Further, there may be changes in New Jersey's solid waste flow control system resulting from legal challenges to such system. The above described matters are not expected to cause a substantial reduction in the quantity of solid waste delivered to the plant. However, tipping fees at the plant for solid waste originating in Essex County may be less than those provided for in an existing contract between Essex County and the Port Authority. The overall reduction in revenue to the Port Authority in any given year resulting from such reduced tipping fees is not expected to exceed $10 million.

4. 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.

5. 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, 1998, the property damage and loss of revenue insurance on Port Authority facilities totalled $1 billion, while the public liability insurance totalled $1.25 billion for aviation facilities and $650 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 1997 and 1998 were:

	Beginning Balance	Additions and Changes	Payments	Year-end Balance
		(In thousands)		
1997	$33,281	$ 8,190	($13,021)	$28,450
1998	$28,450	$10,041	($15,208)	$23,283

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

6. On February 9, 1998, the Federal Aviation Administration determined that a light rail transit system, linking the terminals in the central terminal area of John F. Kennedy International Airport with each other and with existing transit lines in Jamaica, Queens and Howard Beach, Queens, was generally eligible for the application of Passenger Facility Charges (see Note A-1). It is presently estimated that the cost of the project, excluding debt service with respect to obligations issued for the project, would be $1.2 billion. Approximately 75% of this estimated $1.2 billion is expected to be provided from the application of PFC revenue and the balance is expected to be provided through other available capital funds of the Port Authority. It is anticipated that PFC collections would be applied directly to project capital costs and/or to the payment of debt service on PFC backed bonds or other obligations payable in whole or in part from PFCs.

In 1998, an association of air carriers requested that the U.S. Court of Appeals for the District of Columbia review the FAA's decision, alleging that the FAA unlawfully and improperly approved the use of PFCs for the light rail transit system. On March 5, 1999, the court held that while the FAA had reasonably interpreted the PFC legislation as authorizing the approval of a ground access project such as the JFK light rail transit system, the FAA had failed to follow appropriate procedures when it relied on supplemental material which it had requested from the Port Authority after the close of the comment period and on which the air carriers' association did not have an opportunity to respond. As a result of the court's decision, it will be necessary for the FAA to take further actions with respect to this matter.

7. During 1998, the Port Authority began the process intended to lead to the net leasing of the World Trade Center and the Newark Legal and Communications Center.

8. On March 10, 1998, the New Jersey Turnpike Authority, as the lead agency of a regional consortium consisting of the Port Authority, the State of Delaware, the New Jersey Turnpike Authority, the South Jersey Transportation Authority and the New Jersey Highway Authority, entered into a project agreement with MFS NetworkTechnologies, Inc., as contractor, for the purpose of receiving from such contractor the services associated with the implementation of an integrated electronic toll collection system, a fiber optic system, a customer service center for processing tolls transactions and a related violations processing center.

To finance certain of the costs of this project, the New Jersey Economic Development Authority issued $300 million of taxable economic development transportation bonds ("EDA bonds"). The EDA bonds are payable from certain amounts other than tolls, including amounts received by the consortium members principally consisting of administrative fees resulting from toll violations and rents from the leasing of portions of the fiber optic system developed as a part of the project and, subject to the requirements of each of such consortium member's bond covenants, paid to a project fund. To the extent that amounts in the project fund are not sufficient to pay approved expenses relating to principal and interest on the EDA bonds, each consortium member has agreed, under a true-up agreement with the New Jersey Economic Development Authority, generally, subject to the requirements of such member's bond covenants, to pay its allocated share, as set forth below, of the amount of such deficiency at the maturity of the EDA bonds, March 7, 2008, or earlier in connection with the occurrence of certain events of default. The true-up agreement provides for a proportional allocation of liability for the payment of true-up amounts amongst the consortium members, initially, on the following basis: the Port Authority – 13%, the State of Delaware – 4%, the New Jersey Turnpike Authority – 48%, the South Jersey Transportation Authority – 3%, and the New Jersey Highway Authority – 32%. This proportional allocation of liability amongst the consortium members is subject to adjustment under the true-up agreement.

Generally, when the EDA bonds are discharged, other reimbursements to the consortium members have been made and an operating reserve established, the contractor is entitled to additional payments of net project fund balances to be determined on a formula basis, with the remainder of the net project fund balances to be disbursed to the consortium members.

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, depreciation and amortization of Regional and Other Programs. 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	Economic Development (In thousands)	World Trade	Combined Total
1998						
Gross operating revenues	$ 626,249	$1,230,504	$110,927	$ 73,740	$ 319,782	$ 2,361,202
Interdepartmental revenues	2,024	–	818	985	27,710	
Revenues from operations	$ 628,273	$1,230,504	$111,745	$ 74,725	$ 347,492	
Gross operating income (loss)	$ 96,375	$ 389,448	($ 1,094)	($ 36,048)	$ 97,865	$ 546,546
General administrative and development expenses	(72,606)	(59,338)	(5,681)	(836)	(6,670)	(145,131)
Income (loss) from operations	$ 23,769	$ 330,110	($ 6,775)	($ 36,884)	$ 91,195	$ 401,415
Net income (loss) Port Authority operations	($ 56,148)	$ 257,117	($ 29,811)	($ 35,747)	$ 31,172	$ 166,583
Net income PFC program						132,747
Combined net income						$ 299,330
1997						
Gross operating revenues	$ 610,124	$1,149,863	$102,175	$ 80,264	$ 263,221	$ 2,205,647
Interdepartmental revenues	1,644	–	862	642	33,304	
Revenues from operations	$ 611,768	$1,149,863	$103,037	$ 80,906	$ 296,525	
Gross operating income (loss)	$ 97,980	$ 346,881	($ 5,375)	($ 13,281)	$ 72,079	$ 498,284
General administrative and development expenses	(70,678)	(51,034)	(5,078)	(888)	(7,758)	(135,436)
Income (loss) from operations	$ 27,302	$ 295,847	($ 10,453)	($ 14,169)	$ 64,321	$ 362,848
Net income (loss) Port Authority operations	($ 54,489)	$ 228,304	($ 31,049)	($ 15,354)	$ 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

(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 depreciation.

	Interstate Transportation Network	Air Terminals	Port Commerce	Economic Development (In thousands)	World Trade	PFC Program	Combined Total
1998 Assets							
Facilities, net-beginning of year	$2,463,895	$2,572,311	$804,364	$212,021	$1,035,886	$188,551	$ 7,277,028
Net capital expenditures	163,074	319,023	86,640	4,150	93,309	154,468	820,664
Disposition of assets	(1,772)	–	–	–	–	–	(1,772)
Depreciation	(96,886)	(171,558)	(30,984)	(30,379)	(40,110)	(5,209)	(375,126)
Facilities, net-end of year	2,528,311	2,719,776	860,020	185,792	1,089,085	337,810	7,720,794
Unamortized costs for Regional and Other Programs	412,949	–	41,937	–	–	–	454,886
Total	$2,941,260	$2,719,776	$901,957	$185,792	$1,089,085	$337,810	8,175,680
Cash, investments, accounts receivable, other amounts receivable, amounts receivable in connection with Special Project Bonds, unamortized costs for Fund buy-out and other assets							5,386,764
Total assets							$13,562,444
1997 Assets							
Facilities, net-beginning of year	$2,342,074	$2,481,550	$768,857	$226,313	$ 990,731	$160,400	$ 6,969,925
Net capital expenditures	209,191	288,817	71,875	6,606	80,467	33,266	690,222
Disposition of assets	–	(20,000)	(11,996)	(658)	–	–	(32,654)
Depreciation	(87,370)	(178,056)	(33,318)	(11,294)	(35,312)	(5,115)	(350,465)
Facilities, net-end of year	2,463,895	2,572,311	795,418	220,967	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	$839,064	$220,967	$1,035,886	$188,551	7,736,956
Cash, investments, accounts receivable, other amounts receivable, amounts receivable in connection with Special Project Bonds, unamortized costs for Fund buy-out and other assets							4,761,548
Total assets							$12,498,504

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

	Year ended December 31, 1998 Operating Fund	Reserve Funds	Combined Total	1997 Combined Total
	(In thousands)			
Gross operating revenues	$2,361,202	$ —	**$2,361,202**	$2,205,647
Operating expenses:				
Employee compensation, including benefits	608,192	—	**608,192**	575,582
Contract and consultant services	506,010	—	**506,010**	468,241
Utilities	128,759	—	**128,759**	120,199
Materials, equipment and supplies	80,883	—	**80,883**	73,911
Rents and amounts in-lieu-of-taxes	71,810	—	**71,810**	117,381
Other (Note J-2)	173,604	—	**173,604**	105,950
Total operating expenses	1,569,258	—	**1,569,258**	1,461,264
Amounts in connection with operating asset financings	35,605	—	**35,605**	34,675
Net operating revenues	756,339	—	**756,339**	709,708
Financial income				
Income on investments	30,450	50,152	**80,602**	103,884
Net increase in fair value of investments	34,061	3,699	**37,760**	—
Extraordinary item				
Reduction to prior net loss on World Trade Center explosion (Note J-4)	—	—	**—**	29,450
Net revenues available for debt service and reserves	820,850	53,851	**874,701**	843,042
Debt service				
Interest on bonds and other capital obligations	310,107	—	**310,107**	291,765
Debt maturities and retirements	123,395	—	**123,395**	105,450
Repayment of commercial paper obligations	—	757	**757**	395
Total debt service	433,502	757	**434,259**	397,610
Transfers to reserves	($ 387,348)	387,348	**—**	—
Revenues after debt service and transfers to reserves		440,442	**440,442**	445,432
Direct investment in facilities		(242,311)	**(242,311)**	(246,232)
Appropriations for self-insurance		(3,785)	**(3,785)**	(3,749)
Increase in reserves		194,346	**194,346**	195,451
Reserve balances, January 1		1,187,195	**1,187,195**	991,744
Reserve balances, December 31 (Schedule C)		$1,381,541	**$1,381,541**	$1,187,195

See Notes to Combined Financial Statements.

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

	December 31, 1998				December 31, 1997
	Operating Fund	Capital Fund	Reserve Funds	Combined Total	Combined Total
			(In thousands)		
Assets					
Invested in facilities	$ –	$13,927,378	$ –	**$13,927,378**	$13,069,084
Cash (Note C)	42,494	1,448	1,000	**44,942**	41,151
Investments (Note C)	580,774	646,478	1,380,541	**2,607,793**	2,069,307
Accounts receivable (net of allowance for doubtful accounts of $12,954 in 1998 and $17,766 in 1997)	54,154	1,000	–	**55,154**	56,908
Other amounts receivable (net of allowance for doubtful accounts of $2,272 in 1998 and $6,548 in 1997)	139,667	261,325	–	**400,992**	392,000
Amounts receivable in connection with Special Project Bonds	–	1,459,570	–	**1,459,570**	1,461,620
Unamortized costs for Fund buy-out (Note H-1)	408,460	–	–	**408,460**	411,593
Other assets	392,407	37,851	–	**430,258**	350,022
Total assets	1,617,956	16,335,050	1,381,541	**19,334,547**	17,851,685
Liabilities					
Consolidated Bonds (Note D-1)	–	5,747,387	–	**5,747,387**	5,077,133
Obligations in connection with other capital asset financing (Note D-2)	–	921,300	–	**921,300**	911,545
Obligations in connection with operating asset financing (Note D-3)	496,369	–	–	**496,369**	479,420
Amounts payable in connection with Special Project Bonds (Note D-4)	–	1,479,975	–	**1,479,975**	1,482,675
Accounts payable	169,141	166,405	–	**335,546**	299,291
Accrued pension, retirement and other employee benefits (Note I)	330,178	–	–	**330,178**	313,432
Accrued interest and other liabilities	239,971	7,199	–	**247,170**	251,107
Deferred income in connection with PFCs	342,235	–	–	**342,235**	358,746
Total liabilities	1,577,894	8,322,266	–	**9,900,160**	9,173,349
Net assets	$ 40,062	$ 8,012,784	$1,381,541	**$ 9,434,387**	$ 8,678,336
Net assets are composed of:					
Debt retired through income	$ –	$ 3,604,706	$ –	**$ 3,604,706**	$ 3,480,553
Reserves (Schedule C)	–	–	1,381,541	**1,381,541**	1,187,195
Capital funding provided by others (Note F)	–	736,192	–	**736,192**	699,204
PFCs invested in facilities	–	351,113	–	**351,113**	196,645
Appropriated reserves invested in facilities	–	3,320,773	–	**3,320,773**	3,078,462
Appropriated reserves for self-insurance	40,062	–	–	**40,062**	36,277
Net assets	$ 40,062	$ 8,012,784	$1,381,541	**$ 9,434,387**	$ 8,678,336

See Notes to Combined Financial Statements.

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

	Year ended December 31, 1998			1997
	General Reserve Fund	**Consolidated Bond Reserve Fund**	**Combined Total**	Combined Total
		(In thousands)		
Balance, January 1	$754,619	$432,576	**$1,187,195**	$ 991,744
Income on investments	37,559	12,593	**50,152**	52,443
Net increase fair value of investments	2,367	1,332	**3,699**	—
Transfers from operating fund	29,036	358,312	**387,348**	393,384
	823,581	804,813	**1,628,394**	1,437,571
Applications:				
Repayment of commercial paper obligations	—	757	**757**	395
Direct investment in facilities	—	242,311	**242,311**	246,232
Self-insurance	—	3,785	**3,785**	3,749
Total applications	—	246,853	**246,853**	250,376
Balance, December 31 (Note E)	$823,581	$557,960	**$1,381,541**	$1,187,195

See Notes to Combined Financial Statements.

Schedule D – Selected Statistical Financial Data

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
REVENUES AND EXPENSES										
Gross operating revenues (a)	$ 2,361,202	$ 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
Operating expenses	1,569,258	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
Amounts in connection with operating asset financings	35,605	34,675	33,126	32,254	32,103	32,774	31,745	30,669	29,052	1,533
Net operating revenues	756,339	709,708	651,685	580,489	539,633	547,847	553,375	488,820	379,380	401,029
Income on investments	118,362	103,873	98,707	70,830	73,723	76,404	88,054	84,054	86,014	92,094
Gain on purchase of Port Authority bonds	–	11	–	439	4,797	146	724	4,788	2,131	4,871
Net gain (loss) on WTC explosion	–	29,450	–	–	–	(32,500)	–	–	–	–
Net revenues available for debt service and reserves	874,701	843,042	750,392	651,758	618,153	591,897	642,153	577,662	467,525	497,994
DEBT SERVICE–OPERATIONS										
Interest on bonds, notes and other capital obligations	(310,107)	(291,765)	(292,987)	(266,903)	(259,400)	(258,458)	(254,435)	(227,619)	(195,176)	(174,673)
Times, interest earned	2.82	2.89	2.56	2.44	2.38	2.29	2.52	2.54	2.40	2.85
Debt maturities and retirements	(123,395)	(105,450)	(87,443)	(86,865)	(75,745)	(67,675)	(59,925)	(66,537)	(59,675)	(52,425)
Times, debt service earned (b)	2.02	2.12	1.95	1.84	1.83	1.81	2.04	1.99	1.83	2.17
DEBT SERVICE–RESERVES										
Direct investment in facilities	(242,311)	(246,232)	(162,471)	(268,711)	(224,622)	(185,071)	(370,497)	(187,305)	(235,984)	(262,844)
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)	–	–	–	–
Application from PFC program	–	–	–	105,000	–	–	–	–	–	–
Appropriations for self-insurance	(3,785)	(3,749)	5,057	(3,444)	710	7,081	865	(1,218)	351	(2,272)
Repayment of commercial paper obligations	(757)	(395)	(780)	(878)	(343)	(178)	(126)	(520)	(1,734)	(1,068)
Net increase (decrease) in reserves	194,346	195,451	111,768	17,277	31,691	48,451	(45,980)	90,458	(28,790)	2,771
RESERVE BALANCES										
January 1	1,187,195	991,744	879,976	862,699	831,008	782,557	828,537	738,079	766,869	764,098
December 31	$ 1,381,541	$ 1,187,195	$ 991,744	$ 879,976	$ 862,699	$ 831,008	$ 782,557	$ 828,537	$ 738,079	$ 766,869
Reserve fund balances represented by:										
General Reserve	$ 823,581	$ 754,619	$ 618,960	$ 605,167	$ 579,329	$ 534,011	$ 494,486	$ 471,281	$ 441,614	$ 373,129
Consolidated Bond Reserve	557,960	432,576	372,784	274,809	283,370	296,997	288,071	357,256	296,465	393,740
Total	$ 1,381,541	$ 1,187,195	$ 991,744	$ 879,976	$ 862,699	$ 831,008	$ 782,557	$ 828,537	$ 738,079	$ 766,869
OBLIGATIONS AT DECEMBER 31										
Consolidated Bonds and Notes	$ 5,747,387	$ 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
Fund buy-out obligation	409,219	404,582	400,305	396,360	392,722	389,366	386,290	383,433	357,067	–
Amounts payable in connection with Special Project Bonds	1,479,975	1,482,675	548,575	472,675	473,575	473,575	298,575	298,575	298,575	96,500
Variable rate master notes	215,990	202,900	233,000	308,000	283,000	270,000	250,000	217,000	182,000	135,000
Commercial paper obligations	124,910	124,445	163,850	176,955	187,106	189,963	170,492	116,430	172,140	161,537
Versatile structure obligations	580,400	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
Port Authority equipment notes	87,150	74,838	36,138	13,638	–	–	–	–	–	–
Total obligations	$ 8,645,031	$ 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
INVESTED IN FACILITIES AT DECEMBER 31	$13,927,378	$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
DEBT RETIRED THROUGH INCOME:										
Annual	$ 124,153	$ 105,845	$ 188,223	$ 95,423	$ 103,150	$ 104,523	$ 60,647	$ 67,599	$ 61,897	$ 53,719
Cumulative	$ 3,604,706	$ 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

(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:

1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
–	($208)	($3,774)	($1,250)	($3,250)	–	–	$3,352	–	($2,750)

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

	Gross Operating Revenues	Operating & Maintenance Expenses	Allocated Expenses	Depreciation & Amortization	Income (Loss) from Operations	Net Interest & Other Expense (a)	Net Income (Loss) 1998	Net Income (Loss) 1997
	Year ended December 31, 1998 (In thousands)							1997
INTERSTATE TRANSPORTATION NETWORK								
G.W. Bridge & Bus Station	$ 240,696	$ 61,372	$ 15,459	$ 12,240	$151,625	$ 10,272	**$ 141,353**	$ 139,219
Holland Tunnel	72,976	42,661	6,605	8,174	15,536	5,783	**9,753**	12,293
Lincoln Tunnel	83,986	53,559	7,807	11,046	11,574	8,619	**2,955**	8,010
Bayonne Bridge	11,685	10,122	1,420	3,720	(3,577)	2,176	**(5,753)**	(3,506)
Goethals Bridge	56,611	16,957	3,934	4,693	31,027	1,581	**29,446**	32,607
Outerbridge Crossing	58,038	14,725	3,665	4,799	34,849	1,700	**33,149**	34,783
P. A. Bus Terminal	32,189	57,951	7,379	8,576	(41,717)	7,677	**(49,394)**	(51,248)
Bus Programs	–	–	–	1,633	(1,633)	37	**(1,670)**	(18,792)
Regional and Other Programs	–	–	–	17,131	(17,131)	13,032	**(30,163)**	(29,457)
Subtotal – Tunnels, Bridges & Terminals	556,181	257,347	46,269	72,012	180,553	50,877	**129,676**	123,909
PATH	67,727	147,475	25,470	40,510	(145,728)	26,977	**(172,705)**	(166,816)
Journal Square Transportation Center	2,341	8,794	724	2,971	(10,148)	1,901	**(12,049)**	(10,486)
Subtotal – PATH	70,068	156,269	26,194	43,481	(155,876)	28,878	**(184,754)**	(177,302)
Ferry Service	–	609	143	156	(908)	162	**(1,070)**	(1,096)
Total Interstate Transportation Network	626,249	414,225	72,606	115,649	23,769	79,917	**(56,148)**	(54,489)
AIR TERMINALS								
LaGuardia	219,455	134,238	13,474	30,877	40,866	10,876	**29,990**	25,088
JFK International	593,440	331,944	25,537	87,080	148,879	31,726	**117,153**	106,425
Newark International	415,912	201,132	20,063	51,958	142,759	29,814	**112,945**	98,970
Teterboro	1,090	846	59	942	(757)	363	**(1,120)**	(499)
Heliport	607	1,338	205	701	(1,637)	214	**(1,851)**	(1,680)
Total Air Terminals	1,230,504	669,498	59,338	171,558	330,110	72,993	**257,117**	228,304
PORT COMMERCE								
Columbia Street	–	–	–	–	–	–	–	1,603
Port Newark	42,238	33,055	2,949	12,061	(5,827)	6,781	**(12,608)**	(14,754)
Elizabeth Marine Terminal	50,667	16,549	1,286	10,458	22,374	8,238	**14,136**	8,430
Brooklyn	4,070	6,244	842	2,335	(5,351)	2,350	**(7,701)**	(11,033)
Red Hook	2,130	8,731	241	1,818	(8,660)	1,212	**(9,872)**	(8,013)
N.Y.C. Passenger Ship Terminal	–	6,900	–	–	(6,900)	–	**(6,900)**	–
Howland Hook	4,556	6,202	266	2,197	(4,109)	1,200	**(5,309)**	(5,388)
Greenville Yard	231	4	1	–	226	–	**226**	186
Auto Marine	7,035	1,505	96	2,114	3,320	1,858	**1,462**	1,272
Oak Point	–	–	–	1,274	(1,274)	953	**(2,227)**	(2,304)
N.J. Fisheries	–	–	–	574	(574)	444	**(1,018)**	(1,048)
Total Port Commerce	110,927	79,190	5,681	32,831	(6,775)	23,036	**(29,811)**	(31,049)
ECONOMIC DEVELOPMENT								
Essex County Resource Recovery	43,239	61,519	148	1,431	(19,859)	(5,896)	**(13,963)**	(3,825)
Industrial Park at Elizabeth	60	370	20	337	(667)	200	**(867)**	(491)
Bathgate	3,286	1,268	103	1,911	4	808	**(804)**	(1,419)
Industrial Park at Yonkers	3,328	2,729	110	20,334	(19,845)	918	**(20,763)**	(6,679)
Teleport	15,899	7,591	246	2,801	5,261	1,401	**3,860**	54
Newark Legal & Communications Center	7,928	5,930	209	3,567	(1,778)	1,432	**(3,210)**	(2,994)
Total Economic Development	73,740	79,407	836	30,381	(36,884)	(1,137)	**(35,747)**	(15,354)
WORLD TRADE CENTER	319,782	181,807	6,670	40,110	91,195	60,023	**31,172**	4,512
Total Port Authority Operations	$2,361,202	$1,424,127	$145,131	$390,529	$401,415	$234,832	**166,583**	131,924
Extraordinary item								
Reduction to prior net loss on World Trade Center explosion							–	29,450
Total Port Authority Operations							**166,583**	161,374
PFC Program							**132,747**	121,074
Combined Total							**$ 299,330**	$ 282,448

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

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Disclosures about Year 2000 Issues

The Port Authority has undertaken an agency-wide "Year 2000" assessment of its computer systems to determine which systems will not correctly process dates into and beyond the Year 2000, a common problem facing many computer programs in general use. As the first step in this process, the Port Authority performed an agency-wide awareness campaign and inventoried all its systems to identify mission critical systems, distributed systems and embedded systems. Subsequently, all systems in the inventory were prioritized as mission critical and high, medium and low priority. The classification into priorities was determined by management and appropriate operational staff of each department based upon the impact of a Year 2000 problem on business operations.

Mission critical systems include those related to revenue control, life safety/security systems, and corporate control systems. Of twenty eight mission critical systems, four are complete (remediated and tested) and eleven are either undergoing or are scheduled to undergo validation/testing. Remediation work is proceeding on the remaining mission critical systems. The completion of these stages is not a guarantee that systems and equipment will be Year 2000 compliant. Operational solutions are also being developed where they are considered adequate to resolve potential Year 2000 problems.

As of December 31, 1998, the Port Authority has already spent or committed under contract approximately $80 million to the Year 2000 program. Additional costs may arise as the program continues.

As part of its Year 2000 efforts, the Port Authority is also in the process of surveying vendors, service providers and government agencies with which it does business or otherwise interacts for information on their Year 2000 compliance status. While the Port Authority is undertaking contacts with these entities, there can be no assurance that these entities' systems will be fully compliant on a timely basis. The Port Authority is also working with other state and local government agencies and authorities to develop appropriate coordination plans for the Year 2000 rollover.

While the Port Authority is progressing with its Year 2000 plan, there can be no assurance that full compliance will be achieved in a timely manner. Business continuity and contingency plans are being developed for certain business processes with the aim of ensuring that they continue at acceptable levels of operation in the event of any Year 2000-related disruption.

While there can be no assurance that the Year 2000 problem will not have a material adverse impact on the Port Authority's financial condition and/or its results of operations, the Port Authority does not currently expect that there will be any significant operational or financial impact on the Port Authority as a result of any failure of its critical systems to be fully compliant or from the failure of those entities with which it does business or otherwise interacts to be fully compliant.

Facility Traffic*

TUNNELS AND BRIDGES

(Eastbound Traffic)	1998	1997
All Crossings		
Automobiles	**110,981,000**	108,030,000
Buses	**2,510,000**	2,395,000
Trucks	**7,933,000**	7,578,000
Total vehicles	**121,424,000**	118,003,000
George Washington Bridge		
Automobiles	**48,141,000**	46,531,000
Buses	**301,000**	273,000
Trucks	**3,911,000**	3,714,000
Total vehicles	**52,353,000**	50,518,000
Lincoln Tunnel		
Automobiles	**18,385,000**	17,989,000
Buses	**1,890,000**	1,801,000
Trucks	**887,000**	879,000
Total vehicles	**21,162,000**	20,669,000
Holland Tunnel		
Automobiles	**16,125,000**	15,910,000
Buses	**117,000**	113,000
Trucks	**1,066,000**	1,022,000
Total vehicles	**17,308,000**	17,045,000
Staten Island Bridges		
Automobiles	**28,330,000**	27,600,000
Buses	**202,000**	208,000
Trucks	**2,069,000**	1,963,000
Total vehicles	**30,601,000**	29,771,000
Cumulative PA Investment in Tunnels and Bridges (In thousands)	**$1,845,978**	$1,726,966

PATH

	1998	1997
Total passengers	**64,992,000**	62,200,000
Passenger weekday average	**223,200**	215,000
Cumulative PA Investment in PATH (In thousands)	**$1,361,092**	$1,333,911

MARINE TERMINALS

	1998	1997
All Terminals		
Ship arrivals	**3,075**	2,827
General cargo (a) (Long tons)	**16,676,778**	15,084,798
New Jersey Marine Terminals		
Ship arrivals	**2,331**	2,287
New York Marine Terminals		
Ship arrivals	**744**	540
Cumulative PA Investment in Marine Terminals (In thousands)	**$1,372,455**	$1,316,884

AIR TERMINALS

	1998	1997
Totals at the Three Major Airports		
Plane movements	**1,155,900**	1,170,700
Passenger traffic	**86,414,000**	83,880,700
Cargo-tons	**2,722,000**	2,789,400
Revenue mail-tons	**320,000**	291,000
Kennedy International Airport		
Plane movements	**343,400**	353,300
Passenger traffic		
Domestic	**13,295,000**	13,911,600
International	**17,749,000**	17,445,800
Cargo-tons	**1,612,000**	1,698,300
LaGuardia Airport		
Plane movements	**358,100**	355,100
Passenger traffic		
Domestic	**21,689,000**	20,305,300
International	**1,160,000**	1,302,200
Cargo-tons	**24,000**	26,700
Newark International Airport		
Plane movements	**454,400**	462,300
Passenger traffic		
Domestic	**25,747,000**	25,297,000
International	**6,774,000**	5,618,800
Cargo-tons	**1,086,000**	1,064,400
Cumulative PA Investment in Air Terminals (In thousands)	**$5,595,057**	$5,111,310

TERMINALS

	1998	1997
All Bus Facilities		
Passengers	**70,395,000**	69,380,000
Bus movements	**3,593,000**	3,547,000
Port Authority Bus Terminal		
Passengers	**57,375,000**	56,520,000
Bus movements	**2,295,000**	2,260,000
George Washington Bridge Bus Station		
Passengers	**4,370,000**	4,260,000
Bus movements	**204,000**	199,000
PATH Journal Square Transportation Center Bus Station		
Passengers	**8,650,000**	8,600,000
Bus movements	**1,094,000**	1,088,000
Cumulative PA Investment in Bus Facilities (In thousands)	**$547,105**	$529,652

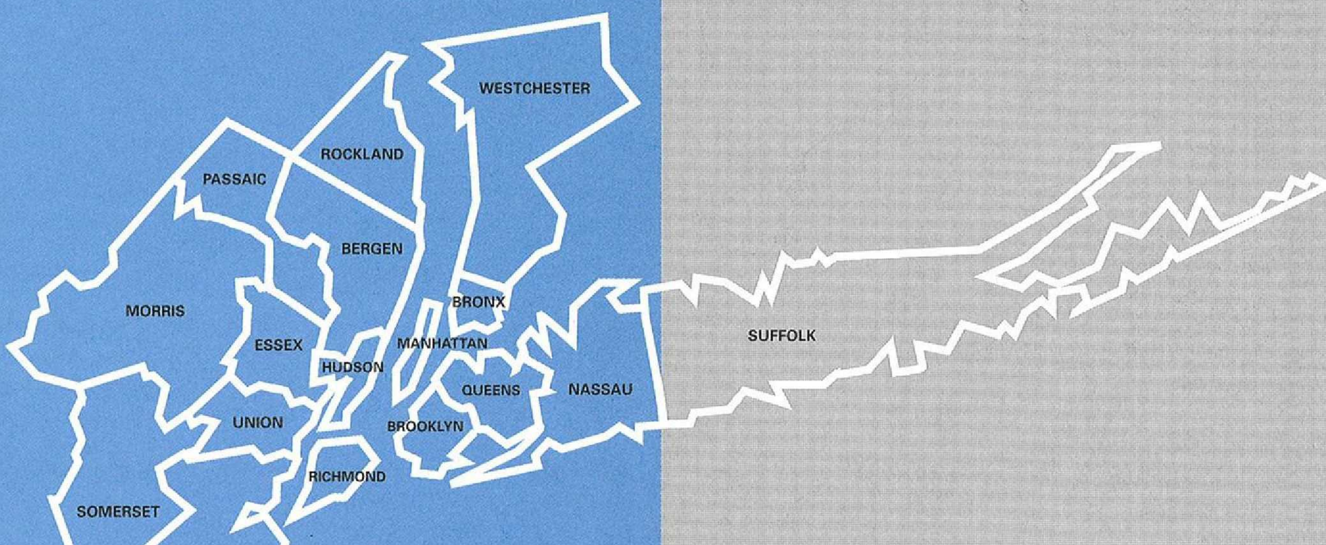
	1998	1997
Total Port Authority Cumulative Invested in Facilities, including the above (In thousands)	**$13,927,378**	$13,069,084

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

* Some 1997 numbers reflect revised data.

ny-nj metropolitan region

Area	3,900 Square Miles
Population	15.9 Million
Total Labor Force	7.8 Million
Total Wage and Salary Jobs	7.5 Million
Total Personal Income	$583 Billion (est.)



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

Port Authority Trans-Hudson
- PATH Rail Transit System
- Journal Square Transportation Center

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

Port Commerce
- Port Authority Marine Terminals:
  - Auto
  - Brooklyn/Red Hook
  - Elizabeth
  - Howland Hook
  - Greenville Yard
  - Port Newark
- Oak Point Rail Freight Link
- Queens West Waterfront Development
- The South Waterfront at Hoboken
- Business Development Offices: London, Tokyo; representatives in Belgium, Germany, Hong Kong, Seoul and Singapore

Economic Development
- Essex County Resource Recovery Facility
- Industrial Parks:
  - Bathgate
  - Elizabeth
- Newark Legal Center
- The Teleport
- Ferry Transportation

World Trade
- World Trade Center

1998 Annual Report

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