BUILDING OUR FUTURE

THE PORT AUTHORITY OF NY & NJ

Annual Report 2007
Comprehensive Annual Financial Report for the Year Ended December 31, 2007

The Port Authority of New York and New Jersey

Comprehensive Annual Financial Report for the Year Ended December 31, 2007

Prepared by the Public Affairs and Comptroller's departments of
The Port Authority of New York & New Jersey
225 Park Avenue South, New York, NY 10003-1604
www.panynj.info

Table of contents

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, providing access to the rest of the nation and to the world, while strengthening the economic competitiveness of the New York-New Jersey Metropolitan Region.

The Port Authority of New York & New Jersey

Facilities

The Port Authority of New York & New Jersey operates many of the busiest and most important transportation links in the region. The Port Authority's facilities and services include:

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

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 Commerce
Auto Marine Terminal
Brooklyn-Port Authority Marine Terminal
Elizabeth-Port Authority Marine Terminal
Howland Hook Marine Terminal
Port Newark

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

Development
Bathgate Industrial Park
Essex County Resource Recovery Facility
Ferry Transportation
Industrial Park at Elizabeth
The Legal Center
The Teleport
Waterfront Development
  Queens West Waterfront Development
  The South Waterfront at Hoboken
The World Trade Center Site

International Business Development
Representatives in Hong Kong, London, Shanghai and Tokyo

The New York-New Jersey Region

The New York-New Jersey Metropolitan Region, one of the largest and most diversified in the nation, consists of the five New York boroughs of Manhattan, Brooklyn, Queens, 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.

Area	3,900 square miles
Population	17.2 million (estimate for 2007)
Labor Force	8.5 million (average for 2007)
Total Wage and Salary Jobs	8.0 million (average for 2007)
Total Personal Income	$897 billion (estimate for 2007)

(For detailed statistical and demographic information on the region, see Page 92 in the Financial Section of this report)

The Honorable
David A. Paterson
Governor
State of New York

The Honorable
Jon S. Corzine
Governor
State of New Jersey

Dear Governors:

In conformance with the Port Compact of 1921, I am pleased to submit to you, and the legislatures of New York and New Jersey, the 2007 Comprehensive Annual Financial Report of The Port Authority of New York and New Jersey.

As an agency and as a region, we are facing significant transportation challenges. Among them is the urgent need to improve mobility of people and goods to foster economic growth and opportunity. We are actively working to plan, design, and build transportation systems and improvements that will ease congestion throughout our region's transportation network – in the skies, on our roads and rails, through our ports, and on our bridges and tunnels. At the same time, we remain committed to promoting environmental sustainability and providing the highest levels of service and integrity for the benefit of our customers and our stakeholders.

In 2007, our agency identified ways to fulfill our mission more effectively, operate our facilities more efficiently, and serve our customers and the general public more responsively. We undertook several key governance changes designed to provide the public with greater access to information about the agency and its activities, and the transparency of our decision-making processes to ensure that our activities meet the highest standards of public accountability.

We also forged key partnerships with others to advance projects vital to regional growth and prosperity. These include redevelopment of The World Trade Center site, where we made significant progress on the construction of several components in the development of that important project. Another key partnership is the Access to the Region's Core (ARC) project, a second commuter rail tunnel under the Hudson River that will expand regional transportation capacity, ease congestion at other trans-Hudson crossings, and remove thousands of automobiles from the roads. The Port Authority has set aside $3 billion toward this key project, which will be developed in conjunction with NJ Transit and other regional stakeholders.

Both The World Trade Center site redevelopment and our commitment to the ARC project are key elements of the Port Authority's updated 10-year capital plan. That plan, adopted at the end of 2007, outlines $29.5 billion in trade and transportation infrastructure investments for the region over the next decade. Consistent with agency goals to alleviate congestion and reduce pollution from transportation sources, the plan directs nearly $8 billion to regional mass transit initiatives.

To fund this updated capital plan, we recognized that the agency would require increased revenues. Our Board authorized a series of public hearings – one of the most extensive public outreach efforts in the agency's history – on a toll/fare increase proposal, our first in seven years. It was an opportunity for us to conduct a dialogue with our customers and stakeholders about our region's critical transportation needs in the years ahead.

On behalf of the Commissioners and the staff of the authority, I thank you for the support you have demonstrated for the Port Authority and its programs. We look forward in 2008 to building upon our achievements of the past year.

Sincerely,

Anthony R. Coscia
Chairman
April 24, 2008

Board of Commissioners

Anthony R. Coscia, Chairman
Henry R. Silverman, Vice Chairman

Virginia S. Bauer[1]
Bruce A. Blakeman
Michael J. Chasanoff
Christine A. Ferer
Charles A. Gargano[2]
Angelo J. Genova[3]
David S. Mack
Raymond M. Pocino
Anthony J. Sartor
Jack G. Sinagra[1]
David S. Steiner

Anthony E. Shorris, Executive Director
Susan Bass Levin, First Deputy Executive Director

[1] Commissioner Bauer joined the Board on June 19, 2007, succeeding Commissioner Sinagra.
[2] Commissioner Gargano resigned from the Board on August 15, 2007.
[3] Commissioner Genova resigned from the Board on July 1, 2007.

Origins of The Port Authority of New York and New Jersey The Port Authority was established by Compact between the states of New York and New Jersey on April 30, 1921, as the first interstate agency created under the clause of the United States Constitution permitting compacts between states with the consent of Congress. The Compact also created the Port District, an area of about 1,500 square miles in both states, centering about New York Harbor. Over the years, the mandate of the agency has developed 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 or to be attempted by either state alone: modern wharfage for the harbor shared by the two states, tunnel and bridge connections between the states, terminal and transportation facilities, 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 members of the agency's Board of Commissioners, for overlapping six-year terms; each appointment is subject to the approval of the respective state senate. Commissioners serve as public officials without remuneration. The Governors retain the right to veto the actions of the Commissioners from their respective state.

An Executive Director, appointed by the Board of Commissioners, is responsible for managing the operation of the Port Authority in a manner consistent with the agency's policies, as established by the Board.

The Port Authority undertakes projects and activities in accordance with the Port Compact of 1921, and amendatory and supplemental bistate legislation.

During the latter half of 2006 through 2007, under the direction of the Chairman and the Executive Director, and as requested by the Governors of New York and New Jersey, the Port Authority (and its wholly owned corporate entities) developed and implemented a series of governance reforms that reflect the agency's commitment to maintain the highest levels of honesty and integrity at the Port Authority, in recognition of the agency's responsibility to conduct its business solely in the public interest. These reforms will enable the agency to move forward with its vital public mission of creating and maintaining world-class transportation infrastructure and fostering growth in our region with public confidence in the agency. The capstone of these ongoing reforms was the adoption of amended and restated Bylaws in July 2007, under which the agency has been acting, and consistent with which this report is prepared.

Anthony R. Coscia
Partner
Windels Marx Lane
& Mittendorf, LLP

Henry R. Silverman
Senior Advisor
Apollo Investment
Consulting LLC

Virginia S. Bauer

Bruce A. Blakeman
Member
Abrams, Fensterman,
Fensterman, Eisman,
Greenberg, Formato
& Einiger, LLP

Michael J. Chasanoff
Managing Partner
Chasanoff Properties

Christine A. Ferer
Chairman and CEO
Vidicom/Citybuzz

Charles A. Gargano

Angelo J. Genova
Senior Partner
Genova, Burns &
Vernoia

David S. Mack
Senior Partner
The Mack Company

Raymond M. Pocino
V.P./Eastern Regional
Manager
Laborers International
Union of N.A.

Anthony J. Sartor
President & COO
KeySpan Services, Inc.

Jack G. Sinagra
Executive V.P.
Turtle & Hughes Inc.

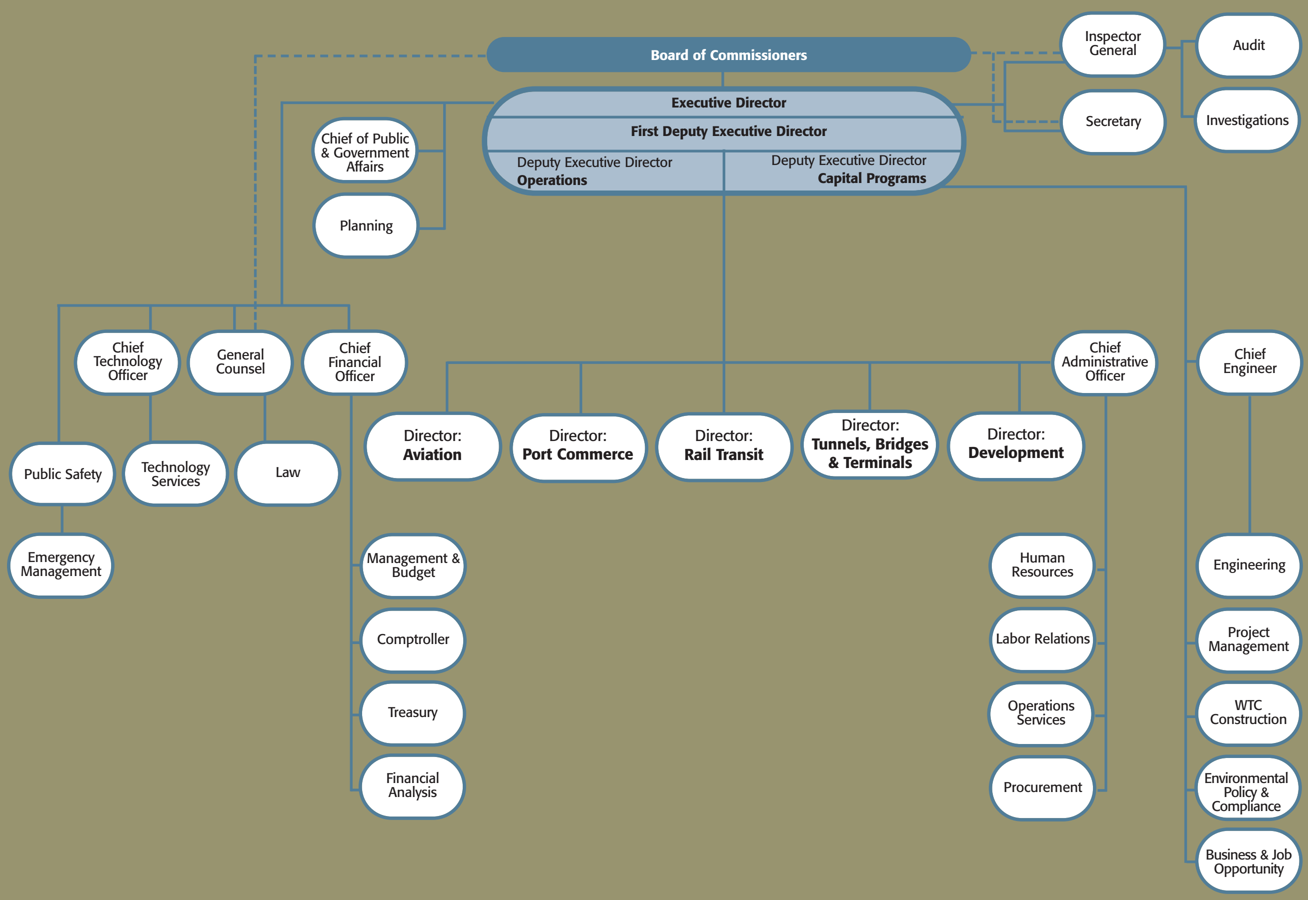
David S. Steiner
Chairman
Steiner Equities
Group, LLC

Anthony E. Shorris
Executive Director

Susan Bass Levin
First Deputy
Executive Director

Officers & Directors

Effective February 7, 2008



Executive Director	Anthony E. Shorris
First Deputy Executive Director	Susan Bass Levin
Deputy Executive Director for Operations	Ernesto L. Butcher
Deputy Executive Director for Capital Programs	William H. Goldstein
General Counsel	Darrell B. Buchbinder
Chief Administrative Officer	Louis J. LaCapra
Chief Engineer	Francis J. Lombardi
Chief Financial Officer	A. Paul Blanco
Chief of Public & Government Affairs	Stephen Sigmund
Chief Technology Officer	Diana E. Beecher
Audit	John D. Brill
Aviation	William R. DeCota
Comptroller/Deputy Chief Financial Officer	Michael G. Fabiano
Development	Michael B. Francois
Engineering	Peter J. Zipf
Financial Analysis	Gerald B. Stoughton
Government & Community Affairs	Tina Lado
Human Resources	Mary Lee Hannell
Inspector General	Robert E. Van Etten
Labor Relations	--------
Management & Budget	Michael G. Massiah
Office of Business & Job Opportunity	Lash Green
Office of Emergency Management	John P. Paczkowski
Office of Environmental Policy & Compliance	Christopher Zeppie
Office of Investigations	Michael Nestor
Office of Media Relations	Candace McAdams
Office of the Secretary	Karen E. Eastman
Operations Services	Alan I. Rhome
Planning	Richard W. Roper
Port Commerce	Richard M. Larrabee
Procurement	Lillian D. Valenti
Project Management	John J. Drobny
Public Safety/Superintendent of Police	Samuel J. Plumeri Jr.
Rail Transit	Michael P. DePallo
Treasury	Anne Marie Mulligan
Tunnels, Bridges & Terminals	Victoria Cross Kelly
WTC Construction	Steven P. Plate

THE PORT AUTHORITY OF NY & NJ

225 Park Avenue South, New York, NY 10003

Letter from the Executive Director

When I rejoined the Port Authority at the beginning of 2007, I had one extremely sobering fact in mind: In the first decade of the 20th century, the region's various public and private sector investors spent $3,209 per resident on growing transportation capacity. In the first decade of the 21st century, we have been spending only about one eighth of that – roughly $400 per capita.

The problems with this level of disinvestment are self-evident; they manifest in longer lines at bridges and tunnels, delays at airports, and breakdowns on trains. But I saw, and continue to see, the Port Authority as an agency with the institutional capacity to push back against this unfortunate trend, and that is exactly what we are doing.

In the last year, we took an already-ambitious $26.1 billion capital plan and expanded it to $29.5 billion, focusing on critical enhancements like a $3 billion expansion of the PATH system, a $3 billion commitment to the "Access to the Region's Core" rail tunnel, and a $500 million renovation and expansion of the Port Authority bus terminal. We are able to make these investments because we took important steps to control our budget, holding staffing levels constant while cutting expenses and stabilizing our revenues.

Even as we continue to increase our scope and manage our resources, we constantly press ourselves to ensure that our work – every dollar we spend – delivers the public goods that are part and parcel of sound transportation investment. First, we come at every challenge with *safety* in the forefront of our minds, which is why we've dedicated more than $1 billion to security upgrades for our facilities in our current capital plan. Second, we know that our ability to foster economic *opportunity* in the region is the yardstick against which we must ultimately measure ourselves, which is why we have spent much of the last year solidifying important development projects, like the $300 million deal that will bring JPMorgan Chase to the World Trade Center site. Third, we are intent on doing all that we can do to protect the long-term *sustainability* of the region, which is why we have begun investing in the latest technology, from geothermal power to solar, to make our operations easier on our environment.

In short, we at the Port Authority are rededicating ourselves to the kinds of audacious yet thoughtful investments in the region's future that have marked the best moments of the agency's past. This annual report details the accomplishments we have made and the challenges we will face in this effort, but, we hope, it also underscores our determination to deliver on our promises to the region.

Sincerely,

Anthony Shorris
Executive Director
April 24, 2008

New beginnings.

In 2007, The Port Authority of New York and New Jersey opened a new chapter in its long history. Supported by a clear strategic vision and a 10-year capital investment plan, the agency moved decisively to develop, implement, and finance solutions to some of the most pressing mobility and economic development issues facing the New York-New Jersey region. Essentially, the agency launched a new era of intense investment in the region's trade and transportation infrastructure – and it did so by returning to its roots as a builder and developer of large-scale transportation projects.

The Port Authority recorded achievements across a diverse range of fronts during the year. The agency finalized key details and agreements for the redevelopment of The World Trade Center site and made visible progress in the construction of several elements of that critical project. It acquired the leasehold interest for Stewart International Airport in Orange County, NY, an addition that will provide capacity to a regional aviation system that is experiencing record demand. The agency committed more than $3 billion to the "Access to the Region's Core" project, a new commuter rail tunnel under the Hudson River, that will double passenger rail capacity between New York and New Jersey. It accelerated a vital modernization of the PATH rail system. The agency negotiated a deal for development of the air rights over the Port Authority Bus Terminal in midtown Manhattan – a project that will enable the agency to make much-needed improvements to that busy facility and create an elegant new public space on par with other great transit hubs in the region. It put together a coalition of regional tourism and industry interests to make concrete recommendations to reduce flight delays that are affecting the region's and the nation's airports. It secured commitments for substantial investments in seaport infrastructure from the purchasers of three major container terminal leases at the Port of New York and New Jersey.

The need for change

As the agency moved ahead to implement its new building agenda, it recognized the need for new approaches to the way that it conducts its business. Responding to the requests of both governors for greater transparency and an

affirmation of the highest standards of government accountability, the Board of Commissioners adopted and authorized a series of governance reforms. Port Authority Board and Board Committee meetings can now be viewed via Webcast on the Port Authority Web site. Board agendas and other relevant documents are now posted on the Port Authority Web site in advance of meetings to provide the public with opportunities to speak on specific topics at the meetings, and minutes of actions taken at Board meetings are available for inspection.

The Port Authority is also aware of its role as a steward of the public trust and of public funds. In 2007, the agency continued an aggressive staff realignment that eliminated 7 percent of managerial and professional positions, and directed the agency's human capacity into areas such as planning, engineering, and construction, all of which will enable it to function more effectively in the new era of intense investment that lies ahead. During the past several years, the agency has pursued other cost-cutting strategies that have resulted in more than $500 million in savings from the Port Authority's operating budget.

New values

A new era requires a new commitment to organizational values. Executive Director Anthony E. Shorris, who began his tenure in January 2007, quickly defined a new set of core values for the agency – a commitment to safety, providing opportunity, and promoting environmental sustainability.

Foremost among these values is the agency's emphasis on safety – safeguarding the agency's patrons and its regional assets from both natural and man-made disasters. Since 2001, security has moved to the forefront of the agency's operations and capital investment programs. During this period, the agency has committed more than $3 billion in operating and capital expenditures to safety and security. The updated 10-year capital plan commits the agency to an additional $1 billion in safety and security investments during the next decade.

The agency is also committed to increasing opportunities for people throughout the region. This recognizes the link between public investment in infrastructure and increased economic prosperity. It also recognizes that the new era ahead requires public investment that can provide concrete opportunities for all the people of the region – and especially those who need help the most.

Environmental sustainability is absolutely vital to the future of the region, the nation, and the world. With the Port Authority now committed to one of the most expansive building programs in its history, it has made a parallel commitment to make sure that environmental sustainability is paramount to the agency.

To integrate these values into the agency's day-to-day activities, the Port Authority has emphasized two key qualities that represent the strength of the agency: its financial and human capacity; and its commitment to quality, whether it be in customer service, planning and design, or construction.

The agency is focusing on its human capacity – rebuilding and developing the agency's workforce – an area that will need particular strength in the years ahead. In 2007, the Port Authority revitalized its entry-level training programs for managers and engineers. The agency also successfully conducted a recruiting effort for the Port Authority Police Department, which resulted in a pool of candidates that the agency can draw upon for Police Academy classes in the next several years.

The agency strengthened its financial capacity, too. In recognition of the Port Authority's long-term financial strength and stability, Moody's Investors Service in early 2008 upgraded the rating for the Port Authority's outstanding Consolidated Bonds to Aa3 from A1, and also upgraded the rating for the Port Authority's outstanding Versatile Structure Obligations to A1 from A2. Moody's cited the significant management and control the Port Authority exerts over critical regional transportation infrastructure, a trend of favorable financial results, and steady growth in usage at most facilities, as well as the toll and fare increases approved in early 2008 that are expected to support the agency's growing capital financing needs, as reasons for the upgrade.

The Port Authority's story in 2007 is one of an agency preparing itself to meet significant challenges in the years ahead – a new building agenda, important new changes to the organization itself, and a new set of values that will guide and govern the agency through this important period. The report that follows provides the details of that story.

Redevelopment of The World Trade Center site is a key element of the Port Authority's 10-year capital plan.

It's time to build again.

At the end of 2007, The Port Authority of New York and New Jersey's Board of Commissioners adopted a revised, $29.5 billion, 10-year capital plan. This landmark plan is a clear statement of the agency's values and of its commitment to the region. It lays out an ambitious program of investments for the period between 2007 and 2016, and it signals the agency's new commitment to build the kinds of large-scale, transformational public infrastructure projects that once were its hallmark.

The plan emphasizes investments in safety and security. The agency will also continue to invest in new technologies, such as airport Perimeter Intrusion Detection Systems. The authority also plans to strengthen buildings and other structures throughout its array of facilities to make them even more stable in the event of natural disasters. These security investments will complement the more than $3 billion in operating and capital investments in security the agency has made since 2001.

The capital plan also commits more than $7 billion to maintaining the agency's significant assets in a state of good repair. These are projects that are necessary to keep the agency's facilities operating at expected levels of service and safety.

The bulk of the plan is devoted to an unprecedented set of investments in new and expanded trade and transportation infrastructure – improvements that are desperately needed both in the short term, in order to meet the growing demands of today, and over the long term.

It is clearly time to build again – and it is time to build the kinds of large-scale public infrastructure projects that can transform the region's future. These projects include the rebuilding of The World Trade Center site; a partnership with NJ Transit to create a new commuter rail tunnel under the Hudson River; and expansion of capacity in the agency's PATH rail transit system, the Port Authority Bus Terminal, the regional airports, the Port of New York and New Jersey, and much more.

Construction work at The World Trade Center site progressed in 2007.

World Trade Center site

One of the most significant large-scale projects included in the capital plan is the redevelopment of The World Trade Center site. The rebuilding of The World Trade Center is guided by the Memory Foundation's redevelopment plan, which was conceived by Studio Daniel Libeskind.

The redevelopment of the 16-acre site in the heart of downtown Manhattan is a complex set of projects – construction of up to five office towers, a transportation hub, a retail complex, the National September 11th Memorial & Museum, a bus garage, and site infrastructure designed to serve the entire complex. The capital plan commits more than $8 billion of Port Authority and federal funds to The World Trade Center site over the next several years.

The Port Authority, in conjunction with the Lower Manhattan Development Corporation, the National September 11th Memorial & Museum, the City of New York, Silverstein Properties Inc. (SPI, the net lessee of the office space at The World Trade Center), and other stakeholders, has advanced a series of agreements that have clearly defined the roles of the various stakeholders in the redevelopment of the site. The Port Authority has responsibility for developing the site's common infrastructure, the foundations and utilities that will support this massive complex, and for development, leasing, and operation of those partnerships. In January 2008, the Port Authority reached an agreement with the Westfield Group for the joint development of the 488,000 square feet of retail space at the site. In June, the Board of Commissioners authorized a long-term sub-net lease with JPMorgan Chase & Co. to build a 1.3 million-square-foot office building on the site of the former Deutsche Bank building, which was damaged beyond repair in the 2001 attacks.

While the Port Authority was finalizing these aspects of the overall site development, it advanced construction work at the subgrade level of the site. Significant progress was achieved during the year on the foundations for the Freedom Tower, the Transportation Hub, and the National September 11th Memorial & Museum. On the east side of the site, the

The "Access to the Region's Core" project will include a new commuter rail tunnel under the Hudson River that will connect to a new rail station at 34th Street in Manhattan.

of the Freedom Tower, the iconic, 1,776-foot-tall commercial building that will anchor the site. The Port Authority is also building the WTC Transportation Hub, which will provide access to PATH's World Trade Center Terminal, to Metropolitan Transportation Authority facilities to the east, and link the site to ferry transportation at the Hudson River. The agency is also managing the construction of the National September 11th Memorial & Museum. SPI will construct three commercial office towers on the site, and the Port Authority is working with other private partners on the development of additional components of the master plan.

In 2007, the Port Authority finalized the details for two Port Authority prepared infrastructure and groundwork so that in 2008 SPI could begin the construction of its three new commercial office towers. This work was nearly complete at the end of 2007, and this portion of the site was ready to hand over to SPI in February 2008.

With all this site preparation work progressing, much of the above-grade work will take shape over the next three years. SPI's three office towers are expected to open in 2011 through 2012. The Freedom Tower is expected to be completed in 2012, and the Hub will be completed in 2011. The National September 11th Memorial Plaza will open in 2010, and the Memorial Museum will open in 2011.

Access to the Region's Core

The "Access to the Region's Core" (ARC) project will build a new commuter rail tunnel under the Hudson River and link with expanded tracks and station platforms adjacent to the current Pennsylvania Station on the west side of Manhattan. The project will double passenger rail capacity between New York and New Jersey and provide easy, affordable, and environmentally sustainable access to jobs in Manhattan for residents of some of the region's fastest-growing counties north and west of the city.

In 2007, the Port Authority increased its financial planning for the project from $2 billion to a total of $3 billion. This project is estimated to cost $7.6 billion over the next decade. It will be managed by a partnership that will include NJ Transit and the Port Authority, and, in addition to the Port Authority financial commitments, will be funded by New Jersey and federal transit sources. The Port Authority is working with NJ Transit on long-term design and construction of the project.

PATH system modernization

Under the updated 10-year capital plan, the Port Authority Trans-Hudson (PATH) rail system will undergo $3.3 billion worth of capacity expansion projects, which are expected to increase mobility and economic development on both sides of the Hudson. The investments will include a complete replacement of the system's rail car fleet, an accelerated program of station improvements, and replacement of the railroad's signal system.

PATH announced an agreement with Kawasaki Rail Car Inc. in 2005 for the design, manufacture, and delivery of 340 new rail cars. When completed, this will replace the entire fleet of rail cars currently operating on the PATH system. In 2007, PATH continued to work with Kawasaki on the engineering and initial manufacture of the cars. Testing is to take place on the PATH system in 2008, and it is possible that some of the new cars could be in service by the end of 2008. All of the new cars are expected to be in service by 2011.

The other elements of the PATH capital program – a $500 million replacement of the railroad's signal system and station platform improvements – were authorized in 2007. This accelerated program of PATH improvements will complement the new fleet and, together, would enhance the overall passenger capacity of the system.

The station enhancement project will include platform redesigns that will allow PATH to run 10-car trains on its busy Newark-World Trade Center line that connects Essex and Hudson counties in New Jersey, along with NJ Transit commuter rail services at Newark, with downtown Manhattan. The addition of two more rail cars to each PATH train on the line will provide significant capacity.

Port Authority Bus Terminal

In 2007, the Port Authority renewed plans to redevelop its midtown Manhattan bus terminal in conjunction with an agreement with a private commercial real estate developer for the air rights above the terminal. These projects, combined with others under consideration for the west side of Manhattan, will help facilitate the expected commercial development in the area and provide much-needed capacity growth for bus commuters into Manhattan from west of the Hudson River.

Prototype PATH rail cars will be tested throughout 2008. The complete replacement of PATH's current fleet with 340 new cars is expected by 2011.

In December, the Board authorized an agreement with 20X Square Associates, a joint venture of Vornado Realty Trust and Lawrence Ruben Co., for the development of a commercial real estate tower above the north wing of the bus terminal. It is expected that the agreement will generate $500 million in revenues for the Port Authority over the term of the lease. The agency will apply this funding to a major renovation of the bus terminal. The project will include the upgrade and creation of approximately 60,000 square feet of retail space at the bus terminal. The agency will create 18 new bus gates and improve existing gates, increasing the peak-hour capacity of the terminal by 18 percent.

In addition, the agency is considering construction of a new bus parking garage, located close to the bus terminal, that will reduce traffic congestion and noise, and improve the quality of life for neighboring communities. A Manhattan-based bus garage will also improve bus operations for the bus carriers and allow for more efficient movements during peak periods.

All-electronic tolls

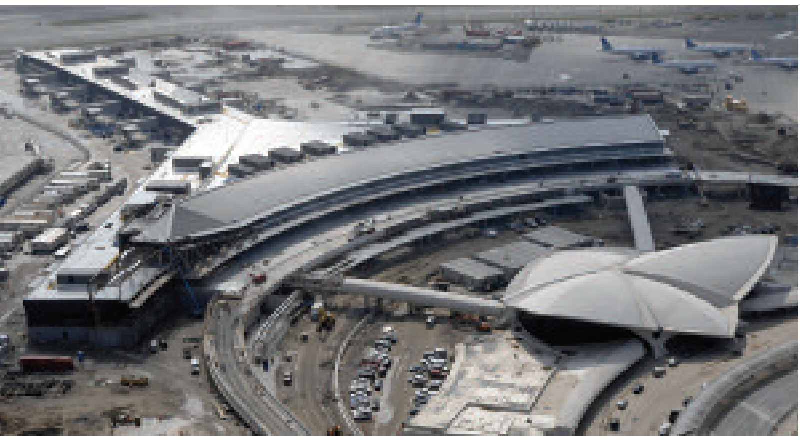
In 2007, the agency proposed an innovative approach to address congestion generated by toll-collection activities at the bridge and tunnel crossings – elimination of the tollbooths by replacing them with an all-electronic toll-collection system. The agency authorized initial planning to determine the feasibility of such a system that would replace traditional tollbooths with electronic scanners and cameras in overhead gantries and would enable customers to pay tolls through E-ZPass or other methods.

The all-electronic toll system would help smooth choke points at bridges and tunnels, reduce traveler delays, and provide benefits to regional air quality. The study will examine the potential to achieve these benefits and effectively operate alternate toll-collection systems. It is also expected to determine other benefits of electronic toll-collection, such as the recording and transmission of real-time traffic information at and through these key transportation facilities. While the proposal is still in the early stages of planning, it has the potential to transform the way that toll revenues are collected and help mitigate the negative impacts of congestion.

Airport expansion and modernization

The Port Authority's regional airports handled more than 110 million passengers in 2007. This represents a remarkable recovery in passenger volume since 2001 that now far exceeds the pre-September 11 activity levels at the airports. Given the increasing prosperity of the region, and its place in the global economy, volumes are projected to climb to 130 million passengers by 2015, and 150 million passengers by 2025.

To meet the demand for continued growth while maintaining service levels, the Port Authority has embarked on a comprehensive program of public-private investments in the region's airports. In 2007, several of these projects were well under way, and the agency made plans to continue the enhancements over the full course of the 10-year capital plan.



The new JetBlue Terminal at JFK International Airport will open in 2008.

Much of the $6.4 billion in airport investments detailed in the 10-year capital plan is focused on security enhancements and expansion of overall system capacity. The plan also includes specific investments designed to reduce the growing problem of flight delays. (See page 25.)

One of the agency's most notable actions in 2007 to address long-term capacity issues was the purchase of the operating lease for Stewart International Airport in Orange County, NY. The goal is to remake Stewart International into a world-class, environmentally friendly airport that will bring substantial benefits to the region and relieve congestion. Planned improvements include developing a longer crosswind runway, upgrading the entire taxiway system, and, ultimately, building a new terminal. The agency plans to operate the airport and implement these improvements while striving to make it the world's first carbon-negative airport.

At John F. Kennedy International Airport, American Airlines' new 1.58 million-square-foot Terminal 8 (T-8) opened in August 2007, with the capacity to handle 12.8 million passengers per year. The $1.3 billion facility includes an 89,000-square-foot lobby with 84 ticketing counters and 36 gates. Additionally, the new T-8 will include upgraded security check-points capable of handling 1,800 travelers per hour and a new U.S. Customs and Immigration facility. The self-service check-in machines and the state-of-the-art in-line security baggage system help expedite passenger-processing times and relieve congestion.

Work continued on the new JetBlue Terminal 5 (T-5) at JFK, and its new domestic air terminal is slated to open in 2008. The Port Authority is investing $795 million in the terminal, which will feature 26 gates and enable JetBlue to operate 250 flights daily. Work also progressed in 2007 on the Yellow Garage, a major new parking facility adjacent to T-5. This 1,500-space, six-story parking deck is expected to open in September 2008. It will feature connections to T-5 and the nearby AirTrain station.

At Newark Liberty International Airport, work is under way on the modernization of Terminal B. This project will not only improve the overall quality of the terminal, but it will also provide additional international gates to accommodate the rapid growth of passenger demand at Newark Liberty. The project's objective is to expand the two-level terminal into a three-level operation that will handle increased international departures. Last year, ticket counters were finished, and work progressed on a new domestic baggage claim hall.

The work completed in 2007 includes converting the midlevel into a domestic ticketing hall, reconfiguring the upper level, upgrading the international meeter-greeter/interline area, increasing check-in space for international departures, enlarging the passenger screening points, installing in-line baggage screening for all outbound international baggage, and providing additional concessions, passenger lounges, and office space.

At LaGuardia, the Port Authority hosted a ground-breaking ceremony for the Federal Aviation Administration's new state-of-the-art air traffic control tower, which is expected to be commissioned in 2010. The tower will rise 198 feet tall, more than 70 feet higher than the existing tower.

The agency continued to consider options for improve-ments at the 43-year-old Central Terminal Building (CTB), and related utilities and structures. While the redevelopment of the CTB is under consideration, the current capital plan focuses on a variety of state-of-good-repair projects at LaGuardia. Among the core infrastructure investments at the CTB are upgraded mechanical equipment, roof replacement and heating, ventilation, and air-conditioning upgrades. Landside work at LaGuardia will focus on rehabilitation to existing airport roadways and access routes.

At all of the airports, the agency's investment program will devote significant resources to aeronautical and landside improvements. This includes $150 million devoted specifically to flight delay reduction initiatives.

The opening of ExpressRail Staten Island in June 2007 enabled intermodal doublestack freight trains to serve New York Container Terminal.

Port Commerce redevelopment

The Port Authority has been working with a variety of public and private partners and stakeholders to make unprecedented investments in the Port of New York and New Jersey. During the past five years, the Port Authority has invested more than $1.2 billion to upgrade and modernize port facilities in the region. This investment has been complemented by hundreds of millions of dollars in federal investment in channel deepening through the U.S. Army Corps of Engineers (USACE), with the local share for each project contributed by the Port Authority. Additionally, approximately $750 million in private-sector investment has been made by the Port Authority's container terminal operator tenants in the redevelopment of their leaseholds.

Going forward, investment in the region's oceanborne international cargo facilities will be focused on the continued deepening of the region's major shipping channels and on the construction of a comprehensive system of rail and road infrastructure, connecting the major port container terminals in the region with the nation's freight railroad and highway systems. Significant milestones in these efforts were reached in 2007.

The ExpressRail System features three intermodal rail transfer facilities, each supporting major container terminals, along with necessary storage yards and support tracks. They are located at the Elizabeth-Port Authority Marine Terminal, Howland Hook Marine Terminal, and Port Newark.

A key element of the agency's ExpressRail System, a comprehensive rail program designed to link major container terminals with the freight railroads, was achieved in 2007 with the opening of ExpressRail Staten Island. This program, undertaken with the City of New York, involved the construction of a new, intermodal, rail container terminal next to New York Container Terminal in Staten Island, and the rehabilitation and reopening of a rail lift-bridge over the Arthur Kill that restored freight rail service to Staten Island for the first time in nearly two decades.

In 2007, the Port Authority began construction of a second lead track into ExpressRail Elizabeth. The new track will allow two trains to depart and arrive simultaneously into ExpressRail Elizabeth. Also, a new 9,000-foot support track installation was completed that provides much-needed storage capacity for both the ExpressRail Newark and ExpressRail Elizabeth intermodal yards.

Channel deepening is a critical issue facing the port. In conjunction with USACE, the Port Authority, as the local sponsor of deepening efforts in New York Harbor, has undertaken several projects during the past decade to deepen selected channels. The Kill Van Kull/Newark Bay Channel, which offers primary access to Port Newark/Elizabeth and initial access to New York Container Terminal at Howland Hook, was deepened to 45 feet earlier in the decade. In 2007, a project to deepen the Arthur Kill, which provides final access to New York Container Terminal, to 41 feet, was completed.

During the next several years, the Port Authority and the USACE will be working on a project to deepen all major shipping channels in the harbor to 50 feet. The Harbor Deepening Project, expected to be complete in 2014, will enable the Port of New York and New Jersey to handle the larger and deeper draft cargo ships that are now regularly deployed in the global economy's shipping lanes.

The port's construction program of roadway infrastructure at the Elizabeth-Port Authority Marine Terminal includes widening roadways, softening turns, and adding traffic signals. This will improve access and traffic flow to make it safer for trucks and other vehicles that use the high-volume roadways in the port, ensuring that cargo will move efficiently through the terminals.

Financing the plan

The Board of Commissioners authorized the original, $26.1 billion 2007-2016 plan at the end of 2006. Throughout 2007, the agency made additional assessments of its capital investment needs. The result was the adoption of the updated, $29.5 billion plan by the Board at the end of 2007. The plan includes an additional $1 billion in security investments, an additional $1 billion commitment to the ARC project, and more than $940 million in airport system enhancements.

At the same time the Board approved the updated 10-year plan, it authorized public hearings on a proposal to increase the tolls charged at the agency's bridge and tunnel crossings, and the fares on the PATH rail system. Without these increases, the agency would not be able to finance key elements of the 10-year investment plan.

The toll and fare proposal was subjected to an extensive public comment process, including public hearings at six locations in the region and an online public hearing. These hearings were streamed live over the Port Authority's Web site. At the beginning of 2008, the Board of Commissioners approved the tunnels and bridges toll increase and a PATH fare increase. The final action was substantially modified from the original proposal as a result of public participation in the hearing process. The increases went into effect in March 2008.

Respecting the environment.

As the Port Authority begins a new era of investment in the region's transportation systems, one of the values it is seeking to affirm is sustainability – operating the agency's transportation facilities responsibly and in a way that conserves the region's natural resources for future generations. The Port

Clean-air electric-diesel hybrid buses were introduced to the shuttle bus fleets at JFK, Newark Liberty, and LaGuardia airports in 2007.

Authority's 10-year capital plan is a guiding instrument in the agency's efforts to reduce greenhouse gases, increase energy efficiency, and cut long-term operating costs.

The Port Authority has pledged to make the newly acquired Stewart International Airport a cutting-edge, environmentally friendly airport, a hub for the latest applied research in sustainable aviation technology. The agency began to develop proposals that will make Stewart the world's first carbon-negative airport. The agency is studying other energy enhancements, including wind and other alternative power, to run airport operations.

At JFK Airport, the Port Authority announced that it will use geothermal energy to power Building 254, a Port Authority Police facility. Geothermal technology taps into the natural heat of the earth to provide a clean alternative to fossil fuels. The geothermal system at JFK will power the mechanical, heating, and cooling systems in the building. The new energy system – the first time that this technology has been applied at a U.S. airport – is expected to reduce energy consumption and annual carbon dioxide emissions by 820,000 pounds.

The agency expanded a program to tint the windows at LaGuardia Airport's Central Terminal Building. In 2007, the program was expanded to the Concourse B windows. The reduction of sun glare will increase cooling efficiency by 30 percent and allow better temperature regulation throughout the entire year. This project will be expanded in 2008 to Concourses A and C. The windows in Concourse D were tinted several years ago.

The Port Authority delivered on a commitment to introduce greener buses to the shuttle fleets at JFK, LaGuardia, and Newark Liberty airports. A total of 21 hybrid diesel-electric buses and 30 clean-technology diesel buses were put into service at the airports in 2007. The new Orion Hybrid Electric Buses use a combination of clean diesel technology and batteries, which is particularly well-suited for a shuttle operation. The use of this clean technology results in lower exhaust emissions, lower maintenance costs, and up to 25 percent less fuel costs. In 2008, the agency will acquire additional hybrid buses for use at JFK and Stewart airports.

The Port Authority expanded its program of environmentally responsible "clean fleet" operations. *Automotive Fleet* magazine once again recognized the agency's fleet as one of the nation's top 100 Alternative Fuel Fleets. In addition, the fleet consumed 326,462 gallons of biodiesel motor fuel. These accomplishments are a direct result of the agency's continuing initiatives in introducing biodiesel, a clean motor fuel, at most Port Authority facilities. The agency also added 57 hybrid-electric vehicles to its fleet, increasing the percentage of green vehicles in the fleet, excluding exempt emergency-response vehicles, to 48 percent by the end of 2007.

In developing The World Trade Center site, the Port Authority has formed unprecedented collaborations with technology and energy leaders throughout the world. The design of One World Trade Center/Freedom Tower utilizes the latest methods to maximize efficiency, minimize waste and pollution, conserve water, and reduce the impacts of the site's development. By taking advantage of the next generation of innovative energy sources and management, such as fuel cells, as well as off-site renewable energy sources, such as wind and hydropower, the tower's construction will set a new level of social responsibility in urban design.

The agency is also committed to the installation of energy-efficient LED (light-emitting diode) lighting on the George Washington Bridge and in the Holland Tunnel. The agency expects to replace the existing mercury-vapor and fluorescent fixtures with LED lighting, which distributes light more efficiently with less energy. It is projected that using LED lighting at these facilities will reduce the carbon dioxide emissions by 260,000 pounds annually and significantly expand the life expectancy of the lighting fixtures at the crossings. The program is expected to be expanded to other facilities and will be completed by 2008.

The Port Authority is also installing advanced energy metering systems at all its facilities to allow for efficient energy management with the aim of maximizing savings and reducing the environmental impacts. The advanced pulse metering system, a powerful Web-based structure, will provide real-time monitoring of utility usage, identifying points and times of energy waste to be corrected.

The agency is working with its partners on other initiatives. The Port Authority, New York Container Terminal, and the New York Power Authority have collaborated on two projects to reduce emissions at Howland Hook Marine Terminal in Staten Island. This includes a pilot program to equip two yard tractors with active diesel particulate filters, and a locomotive idle reduction project. Both initiatives have demonstrated substantial annual reductions in fuel consumption and nitrogen oxide (NOx) emissions.

The Port Authority also has been working with the U.S. Army Corps of Engineers to find beneficial uses of dredged materials from the Harbor Deepening Project (see page 17). Nearly all of the more than 49 million cubic yards of dredged material from this project will be used for projects such as capping landfills and brownfield sites.

The Port Authority is committed to projects with long-term impact on the region's environment. To offset the increased air emissions from dredging equipment used in the Harbor Deepening Project, the agency developed the Staten Island Ferry Engine Retrofit and the Marine Vessel Engine Replacement programs. These programs enable ferry and tugboat operators to replace or upgrade their engines with cleaner-burning diesel engines. Engine retrofitting has proven to significantly reduce NOx emissions in these vessels. Since the inception of the program several years ago, the Port Authority has contributed more than $2.1 million toward marine diesel retrofits, and it is estimated that, as a result of the program, annual NOx emissions have been reduced by 400 tons.

The Port Authority will be installing LED lighting in the Holland Tunnel and at the George Washington Bridge, a move that is expected to reduce carbon dioxide emissions by 260,000 pounds annually.

The Port Authority is also pursuing a variety of initiatives in conjunction with local communities and environmental organizations. JFK airport personnel worked with community residents and volunteers to clear debris from Hamilton Beach and Frank M. Charles Memorial Park in southwest Queens.

As part of a continuing effort to provide quieter classrooms for schools near the agency's airports, in 2007 the Port Authority authorized an additional $35 million to soundproof 10 schools. The new funding covers six schools in New York and four in New Jersey. Since the program's inception in 1983, 77 schools have been part of the program, with a total investment of nearly $400 million.

The Hudson-Raritan Estuary Resource Program, authorized by the Board of Commissioners in 2001, provides $30 million each for New York and New Jersey for the acquisition of land that will preserve critical habitats and waterfront areas for public use. In 2007, the Port Authority closed on one property in New Jersey – in the Hackensack Meadowlands. In January 2008, the Port Authority closed on the largest acquisition to date -- a 75-acre site in North Mount Loretto, Staten Island – at a cost of $12.5 million.

The Port Authority participated in the City of Newark's "Beautiful Newark" program by planting flowers and expanding landscaping at the entrance to Newark Liberty International Airport.

Fostering opportunity, building communities.

Creating opportunity for the people of the New York-New Jersey region is part of the Port Authority's goals. The agency's broad range of trade and transportation operations and its significant program of capital investments in public infrastructure have the potential to generate tremendous dividends – in both economic opportunity and community building – for the region. Recognizing the links between public investment and both regional economic and community development, the agency in 2007 set out to ensure that its operations and capital investments are directed in ways that maximize opportunities for people throughout the region.

The Port Authority sponsored a second annual conference to provide minority- and women-owned and small-business enterprises with information about subcontractor opportunities at The World Trade Center site.

The agency's facilities and operations support 500,000 regional jobs in industries related to aviation, international ocean shipping, public transit, tourism, trucking, warehousing, and a host of other related fields. These jobs produce more than $28 billion in annual wages and $65 billion in annual economic activity. The strength of the transportation and trade infrastructure developed and operated by the Port Authority is a significant contributor to the overall vitality and prosperity of this region.

The regional economy, particularly in New York City, recorded strong economic growth in 2007, outpacing the national economy in many significant measures, including job growth. This strength was reflected in several of the Port Authority's business lines. Both the aviation and the international oceanborne commerce industries continued to see significant growth in the New York-New Jersey region in 2007. The region's airports and seaports are economic engines that help generate good jobs, both directly in transportation and transportation services, and indirectly in a variety of industries related to international trade and transportation.

Opportunity is a core value in the agency's approach to its mission. As part of its revised 10-year capital program, the Port Authority has staked out a set of goals for its operations, capital plan, and transit development projects, specifically in the area of creating regional opportunities. They include generating 13,000 permanent jobs through the agency's operations and 4,000 living-wage jobs each year. The agency's $29.5 billion, 10-year capital plan is expected to create 17,500 construction jobs annually, and support $3.5 billion in additional sales each year by regional businesses. The agency is also expected to award an additional $9 million each year to minority- or women-owned or small-business enterprises (M/W/SBEs) as part of a proactive campaign effort to link these business enterprises with the opportunities that arise as a result of the agency's investment programs. The agency also expects its operations and investments to spur an increase in transit-oriented development within one-half mile of the Port Authority's transit facilities – PATH stations, bus terminals, and AirTrain stations.

Among the projects that are likely to contribute to these new economic opportunities are the reconstruction of The World Trade Center site and the "Access to the Region's Core" (ARC) project. At The World Trade Center, the agency has been actively working with M/W/SBEs to identify opportunities for these businesses to participate in this major construction project. For the second year in a row, the agency sponsored a conference designed to link M/W/SBEs with subcontractor opportunities at The World Trade Center site.

The ARC project, as it moves into its construction phases in the years ahead, is expected to generate more than 6,000 new construction jobs, $10 billion in gross regional product, and $4 billion in personal income. ARC is also expected to spur economic growth on the west side of Manhattan, and provide commuting opportunities for residents in New Jersey and upstate New York counties west of the Hudson River.

The ongoing Port Authority Mentor-Protégé Program

The agency conducts programs for high school students – such as this one at Teterboro Airport – that help them explore career opportunities in the aviation industry.

continued to expand in 2007, reaching out to new participants and new programs. The program provides a unique growth opportunity to certified M/W/SBEs by pairing them with well-established firms to gain critical industry skills. In 2007, the agency added a new element to the program – Exclusive Dedicated Projects, specific assignments for protégé firms to undertake – that include awards of $6 million in contracts to M/W/SBE protégé firms.

The agency works with students in a variety of ways to help them explore opportunities in trade and transportation. The agency continued its support for the Architecture, Construction, and Engineering (ACE) mentoring program. Port Authority staff volunteer to mentor urban high school students who are interested in pursuing careers in these fields. The agency also continues to sponsor job fairs at its airports to help high school students explore career opportunities in the aviation industry.

Working in the community

The agency is also working to strengthen relationships within the communities it serves. The Port Authority's facilities touch the day-to-day existence of many neighborhoods and communities throughout New York and New Jersey. As part of its commitment to be a good neighbor and a good corporate citizen, the agency works to address concerns about the impacts of Port Authority facilities on community life, and sponsors events and programs that revolve around Port Authority facilities.

At Teterboro Airport in Bergen County, NJ, the Port Authority has been working with both the local community and the airport's aviation customers to forge solutions to community concerns about noise, safety, and hours of operation. The Port Authority has been collaborating with the Teterboro Industry Working Group, a voluntary organization of industry leaders, to bridge the interests of the aviation industry and airport neighbors.

In 2007, the agency implemented several of the committee's proposals, including a voluntary ban on noisier Stage II aircraft at Teterboro; a reduction in nonessential night-time operations between 11 p.m. and 6 a.m.; endorsement of the 100,000-pound rule at Teterboro; and a pledge to make improvements in safety and security programs.

The agency worked with community and charitable organizations on a wide variety of events and promotions that made use of Port Authority facilities – a walk/run for Special Olympics through the Lincoln Tunnel, an annual PATH holiday poster contest for Jersey City students, celebration of tourism week with a poster contest for New York City students, and many more.

New standards in customer service.

The Port Authority is committed to delivering quality service to its customers. In 2007, the agency further strengthened its commitment to service through new and expanded programs.

In May, Port Authority Board Chairman Anthony Coscia, and Executive Director Anthony Shorris announced a $34 million program to enhance customer service at the region's airports. The initiatives included adding 200 more

The agency expanded its Customer Care program in 2007 by adding representatives at its airports.

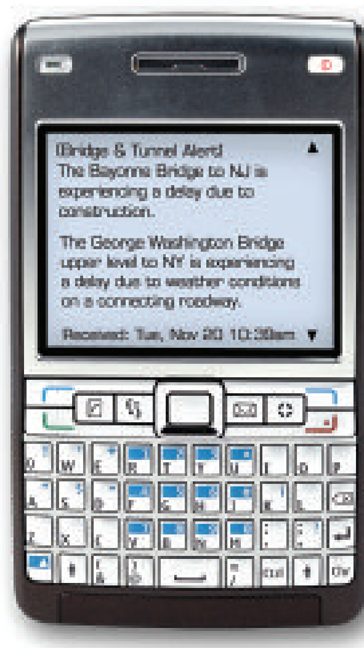
Customer Care representatives, sporting trademark red jackets, to provide assistance to travelers on their way through the airports. The Customer Care representatives are available at terminal frontages, ticket counters, entrances, in AirTrain stations, in federal inspection facilities, and anywhere else customers may need assistance.

Among other features announced in May: the addition of a "Kiss & Fly" parking lot at JFK; the installation of nearly 5,000 new seats at Newark Liberty's Terminal B and LaGuardia's Central Terminal Building; and the opening of a cell phone lot at JFK, where drivers can park for free while waiting to pick up arriving passengers.

The agency and its partners undertook several other programs designed to help customers navigate the region's airports. Transportation Security Administration checkpoint instructional videos were installed at LaGuardia Airport in 2007 to familiarize customers with the security screening process and facilitate preparedness beforehand. The 32-inch LCD display panels are located at the entrance to each concourse's TSA security checkpoint. Feedback has indicated that the looped video helps to reduce passenger confusion, enhancing screening efficiency and reducing processing times.

Also, 70 new and upgraded food, beverage, and retail outlets were added at JFK, Newark Liberty, and LaGuardia; airport quality assurance teams were expanded to monitor and evaluate vendors and other employees.

Access to travel information was also improved by increasing the number of public flight monitors at the airports and next-arriving-train monitors at AirTrain JFK and AirTrain Newark stations.



The Port Authority offers electronic alerts for its airport, bridge and tunnel, and PATH customers. Subscribers receive alerts directly to their mobile phones, PDAs, or e-mail accounts.

Info alerts

The agency introduced programs designed to provide customers of the airports, PATH, and the bridge and tunnel crossings with timely information about conditions at these facilities. Among these is Airport Info-Alerts, a free subscription service that notifies customers of airport weather delays, parking lot capacity, and AirTrain service interruptions. Customers can customize their subscription to receive tailored, free alerts directly on their cellular phones, personal digital assistants (PDAs), pagers, or e-mail accounts. A dedicated e-mail was also launched to solicit customers' suggestions: airportcustomerideas@panynj.gov.

To further advance customer services on PATH, a similar initiative was introduced last year, providing PATHAlerts to subscribers. The new service offers commuters up-to-the-minute electronic notifications of train delays and service changes. Free to customers, the subscription service provides timely information by sending PATHAlerts to any electronic device with an e-mail address, including desktop computers, pagers, cellular phones, and PDAs.

Capitalizing on the marketing potential of its facilities, last year the agency reached an agreement with NBC Universal and JCDecaux, N.A., to provide train transit information through TV screens on PATH platforms, and on the coming fleet of new trains. Along with up-to-date travel information, PATH customers will also receive digitally transmitted local news and entertainment from WNBC and NBC Universal at no cost to the agency.

The Port Authority extended the electronic alerts program to its bridge and tunnel customers, rolling out the first phase in November. The customer notification program provides subscribers with real-time electronic information regarding bridge and tunnel incidents, and irregular traffic and weather conditions that may impact their travel plans. Similar to PATHAlerts, traffic alerts are sent via e-mail or text message, and customers can tailor their subscription by direction of travel, weekday, weekend, and time of day, for up to four facilities or toll plazas. Subscribers are encouraged to send feedback through a feature available on the subscription page.

SmartLink

Previously introduced on a pilot basis to senior citizen customers in 2006, the PATH SmartLink Card was rolled out to the general public in 2007. SmartLink is PATH's new fare card. It is a durable plastic card with an embedded computer chip that keeps track of the number of available prepaid trips, and days remaining on an unlimited pass. Port Authority Customer Care representatives introduced the SmartLink Card to customers at PATH stations to familiarize commuters with the new system when purchasing different trip load options. By the end of 2007, 12,000 full-fare and 6,000 senior SmartLink Cards were in circulation.

Posters in the windows of the Port Authority Bus Terminal in Manhattan were part of the expanded Shop&Ride program promoting the bus terminal's shops and services.

Promoting services

In 2007, the Port Authority began the second phase of its Shop&Ride marketing campaign to promote the Port Authority Bus Terminal's shops and services, and increase customer awareness of the range of retail stores at the terminal. Bright banners were displayed in the terminal's street-level windows up and down 42nd Street and Eighth Avenue, one of the busiest intersections in Manhattan. The ads are fully visible in the Times Square area.

The Port Authority conducted a second Port Commerce survey on container terminal customer satisfaction last year, to better understand customers' expectations and priorities. The three-month customer satisfaction study included nearly 900 interviews with ocean carriers, truckers, intermediaries, and importers/exporters to measure current performance and identify changes in customers' concerns. Results showed a 37.5 percent customer satisfaction increase over the last port survey in 2003.

The Port Authority expanded its SmartLink Card program, which provides PATH riders with a durable, reloadable card for payment of PATH fares.

The George Washington Bridge, one of the busiest in the world, handled nearly 54 million eastbound vehicle trips in 2007.

Operations: Making it happen every day.

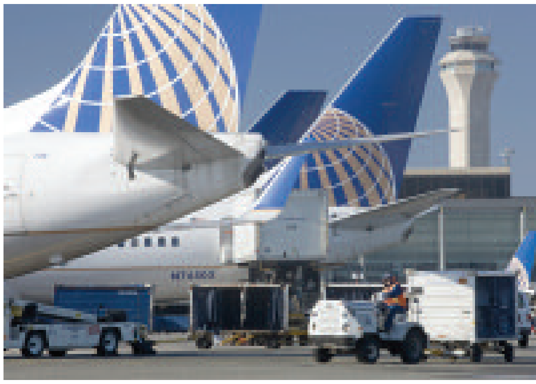
On a typical day, nearly 300,000 people will fly via one of the Port Authority's airports; more than 240,000 passengers will ride a PATH train; nearly 250,000 cars, buses, and trucks will travel across a Port Authority bridge or tunnel; and 13,000 container units will move through the marine terminals at the agency's port facilities.

It requires a tremendous effort to make these facilities run safely, smoothly, and efficiently on a day-to-day basis. This involves management of roadways and traffic, security and policing, infrastructure maintenance and repair, and much more. It requires partnerships with airlines, international ocean carriers, bus lines, local municipalities, and retail and commercial tenants. Each of the Authority's individual business lines presents a unique set of challenges in operations and management.

Aviation

At the region's airports in 2007, the Port Authority continued to deal with capacity and security issues. The remarkable growth in passenger volumes over the past several years, and the potential impact of projected demand increases in the years ahead, presents the agency with significant challenges in expanding capacity to minimize congestion and delays, while maintaining the highest levels of safety and customer service.

Both regionally and nationally, the growth in air passenger traffic is causing congestion and delays. The issue came to the forefront in 2007 when the Federal Aviation Administration (FAA) proposed drastic flight restrictions at John F. Kennedy International Airport in response to growing flight delays and congestion, both in New York and nationally. The Port Authority responded vigorously by forming a broad coalition of airlines, passenger advocates, and business and tourism groups into a task force that proposed concrete measures to combat flight delays, both in the short term and over the decades ahead, without stifling the demand for passenger service at JFK and throughout the agency's airport system. This included expanding capacity through the use of new technologies and investments detailed in the agency's 10-year capital plan (see page 16), and utilizing the newly acquired Stewart International Airport. The coalition also proposed improving flight management in the air and on the ground, and bolstering customer service.



Newark Liberty International Airport handled 36.3 million passengers in 2007, a 2 percent increase over 2006.

Earlier in the year, the Port Authority, the FAA, and airline carriers developed 77 recommendations for effectively managing demand and reducing delays. The recommendations include increasing flight management and ground surveillance efficiency by advancing installation of new technologies currently in development. Seventeen of the items have been placed on

On its inaugural flight to the United States, the Airbus A380, the world's largest passenger airliner, stopped at JFK International Airport. The flight was part of a test of the aircraft, which is expected to increase capacity on international flight routes in the years ahead.

the FAA's short list to implement by the end of 2008. The agency also proposed improvements in navigation systems and surveillance systems technology to reduce the spacing requirements between aircraft in flight.

The Port Authority has called on Congress to pass an FAA Reauthorization bill that would fund these priorities, and would direct the implementation of these and other operational and procedural initiatives.

Increasing capacity at the region's airports is clearly an important step in dealing with flight delays, especially given the recent growth in passenger volumes at the region's airports. In 2007, the region's airports handled a record total of 110 million passengers, an increase of 5.4 percent over 2006. This was nearly three times that of the national rate, and it outpaced the original forecast for the region, reaching a level that was originally forecast for 2008.

Most of the rapid growth was centered at JFK, which handled a record 47.7 million passengers in 2007, a remarkable 11.9 percent increase over 2006. This included a sharp growth in domestic passenger traffic. Newark Liberty International Airport experienced a modest

The Port Authority took over operations at Stewart International Airport on October 31.

growth of 2 percent over 2006, with 36.3 million passengers in 2007. LaGuardia Airport experienced a 3 percent decline in passengers.

JFK was the site of the inaugural flight to the United States of the world's largest passenger plane, the Airbus A380. The flight was part of a test of the aircraft by Lufthansa and Airbus on potential international routes. The event marked the start of a new era in the aviation industry, as this aircraft and others like it will help move millions of air passengers more efficiently around the globe.

The Port Authority acquired Stewart International Airport in Orange County, NY, in an agreement with the State of New York early in 2007. The agency officially assumed management and operation of the airport on October 31. Stewart is a key acquisition for the agency. This facility is expected to absorb some of the growth in passenger volumes, especially for air travelers whose origins or destinations are in the growing counties north and west of New York City.

In 2007, Stewart handled nearly 915,000 passengers, a 195 percent increase over 2006 volumes.

Upon acquisition of Stewart, the Port Authority directed $4 million to make near-term improvements that include increasing queuing space, expanding direct road access to the terminal, improving overnight short- and long-term parking, adding public transportation access, and installing 200 new seats in the terminal.

In 2008, $20 million will be dedicated to boost the airport's capacity and level of service, security and safety, including improvements to on-airport roadways, aeronautical pavement rehabilitation, electrical system upgrades, and increased parking capacity.

The Port Authority's AirTrain rail systems at JFK and Newark Liberty carried a combined total of 6.2 million revenue passengers in 2007, a new record. A total of 4.4 million paid riders used AirTrain JFK, a 12 percent increase, to connect between airport terminals and New York City Transit subways or the Long Island Rail Road. AirTrain Newark handled nearly 1.8 million passengers in 2007, up 13.5 percent from 2006. The two airport rail systems served more than 20 million additional passengers who used the free portions of the systems to ride within the airports between passenger terminals, parking lots, and rental car areas.

AirTrain JFK's entire fleet of 32 cars was re-outfitted last year with new seats, floors, maps, and directories. A new around-the-clock valet parking service adjacent to AirTrain JFK's Lefferts Boulevard station is now available to travelers.

Overall air cargo volumes at the three airports declined slightly to 2.6 million tons. Air cargo remains an important business for the airports, particularly JFK and Newark Liberty, and for the region. Twenty-five percent of all air cargo imported to the United States is shipped through one of the agency's airports.

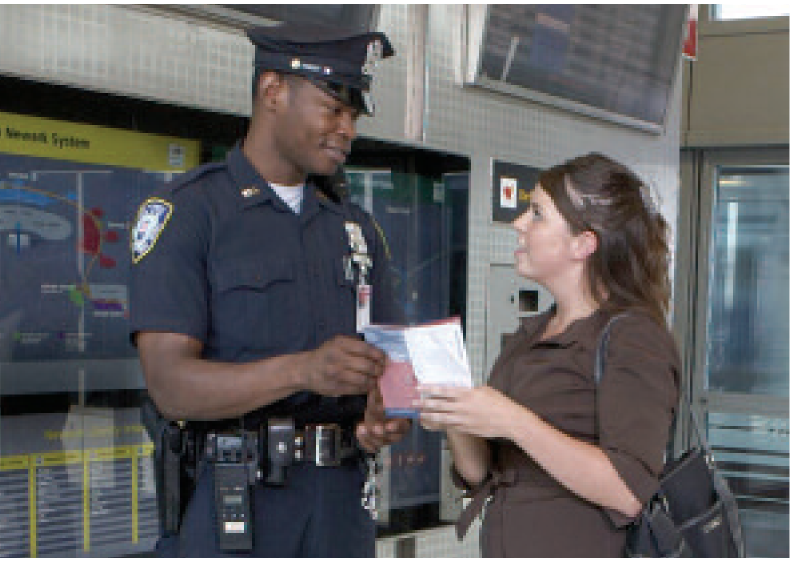
In addition to capacity issues, the agency continued to bolster safety and security for passengers, employees, operations, and aircraft at the region's airports. The agency is planning to install the most advanced security and situational awareness systems, including a Perimeter Intrusion Detection System. Installation of the system was under way at JFK, Newark Liberty, LaGuardia, and Teterboro airports, and will be operational at all airports by early 2009. The system features radar, analytic video, and other state-of-the-art technology that alert authorities to any unauthorized entry into air operations areas.

In 2007, the Board approved the installation of three new Engineered Material Arrestor Systems (EMAS) at the ends of Runway 22L at JFK, Runway 29 at Newark Liberty and

Paid ridership on AirTrain JFK increased 12 percent in 2007, to 4.4 million passengers.

Runway 19 at Teterboro. The arrestor beds, made of aerated cement blocks, can safely stop aircraft that overrun a runway. Currently, JFK has one arrestor bed, LaGuardia has two, and Teterboro has one.

Last year, airlines added new destinations at each of the four regional airports. Newark Liberty airlines added seven new markets, ranging from Jackson, Mississippi, to Mumbai, India, both by Continental, which also added Athens, Greece,



Port Authority Police provide key security services at all the Port Authority's passenger facilities, including airports, bridges, tunnels, terminals, and the PATH system.

Paris Orly, and Geneva. US Airways added nonstop service to its Phoenix and Las Vegas hubs, while Jet Airways added a one-stop flight to Mumbai via Brussels.

At JFK, Delta began nonstop service to eight markets, including Dallas-Ft. Worth; Phoenix; Denver; Portland; Pisa, Italy; and Bucharest, Romania. JetBlue added San Francisco, Chicago O'Hare and Santo Domingo in the Dominican Republic. American Airlines started service to London Stansted, Las Vegas, Orlando and Pittsburgh. Virgin America inaugurated nonstops to Los Angeles and San Francisco. India received new service from Jet Airways, with a New Delhi via Brussels service, and Air India with a nonstop to Mumbai. Zoom, Air Jamaica, and Lan Airlines added nonstop flights to London Gatwick, Barbados, and Santiago, Chile, respectively.

At LaGuardia, Delta began service to Chicago-Midway and Huntsville. American added Cincinnati, Minneapolis/St. Paul, Louisville, Memphis, and Flint, Michigan. Northwest began service to Flint, while also adding Madison, Wisconsin, and Des Moines, Iowa. Air Canada began service to Halifax.

Stewart welcomed both JetBlue, with its service to West Palm Beach, and AirTran, with service to Orlando, Tampa, West Palm Beach, and its Atlanta hub. Delta also added nonstop service to Atlanta.

PATH

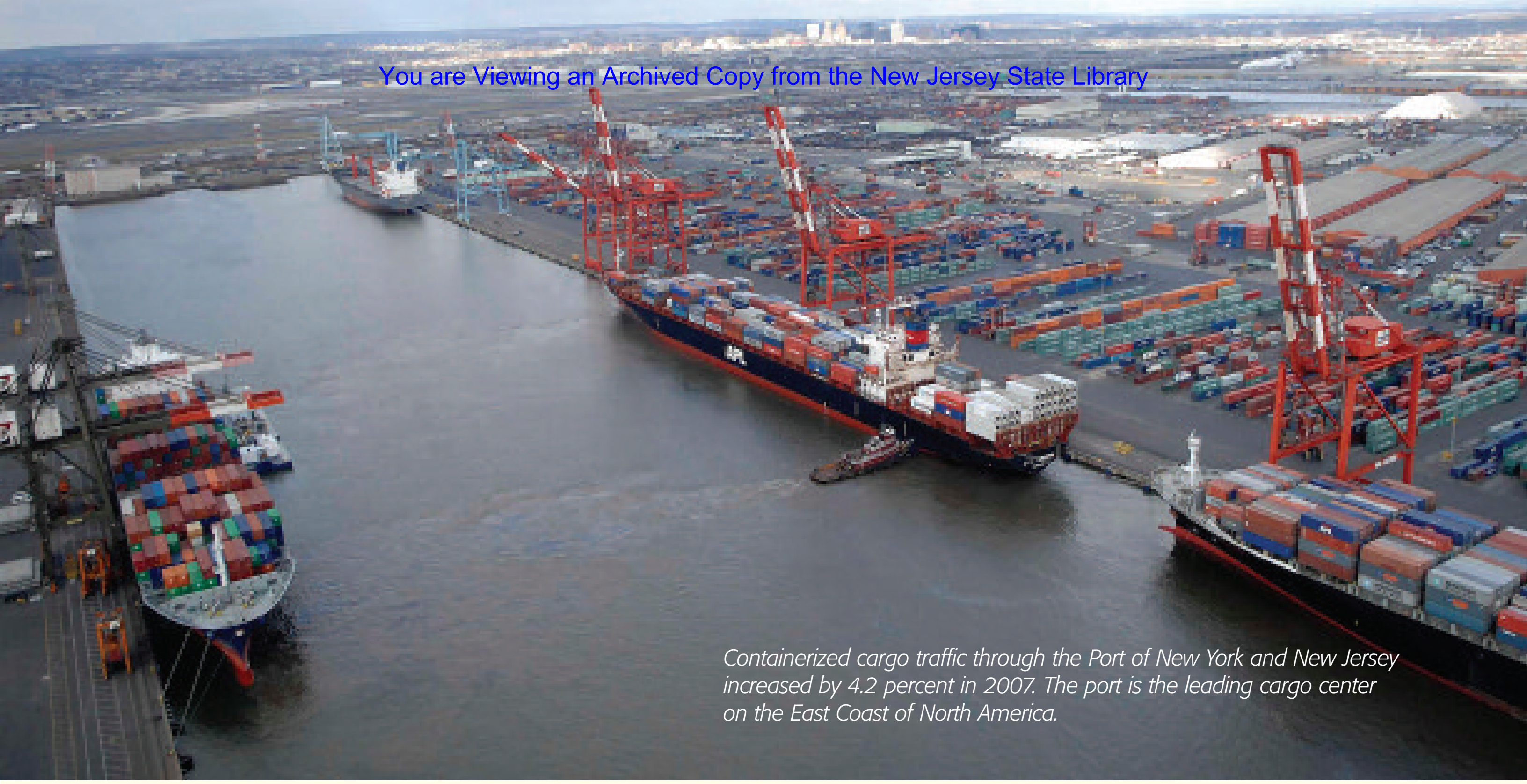
In 2007, the PATH interstate rail system focused its efforts on passenger and employee safety, and implemented a wide range of state-of-good-repair projects, while making preparations for a series of capacity-boosting capital investments over the next several years (see page 15). PATH also continued to work on a new fare system (see page 23) that will allow PATH customers several options for fare payment.

The PATH system experienced a 6.9 percent increase in 2007, handling 71.6 million passengers during the year. The weekday daily passenger average rose to more than 242,000 passengers in 2007, a 6.6 percent increase over 2006.

The agency made several high-profile security moves in 2007 on the PATH system. In 2007, the agency launched a pilot program to deploy National Guard troops at PATH stations. Under the program, up to 40 guardsmen are randomly located inside and outside PATH's 13 stations. PATH is regularly patrolled by Port Authority Police, including K-9 detection and special operations units. Since September 11, 2001, the agency has invested nearly $300 million in security for the PATH system.

In early 2008, the Port Authority prepared to relocate the current PATH station entrance at The World Trade Center from Church Street to a new temporary entrance at Vesey Street. This is necessary to accommodate the continuing progress in construction at the site, including work on the WTC Transportation Hub (see page 13). The new temporary entrance opened in early 2008. The temporary entrance will continue to be in use until the opening of the new Hub in 2011.

A new temporary entrance to The World Trade Center Terminal on the PATH system opened in early 2008. The entrance was relocated to accommodate construction on The World Trade Center Transportation Hub.



Containerized cargo traffic through the Port of New York and New Jersey increased by 4.2 percent in 2007. The port is the leading cargo center on the East Coast of North America.

PATH also undertook several investments in the upkeep and maintenance of the system. This included upgrade work on the tracks and the third rail in selected sections of the system, replacement of compressed air system components, and drainage improvements.

Port Commerce

The Port of New York and New Jersey continued to demonstrate success in 2007, handling record levels of cargo and attracting major new investors in the marine terminal leaseholds in the harbor. The Port Authority continued its program of investment in the region's maritime cargo assets – particularly focusing on channel deepening and landside access projects.

The Port of New York and New Jersey handled a record 5.2 million container units, as measured in 20-foot equivalent units, or TEUs, in 2007. This represents an increase of 4.2 percent from 2006. Exports were particularly strong in 2007, with containerized traffic up 13.7 percent. Vehicle imports and exports increased 9.2 percent to a total of 930,298 units. Intermodal container movements by rail through the port increased 5.6 percent in 2007 to a total of 358,043 container lifts.

In 2007, the port showed significant progress on a number of core projects, including expansion of the Port's ExpressRail System, improving roadways, deepening channels, and adding new all-water services that directly connect the New York-New Jersey region to overseas cargo centers.

With the completion of ExpressRail Staten Island (see page 17), a 39-acre, on-dock intermodal cargo facility adjacent to New York Container Terminal (NYCT) in Staten Island, the first-ever doublestack intermodal train crossed the Arthur Kill lift bridge on June 28. ExpressRail Staten Island connects to the Conrail Main Line in Elizabeth, NJ, and it is supported by the adjacent Arlington Yard, which was developed by the City of New York.

The Port Authority also reached a series of agreements on changes of the container terminal lessees at port properties, protecting the agency's significant public investment in the terminals and ensuring the long-term health and growth of the port. In 2007, three container leaseholds changed hands, part of a trend underscoring that port terminals have become attractive financial investments for large corporate investors.

The public-private investment in the redevelopment of the Port of New York and New Jersey includes installation of new container cranes, such as these at Maher Terminal in Elizabeth, NJ.

In February, the Port Authority reached an agreement with AIG Global Investments Group for the approval of the acquisition of DP World's interest in the Port Newark Container Terminal by an affiliate of AIG Inc. Global. The agreement calls for a minimum $50 million investment in the PNCT during the life of its lease, including $10 million earmarked for the Port Authority's development of port rail infrastructure for the terminal.

Similarly, the agency signed off on the purchase of Maher Terminals LLC and affiliates' remaining 23-year lease by

The Port Authority continued to expand its ExpressRail System in 2007. This network of intermodal rail terminals, such as ExpressRail Elizabeth, and storage yards are providing the port with efficient on-dock connections between its container terminals and inland rail transportation markets.

part of Deutsche Asset Management's RREEF Alternative Investments business. The new lessee committed to invest at least $114 million in the facility, while the former tenant will pay $22 million in cash to the Port Authority for further reinvestments in port infrastructure.

In May, the agency approved the acquisition of the New York Container Terminal – the operator of Howland Hook Marine Terminal on Staten Island – leasehold by the Ontario Teachers' Pension Plan. Under the 12-year lease agreement, the buyer committed to $51 million in investment, and NYCT paid $16 million to the Port Authority, plus an additional $5 million reimbursement for the planned roadway access to the terminal.

Also, under an agreement with the New York City Economic Development Corporation, the Port Authority will continue to act as the terminal operator at the Brooklyn Cruise Terminal on Piers 11 and 12 in Brooklyn for at least two years.

The agency signed a two-year agreement with the New York City Economic Development Corporation that will continue the Port Authority's role as terminal operator at the Brooklyn Cruise Terminal.

The Port Authority reached an agreement with Conrail, a joint venture in the New York-New Jersey region between Norfolk Southern Railway Company and CSX Transportation Inc., to provide maintenance and operation of the ExpressRail Corbin Street Intermodal Rail Support Facility and the ExpressRail Elizabeth lead tracks.

Additionally, the agency reached agreements with various federal, state, and local law-enforcement agencies for the acquisition of maritime coordination enhancement security equipment for law-enforcement vessels in the port. The initiative is part of the United States Department of Homeland Security 2007 Port Security Grant Program.

The Port Authority and the Port of Rotterdam, Europe's largest port, signed a sustainable port partnership agreement. It states that both ports will share information and experiences on sustainability, including initiatives to improve water, air, soil, and environmental quality.

Tunnels, Bridges & Terminals

In a year when traffic at the Port Authority's interstate bridge and tunnel crossings remained relatively unchanged, and volume at the agency's two major bus terminals declined slightly, the agency continued a wide variety of projects aimed at increasing the efficiency of the infrastructure that supports everyday travel between New Jersey and New York City.

Overall eastbound vehicular traffic for all interstate tunnels and bridges totaled 127 million vehicles in 2007, almost unchanged from 2006. Recovering from losses in 2006 caused by construction at the Goethals Bridge, traffic volume at Staten Island Bridges showed a growth of 1.2 percent in 2007.

Vehicular traffic was down 0.3 percent at the Holland and Lincoln tunnels combined, and 0.6 percent at the George Washington Bridge, where activity declined in September due largely to lane closures and delays related to bridge and roadway maintenance work.

Bus terminal passenger traffic showed a slight decline from the previous year. A combined total of 71.5 million passengers moved through the Port Authority Bus Terminal in midtown Manhattan, the George Washington Bridge Bus Station in Washington Heights, and the Journal Square Transportation Center in Jersey City, down from 72.7 million in 2006. Combined, the facilities handled more than 3.3 million bus movements during the year.

The use of E-ZPass continued to grow in 2007. The E-ZPass market share at Port Authority tunnels and bridges for weekdays climbed to a new high of 74 percent, up from 73 percent in 2006. The share for all transactions moved to 72 percent in 2007, from 71 percent in 2006. The agency also implemented several innovative tactics to recover tolls owed to the Port Authority.

The Port Authority authorized a $14.5 million project to replace electronic toll-collection equipment in select toll lanes at bridge and tunnel crossings, and to evaluate equipment performance in other toll lanes.

The $6.3 million project to install 11 variable message signs on the bus ramps leading to and from the Port Authority Bus Terminal was completed, including the installation of 63 fixed signs and 41 traffic signals. The signs provide bus drivers with quick, accurate information regarding traffic conditions at the Lincoln Tunnel and the ramps.

The agency completed paving work on the eastbound access roadway, known as the "helix," leading to the Lincoln Tunnel toll plaza. Nearly reaching completion is the $10 million rehabilitation project to enhance traffic flow on the New Jersey approaches to the Holland Tunnel. The project, conducted under continuous traffic flow at all times, included new pavement, curbs, drainage, lighting, utility relocation, traffic signals, and traffic signs.

A $14.7 million contract to remove all of the lead-based paint on viaducts leading to both sides of the Outerbridge Crossing is also nearing completion. The new coating system – three-coat zinc, epoxy, urethane paint – will protect the steel from weathering and oxidation. A similar repainting project at the George Washington Bridge – for the upper and lower levels of the New Jersey-side tower, and the upper level of the New York-side tower – was completed in 2007.

The agency used an innovative engineering design to reinforce the abutment structure for the Bayonne Bridge.

The Port Authority completed a $31 million rehabilitation project on the Bayonne Bridge's New Jersey abutment. The complex civil engineering challenge to shore up the 76-year-old structure involved an innovative design to reinforce the abutment with post-tensioned steel cables and rock anchors.

At the George Washington Bridge, the Port Authority completed pavement replacement in 2007 on the main span of the upper level and the approach roadways east of the toll plaza. The agency also undertook repaving projects along several access routes to the GWB, on both sides of the river.

The Port Authority is working with the Westfield Group to develop retail space at The World Trade Center site.

Development

The Port Authority's 10-year capital plan will result in new transportation infrastructure designed to promote opportunity and environmental sustainability throughout the New York-New Jersey region. Commercial real estate development is a key element of this effort.

As part of an agency-wide reorganization, the Port Authority created a new Development Department in March 2007 to help the agency identify and develop properties that will support the investment program and enhance the economic vitality of the communities that the Port Authority serves.

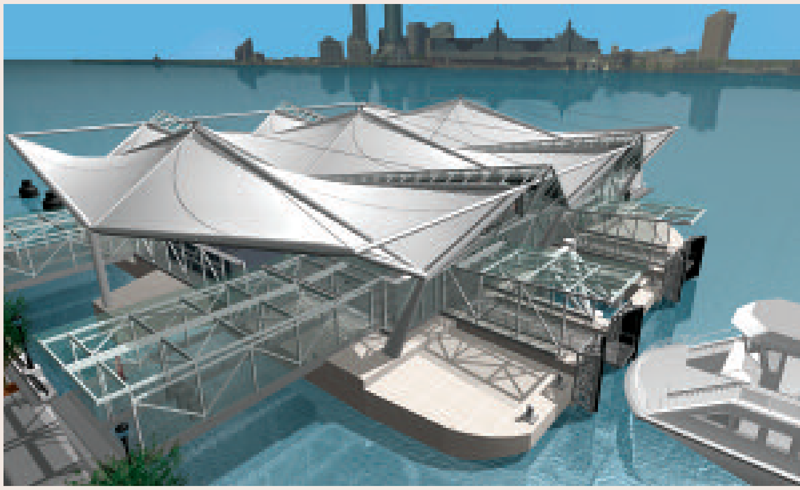
This effort includes some of the agency's most visible programs: The World Trade Center site; the "Access to the Region's Core" (ARC) project; transit-oriented development; waterfront development; revenue enhancement at existing facilities; and ferry transportation.

Development plays a critical role in The World Trade Center site project. The agency is finalizing leases for One World Trade Center/the Freedom Tower for New York State and federal government offices. The agency will be working with Cushman and Wakefield, which will provide exclusive commercial real estate brokerage and other services for the rental of the remaining 60 percent of the office space in the Freedom Tower.

Retail is an integral component of The World Trade Center site. Approximately 500,000 square feet of retail will be developed throughout the complex. The agency is partnering with the Westfield Group on the planning of retail complexes that will serve the many elements of the site, including above- and below-grade development and retail outlets at the Transportation Hub. The agency will also plan, solicit, and oversee private-sector development of an observation deck and restaurant in the Freedom Tower.

The Board of Commissioners authorized an agreement for development of the air rights above the Port Authority Bus Terminal in Manhattan. This agreement could lead to the construction of a tower over the north wing of the terminal with 1.3 million square feet of office space. The revenues from this development would allow the agency to make extensive improvements throughout the terminal.

The agency is also working with its regional partners on trans-Hudson ferry and other regional ferry development. The Port Authority is committed to enhancing the regional ferry network, developing new services, and partnering with the public and private sectors to improve existing ferry infrastructure. This includes completing a permanent World Financial Center ferry terminal at Battery Park City in Lower Manhattan and working with NJ Transit on a permanent ferry terminal at NJ Transit's Hoboken rail terminal.



The agency is working on development of regional ferry transportation, including construction of a new World Financial Center Terminal.

THE PORT AUTHORITY OF NY & NJ

225 Park Avenue South, New York, NY 10003

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

The Consolidated Financial Statements (the "Financial Statements") of The Port Authority of New York and New Jersey (including its wholly owned entities, collectively referred to herein as the "Port Authority") as of and for the years ended December 31, 2007 and December 31, 2006, are enclosed. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation in the Financial Statements rests with management of the Port Authority. Management's Discussion and Analysis ("MD&A") of the Port Authority's financial performance and activity provides a narrative introduction, overview, and analysis to accompany the Financial Statements and is supplemental information that is required by the Governmental Accounting Standards Board. Schedules A, B, and C have been prepared in accordance with Port Authority bond resolutions and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Schedules D, E, F, and G include other supplementary information presented for purposes of additional analysis and are not a required part of the Financial Statements.

Port Authority management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Port Authority. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. The Port Authority has established a comprehensive framework of internal controls that includes maintaining records that accurately and fairly reflect the transactions of the Port Authority; provide reasonable assurance that transactions are recorded as necessary for financial statement preparation; and provide reasonable assurance that unauthorized use, acquisition or disposition of company assets that could have a material impact on the Port Authority's financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the financial statements would be prevented or detected.

As officers of the Port Authority, we certified in connection with the release of the Financial Statements on February 22, 2008, that (a) to the best of our knowledge and belief, the financial and other information, including the summary of significant accounting policies described in the Financial Statements, was accurate in all material respects and was reported in a manner designed to present fairly the Port Authority's net assets, changes in net assets, and cash flows, in conformity with accounting principles generally accepted in the United States of America; and (b) on the basis that the cost of internal controls should not outweigh their benefits, the Port Authority has established a comprehensive framework of internal controls to protect its assets from loss, theft, or misuse, and to provide reasonable (rather than absolute) assurance regarding the reliability of financial reporting and the preparation of the Financial Statements in conformity with GAAP.

A firm of independent auditors is retained each year to conduct an audit of the Financial Statements in accordance with auditing standards generally accepted in the United States of America. The goal of the independent audit is to provide reasonable assurance that these Financial Statements are free of material misstatement. The audit includes an examination, on a test basis, of the evidence supporting the amounts and disclosures in the Financial Statements, an assessment of the accounting principles used and significant estimates made by management, as well as the overall presentation of the Financial Statements. In planning and performing their audit, the independent auditors gave consideration to the Port Authority's comprehensive framework of internal controls in order to determine auditing procedures for the purpose of expressing an opinion on the Financial Statements. The independent auditors' report is presented as the first component in the financial section following this letter.

This letter of transmittal is designed to complement the MD&A and should be read in conjunction with the auditors' report and the audited Financial Statements.

Profile of the Port Authority

The Port Authority is a municipal corporate instrumentality and political subdivision of the States of New York and New Jersey, which was established in 1921 to provide transportation, terminal, and other facilities of commerce within the Port District, an area of about 1,500 square miles in both States centering about New York Harbor. The Port Authority raises the funds necessary for the improvement, construction, or acquisition of its facilities generally upon the basis of its own credit. It has neither the power to pledge the credit of either State or any municipality nor to levy taxes or assessments.

The Port Authority maintains an infrastructure of financial systems to record the financial results of operations and provide an audit trail to be used in a review of accountability.

The financial planning process integrates an annual budget process with multi-year forecasting projections. Through the capital plan and budget process, staff identifies strategic, financial, and operational issues that affect resource allocations; sets forth an expenditure plan for the year that balances priorities across all agency lines of operation; and provides alternate financial scenarios of proposed operating and financial arrangements and their impact on the agency's financial position. Each new budget is separately considered and approved by the Port Authority's Board of Commissioners ("Board of Commissioners"), although such approval does not in itself authorize specific expenditures, which are authorized from time to time by, or as contemplated by, other specific actions of the Board of Commissioners.

The approved budget becomes a mechanism that facilitates the systematic review of program expenditures to ensure that they are made consistent with statutory, contractual, and other commitments of the agency, the policies and financial decisions of the Board of Commissioners, and the requirements of the By-laws of the Port Authority. Forecasting models are used to assess the agency's projected long-range financial condition; determine the financial feasibility of future capital investment; and perform financial tests to measure fiscal risk and to ensure the organization's integrity in the credit markets. This comprehensive approach to planning, budgeting, and forecasting enables the agency to identify, track, and take corrective action with respect to the funding requirements needed to deliver the projects and services that the Port Authority provides.

Regional Economic Condition and Outlook

The outlook for the regional economy is clouded by a significant slowdown in the United States ("US") economy and the fallout from sub-prime mortgage defaults. During the third quarter of 2007, it became clear that the effects of the housing recession and credit crunch are also affecting financial markets and will continue as a downward force. At the end of the third quarter 2007, 5.6 percent of all loans outstanding on one-to-four unit residential properties were delinquent, up more than 90 basis points from a year ago. The total delinquency rate is the highest in more than twenty years. Furthermore, a growing number of hedge funds and other financial institutions have reported significant losses on securities backed by these mortgage loans. As of the end of 2007, approximately $125 billion in write-downs have been taken by major financial institutions and more could come. If the defaults and write-downs continue, this is likely to affect the financial sector and the regional economy in 2008.

US Gross Domestic Product ("GDP") grew by an estimated 2.2 percent in 2007, down from 2.9 percent in 2006. This rate of growth was the slowest in five years. With two robust quarters sandwiched in the middle, the national economy started and ended 2007 with weak economic growth; and most indicators weakened towards the end of the year. Employment change in the three-month period between December 2007 and February 2008 averaged a 15,000 job loss per month, compared to an average monthly gain of 94,000 payroll jobs in the preceding three months. In addition, the unemployment rate is beginning to edge up.

The weakness in the fourth quarter of last year is likely to continue through the first half of 2008, with many forecasters predicting actual declines in GDP. The Federal Reserve Bank has responded by lowering the Federal Funds rate 225 basis points between September 2007 and January 2008. In addition, Congress approved a fiscal stimulus package totaling $168 billion in the form of personal income tax rebates to bolster consumption and increased depreciation allowances to bolster business investment. The package, combined with aggressive monetary policy, should act as insurance to stave off a deep recession.

A positive note is the role that exports are playing to help stabilize the economy. The decline in the dollar has bolstered US exports while curtailing the growth in imports. In 2007, exports grew by 8 percent, compared to 1.9 percent growth in imports. As a result, the trade sector, usually a drag on GDP, contributed 58 basis points to economic growth in 2007.

In contrast to the nation, 2007 saw the fastest economic growth for the New York-New Jersey regional economy in almost a decade. The region added 115,900 jobs, for a growth rate of 1.5 percent. New York City added 78,800 jobs, capturing over two-thirds of the region's employment growth. Within the region, Professional and Business Services and Education and Health Services were growth leaders, adding 28,000 jobs and 27,300 jobs, respectively. The financial sector of the economy added 6,800 jobs, with all of the growth centered in New York City while posting declines in the rest of the region. Notwithstanding the strike that shut down Broadway shows, the tourism industry had a very solid year. Leisure and Hospitality gained 18,000 jobs, growing by 3.1 percent, and Retail Trade added 12,300 jobs. Visitors to New York City increased by an estimated 5.0 percent in 2007, to 46 million. Taking advantage of the weakness of the dollar relative to many major currencies, international visitors (including from Canada and Mexico) came to New York City in record numbers, increasing by 20 percent to reach 8.5 million. Hotel occupancy rates and prices continued to reflect a booming industry, with demand increasing faster than increases in room supply. In 2007, hotel occupancy rates climbed to 86.5 percent, and prices climbed 12.6 percent, to average $304 per night. Construction employment in the region grew by 12,600 jobs, or 4.0 percent, even with the reduction in new housing starts. Notwithstanding the increase in exports, productivity improvements in the manufacturing sector resulted in a continuing long-term decline, falling 3.4 percent and shedding 15,000 jobs.

Regional inflation improved markedly in 2007 as core inflation (inflation less food and energy) remained slow and steady. The region's Consumer Price Index went up 2.8 percent in 2007, compared to 3.8 percent in 2006. Inflation in the region converged to match the same rate of inflation as for the nation, the region's best comparative performance since 2001. However, the improved inflation picture could be at risk if oil prices remain close to or exceed $100 per barrel instead of retreating back to $75-80 per barrel. Energy inflation in the fourth quarter 2007 spiked to double-digit increases as oil prices soared.

The dramatic weakening of the dollar is having an impact on trade flows. In the New York-New Jersey region, as in the nation, exports continued to advance quicker than imports. Exports grew by 16.4 percent, to $124 billion, while imports grew by 5.8 percent, to $221 billion. The region's two-way trade totaled $345 billion, in 2007, up 9.3 percent compared to 2006. China is the region's largest and fastest growing trading partner. Trade with China totaled $35.2 billion in 2007, up 18 percent over 2006. Trade with China continues to be dominated by imports, up 18.8 percent, to $29.5 billion. Exports to China from the New York-New Jersey region grew by 14 percent, to $5.7 billion.

Although the region's performance in 2007 outshined that of the nation, it is important to recall that a similar situation existed immediately prior to the 2001 recession, which ended up having a much more severe impact on the New York City economy – in terms of job loss – than on the nation.

Port Authority facilities were influenced by these general economic trends. Driven by the international visitor market, the number of passengers at the three major airports reached 109 million, up 4.8 percent from the previous year. International passenger growth increased by 8 percent, more than twice the rate of domestic growth. As a step in adding air service capacity, the Port Authority took over the operation of Stewart International Airport ("Stewart") on October 31, 2007. In 2007, Stewart handled 915,000 passengers, an all-time record for the airport. Driven more by exports than imports, port general cargo increased by 4.9 percent to 32.7 million metric tons. PATH passenger trips totaled 71.6 million, up 6.9 percent. In contrast, total traffic on the bridges and tunnels was unchanged at 127 million vehicles. Autos declined slightly while truck volumes grew by 1.7 percent, to 8.5 million vehicles.

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 for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2006. The Port Authority has received this award since 1984, making this the twenty-third consecutive year that the Port Authority financial statements have achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must also satisfy both GAAP and applicable legal requirements.

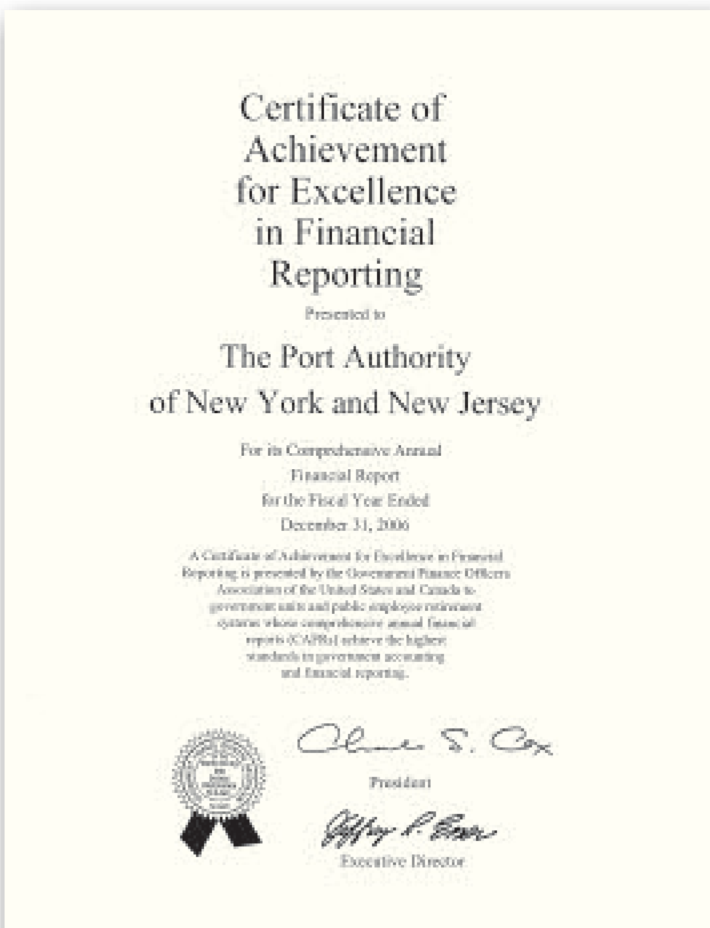
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

February 22, 2008

Anthony E. Shorris
Executive Director

A. Paul Blanco
Chief Financial Officer

For the twenty-third 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 2006 Comprehensive Annual Financial Report.


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, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Financial Section

The Port Authority of New York and New Jersey
Annual Financial Report for the Year Ended December 31, 2007
Prepared by the Comptroller's Department

THE PORT AUTHORITY OF NY & NJ

Deloitte.

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA
Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of net assets of The Port Authority of New York and New Jersey (the "Port Authority") as of December 31, 2007 and 2006, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These consolidated 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 auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets of the Port Authority as of December 31, 2007 and 2006, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I to the consolidated financial statements, in 2006 the Port Authority changed its method of accounting for postemployment benefits to conform to Governmental Accounting Standards Board ("GASB") Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

As described in Note A-4 to the consolidated financial statements, the Port Authority has prepared the accompanying Schedules A, B, and C on a comprehensive basis of accounting in accordance with Port Authority bond resolutions, which differs in some respects from accounting principles that are generally accepted in the United States of America. The differences between Schedules A, B, and C and the consolidated financial statements are also described in Note A-4.

As such, in our opinion, because of the effects of the differences between the two bases of accounting referred to in the preceding paragraph, Schedules A, B, and C do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the assets and liabilities of the Port Authority at December 31, 2007 and 2006, or its revenues and reserves for the years then ended.

Member of
Deloitte Touche Tohmatsu

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, 2007 and 2006, and its revenues and reserves for the years then ended, in accordance with the requirements of the Port Authority bond resolutions as described in Note A-4.

The "Management Discussion and Analysis" is not a required part of the consolidated financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of the Port Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements and Schedules A, B, and C taken as a whole. The supplemental information presented in Schedules D-1, D-2, D-3, D-4, E, F, and G is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This supplemental information is the responsibility of the Port Authority's management. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Deloitte & Touche LLP

February 22, 2008

Introduction

The following discussion and analysis of the financial performance and activity of The Port Authority of New York and New Jersey and its wholly owned entities, Port Authority Trans-Hudson Corporation, the Newark Legal and Communications Center Urban Renewal Corporation, the New York and New Jersey Railroad Corporation, WTC Retail LLC, Port District Capital Projects LLC, Port Authority Insurance Captive Entity LLC and 1 World Trade Center LLC (all collectively referred to as the Port Authority), is intended to provide an introduction to and understanding of the consolidated financial statements of the Port Authority for the year ended December 31, 2007, with selected comparative information for the years ended December 31, 2006 and December 31, 2005. This section has been prepared by management of the Port Authority and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Overview of 2007 Financial Results

Port Authority net assets increased by $1.3 billion in 2007, reflecting the recognition of higher insurance proceeds received for business interruption and development costs associated with 1 World Trade Center LLC (1 WTC LLC) and WTC Retail LLC, and increased revenues attributable to Passenger Facility Charges (PFCs) and other contributions in aid of construction.

Gross operating revenues totaled approximately $3.2 billion in 2007, representing a $153 million increase over 2006. The increase was primarily due to higher revenues from fixed and activity-based rentals from tenants at the Port Authority's Aviation and Port facilities and from cost recovery agreements with the airlines. Revenues were also higher due to one-time revenues from port consent fees for the transfer of marine leaseholds at Port Newark (PN), the Elizabeth-Port Authority Marine Terminal (EPAMT) and the Howland Hook Marine Terminal.

Operating and maintenance expenses exceeded $2.2 billion in 2007, which was $135 million higher than in 2006. The increase was primarily due to higher employee compensation costs for police and security stemming from continued heightened security levels at Port Authority facilities and an increase in reserves for incurred but not reported (IBNR) claims associated with public liability and workers' compensation insurance.

Depreciation and amortization expense decreased by $32 million in 2007 compared to 2006, primarily reflecting the fact that the accelerated retirement of the temporary WTC PATH Station, the Red Hook Container Terminal and the Brooklyn Piers was completed in 2006. The decline in depreciation expense resulting from the retirement of those assets was partially offset in 2007 by increased investment in regional programs, and the full year impact of transferring $1 billion of construction in progress to completed construction in 2006.

Non-operating revenues consisting of financial income, PFCs, other contributions and insurance proceeds increased by $776 million in 2007 compared to revenues attributable to 2006, primarily due to an increase of $576 million in insurance proceeds received for 1 WTC LLC and WTC Retail LLC.

Financial expense increased $40 million, reflecting higher average balances of outstanding consolidated bonds and notes in 2007 compared to 2006.

Other Activities

- Throughout 2007, the Port Authority continued to demonstrate its ongoing commitment to the growth and development of the region through the significant capital investment that was made. Capital expenditures totaled approximately $2.3 billion in 2007, while over $900 million of capital construction, including costs associated with regional programs, was transferred to completed construction.
- The Port Authority updated its ten-year, $29.5 billion capital plan designed to return the agency to its core mission of building and maintaining transportation infrastructure. The plan includes $8.4 billion to rebuild the World Trade Center; $3.3 billion to overhaul, modernize and expand the capacity of the PATH System; $3.1 billion in bridge and tunnel improvements; $3.1 billion to expand, modernize and enhance security at John F. Kennedy International (JFK) and LaGuardia (LGA) airports; $3 billion for the construction of a new passenger rail tunnel under the Hudson River; $1 billion for a new Goethals Bridge; and $500 million to redevelop Stewart International Airport.
- Effective March 2, 2008, tolls at the Port Authority's Hudson River and Staten Island tunnel and bridge crossings will increase from $6 to $8 for base passenger vehicles during peak hours, and PATH fares will rise from $1.50 to $1.75. These increases are expected to generate $312 million in additional annual revenues, which will be used to cover higher security costs and help fund the ten-year $29.5 billion capital plan.
- The Board of Commissioners (the Board) approved a planning study to explore the feasibility of implementing an all-electronic toll collection system at the Port Authority's Hudson River and Staten Island tunnel and bridge crossings. The study will evaluate the potential of replacing the existing toll collection system with one that collects tolls using overhead E-ZPass readers and license plate imaging technology. The study is scheduled to take two years and cost approximately $9 million.
- 1 WTC LLC, the Port Authority's wholly owned entity and net lessee of the Freedom Tower and Tower 5, was authorized to enter into agreements with JPMorgan Chase & Co. (Chase) for the development, construction and occupancy of Tower 5, which is to be a 1.3 million square foot office building located at the World Trade Center site. JPMorgan Chase will be responsible for all development costs of

Tower 5, including planning, design and construction, and will also be responsible for the operating, capital and maintenance expenses of the completed tower.

- WTC Retail LLC, the Port Authority's wholly owned net lessee of the retail elements of the World Trade Center, has been authorized to enter into a joint venture agreement with Westfield America Limited Partnership (Westfield) for the development and operation of approximately 488,000 square feet of retail space throughout the World Trade Center site. WTC Retail LLC's total investment is estimated at $825 million, inclusive of $200 million of available insurance proceeds, while Westfield's investment is estimated at $625 million. Westfield will be the managing member of the joint venture and will be responsible for developing, operating and managing the retail premises.
- On October 31, 2007, when the Port Authority became the lessee of the New York State owned Stewart International Airport (Stewart) under a lease for a term expiring on April 1, 2099, Stewart became an additional facility of the Port Authority.
- The Port Authority is negotiating an agreement with 20X Square Associates, LLC (20X Square) to develop, construct and operate an office tower over the North Wing of the Port Authority Bus Terminal (PABT) together with a retail complex within the North Wing. In conjunction with this project, 20X Square will, on behalf of the Port Authority, effectuate Port Authority-approved plans for improvements to the public and bus area operations of the PABT.
- The Port Authority has been operating the Port Authority-Downtown Manhattan Heliport under a lease with the City of New York since 1960. Although the lease expired on August 17, 2007 and has not been extended, at the request of the City, the Port Authority has continued to operate the Heliport on a month-to-month basis until an operator is identified by the City of New York.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Port Authority's basic financial statements, including the notes to the consolidated financial statements, financial schedules pursuant to Port Authority bond resolutions, and statistical and other supplemental information. The basic financial statements, which are included in the Financial Section of this report, comprise the following: the Consolidated Statements of Net Assets, the Consolidated Statements of Revenues, Expenses and Changes in Net Assets, the Consolidated Statements of Cash Flows, and the Notes to the Consolidated Financial Statements.

Consolidated Statements of Net Assets

The Consolidated Statements of Net Assets present the financial position of the Port Authority at the end of the fiscal year and include all of its assets and liabilities. Net assets represent the difference between total assets and total liabilities. A summarized comparison of the Port Authority's assets, liabilities, and net assets follows:

	2007	2006	2005
		(In thousands)	
ASSETS			
Current assets	**$ 3,723,049**	$ 3,645,073	$ 2,668,453
Noncurrent assets			
Facilities, net	**14,869,612**	13,354,591	12,578,111
Other noncurrent assets	**5,119,398**	4,760,668	4,539,803
Total assets	**23,712,059**	21,760,332	19,786,367
LIABILITIES			
Current liabilities	**3,192,021**	2,934,266	2,386,153
Noncurrent liabilities			
Bonds and other asset financing obligations	**9,524,310**	9,137,305	8,204,548
Other noncurrent liabilities	**2,058,447**	2,054,358	2,079,893
Total liabilities	**14,774,778**	14,125,929	12,670,594
NET ASSETS			
Invested in capital assets, net of related debt	**6,609,691**	5,872,518	5,725,929
Restricted	**719,306**	208,771	17,916
Unrestricted	**1,608,284**	1,553,114	1,371,928
Total net assets	**$ 8,937,281**	$ 7,634,403	$ 7,115,773

The Port Authority's financial position remained strong at December 31, 2007, with assets of $23.7 billion and liabilities of $14.8 billion. Facilities, net increased by $1.5 billion from 2006. This amount includes both completed facilities and construction in progress.

Net assets totaled approximately $8.9 billion at December 31, 2007, an increase of approximately $1.3 billion over 2006. Invested in capital assets, net of related debt, which totaled $6.6 billion at December 31, 2007, represents the largest of the three components of Port Authority net assets and comprises investment in capital assets (e.g. land, buildings, improvements and equipment), less the related outstanding indebtedness used to acquire those capital assets. Net assets reported as restricted due to constraints imposed by agreements or legislation totaled $719 million, comprising $657 million in insurance proceeds, which are restricted to business interruption obligations and redevelopment expenditures of 1 WTC LLC, the net lessee of the Freedom Tower and Tower 5, and WTC Retail LLC, the Port Authority's wholly owned net lessee of the WTC's retail components; $37 million for the Port Authority Insurance Captive Entity, LLC (PAICE); and $25 million in PFCs restricted for use on projects or expenditures eligible for the application of PFCs. The balance of net assets at December 31, 2007 totaling $1.6 billion is unrestricted and may be used to meet ongoing Port Authority obligations.

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

The change in net assets is an indicator of whether the overall fiscal condition of an organization has improved or worsened during the year. Following is a summary of the Consolidated Statements of Revenues, Expenses and Changes in Net Assets:

	2007	2006	2005
		(In thousands)	
Gross operating revenues	**$ 3,191,626**	$ 3,038,538	$3,000,693
Operating expenses	**(2,247,394)**	(2,112,624)	(2,087,918)
Depreciation and amortization	**(691,869)**	(724,259)	(686,728)
Expenses related to the events of September 11, 2001	**(4,563)**	(2,069)	(3,358)
Income from operations	**247,800**	199,586	222,689
Net non-operating expenses	**(246,866)**	(319,907)	(316,810)
Contributions, PFCs and grants	**1,301,944**	638,951	256,027
Increase in net assets	**$ 1,302,878**	$ 518,630	$ 161,906

Additional information on facility operating results can be found in Schedule E located in the Statistical and Other Supplemental Information section of this report.

Revenues

A summary of gross operating revenues follows:

	2007	2006	2005
		(In thousands)	
Gross operating revenues:			
Rentals	**$ 986,663**	$ 952,431	$ 928,395
Tolls and fares	**800,244**	798,682	787,381
Aviation fees	**783,875**	717,631	748,811
Parking and other	**385,446**	334,088	296,663
Utilities	**149,537**	146,822	147,795
Rentals - Special Project Bonds Projects	**85,861**	88,884	91,648
Total	**$ 3,191,626**	$ 3,038,538	$3,000,693

2007 vs. 2006

Gross operating revenues totaled approximately $3.2 billion for the year ended December 31, 2007, which is $153 million higher than 2006. The year-to-year increase in operating revenues is primarily due to the following:

- Aviation fees increased by $66 million year-to-year reflecting higher revenues from cost recovery agreements with the airlines operating at JFK, LGA and Newark Liberty International Airport (EWR) and the impact of a rate increase in Federal Inspection and General Terminal charges at EWR which went into effect January 2007.

- Parking and other revenues increased by $51 million in 2007 compared to 2006 primarily due to the receipt of one-time port consent fees for the transfer of marine terminal leaseholds.
- Rental revenues increased by $34 million in 2007 compared to 2006 primarily due to higher fixed and activity-based rentals from major tenants at Aviation and Port facilities.

2006 vs. 2005

Gross operating revenues exceeded $3 billion for the year-ended December 31, 2006, which is $38 million higher than 2005. The year-to-year increase in operating revenues is primarily due to the following:

- Parking and other revenues were higher by $37 million in 2006 compared to 2005 primarily due to increased vehicular parking activity at the three major airports and the full year impact of a parking rate increase that went into effect in 2005. Revenues were also higher as a result of increased activity and higher rates associated with Express Rail service at PN and the EPAMT.
- Rental revenues increased $24 million year to year primarily due to higher rent payments from the WTC net lessees, rent escalations and new lease agreements with major tenants at LGA, JFK, PN and the EPAMT, and the commencement of rental payments related to the cruise ship terminal at the Brooklyn Port Authority Marine Terminal (BPAMT).
- Revenues from tolls and fares were approximately $11 million higher in 2006 compared to 2005. Toll revenues were $8 million higher year to year due to an increase in vehicular activity at the tunnel and bridge crossings and higher fees from E-ZPass violations. PATH fares were higher by $3 million due to increased ridership levels.
- Aviation fees decreased by $31 million year to year reflecting lower revenues from cost recovery agreements with the airlines operating at LGA, JFK and EWR. This decrease was partially offset by additional revenues resulting from increased ridership levels on the EWR and JFK Airtrain Systems.

Expenses

A summary of operating expenses follows:

	2007	2006	2005
		(In thousands)	
Operating expenses:			
Employee compensation, including benefits	**$ 922,671**	$ 840,640	$ 870,784
Contract services	**587,730**	590,197	564,332
Rents and amounts in-lieu-of taxes	**271,073**	254,178	243,411
Materials, equipment and other	**212,147**	187,996	168,139
Utilities	**167,912**	150,729	149,604
Interest on Special Project Bonds	**85,861**	88,884	91,648
Total	**$2,247,394**	$2,112,624	$2,087,918

2007 vs. 2006

Operating expenses, which exceeded $2.2 billion in 2007, were $135 million higher than 2006, primarily due to the following:

- Employee compensation costs increased by $82 million primarily due to higher police and security costs resulting from continued heightened security levels at Port Authority facilities.
- Costs for materials, equipment and other items increased by $24 million in 2007 primarily due to an increase in reserves for IBNR claims associated with public liability and workers' compensation insurance.
- Rents and amounts in-lieu-of taxes increased by $17 million primarily due to higher rents due the Cities of New York and Newark covering the operation of LGA and JFK, and EWR and PN, respectively.
- Utility costs increased by $17 million in 2007 compared to 2006 primarily due to higher electricity costs and increased consumption.

2006 vs. 2005

Operating expenses totaled $2.1 billion in 2006, which is $25 million higher than 2005. The year-to-year increase in operating expenses is primarily due to the following:

- Contract service costs increased by $26 million primarily due to increased consultant costs related to negotiations under the conceptual framework for the redevelopment of the office and retail components of the WTC site. The increase was partially offset by a decrease in costs associated with facility maintenance programs and a reduction in the utilization of job shopper services throughout the agency.
- Costs for materials, equipment and other items increased by $20 million in 2006 compared to 2005 due to increased premiums associated with higher coverage limits for property damage and loss of revenue insurance coverage. Further contributing to the year-to-year increase was the transfer of certain costs from capital to operating accounts for projects that were abandoned due to changing priorities or for engineering and design work related to alternative analyses for projects other than the alternative selected.
- Rents and amounts in-lieu-of taxes increased by $11 million in 2006 compared to 2005 primarily due to higher rent payments to the City of Newark covering the operation of EWR and PN, and an increase in payments in-lieu-of taxes to the City of New York for the WTC site.
- Employee compensation costs decreased by $30 million in 2006 compared to 2005 primarily due to the recognition of reduced postemployment benefit costs stemming from the adoption of a new accounting standard, and a reduction in prescription drug expenses as a result of the Port Authority receiving payments under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

Depreciation and Amortization

A summary of depreciation and amortization expenses follows:

	2007	2006	2005
		(In thousands)	
Depreciation and amortization:			
Depreciation of facilities	**$632,553**	$674,940	$643,732
Amortization of costs for regional programs	**59,316**	49,319	42,996
Total	**$691,869**	$724,259	$686,728

2007 vs. 2006

Depreciation and amortization expense totaled $692 million in 2007, a decline of $32 million from 2006. The year-to-year decrease primarily reflects the fact that the accelerated retirement of the temporary WTC PATH Station, the Red Hook Container Terminal and the Brooklyn Piers was completed in 2006. The decline in depreciation resulting from the retirement of these assets was partially offset in 2007 by increased investment in regional programs; the full year impact of transferring $1 billion of construction in progress to completed construction in 2006; and the additional depreciation expense related to the $900 million in transfers which were completed in 2007.

2006 vs. 2005

Depreciation and amortization expense totaled $724 million in 2006, which is $37 million higher than 2005. The year-to-year increase is primarily due to the full year impact of the accelerated retirement of the book value of the existing PATH rail car fleet, which commenced in July 2005 in anticipation of phasing the new PATH rail cars into service beginning in 2009; increased investment in regional programs; the full year impact of transferring $1.1 billion of construction in progress to completed construction in 2005; and the additional depreciation expense related to the $1 billion in transfers which were completed in 2006.

Non-operating Revenues and Expenses

	2007	2006	2005
		(In thousands)	
Non-operating revenues and (expenses):			
Interest income	**$ 138,357**	$ 90,759	$ 60,629
Net increase in fair value of investments	**91,455**	47,209	44,950
Interest expense in connection with bonds and other asset financing	**(493,689)**	(454,134)	(422,334)
Net gain (loss) on disposition of assets	**17,011**	(3,741)	(55)
Net non-operating expenses	**$(246,866)**	$(319,907)	$(316,810)

2007 vs. 2006

Financial income totaled $230 million in 2007, which is $92 million higher than 2006. The year-to-year increase is primarily due to higher market valuation adjustments on investment securities, and interest income earned on 1 WTC LLC and WTC Retail LLC insurance proceeds. Financial expense of $494 million increased by $40 million from 2006, primarily reflecting higher average balances of outstanding consolidated bonds and notes in 2007 compared to 2006. The net gain of $17 million realized in 2007 from the disposition of assets is attributable to the sale of land at the Lincoln Tunnel (LT).

2006 vs. 2005

Financial income totaled $138 million in 2006, an increase of $32 million over 2005. The year-to-year increase is primarily due to higher interest rates and higher market valuation adjustments on investment securities, offset by a $23 million decline stemming from a mark to market valuation of three outstanding interest rate exchange contracts that were entered into on a forward basis anticipating the future issuance of three series of versatile structure obligations. Financial expense of $454 million increased by $32 million from 2005, primarily reflecting higher average balances of outstanding consolidated bonds and notes in 2006 compared to 2005.

Passenger Facility Charges and Other Contributions

	2007	2006	2005
		(In thousands)	
Passenger Facility Charges	**$ 221,380**	$192,509	$134,429
Contributions in aid of construction	**313,504**	250,904	107,262
1 WTC LLC/WTC Retail LLC insurance proceeds	**760,467**	184,901	—
Grants	**11,310**	17,469	14,336
Pass-through grant program payments	**(4,717)**	(6,832)	—
Net PFCs and other contributions	**$1,301,944**	$638,951	$256,027

2007 vs. 2006

PFCs, grants, restricted insurance proceeds and other contributions totaled $1.3 billion in 2007, which is $663 million higher than 2006. The year-to-year increase is primarily due to the receipt of approximately $576 million in additional insurance proceeds restricted to business interruption and redevelopment costs of 1 WTC LLC and WTC Retail LLC; higher capital expenditures on projects eligible for federal funding from the Federal Transit Administration (FTA); and higher PFC collections reflecting the full year impact of the increase from $3.00 to $4.50 in the PFC imposed on enplaned passengers, which went into effect April 1, 2006, and higher passenger volumes at the airports.

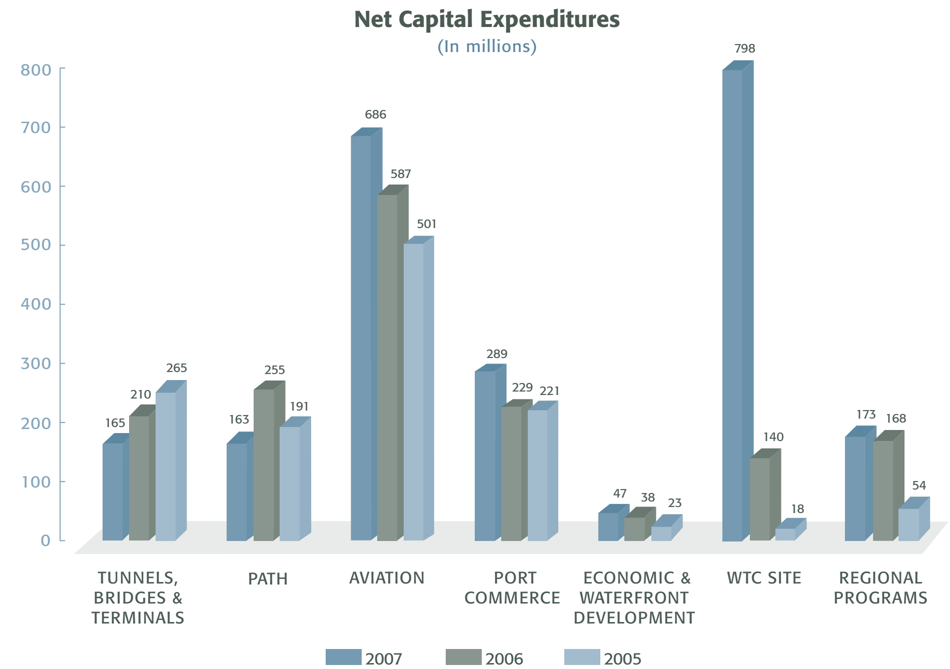
2006 vs. 2005

PFCs, grants and other contributions totaled $639 million in 2006, which is $383 million higher than 2005. The increase reflects the recognition of approximately $185 million in insurance proceeds that is restricted to business interruption and redevelopment costs of 1 WTC LLC and WTC Retail LLC, higher capital expenditures on projects eligible for federal funding under the Airport Improvement Program and from the Federal Transit Administration (FTA), and higher PFC collections resulting from an increase in the PFC imposed on enplaned passengers from $3.00 to $4.50, which went into effect April 1, 2006.

Additional information related to grants and contributions can be found in Note F to the consolidated financial statements.

Capital Construction Activities

Port Authority expenditures for capital construction projects, including amounts accrued, totaled $2.3 billion in 2007, $1.6 billion in 2006 and $1.3 billion in 2005. Following is a chart of net capital expenditures for the last three years summarized by line of business:

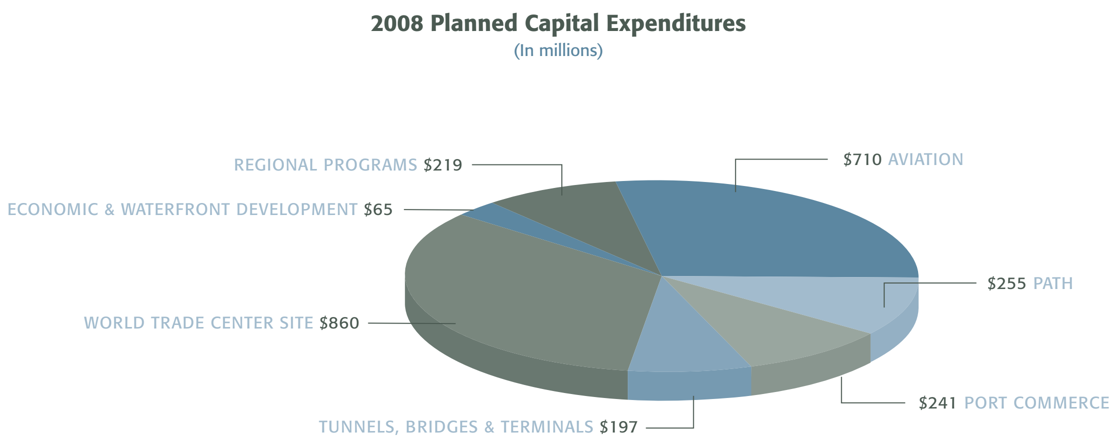


Funding sources for the $2.3 billion spent by the Port Authority on capital investment in 2007 were as follows: $1.21 billion was funded with proceeds derived from the issuance of capital obligations; $245 million was funded by FTA contributions in aid of construction; $75 million was funded through Federal Aviation Administration (FAA) grants; $66 million was funded by PFCs; and the balance of approximately $691 million was paid from Port Authority funds and other contributions.

Additional capital investment information on Port Authority facilities can be found in Note B to the consolidated financial statements and in Schedule F located in the Statistical and Other Supplemental Information section of this report.

2008 Planned Capital Expenditures

In connection with the adoption of the 2008 Budget, the Port Authority's updated capital plan calls for total spending of approximately $2.5 billion in 2008 as depicted in the following chart:



Major elements of the 2008 Capital Plan include:

- Rebuilding the World Trade Center Site, including the permanent WTC Transportation Hub, the Freedom Tower, the WTC Retail Redevelopment, the WTC Memorial and WTC Site Infrastructure
- Construction of a new passenger terminal at JFK
- Redevelopment of Terminal B at EWR
- Procurement of new PATH rail cars and the commencement of a station improvement program
- Modernization of the Goethals Bridge and Deck Rehabilitation Program
- Ongoing Port capacity improvements including rail and roadway enhancements, as well as channel deepening
- Planning and Site Acquisition for the ARC (Access to the Region's Core) Rail Tunnel project
- Various facility security projects, including detection systems and structural hardening

Capital Financing and Debt Management

As of December 31, 2007, bonds and other asset financing obligations of the Port Authority totaled approximately $11.5 billion.

During 2007, the Port Authority issued over $2 billion in consolidated bonds and versatile structure obligations. Of this amount, $831 million was allocated to fund capital construction projects, $1.1 billion was used to refund existing outstanding obligations in 2007 and $150 million will be used to refund existing obligations in 2008.

Listed below is a summary of credit ratings that are assigned to the outstanding obligations of the Port Authority. All ratings for the obligations outstanding in 2006 have remained the same for 2007. During 2007, Moody's, Standard and Poor's and Fitch considered the Port Authority's outlook as stable.

OBLIGATION	S&P	Fitch	Moody's
Consolidated Bonds	AA-	AA-	A1
Consolidated Notes	SP-1+	F1+	MIG1
Commercial Paper	A-1+	F1+	P-1
VSO Short Term	A-1+	F1+	VMIG1
VSO Long Term	A+	A+	A2

Each rating reflects only the view of the ratings service issuing such rating and is not a recommendation by such ratings service to purchase, sell or hold any maturity of Port Authority bonds or as to market price or suitability of any maturity of the bonds for a particular investor. An explanation of the significance of a rating may be obtained from the ratings service issuing such rating. There is no assurance that any rating will continue for any period of time or that it will not be revised or withdrawn. A revision or withdrawal of a rating may have an effect on market price.

Versatile Structure Obligations, Series 7 (issued in July 2007) and Versatile Structure Obligations, Series 8 (issued in October 2007) bear interest at rates reset periodically through an auction process conducted by an independent financial institution appointed as an auction agent by the Port Authority for such purposes. From their dates of issue until February 2008, interest rates on these series ranged from 3.30% to 5.80%. In February 2008, the volatility in the financial markets, in part caused by the sub-prime mortgage market and resulting ratings downgrades of various municipal bond insurers, led to a significant increase in the interest rates generally applicable to auction rate securities regardless of the issuer of such securities. As such, during this period interest rates on Versatile Structure Obligations, Series 7 and Versatile Structure Obligations, Series 8, ranged from 3.30% to 20.00%. The Port Authority is currently reviewing the various options available in connection with its outstanding auction rate securities including refunding with other forms of Port Authority obligations.

Additional information on Port Authority debt can be found in Note D to the consolidated financial statements.

Consolidated Statements of Net Assets

	December 31, 2007	2006
	(In thousands)	
ASSETS		
Current assets:		
Cash	**$ 89,233**	$ 58,705
Restricted cash	**493,677**	184,901
Investments	**2,557,858**	2,870,257
Current receivables, net	**398,268**	303,347
Other current assets	**159,331**	203,993
Restricted receivables	**24,682**	23,870
Total current assets	**3,723,049**	3,645,073
Noncurrent assets:		
Restricted cash	**215,313**	9,310
Investments	**849,551**	823,479
Other amounts receivable, net	**741,378**	936,473
Deferred charges and other noncurrent assets	**1,280,151**	1,042,242
Restricted deferred/other noncurrent assets - PAICE	**15,055**	—
Amounts receivable - Special Project Bonds Projects	**1,252,622**	1,297,974
Unamortized costs for regional programs	**765,328**	651,190
Facilities, net	**14,869,612**	13,354,591
Total noncurrent assets	**19,989,010**	18,115,259
Total assets	**23,712,059**	21,760,332
LIABILITIES		
Current liabilities:		
Accounts payable	**778,875**	627,460
Accrued interest and other current liabilities	**321,287**	322,758
Restricted other liabilities - PAICE	**382**	—
Accrued payroll and other employee benefits	**116,991**	89,517
Current portion bonds and other asset financing obligations	**1,974,486**	1,894,531
Total current liabilities	**3,192,021**	2,934,266
Noncurrent liabilities:		
Accrued pension and other noncurrent employee benefits	**632,059**	639,376
Other noncurrent liabilities	**152,963**	117,008
Restricted other noncurrent liabilities - PAICE	**20,803**	—
Amounts payable - Special Project Bonds	**1,252,622**	1,297,974
Bonds and other asset financing obligations	**9,524,310**	9,137,305
Total noncurrent liabilities	**11,582,757**	11,191,663
Total liabilities	**14,774,778**	14,125,929
NET ASSETS	**$ 8,937,281**	$ 7,634,403
Net assets are composed of:		
Invested in capital assets, net of related debt	**$ 6,609,691**	$ 5,872,518
Restricted:		
1 WTC LLC/WTC Retail LLC insurance proceeds	**657,077**	184,901
Passenger Facility Charges	**24,668**	23,870
Port Authority Insurance Captive Entity, LLC	**37,561**	—
Unrestricted	**1,608,284**	1,553,114
Net assets	**$ 8,937,281**	$ 7,634,403

See Notes to Consolidated Financial Statements

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

	Year ended December 31, 2007	2006
	(In thousands)	
Gross operating revenues:		
Rentals	**$ 986,663**	$ 952,431
Tolls and fares	**800,244**	798,682
Aviation fees	**783,875**	717,631
Parking and other	**385,446**	334,088
Utilities	**149,537**	146,822
Rentals - Special Project Bonds Projects	**85,861**	88,884
Total gross operating revenues	**3,191,626**	3,038,538
Operating expenses:		
Employee compensation, including benefits	**922,671**	840,640
Contract services	**587,730**	590,197
Rents and amounts in-lieu-of taxes	**271,073**	254,178
Materials, equipment and other	**212,147**	187,996
Utilities	**167,912**	150,729
Interest on Special Project Bonds	**85,861**	88,884
Total operating expenses	**2,247,394**	2,112,624
Expenses related to the events of September 11, 2001	**4,563**	2,069
Depreciation of facilities	**632,553**	674,940
Amortization of costs for regional programs	**59,316**	49,319
Income from operations	**247,800**	199,586
Non-operating revenues and (expenses):		
Interest income	**138,357**	90,759
Net increase in fair value of investments	**91,455**	47,209
Interest expense in connection with bonds and other asset financing	**(493,689)**	(454,134)
Net gain (loss) on disposition of assets	**17,011**	(3,741)
Net non-operating expenses	**(246,866)**	(319,907)
Contributions, Passenger Facility Charges and Grants:		
Contributions in aid of construction	**313,504**	250,904
Passenger Facility Charges	**221,380**	192,509
1 WTC LLC/WTC Retail LLC insurance proceeds	**760,467**	184,901
Grants	**11,310**	17,469
Pass-through grant program payments	**(4,717)**	(6,832)
Total contributions, passenger facility charges and grants	**1,301,944**	638,951
Increase in net assets	**1,302,878**	518,630
Net assets, January 1	**7,634,403**	7,115,773
Net assets, December 31	**$8,937,281**	$7,634,403

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

	Year ended December 31, 2007	2006
	(In thousands)	
1. Cash flows from operating activities:		
Cash received from operations	**$ 3,087,085**	$ 2,964,626
Cash paid to suppliers	**(1,024,032)**	(1,081,788)
Cash paid to or on behalf of employees	**(901,386)**	(854,441)
Cash paid to municipalities	**(270,933)**	(251,424)
Cash payments related to the events of September 11, 2001	**(4,954)**	(2,823)
Net cash provided by operating activities	**885,780**	774,150
Cash flows from noncapital financing activities:		
Proceeds from insurance related to 1 WTC LLC/WTC Retail LLC	**943,230**	189,741
Proceeds from sale of noncapital financing obligations	**75,000**	46,388
Proceeds from noncapital obligations issued for refunding purposes	**350,000**	150,000
Principal paid through noncapital obligations refundings	**(350,000)**	(150,000)
Principal paid on noncapital financing obligations	**—**	(50,000)
Payments for Fund buy-out obligation	**(43,216)**	(35,211)
Interest paid on noncapital financing obligations	**(13,240)**	(15,800)
Net cash provided by noncapital financing activities	**961,774**	135,118
Cash flows from capital and related financing activities:		
Proceeds from sales of capital obligations	**692,033**	1,702,251
Principal paid on capital obligations	**(287,584)**	(314,144)
Proceeds from capital obligations issued for refunding purposes	**2,556,936**	2,079,201
Principal paid through capital obligations refundings	**(2,556,936)**	(2,079,201)
Interest paid on capital obligations	**(555,978)**	(434,465)
Investment in facilities and construction of capital assets	**(2,009,747)**	(1,383,495)
Financial income allocated to capital projects	**7,660**	7,127
Investment in regional programs	**(173,454)**	(168,311)
Proceeds from disposition of assets	**17,155**	4,050
Proceeds from Passenger Facility Charges (includes interest income)	**220,941**	186,555
Contributions in aid of construction	**237,285**	212,092
Grants	**12,915**	16,636
Net cash used for capital and related financing activities	**(1,838,774)**	(171,704)
Cash flows from investing activities:		
Purchase of investment securities	**(39,404,164)**	(40,121,598)
Proceeds from maturity and sale of investment securities	**39,808,182**	39,501,709
Interest received on investment securities	**103,650**	71,680
Other interest income received	**28,859**	11,349
Net cash provided by (used for) investing activities	**536,527**	(536,860)
Net increase in cash	**545,307**	200,704
Cash at beginning of year	**252,916**	52,212
Cash at end of year	**$ 798,223**	$ 252,916

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(continued)

	Year ended December 31, 2007	2006
	(In thousands)	
2. Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	**$ 247,800**	$ 199,586
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation of facilities	**632,553**	674,940
Amortization of costs for regional programs	**59,316**	49,319
Amortization of other assets	**35,080**	53,069
Change in operating assets and operating liabilities:		
(Increase) decrease in receivables	**(33,815)**	14,759
Increase in deferred charges and other assets	**(166,650)**	(250,530)
(Decrease) increase in payables	**(21,836)**	19,796
Increase in other liabilities	**113,175**	27,919
Increase (decrease) in accrued payroll, pension and other employee benefits	**20,157**	(14,708)
Total adjustments	**637,980**	574,564
Net cash provided by operating activities	**$ 885,780**	$ 774,150

3. Capital obligations:

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

4. Noncash Investing, Capital and Financing Activities:

Noncash activity of $37,979,000 in 2007 and $51,878,000 in 2006 includes amortization of discount and premium on consolidated bonds and notes, accretion associated with capital appreciation bonds and amounts payable in connection with Special Project Bonds. Noncash capital financing did not include any activities that required a change in fair value.

The existing capital receivable, in connection with the Silverstein net lessees' capital investment associated with Towers 2, 3 and 4 at the World Trade Center site, has been reduced by $183 million.

See Notes to Consolidated Financial Statements

Note A – Nature of the Organization and Summary of Significant Accounting Policies

1. Reporting Entity

a. The Port Authority of New York and New Jersey was created in 1921 by Compact between the two States, consented to by the Congress of the United States. The Compact envisions the Port Authority as being financially self-sustaining. As such, the agency must raise the funds necessary for the improvement, construction or acquisition of its facilities and their operation generally upon the basis of its own credit. 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 from operating revenue sources, including rentals, tolls, fares, aviation fees and other charges.

b. The Governor of each State, with the consent of the respective State Senate, appoints six of the twelve members of the governing Board of Commissioners. The Commissioners serve without remuneration for fixed six-year overlapping terms. Meetings of the Commissioners of the Port Authority are open to the public in accordance with policies adopted by the Commissioners. The actions the Commissioners take at Port Authority meetings are subject to gubernatorial review and may be vetoed by the Governor of their respective State.

c. The Audit Committee, which consists of four members of the Board of Commissioners other than the Chair and Vice Chair, provides oversight of the quality and integrity of the accounting, auditing and financial reporting processes. The Audit Committee retains the independent auditors and reviews their performance and independence. The independent auditors are required to provide written disclosure of, and discuss with the Committee, any significant relationships or issues that would have a bearing on their independence. The Audit Committee meets directly, on a regular basis, with the independent auditors, the law firm retained to address certain Audit Committee matters, and management of the Port Authority. The Chair of the Audit Committee periodically advises the Board of Commissioners on the activities of the Committee.

d. The consolidated financial statements and schedules include the accounts of The Port Authority of New York and New Jersey and its wholly owned entities, Port Authority Trans-Hudson Corporation (PATH), the Newark Legal and Communications Center Urban Renewal Corporation, the New York and New Jersey Railroad Corporation, WTC Retail LLC, Port District Capital Projects LLC, Port Authority Insurance Captive Entity, LLC (PAICE) and 1 WTC LLC (all collectively referred to as the Port Authority).

2. Basis of Accounting

a. The Port Authority's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues and expenses are accounted for in an enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

b. In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Port Authority follows the pronouncements of the GASB in its accounting and financial reporting. Also, in accordance with GASB Statement No. 20, 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 guidance.

3. Significant Accounting Policies

a. Facilities are carried at cost. The costs for facilities include net interest expense incurred from the date of issuance of the debt to finance construction until the capital project is completed and ready for its intended use. Generally, costs in excess of $100,000 for additions, asset replacements and/or asset improvements that benefit future accounting periods or are expected to prolong the service lives of assets beyond their originally assigned lives are capitalized (see Note B). Facilities do not include regional 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).

b. Depreciation of facilities is computed using the straight-line method during the estimated useful lives of the related assets (see Note B). The useful lives of assets are developed by the various related disciplines in the Port Authority's Engineering Department utilizing past experience, standard industrial expectations, and external sources such as consultants, manufacturers and contractors. Useful lives are reviewed periodically for each specific type of asset class. Asset lives used in the calculation of depreciation are generally as follows:

Buildings, bridges, tunnels and other structures	25 to 100 years
Machinery and equipment	5 to 35 years
Runways, roadways and other paving	7 to 20 years
Utility infrastructure	20 to 40 years

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

Costs of regional programs are deferred and amortized on a straight-line basis over the period benefited up to a maximum of 15 years (see Note H). Certain operating costs, which provide benefits for periods exceeding one year, are deferred and amortized over the period benefited.

c. Cash consists of cash on hand and short-term cash equivalents. Cash equivalents are made up of U.S. Treasury bills and money market funds maturing within ninety days.

d. Restricted cash is primarily comprised of insurance proceeds of 1 WTC LLC and WTC Retail LLC, which are restricted to business interruption obligations and redevelopment expenditures of these entities.

e. Statutory reserves held by Port Authority Insurance Captive Entity, LLC, as required by law, are restricted for purposes of insuring certain risk exposures.

f. Inventories are valued using an average cost method which prices items on the basis of the average cost of all similar goods remaining in stock. Inventory is reported as a component of "Deferred charges and other noncurrent assets" on the Consolidated Statements of Net Assets.

g. Operating revenues include rentals, tolls, fares, aviation fees, and other charges derived in connection with the use of and privileges granted at Port Authority facilities, and amounts reimbursed for operating activities. Operating expenses include those costs incurred for the operation, maintenance and security of Port Authority facilities. All other revenues, including financial income, Passenger Facility Charges (PFCs), contributions in aid of construction, non-operating grants, insurance proceeds and gains resulting from the disposition of assets, if any, are reported as non-operating revenues, and all other expenses, such as interest expense, losses resulting from the disposition of assets, and pass-through grant program payment costs are reported as non-operating expenses.

h. Pursuant to the Aviation Safety and Capacity Expansion Act of 1990, the Port Authority had been authorized to impose a $3 Passenger Facility Charge on enplaned passengers. In January 2006, the Port Authority received approval to increase the PFC imposed on enplaned passengers from $3.00 to $4.50, effective April 1, 2006. Amounts attributable to the collection and investment of PFCs are restricted and can only be used for FAA approved airport-related projects. Revenue derived from the collection of PFCs, net of the air carriers' handling charges, is recognized and accrued as non-operating revenue when the passenger activity occurs and the fees are due from the air carriers. PFC revenue applied to eligible capital projects is reflected as a component of "Facilities, net."

i. All Port Authority investment values which are affected by interest rate changes have been reported at their fair value, using published market prices. The Port Authority uses a variety of financial instruments to assist in the management of its financing and investment objectives, and may also employ hedging strategies to minimize interest rate risk and enters into various derivative instruments, including options on United States Treasury securities, repurchase and reverse repurchase (yield maintenance) agreements, United States Treasury and municipal bond futures contracts (see Note C) and interest rate exchange contracts (swaps) (see Note D).

j. When issuing new debt for refunding purposes, the difference between the acquisition price of the new debt and the net carrying amount of the refunded debt is deferred and amortized using the straight-line method as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

k. Environmental costs, including costs associated with the Port Authority's 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.

l. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management, where necessary, to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

m. In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Port Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 49, and therefore, is unable to disclose the impact that adopting this statement will have on its financial position and results of operations. GASB Statement No. 49 is effective for financial statements for periods beginning after December 15, 2007.

4. Reconciliation of the Consolidated Financial Statements Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America to Schedules Prepared Pursuant to Port Authority Bond Resolutions

Schedules A, B, and C, which follow the notes to the consolidated financial statements, have been prepared in accordance with Port Authority bond resolutions which differ in some respects from accounting principles that are generally accepted in the United States of America, as follows:

a. 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 are accounted for in the capital fund. Transactions involving the application of net revenues are accounted for in the reserve funds.

b. Port Authority 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 "Facility infrastructure investment" on Schedule B – Assets and Liabilities.

c. Debt service in connection with operating asset obligations is paid from the same revenues and in the same manner as operating expenses of the Port Authority.

d. Capital costs for regional programs are included in "Invested in facilities" in accordance with Port Authority bond resolutions.

e. Consolidated bonds and notes are recorded as outstanding at their par value commencing on the date that the Port Authority is contractually obligated to issue and sell such obligations. Discounts and premiums are capitalized at issuance.

f. 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 or recovery of amounts related to assets destroyed or damaged, the amount of proceeds received from such sale or recovery is deducted from "Invested in facilities."

A reconciliation of the Consolidated Statements of Net Assets to Schedule B and the Consolidated Statements of Revenues, Expenses and Changes in Net Assets to Schedule A follows:

Consolidated Statements of Net Assets To Schedule B – Assets and Liabilities

		December 31,	
		2007	2006
		(In thousands)	
Net assets reported on Consolidated Statements of Net Assets		**$ 8,937,281**	$ 7,634,403
Add:	Accumulated depreciation of facilities	**7,970,604**	7,349,308
	Accumulated retirements and gains and losses on disposal of invested in facilities	**1,700,225**	1,705,979
	Cumulative amortization of costs for regional programs	**846,420**	787,104
	Cumulative amortization of discount and premium	**54,391**	59,071
		19,508,921	17,535,865
Less:	Deferred income – 1 WTC LLC/WTC Retail LLC insurance proceeds	**657,077**	184,901
	Restricted Net Operating Revenue - PAICE	**1,354**	—
	Deferred income in connection with PFCs	**24,668**	23,870
Net assets reported on Schedule B – Assets and Liabilities (pursuant to Port Authority bond resolutions)		**$18,825,822**	$17,327,094

Consolidated Statements of Revenues, Expenses and Changes in Net Assets to Schedule A – Revenues and Reserves

		Year ended December 31,	
		2007	2006
		(In thousands)	
Increase in net assets reported on Consolidated Statements of Revenues, Expenses and Changes in Net Assets		**$ 1,302,878**	$ 518,630
Add:	Depreciation of facilities	**632,553**	674,940
	Application of Passenger Facility Charges	**220,583**	186,555
	Amortization of costs for regional programs	**59,316**	49,319
	Amortization of discount and premium	**5,207**	5,813
	Application of 1 WTC LLC/WTC Retail LLC insurance proceeds	**305,532**	—
	Loss on disposition of assets	**—**	3,741
		2,526,069	1,438,998
Less:	Debt maturities and retirements	**177,160**	254,210
	Call premiums on refunded bonds	**9,887**	3,180
	Repayment of asset financing obligations	**110,424**	109,934
	Change in appropriations for self-insurance	**3,220**	4,968
	Direct investment in facilities	**808,694**	490,750
	PFCs	**221,380**	192,509
	1 WTC LLC/WTC Retail LLC insurance proceeds	**760,467**	184,901
	1 WTC LLC/WTC Retail LLC interest income	**17,240**	—
	Restricted Net Operating Revenues - PAICE	**1,354**	—
	Gain on disposition of assets	**17,011**	—
	PFC Interest Income	**2**	—
		2,126,839	1,240,452
Increase in reserves reported on Schedule A – Revenues and Reserves (pursuant to Port Authority bond resolutions)		**$ 399,230**	$ 198,546

Note B – Facilities

1. Facilities, net is comprised of the following:

	Beginning of Year	Additions	Transfers	Retirements*	End of Year
			(In thousands)		
2007					
Capital assets not being depreciated:					
Land	$ 705,794	$ –	$ 104,960	$ (144)	$ 810,610
Construction in progress	2,777,544	2,147,718	(794,524)	–	4,130,738
Total capital assets not being depreciated	3,483,338	2,147,718	(689,564)	(144)	4,941,348
Other capital assets:					
Buildings, bridges, tunnels, other structures	6,281,076	–	283,037	–	6,564,113
Machinery and equipment	5,094,093	–	168,480	(6,613)	5,255,960
Runways, roadways and other paving	3,533,289	–	105,267	(3,925)	3,634,631
Utility infrastructure	2,312,103	–	132,780	(719)	2,444,164
Other capital assets	17,220,561	–	689,564	(11,257)	17,898,868
Less accumulated depreciation:					
Buildings, bridges, tunnels, other structures	2,538,190	180,161	–	–	2,718,351
Machinery and equipment	2,251,551	213,630	–	(6,613)	2,458,568
Runways, roadways and other paving	1,511,539	143,567	–	(3,925)	1,651,181
Utility infrastructure	1,048,028	95,195	–	(719)	1,142,504
Accumulated depreciation	7,349,308	632,553	–	(11,257)	7,970,604
Total other capital assets, net	9,871,253	(632,553)	689,564	–	9,928,264
Facilities, net	$13,354,591	$1,515,165	$ –	$ (144)	$14,869,612
2006					
Capital assets not being depreciated:					
Land	$ 678,542	$ –	$ 34,116	$ (6,864)	$ 705,794
Construction in progress	2,166,858	1,459,211	(848,525)	–	2,777,544
Total capital assets not being depreciated	2,845,400	1,459,211	(814,409)	(6,864)	3,483,338
Other capital assets:					
Buildings, bridges, tunnels, other structures	6,093,318	–	262,652	(74,894)	6,281,076
Machinery and equipment	4,868,270	–	227,358	(1,535)	5,094,093
Runways, roadways and other paving	3,409,414	–	128,895	(5,020)	3,533,289
Utility infrastructure	2,122,871	–	195,504	(6,272)	2,312,103
Other capital assets	16,493,873	–	814,409	(87,721)	17,220,561
Less accumulated depreciation:					
Buildings, bridges, tunnels, other structures	2,434,111	178,046	–	(73,967)	2,538,190
Machinery and equipment	1,982,747	270,339	–	(1,535)	2,251,551
Runways, roadways and other paving	1,377,600	138,959	–	(5,020)	1,511,539
Utility infrastructure	966,704	87,596	–	(6,272)	1,048,028
Accumulated depreciation	6,761,162	674,940	–	(86,794)	7,349,308
Total other capital assets, net	9,732,711	(674,940)	814,409	(927)	9,871,253
Facilities, net	$12,578,111	$ 784,271	$ –	$ (7,791)	$13,354,591

* Retirements include approximately $144,000 and $7.8 million for the unamortized investment associated with asset dispositions which took place in 2007 and 2006, respectively.

2. Net interest expense added to the cost of facilities was approximately $77 million in 2007 and $54 million in 2006.

3. As of December 31, 2007, approximately $10 million in projects have been suspended pending determination of their continued viability.

4. During 2007, depreciation was accelerated for certain additional assets. The impact on depreciation for the machinery, equipment, paving, and utility infrastructure assets totaled $4.5 million.

Note C – Cash and Investments

1. The components of cash and investments are:

	December 31, 2007	December 31, 2006
	(In thousands)	
CASH		
Cash on hand	**$ 1,434**	$ 1,588
Cash equivalents	**796,789**	251,328
Total cash	**798,223**	252,916
Less restricted cash	**708,990**	194,211
Unrestricted cash	**$ 89,233**	$ 58,705

	December 31, 2007	December 31, 2006
	(In thousands)	
INVESTMENTS AT FAIR VALUE		
United States Treasury notes	**$1,280,920**	$1,262,275
United States Treasury bills	**1,403,560**	1,412,628
United States government agency obligations	**242,087**	387,048
Commercial paper notes	**—**	171,972
United States Treasury obligations held pursuant to repurchase agreements	**301,826**	275,648
JFK International Air Terminal LLC obligations	**164,443**	171,425
Accrued interest receivable	**14,573**	12,740
Total investments	**3,407,409**	3,693,736
Less current investments	**2,557,858**	2,870,257
Noncurrent investments	**$ 849,551**	$ 823,479

2. Port Authority policy provides for funds of the Port Authority to be deposited in banks with offices located in the Port District, provided that the total funds on deposit in any bank do not exceed 50% of the bank's combined capital and permanent surplus. These funds must be fully secured by deposit of collateral having a minimum market value of 110% of 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 average daily balances. 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 in the Port District having combined capital and surplus in excess of $1 million.

Total actual bank balances were approximately $88 million as of December 31, 2007. Of that amount, approximately $86 million was either secured through the FDIC or was fully collateralized by collateral held by a bank acting as the Port Authority's agent and held by such bank in the Port Authority's name. The balance of approximately $2 million was not collateralized. In addition, approximately $657 million related to insurance proceeds for 1 WTC LLC and WTC Retail LLC is being held by a third party escrow agent.

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. For the Port Authority, but not necessarily its wholly owned corporate entities, individual investment transactions are executed with recognized and established securities dealers and commercial banks. Investment securities are maintained, in the Port Authority's name, by a third party financial institution acting as the Port Authority's agent. 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 securities 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 the Port Authority's instructions.

Proceeds of "Bonds and other asset financing obligations" may be invested, on an interim basis, in conformance with applicable Federal laws 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. Consolidated Bond Reserve Fund and General Reserve Fund amounts may be invested in obligations of (or fully guaranteed by) the United States of America. Additionally, amounts in the Consolidated Bond Reserve Fund and the General Reserve Fund (subject to certain limitations) may be invested in obligations of 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 be invested in direct obligations of the United States of America and obligations of United States government agencies and sponsored enterprises that have the highest short-term ratings by two nationally recognized firms, investment grade negotiable certificates of deposit and negotiable Bankers' Acceptances with banks having AA or better long-term debt rating, premier status and with issues actively traded in secondary markets, commercial paper having only the highest short-term ratings separately issued by two nationally recognized rating agencies, United States Treasury and municipal bond futures contracts, certain interest rate exchange contracts with banks and investment firms, certain interest rate options contracts that are limited to $50 million of underlying securities with a maturity of no greater than five years with primary dealers in United States Treasury securities, and certain unrated obligations of JFK International Air Terminal LLC (JFKIAT) (presently comprising approximately 4.8% of total Port Authority investments at December 31, 2007) for certain costs attributable to the completion of the JFKIAT passenger terminal. The Board has from time to time authorized other investments of operating funds.

It is the general policy of the Port Authority to limit exposure to declines in fair market values by limiting the weighted average maturity of the investment portfolio to less than two years. Extending the weighted average maturity beyond two years requires explicit written approval of the Chief Financial Officer. Committee on Finance authorization is required to extend the weighted average maturity beyond five years. Following is the fair value and weighted average maturity of investments held by the Port Authority at December 31, 2007:

Investment Type	**Fair Value (In thousands)**	**Weighted Average Maturity (In days)**
United States Treasury notes	$1,280,920	512
United States Treasury bills	1,403,560	77
United States government agency obligations	242,087	6
United States Treasury obligations held pursuant to repurchase agreements	301,826	3
JFK International Air Terminal LLC obligations	164,443	6,354
Total fair value of investments	$3,392,836	
Portfolio weighted average maturity		534

Port Authority investments in United States government agency obligations at December 31, 2007 were held in the Federal Home Loan Banks, rated P-1 by Moody's Investors Service and A-1+ by Standard & Poor's.

The Port Authority has, from time to time, entered into reverse repurchase (yield maintenance) agreements under which the Port Authority contracted to sell a specified United States Treasury 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. There were no investments in reverse repurchase agreements at December 31, 2007.

Note D – Outstanding Obligations and Financing

D-1. Outstanding bonds and other asset financing obligations

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.

		December 31, 2007	
	Current	Noncurrent	Total
		(In thousands)	
A. CONSOLIDATED BONDS AND NOTES	$ 302,275	$9,158,393	$ 9,460,668
B. COMMERCIAL PAPER NOTES	238,950	—	238,950
C. VARIABLE RATE MASTER NOTES	90,990	—	90,990
D. VERSATILE STRUCTURE OBLIGATIONS	1,205,600	—	1,205,600
E. PORT AUTHORITY EQUIPMENT NOTES	93,460	—	93,460
F. FUND BUY-OUT OBLIGATION	43,211	365,917	409,128
	$1,974,486	$9,524,310	$11,498,796

		December 31, 2006	
	Current	Noncurrent	Total
		(In thousands)	
A. CONSOLIDATED BONDS AND NOTES	$ 836,525	$8,761,366	$ 9,597,891
B. COMMERCIAL PAPER NOTES	270,740	—	270,740
C. VARIABLE RATE MASTER NOTES	130,990	—	130,990
D. VERSATILE STRUCTURE OBLIGATIONS	519,600	—	519,600
E. PORT AUTHORITY EQUIPMENT NOTES	93,460	—	93,460
F. FUND BUY-OUT OBLIGATION	43,216	375,939	419,155
	$1,894,531	$9,137,305	$11,031,836

A. Consolidated Bonds and Notes

		Dec. 31, 2006	Issued/ Accreted	Refunded/ Retired	Dec. 31, 2007
			(In thousands)		
Consolidated bonds					
Sixty-ninth series (a)	Due 2008-2011	$ 17,403	$ 807	$ 3,810	$ 14,400
Seventy-fourth series (b)	Due 2008-2014	28,171	1,343	4,155	25,359
Eighty-fifth series	5%-5.375% due 2008-2028	98,000	–	–	98,000
Eighty-sixth series	5.125%-5.2% due 2008-2012	24,995	–	3,840	21,155
Eighty-eighth series	4.75% due 2008	12,780	–	6,540	6,240
Ninety-third series	6.125% due 2094	100,000	–	–	100,000
One hundred third series	5.1%-5.25% due 2008-2014	47,875	–	5,555	42,320
One hundred seventh series*	5.125%-5.375% due 2007-2016	82,685	–	82,685	–
One hundred eighth series*	5.3%-6% due 2007-2017	99,830	–	99,830	–
One hundred ninth series	5.375%-5.5% due 2012-2032	150,000	–	–	150,000
One hundred tenth series*	4.8%-5.375% due 2007-2017	67,025	–	67,025	–
One hundred eleventh series	5% due 2012-2032	100,000	–	100,000	–
One hundred thirteenth series	4.5%-4.75% due 2008-2013	45,750	–	15,000	30,750
One hundred fifteenth series	4.375% due 2008	14,000	–	7,000	7,000
One hundred sixteenth series	4.25%-5.25% due 2008-2033	437,415	–	7,730	429,685
One hundred seventeenth series*	4.35%-5.125% due 2008-2018	69,295	–	4,510	64,785
One hundred eighteenth series	4.75%-5.35% due 2008-2014	54,000	–	6,750	47,250
One hundred nineteenth series*	5%-5.875% due 2007-2019	226,680	–	226,680	–
One hundred twentieth series*	4.75%-6% due 2007-2035	236,425	–	236,425	–
One hundred twenty-first series	5%-5.5% due 2016-2035	200,000	–	200,000	–
One hundred twenty-second series*	5%-5.5% due 2008-2036	207,065	–	9,800	197,265
One hundred twenty-third series	4.75%-5% due 2017-2036	100,000	–	–	100,000
One hundred twenty-fourth series*	4%-5% due 2008-2036	256,230	–	9,885	246,345
One hundred twenty-fifth series	5% due 2018-2032	300,000	–	–	300,000
One hundred twenty-sixth series*	5%-5.5% due 2008-2037	258,755	–	11,145	247,610
One hundred twenty-seventh series*	4%-5.5% due 2008-2037	267,405	–	8,740	258,665
One hundred twenty-eighth series	4%-5% due 2008-2032	250,000	–	3,215	246,785
One hundred twenty-ninth series	2.875%-4% due 2008-2015	58,160	–	5,340	52,820
One hundred thirtieth series	2.375%-3.75% due 2008-2015	64,990	–	6,470	58,520
One hundred thirty-first series*	4.625%-5% due 2008-2033	475,645	–	8,355	467,290
One hundred thirty-second series	5% due 2024-2038	300,000	–	–	300,000
One hundred thirty-third series	2.2%-4.4% due 2008-2021	224,320	–	11,655	212,665
One hundred thirty-fourth series	4%-5% due 2009-2039	250,000	–	–	250,000
One hundred thirty-fifth series	4.5%-5% due 2024-2039	400,000	–	–	400,000
One hundred thirty-sixth series*	5%-5.5% due 2008-2034	350,000	–	1,440	348,560
One hundred thirty-seventh series*	4%-5.5% due 2008-2034	244,235	–	3,125	241,110
One hundred thirty-eighth series*	4%-5% due 2008-2034	347,300	–	1,600	345,700
One hundred thirty-ninth series*	3.5%-5% due 2008-2025	192,670	–	7,530	185,140
One hundred fortieth series	4.125%-5% due 2016-2035	400,000	–	–	400,000
One hundred forty-first series*	4.5%-5% due 2016-2035	350,000	–	–	350,000
One hundred forty-second series	4%-5% due 2015-2036	350,000	–	–	350,000
One hundred forty-third series*	5% due 2016-2036	500,000	–	–	500,000
One hundred forty-fourth series	4.25%-5% due 2026-2035	300,000	–	–	300,000
One hundred forty-fifth series**	5.75% due 2027-2032	250,000	–	–	250,000
One hundred forty-sixth series*	4.25%-5% due 2016-2036	500,000	–	–	500,000
One hundred forty-seventh series*	4.75%-5% due 2017-2037	–	450,000	–	450,000
One hundred forty-eighth series	5% due 2015-2037	–	500,000	–	500,000
One hundred forty-ninth series	4%-5% due 2017-2037	–	400,000	–	400,000
Consolidated notes					
Series XX**	3.3% due 2007	200,000	–	200,000	–
Series YY**	5.5% due 2007	150,000	–	150,000	–
Consolidated bonds and notes pursuant to Port Authority bond resolutions (d)		9,659,104	$1,352,150	$1,515,835	9,495,419
Less unamortized discount and premium (c)		61,213			34,751
Consolidated bonds and notes		$9,597,891			$9,460,668

A. Consolidated Bonds and Notes (continued)

(a) Includes $3,943,000 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 2008 to 2011, in total aggregate maturity amounts of $15,810,000.

(b) Includes $7,873,000 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 2008 to 2014, in total aggregate maturity amounts of $29,090,000.

(c) Amount includes the unamortized difference between acquisition price and carrying amount on refunded debt.

(d) Debt service requirements to maturity for consolidated bonds and notes outstanding on December 31, 2007 are as follows:

Year ending December 31:	Principal	Interest	Debt Service
		(In thousands)	
2008	$ 152,275	$ 461,037	$ 613,312
2009	147,370	454,848	602,218
2010	157,285	448,524	605,809
2011	163,265	441,560	604,825
2012	170,070	434,235	604,305
2013-2017	1,010,835	2,039,580	3,050,415
2018-2022	1,537,085	1,735,199	3,272,284
2023-2027	1,958,850	1,315,064	3,273,914
2028-2032	2,436,580	780,663	3,217,243
2033-2037	1,549,495	229,792	1,779,287
2038-2042	117,450	35,686	153,136
2043-2094***	100,000	290,121	390,121
	$9,500,560	$8,666,309	$18,166,869

***Debt service, for the years ending 2043-2094, reflects principal and interest payments associated with a single series of outstanding consolidated bonds.

Total principal of $9,500,560,000 shown above differs from the total consolidated bonds and notes pursuant to Port Authority bond resolutions of $9,495,419,000 because of differences in the par value at maturity of the capital appreciation bonds of $5,141,000.

As of December 31, 2007, the Board of Commissioners had authorized the issuance of consolidated bonds, one hundred fiftieth series through one hundred sixty-fourth series, in the aggregate principal amount of up to $500 million of each series, and consolidated notes, Series, ZZ, AAA, BBB, CCC and DDD, of up to $300 million in aggregate principal amount of each series.

During 2007, the Port Authority used the proceeds of consolidated bonds and versatile structure obligations to refund $1.4 billion and $75 million of consolidated bonds, consolidated notes, variable rate master notes and commercial paper notes, respectively. In 2008, the Port Authority will refund $150 million in consolidated bonds (one hundred ninth series) with proceeds from the one hundred forty-ninth series, which closed on December 19, 2007. Maturities of certain of the refunding series of consolidated bonds were extended to match the weighted average maturity of the financed assets as a result of the agreement to extend the airport lease with the City of New York. While the Port Authority increased its aggregate debt service payments by approximately $283 million over the life of the refunded consolidated bonds, economic gain resulting from the debt refunding (the difference between the present value of the cash flows required to service the old debt and the present value of the cash flows required to service the new debt) totaled approximately $52 million in present value savings to the Port Authority.

Consolidated bonds and notes outstanding as of February 22, 2008 (pursuant to Port Authority bond resolutions) totaled $9,350,560,000.

B. Commercial Paper Notes

Commercial paper obligations are issued to provide interim financing for authorized projects at Port Authority facilities and may be issued until December 31, 2010. Each series includes a standby revolving credit facility and the maximum aggregate principal amount that may be outstanding at any one time is $300 million for Series A and $200 million for Series B.

	Dec. 31, 2006	Issued	Refunded/ Repaid	Dec. 31, 2007
		(In thousands)		
Series A*	$112,565	$ 564,950	$ 604,435	$ 73,080
Series B	158,175	1,027,945	1,020,250	165,870
	$270,740	$1,592,895	$1,624,685	$238,950

Interest rates for all commercial paper notes ranged from 2.76% to 4.08% in 2007.

Of the $1.6 billion in commercial paper notes refunded/repaid in 2007, $75 million was refunded with the proceeds of bonds issued in 2007 and $97 million was repaid with PFC proceeds. As of February 22, 2008, commercial paper notes outstanding totaled $199,080,000.

C. Variable Rate Master Notes

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

	Dec. 31, 2006	Issued	Refunded/ Repaid	Dec. 31, 2007
		(In thousands)		
Agreements 1989 -1995*	$ 69,900	$ —	$ 25,000	$ 44,900
Agreements 1989 -1998	61,090	—	15,000	46,090
	$130,990	$ —	$ 40,000	$ 90,990

Interest rates are determined weekly, based upon specific industry indices (e.g. three-month Treasury bill rate, tax exempt note rate published by Lehman Brothers, JP Morgan Rate published by JP Morgan Asset Management or the Securities Industry and Financial Markets Association rate) as stated in each master note agreement, and ranged from 3.10% to 4.11% in 2007.

Debt service requirements on outstanding variable rate master notes, valued for presentation purposes at the rate in effect on December 31, 2007, would be as follows:

	Principal	Interest	Debt Service
		(In thousands)	
2008	$ —	$ 3,166	$ 3,166
2009	—	3,157	3,157
2010	—	3,157	3,157
2011	—	3,157	3,157
2012	—	3,166	3,166
2013-2017	13,090	14,435	27,525
2018-2022	58,000	12,246	70,246
2023-2025	19,900	1,895	21,795
	$90,990	$44,379	$135,369

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

D. Versatile Structure Obligations

	Dec. 31, 2006	Issued	Refunded/ Repaid	Dec. 31, 2007
		(In thousands)		
Series 1R*, 4*, 6*	$258,100	$ —	$ 7,300	$ 250,800
Series 2, 3, 5	261,500	—	6,700	254,800
Series 7**	—	350,000	—	350,000
Series 8*	—	350,000	—	350,000
	$519,600	$700,000	$14,000	$1,205,600

Variable interest rates, set daily by the remarketing agent for versatile structure obligations series 1 through 6, or reset periodically through an auction process for versatile structure obligations series 7 and 8, ranged from 2.55% to 5.80% in 2007.

Debt service requirements on outstanding versatile structure obligations, valued for presentation purposes at the rate in effect on December 31, 2007, would be as follows:

	Principal	Interest	Debt Service
		(In thousands)	
2008	$ 16,800	$ 51,975	$ 68,775
2009	24,000	51,323	75,323
2010	25,300	50,447	75,747
2011	27,600	49,520	77,120
2012	28,900	48,513	77,413
2013-2017	367,600	200,223	567,823
2018-2022	239,700	134,353	374,053
2023-2027	291,700	79,810	371,510
2028-2032	160,800	22,439	183,239
2033-2035	23,200	1,880	25,080
	$1,205,600	$690,483	$1,896,083

The Port Authority has entered into a separate standby certificate purchase agreement for versatile structure obligations series 1 through 6 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 2007 in connection with the agreements were approximately $900,000. No bank was required to purchase any of the obligations under the agreements in 2007. Versatile structure obligations series 7 and 8 were issued as auction rate securities and do not require a bank standby certificate purchase agreement.

E. Port Authority Equipment Notes

Equipment notes may be issued in aggregate principal amounts outstanding at any one time not to exceed $250 million.

	Dec. 31, 2006	Issued	Refunded/ Repaid	Dec. 31, 2007
		(In thousands)		
Notes 2001, 2004, 2006*	$ 17,805	$ —	$ —	$ 17,805
Notes 2002, 2004, 2006	75,655	—	—	75,655
	$ 93,460	$ —	$ —	$ 93,460

Variable interest rates, set weekly by a remarketing agent for each series, ranged from 3.15% to 4.09% in 2007.

Annual debt service requirements on outstanding Port Authority equipment notes, valued for presentation purposes at the rate in effect on December 31, 2007, would be as follows:

	Principal	Interest	Debt Service
		(In thousands)	
2008	$27,900	$2,763	$ 30,663
2009	2,000	2,281	4,281
2010	11,840	2,183	14,023
2011	30,485	1,374	31,859
2012	18,595	658	19,253
2013	2,640	80	2,720
	$93,460	$9,339	$102,799

The Port Authority has entered into agreements with the purchasers of the notes stating that on seven days' notice on any business day during the term of the agreements, the Port Authority may pre-pay in whole, or, from time to time, in part, without penalty or premium, the outstanding principal amount of the notes. Also, the purchasers can tender the notes back to the remarketing agent on seven days' notice, in whole and not in part. In the event that the remarketing agent cannot resell the notes, notice shall be given by the remarketing agent to the Port Authority requesting the Port Authority to pay the purchase price of the notes.

F. Fund Buy-Out Obligation

	Dec. 31, 2006	Accretion (a)	Refunded/ Repaid	Dec. 31, 2007
		(In thousands)		
Obligation outstanding	$419,155	$33,189	$43,216	$409,128

(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 the termination, in 1990, of the Fund for Regional Development

Payment requirements of the fund buy-out obligation outstanding, including the implicit interest cost, on December 31, 2007 are as follows:

Year ending December 31:	Payments
	(In thousands)
2008	$ 43,211
2009	43,211
2010	43,211
2011	43,211
2012	51,213
2013-2017	258,062
2018-2021	213,240
	$695,359

As of February 22, 2008, the fund buy-out obligation outstanding totaled $414,015,808.

D-2. Amounts Payable - 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, 2006	Issued	Repaid/ Amortized	Dec. 31, 2007
		(In thousands)		
Series 1R, Delta Air Lines, Inc. Project (a)				
6.95% term bonds, due 06/01/2008	$ 96,500	$ —	$ —	$ 96,500
Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project (b)*				
9%-9.125%, due 2008-2015	145,880	—	11,165	134,715
Less: unamortized discount and premium	4,337	—	486	3,851
Total - Series 2	141,543	—	10,679	130,864
Series 4, KIAC Partners Project (c)*				
6.75% due 2008-2019	195,200	—	9,600	185,600
Less: unamortized discount and premium	2,441	—	192	2,249
Total - Series 4	192,759	—	9,408	183,351
Series 6, JFKIAT Project (d)*				
5.75%-7% due 2008-2025	873,520	—	25,600	847,920
Less: unamortized discount and premium	6,348	—	335	6,013
Total - Series 6	867,172	—	25,265	841,907
Amounts payable - Special Project Bonds	$1,297,974	$ —	$45,352	$1,252,622

(a) Special project bonds, Series 1R, Delta Air Lines, Inc. Project, were issued in connection with a project that included the construction of a passenger terminal building at LGA 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 that included the construction of a passenger terminal at LGA leased to and to be occupied by Continental and Eastern. The leasehold interest of Eastern was assigned to Continental. 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 JFK, that included 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, JFKIAT Project, were issued in connection with a project that included the development and construction of a new passenger terminal at JFK.

D-3. 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 with respect to an agreed upon nominal principal amount called a "notional amount."

Objective

The Port Authority has five pay-fixed, receive-variable interest rate swaps outstanding. Three of the swaps are matched against existing versatile structure obligations (see Note D-1), the proceeds of which were used to refund outstanding high-coupon fixed rate debt. The combination of the swaps and the associated variable rate debt created synthetic fixed rate-refunding bonds. The Port Authority plans to issue a versatile structure obligation to match against the remaining two outstanding forward swaps in 2008 or later.

All of these interest rate swaps were entered into on a forward basis to be effective proximate to the future issuance of versatile structure obligations to be used to refund outstanding high-coupon fixed rate debt. The swaps were entered into to protect against the potential of rising interest rates between the execution date and the effective date in order to preserve the net present value savings of the bond refundings associated with each swap transaction. The Port Authority's financial management program provides for the Port Authority to enter into interest rate swaps for the purpose of managing and controlling interest rate risk in connection with Port Authority obligations designated at the time of entering into interest rate swap transactions. The notional amounts of the swaps will match the principal amount of the associated debt. The Port

Authority's swap agreements contain scheduled reductions to outstanding notional amounts to approximately follow scheduled reductions of the associated debt. The terms, including the fair values and credit ratings of the outstanding swaps as of December 31, 2007, are as follows:

Associated Debt	Notional Amount	Execution Date	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Ratings of the Counterparty or its Credit Support Provider (a)
VSO 2	$ 83,000,000	10/13/1993	3/3/1994	6.3200%	SIFMA (b)	$(16,347,286)	5/1/2019	AA-/Aa3/AA-
VSO 3	79,000,000	2/18/1993	7/15/1995	5.9370%	SIFMA	(12,851,745)	6/1/2020	AA-/Aa3/AA-
VSO 8	224,000,000	6/15/2006	10/15/2007	3.9461%	70% of one-month LIBOR(c)	(14,893,375)	10/1/2035	AA/Aa1/AA+
Proposed VSO (Hedge)	187,100,000	6/15/2006	7/15/2008	3.9550%	70% of one-month LIBOR	(11,103,143)	7/1/2036	AA+/Aa1/AA
Proposed VSO (Hedge)	236,100,000	6/15/2006	8/1/2008	3.9525%	70% of one-month LIBOR	(16,240,553)	8/1/2038	AA-/Aaa/AA
Total	$809,200,000					$(71,436,102)		

(a) Ratings supplied by Standard & Poor's/Moody's Investors Service/Fitch Ratings, respectively.
(b) Securities Industry and Financial Markets Association Municipal Swap Index.
(c) London Interbank Offered Rate Index.

Debt service requirements of the underlying variable rate debt and net swap payments, valued for presentation purposes at the rate in effect on December 31, 2007, are shown below. As rates vary, variable rate debt interest payments and net swap payments will vary.

Year ending December 31:	Versatile Structure Obligations Principal	Versatile Structure Obligations Interest	Interest Rate Swaps, Net	Total
		(In thousands)		
2008	$ 4,000	$ 16,500	$ 5,565	$ 26,065
2009	10,500	16,322	5,394	32,216
2010	10,900	15,945	5,128	31,973
2011	12,300	15,551	4,807	32,658
2012	12,700	15,110	4,468	32,278
2013-2017	92,300	67,660	16,625	176,585
2018-2022	99,100	44,722	6,189	150,011
2023-2027	70,600	27,619	3,189	101,408
2028-2032	53,100	11,149	1,289	65,538
2033-2035	23,200	1,962	228	25,390
Total	$388,700	$232,540	$52,882	$674,122

Fair Value

Interest rates have declined on each of the Port Authority's outstanding swaps and, therefore, all swaps had a negative fair value as of December 31, 2007. The negative fair values may be offset by reductions in total interest payments under the variable rate obligations, creating lower synthetic interest rates. Because interest rates on the outstanding related versatile structure obligations are reset on a daily basis for versatile structure obligations series 2 and 3 and reset periodically through an auction process for versatile structure obligations series 8, thereby reflecting market interest rates, the obligations do not have corresponding fair value increases. The fair values of the swaps were estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk

As of December 31, 2007, the Port Authority was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Port Authority would be exposed to credit risk in the amount of the swaps' fair value. All of the outstanding swap agreements require that if the outstanding ratings of the Port Authority or the counterparty, or its credit support provider, falls to a certain level, the party whose rating falls is required to post collateral with a third-party custodian to secure its termination payments above certain threshold amounts. Collateralization of the fair value of the swaps, above certain threshold amounts, are required should the Port Authority's highest credit rating fall below Baa1, as issued by Moody's Investors Service, or BBB+, as issued by Standard & Poor's and Fitch Ratings. Collateralization of the fair value of the swaps, above certain threshold amounts, are required should the counterparty's, or its credit support provider's, highest credit rating fall below A1, as issued by Moody's Investors Service, or A+, as issued by Standard & Poor's and Fitch Ratings. Collateral on all swaps shall consist of direct obligations of, or obligations the principal and interest of which are guaranteed by, the United States of America (including cash). All of the swap agreements provide that an early termination date may be designated if an event of default occurs. Of the five swap transactions currently outstanding, two swaps, approximating 20% of the notional amount of swaps outstanding, are held with one counterparty, while the remaining transactions are held by three different counterparties.

Basis Risk

The Port Authority's interest payments on the associated debt are equivalent to the daily variable market rates set by the remarketing agent for versatile structure obligations series 2 and 3 and the variable market rates determined through an auction process for versatile structure obligations series 8. The Port Authority receives variable rate swap payments based on an index other than the variable market rates paid for the associated debt and would be exposed to basis risk should the relationship between the actual rate paid for the associated debt differ from the swap rate index received. To the degree these rates differ, expected cost savings may not be realized. As of December 31, 2007, the variable market rates for versatile structure obligations series 2, 3 and 8 were 3.57%, 3.56% and 4.75% respectively, whereas the swap rate index was 3.42% for the SIFMA Municipal Swap Index and 3.40% for the 70% of 1-month LIBOR Index.

Termination Risk

The Port Authority or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement. Additionally, the Port Authority has the sole option to terminate, cancel or cash settle any of the swaps, in whole or in part, at its discretion. If any of the swaps are terminated, the associated variable rate debt will no longer carry synthetic fixed interest rates. Also, if at the time of termination the counterparty suffers a loss, the Port Authority would be liable to the counterparty for a payment calculated pursuant to the agreement with respect to such loss.

Rollover Risk

The Port Authority is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. Currently, there are no swaps exposed to rollover risk. However, if a swap were terminated prior to the maturity of the associated debt, the Port Authority would not realize the synthetic rate offered by the swap on the underlying issue.

Note E – Reserves

The General Reserve Fund is pledged in support of Consolidated Bonds and Notes. Statutes which required the Port Authority to create the General Reserve Fund established the principle of pooling revenues from all facilities and 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% of the par value of outstanding bonds legal for investment. At December 31, 2007, the General Reserve Fund balance was $1,238,915,384 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 the amount necessary to maintain the General Reserve Fund at its statutorily required amount, is 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.

Other asset obligations (versatile structure obligations, commercial paper obligations, variable rate master notes, and Interest Rate Exchange Contracts (swaps) executed after 2005), and the interest thereon, are not secured by or payable from the General Reserve Fund. Principal of, and interest on, other asset obligations are 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 therefore, from other moneys of the Port Authority legally available for such payments. Operating asset obligations (equipment notes, Interest Rate Exchange Contracts (swaps) executed prior to 2005, and the Fund buy-out obligation) are paid in the same manner and from the same sources as operating expenses. Special Project Bonds are not secured by or payable from the General Reserve Fund or the Consolidated Bond Reserve Fund.

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. The moneys in the reserve funds may be accumulated or applied only to purposes set forth in legislation and the agreements with the holders of the Port Authority's obligations pertaining thereto. At December 31, 2007, the Port Authority met the requirements of the Consolidated Bond Resolution to maintain total reserve funds in cash and certain specified securities.

Note F – Funding Provided by Others

During 2007 and 2006, the Port Authority received federal and state grants and contributions from other entities for various programs as summarized below:

1. Operating programs

- K-9 Program – The FAA and the Transportation Security Administration (TSA) provided funds to offset the operating costs of training and caring for explosive detection dogs. Amounts received in connection with this program were approximately $1,547,000 in 2007 and $337,000 in 2006.
- Airport Screening Program – The TSA provided approximately $589,000 in 2007 and $593,000 in 2006 to reimburse the Port Authority for operating costs incurred by Port Authority police personnel involved with the airport screening program at the Port Authority's three major airports.
- U.S. Department of State (USDOS) – In 2007, the Port Authority received $383,000 from the USDOS as a reimbursement of operating costs incurred by Port Authority police personnel for the United Nations General Assembly.

Amounts in connection with operating activities are recorded as operating revenues on the Consolidated Statements of Revenues, Expenses and Changes in Net Assets and on Schedule A – Revenues and Reserves.

2. Non-operating grants

- Subsequent to September 11, 2001, the Port Authority entered into various agreements with federal and state agencies for programs associated with security related projects through which the Port Authority was reimbursed for incurred expenses. Amounts for such projects in 2007 and 2006 were approximately $38 million and $37 million, respectively.
- The Port Authority receives contributions in aid of construction with respect to its facilities from federal, state and other entities. Amounts from the FTA for the WTC Transportation Hub, including the restoration of the permanent WTC PATH Terminal, in 2007 and 2006 were approximately $210 million and $137 million, respectively. Amounts from the FAA under the Airport Improvement Program in 2007 and 2006 were approximately $67 million and $70 million, respectively. All other contributions in aid of construction (including amounts receivable) totaled approximately $5 million in 2007 and $18 million in 2006.

Note G - Lease Commitments

1. Operating lease revenues

Gross operating revenues attributable to fixed rentals associated with operating leases amounted to approximately $894 million in 2007 and approximately $876 million in 2006.

2. Property held for lease

The Port Authority has entered into operating leases with tenants for the use of space at various Port Authority facilities including buildings, terminals, offices and consumer service areas at air terminals, marine terminals, bus terminals, rail facilities, industrial parks, the Teleport, the World Trade Center and the Newark Legal and Communications Center. Investments in such facilities, as of December 31, 2007, include property associated with minimum rentals derived from the 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.

Future minimum rentals are predicated upon the ability of the lessees to meet their commitments. Future minimum rentals scheduled to be received on operating leases in effect on December 31, 2007 are:

Year ending December 31:

	(In thousands)
2008	$ 814,814
2009	732,654
2010	709,941
2011	690,117
2012	695,647
Later years	100,080,217
Total future minimum rentals (a)	$103,723,390

(a) Includes future rentals of approximately $95.1 billion attributable to World Trade Center leases (see Note K).

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 and the cost of replacement office space due to the destruction of the World Trade Center, aggregated $257 million in 2007 and $240 million in 2006.

Future minimum rentals scheduled to be paid on operating leases in effect on December 31, 2007 are detailed below. Additional rentals may be payable based on earnings of specified facilities under some of these leases.

Year ending December 31:

	(In thousands)
2008	$ 230,085
2009	228,734
2010	228,740
2011	225,347
2012	222,725
2013-2017	1,033,967
2018-2022	894,897
2023-2027	885,293
2028-2032	872,396
2033-2065*	3,977,000
Total future minimum rent payments	$8,799,184

* Future minimum rent payments for the years 2033-2065 reflect payments associated with the City of New York and the City of Newark lease commitments.

Note H – Regional Programs

1. At the request of the Governors of the States of New York and New Jersey, the Port Authority participates in certain programs that are deemed essential to the continued economic viability of the two states and the region. These programs, which are generally non-revenue producing to the Port Authority, are addressed by the Port Authority in its budget and business planning process in the context of the Port Authority's overall financial capacity. To the extent not otherwise a part of existing Port Authority facilities, these projects are effectuated through additional Port Authority facilities established solely for these purposes. The Port Authority does not expect to derive any revenues from the regional development facilities described below.

- **Regional Development Facility –** This facility is a centralized program of certain economic development and infrastructure renewal projects. It was expected that $250 million of capital funds would be made available in connection with the Governors' Program of June 1983. As of December 31, 2007, approximately $247 million has been expended on projects approved under this program.
- **Regional Economic Development Program –** This facility is to be comprised of up to $400 million for certain transportation, economic development and infrastructure renewal projects. As of December 31, 2007, approximately $397 million has been spent on projects authorized under this program.
- **Oak Point Rail Freight Link –** The Port Authority has participated with the New York State Department of Transportation in the development of the Oak Point Rail Freight Link. As of December 31, 2007, the Port Authority has provided approximately $102 million for this rail project, of which approximately $63 million was made available through the Regional Development Facility and the Regional Economic Development Program.
- **New Jersey Marine Development Program –** This program was undertaken to fund certain fishery, marine or port development projects in the State of New Jersey at a total cost not to exceed $27 million. All funds under this program have been fully allocated to various projects.
- **New York Transportation, Economic Development and Infrastructure Renewal Program –** This facility was established to provide up to $250 million for certain transportation, economic development and infrastructure renewal projects in the State of New York. As of December 31, 2007, $219 million has been spent on projects associated with this program.
- **Regional Transportation Program –** This facility was established in conjunction with a program to provide up to $500 million for regional transportation initiatives. As of December 31, 2007, approximately $203 million has been expended under this program.
- **Hudson-Raritan Estuary Resources Program –** This facility was established to acquire certain real property in the Port District area of the Hudson-Raritan Estuary for environmental enhancement/ancillary economic development purposes, in support of the Port Authority's capital

program. The cost of real property acquired under this program is not to exceed $60 million. As of December 31, 2007, more than $8 million has been expended under this program.

- **Regional Rail Freight Program –** This facility provides for the Port Authority to participate, in consultation with other governmental entities in the States of New York and New Jersey, in the development of certain regional rail freight projects to provide for increased rail freight capacity. The Port Authority is authorized to provide up to $50 million. As of December 31, 2007, all funds under this program have been fully allocated to various rail freight projects.

- **Meadowlands Passenger Rail Facility –** This facility, which will link New Jersey Transit's (NJT) Pascack Valley Rail Line to the Meadowlands Sports Complex, will encourage greater use of PATH service since NJT plans to run shuttle service at peak times from Hoboken to the facility. The improved level of passenger rail service provided by the facility will also serve to ease traffic congestion on the Port Authority's interstate tunnel and bridge crossings. The Port Authority is authorized to provide up to $150 million towards the project's capital costs. As of December 31, 2007, approximately $107 million has been expended under this program.

As of December 31, 2007, a total of $1.7 billion has been expended for regional programs. Costs for these programs are deferred and amortized over the period benefited, up to a maximum of 15 years. The unamortized costs of the regional programs are as follows:

	Dec. 31, 2006	Project Expenditures	Amortization	Dec. 31, 2007
		(In thousands)		
Regional Development Facility	$ 60,515	$ 3,080	$ 6,220	$ 57,375
Regional Economic Development Program	201,772	—	19,883	181,889
Oak Point Rail Freight Link	16,299	—	1,630	14,669
New Jersey Marine Development Program	8,364	—	834	7,530
New York Transportation, Economic Development and Infrastructure Renewal Program	183,396	10,000	14,013	179,383
Regional Transportation Program	99,619	85,793	9,424	175,988
Hudson-Raritan Estuary Resources Program	6,980	650	541	7,089
Regional Rail Freight Program	40,094	2,000	3,267	38,827
Meadowlands Passenger Rail Facility	34,151	71,931	3,504	102,578
Total unamortized costs of regional programs	$651,190	$173,454	$59,316	$765,328

2. Bistate Initiatives – From time to time, the Port Authority makes payments to assist various bistate regional operating initiatives. During 2007, the Port Authority expended approximately $14 million on regional initiatives, bringing the total amount spent to date to $78 million.

3. 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 among 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. The assets, liabilities, revenues and expenses of the Fund were not consolidated with those of the Port Authority. 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 $431 million. The liability for payments to the States of New York and New Jersey attributable to the Fund buy-out is further described in Note D.

Note I - Pension Plans and Other Employee Benefits

1. Pension Plans

a. Generally, full-time employees of the Port Authority (but not its wholly owned entities) are required to join 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 System." 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.

The Retirement System provides 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. Depending upon the date of membership, retirement benefits differ as to the qualifying age or years-of-service requirement for service retirement, the benefit formula used in calculating the retirement allowance and the contributory or non-contributory nature of the plan. Contributions are not required from police personnel who are members of the PFRS or from those non-police employees who joined the ERS prior to July 27, 1976 or, effective October 1, 2000, members of the ERS with more than ten years of credited service. ERS members with less than ten years of credited service are required to contribute 3% of their annual gross wages to the ERS.

The Port Authority's payroll expense for 2007 was approximately $600 million of which $385 million and $201 million represent the cost for employees covered by ERS and PFRS, respectively.

Required Port Authority contributions to the Retirement System, including costs for participation in retirement incentive programs, are as follows:

Year Ended	ERS	% of Covered Payroll	PFRS	% of Covered Payroll
		($ In thousands)		
2007	$33,967	8.8%	$33,101	16.5%
2006	$37,193	10.0%	$31,210	16.9%
2005	$41,374	10.8%	$32,975	18.7%

These contributions cover the entire funding requirements for the current year and each of the two preceding years.

Employee contributions of approximately $8 million to the ERS represented 1.4% of the total Port Authority covered payroll in 2007.

The Annual Report of the New York State and Local Retirement System, which provides details on valuation methods and ten year historical trend information, is available from the Comptroller of the State of New York, 110 State Street, Albany, New York 12236.

b. Employees of Port Authority Trans-Hudson Corporation (PATH) are not eligible to participate in the existing New York State Retirement System. For most of its union employees, PATH contributes to supplemental pension plans. Annual PATH contributions to these plans are defined in the various collective bargaining agreements; no employee contributions are required. Eligibility for all benefits prior to normal retirement requires the completion of at least five years of vested service and depends upon years of credited service and monthly benefit rates in effect at the time of retirement. Trustees, appointed by the various unions, are responsible for the administration of these pension plans. PATH payroll expense in 2007 for these employees was approximately $69 million. For the year 2007, contributions made by PATH in accordance with the terms of various collective bargaining agreements totaled approximately $4 million, which represented approximately 5.2% of the total PATH covered payroll for 2007. Contributions in each of years 2006 and 2005 were also approximately $4 million.

c. Presently, none of the other wholly owned entities have employees.

2. Other Employee Benefits

Benefit Plans

The Port Authority and PATH provide, pursuant to Board action or as contemplated thereby, certain group health care, prescription, dental, vision and term life insurance benefits for active and retired employees of the Port Authority and PATH (and for eligible dependents and survivors of active and retired employees). Collectively, these covered individuals are referred to as "participants." Contributions toward the costs of some of these benefits are required of certain participants. These contributions generally range from 10% to 50% of the Port Authority or PATH's cost of the benefit and depend on a number of factors, including status of the participant (active employee, retiree, or dependent), type of benefit, hire date, years of service, and retirement date. 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 by service providers on behalf of the Port Authority or PATH. The actuarially determined valuation of these benefits is reviewed annually for the purpose of estimating the present value of future benefits for active and retired employees and their dependents.

The Port Authority implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2006. In December 2006, the Port Authority established an employee benefits trust which will provide funding for retiree health, prescription, dental, vision and life insurance coverage and other non-pension postemployment benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the benefit plans as described by the Port Authority and PATH to participants, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future, including future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

In the January 1, 2007 actuarial valuation, the projected unit credit cost method was used for all participants. The actuarial assumptions used to project future costs included a 5.25% investment rate of return, representing the estimated yield on investments expected to be used for the payment of benefits; an annual medical healthcare cost trend rate of 7% in 2007, with a gradual decline to an ultimate rate of 4.5% in 2010; and a dental benefits trend rate of 4.5% per year. In addition, the unfunded, unrecognized actuarial accrued liability is being amortized as a level dollar amount over a period of 30 years.

Other Postemployment Benefit Costs and Obligations

The annual non-pension postemployment benefit (OPEB) cost is actuarially determined in accordance with the parameters of GASB Statement No. 45, which also forms the basis for calculating the annual required contribution (ARC) for the Port Authority and PATH. The ARC represents the actuarially determined level of funding that, if paid on an ongoing basis, is projected to cover annual benefit costs and the 30-year amortization of the difference between the actuarial accrued liability and amounts previously recognized. The Port Authority has been recognizing OPEB costs since 1985. The following reflects the components of the 2007 annual OPEB cost, amounts paid, and changes to the net accrued OPEB obligation based on the January 1, 2007 actuarial valuation:

	(In millions)
Normal actuarial cost	$ 32.4
Amortization cost	77.6
Interest on Excess Contribution	(0.8)
ARC	109.2
OPEB payments	(75.7)
Increase in net OPEB obligation	33.5
Net accrued OPEB obligation as of 12/31/06	635.1
OPEB obligation as of 12/31/07	668.6
Trust Fund contribution	(40.0)
Net accrued OPEB obligation as of 12/31/07	$628.6

As of January 1, 2007, the actuarially determined liability for these benefits totaled approximately $1.8 billion. The difference between the actuarial accrued liability of $1.8 billion and the sum of the liability previously recognized and the $40 million trust fund contribution is being amortized over a 30-year period.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established a new prescription drug benefit commonly known as Medicare Part D. The Port Authority's application to the Centers for Medicare and Medicaid Services (CMS) within the Department of Health and Human Services to sponsor a Part D Plan for retirees was approved, effective January 1, 2006. During 2007, the Port Authority received approximately $4 million from the CMS as a Medicare Part D Plan sponsor, which was considered in the actuarial valuation of the liability.

The Port Authority and PATH's combined annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net accrued OPEB obligation for 2007 and the two preceding years, were as follows:

Year	ARC	OPEB Payments As a % of ARC	Net Accrued OPEB Obligation
	($ In thousands)		
2007	$109,236	69%	$628,561
2006	95,548	74%	635,066
2005*	129,100	50%	650,127

* 2005 valuation reflects a 13-year amortization period vs. the 30-year period used in 2006 and 2007.

Funding Status

On December 28, 2006, the Port Authority contributed $40 million to a restricted trust fund to provide funding for post employment benefits other than pensions and appointed Citibank, N.A. as custodian of the trust. In 2007, the Port Authority continued to contribute $10 million per quarter to the trust. On December 27, 2007, the assets of the trust were transferred from Citibank, N.A. to The Port Authority of New York and New Jersey Retiree Health Benefits Trust with Wells Fargo Bank, N.A.-Institutional Trust Services as Trustee.

The unfunded actuarial accrued liability for benefits for the three most recent valuation dates, the annual payroll amounts for active employees covered by the plans and the ratio of the unfunded actuarial liability to covered payroll follows:

Valuation Date	Unfunded Actuarial Accrued Benefit Liability	Covered Payroll for Active Employees Covered by the Plans	Ratio of the Unfunded Actuarial Liability to Covered Payroll
	($ In millions)		
1/1/2007	$1,804	$669	270%
1/1/2006	1,673	631	265%
1/1/2005	1,099	650	169%

Following are the Statements of Net Assets and Changes in Net Assets held in trust for OPEB for 2007 and 2006. The activities are accounted for using the accrual basis of accounting and all investments are recorded at their fair value.

Statements of Plan Net Assets

	December 31, 2007	2006
	(In thousands)	
ASSETS		
Cash	**$ 1**	$40,000
Investments, at fair value:		
United States government agency obligations	**52,060**	–
United States Treasury Bills	**30,895**	–
Total Investments	**82,955**	–
Total Assets	**82,956**	40,000
LIABILITIES		
Accounts payable and other	**–**	–
NET ASSETS HELD IN TRUST FOR OPEB	**$82,956**	$40,000

Statements of Changes in Plan Net Assets

	Year ended December 31, 2007	2006
	(In thousands)	
Additions		
Contributions	**$40,000**	$40,000
Total Contributions	**40,000**	40,000
Investment Income:		
Net appreciation in fair value of investments	**136**	–
Interest income	**2,820**	–
Total Net Investment Income	**2,956**	–
Total Additions	**42,956**	40,000
Net Increase	**42,956**	40,000
Plan net assets, January 1	**40,000**	–
NET ASSETS HELD IN TRUST FOR OPEB	**$82,956**	$40,000

Note J – Commitments and Certain Charges to Operations

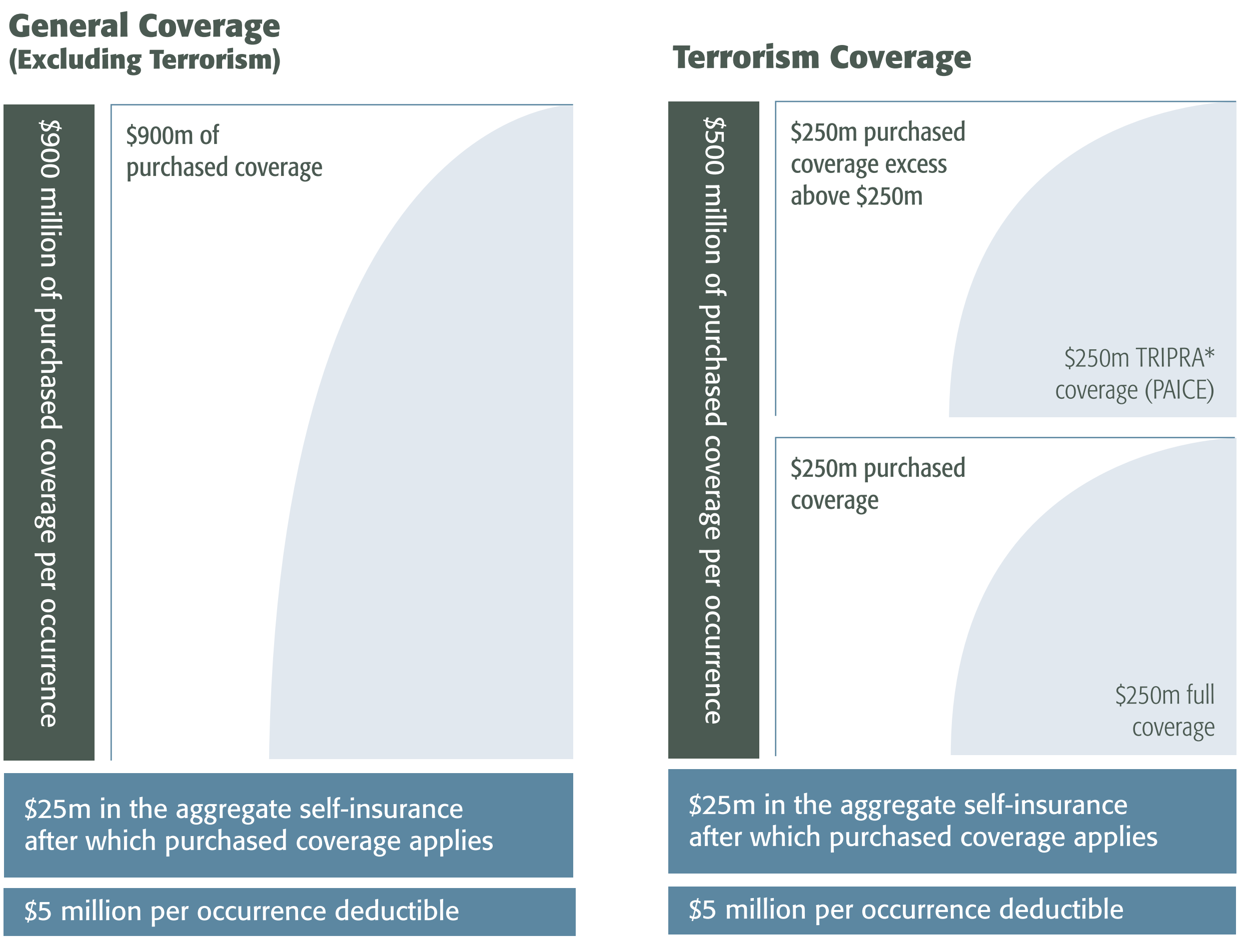
1. On December 18, 2007, the Board of Commissioners of the Port Authority adopted the annual budget for 2008. Approval of a budget by the Board of Commissioners does not in itself authorize any specific expenditures, which are authorized from time to time by or as contemplated by other actions of the Board of Commissioners consistent with statutory, contractual and other commitments of the Port Authority, including agreements with the holders of its obligations.

2. At December 31, 2007, the Port Authority had entered into various construction contracts totaling approximately $2.2 billion, which are expected to be completed within the next three years.

3. The Port Authority carries insurance or requires insurance to be carried (if available) on or in connection with its facilities to protect against direct physical loss or damage and resulting loss of revenue and against liability in such amounts as it deems appropriate, considering self-insured retentions, purchase of insurance through its captive insurance entity, PAICE, exceptions, or exclusions of portions of facilities, and the scope of insurable hazards. In view of the current state of the insurance industry, availability of coverage may be constrained and premium costs may increase for available coverage in connection with the Port Authority's periodic renewal of its insurance programs.

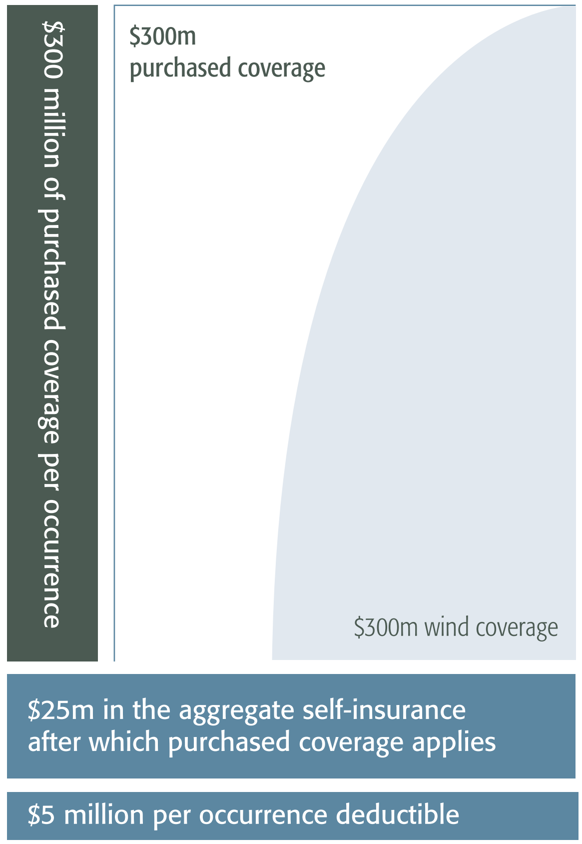
a. Property damage and loss of revenue insurance program:

The Port Authority's property damage and loss of revenue insurance program (which was renewed effective June 1, 2007 and expires on June 1, 2008) provides for coverage as follows:



* The Terrorism Risk Insurance Act of 2002 (TRIA) generally defines an "act of terrorism" to include any act, certified by the Secretary of the Treasury and concurred by the Secretary of State and the Attorney General of the United States, that is violent or dangerous to human life, property or infrastructure, which occurs in the United States or to certain property outside the United States (including aircraft) and which was committed on behalf of a foreign person or interest as part of an effort to coerce the civilian population of the United States or the policy or conduct of the Federal government. The Terrorism Risk Insurance Extension Act of 2005 (TRIEA) amended TRIA by extending the program from December 31, 2005 through December 31, 2007. On December 26, 2007, President Bush signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), which extends the program for seven years through December 31, 2014. Provisions of the initial TRIA act have been amended in the 2007 extension to cover domestic and foreign acts of terrorism.

Wind Coverage
(Sub-Limit to General Coverage)



b. Public liability insurance program:

(1) Aviation facilities

The Port Authority's public liability insurance program for aviation facilities (which was renewed effective October 27, 2007 and expires on October 27, 2008) provides for coverage as follows:

General Coverage
(Excluding Terrorism)

$1.25 billion per occurrence and in the aggregate of purchased coverage

$5 million per occurrence deductible

Terrorism Coverage

$1.25 billion aviation war risk** per occurrence and in the aggregate of purchased coverage

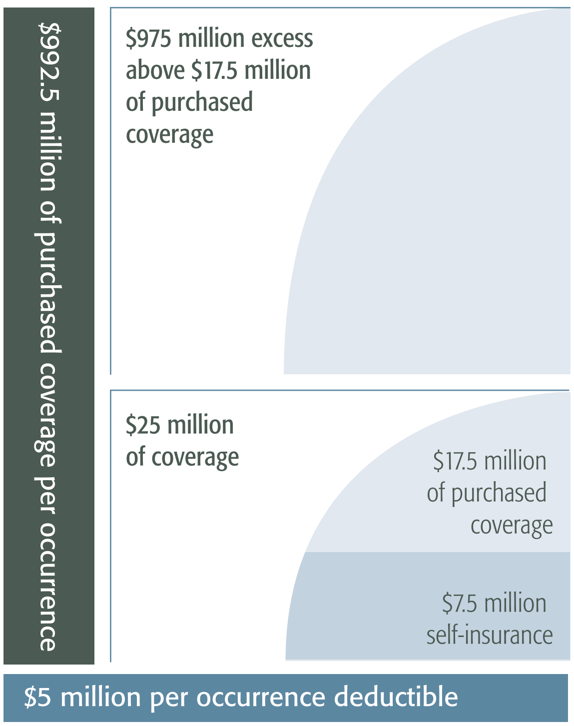
$5 million per occurrence deductible

** Aviation war risk generally includes war, hijacking and other perils, both domestically and internationally.

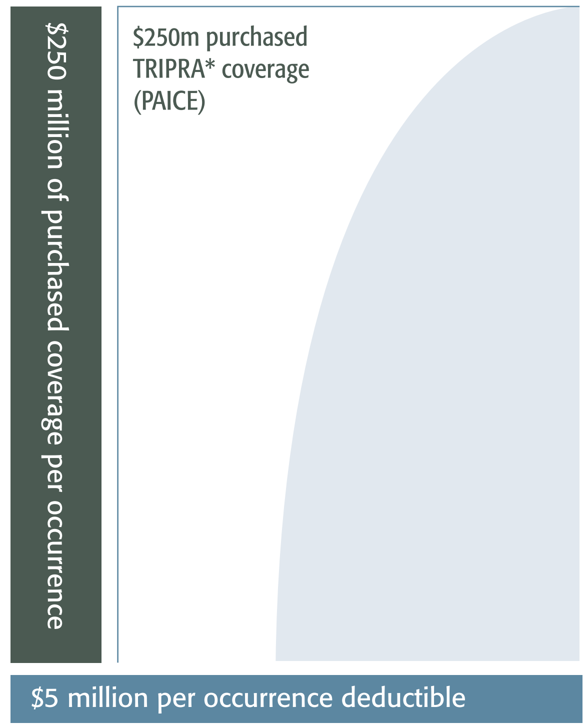
(2) Non-Aviation facilities

The Port Authority's public liability insurance program for "non-aviation" facilities (which was renewed effective October 27, 2007 and which expires on October 27, 2008) provides for coverage as follows:

General Coverage (Excluding Terrorism)



Terrorism Coverage



* See footnote on page 75.

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

4. 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 expense as liabilities are incurred. As of December 31, 2007, approximately $83 million constituted appropriated reserves for self-insurance in the operating fund.

A liability is recognized when it is probable that the Port Authority has incurred an uninsured loss and the amount of the loss can be reasonably estimated. The liability for unpaid claims is based upon the estimated cost of settling the claims, which includes a review of estimated claims expenses, estimated recoveries and a provision for claims incurred but not reported. Changes in the liability amounts in 2007 and 2006 were:

	Beginning Balance	Additions and Changes	Payments	Year-end Balance
		(In thousands)		
2007	$14,650	$11,677	$2,648	$23,679
2006	8,801	10,095	4,246	14,650

5. On October 16, 2006, the District of Columbia approved the establishment of a Port Authority captive insurance company, known as the Port Authority Insurance Captive Entity, LLC (PAICE), for the purpose of insuring certain risk exposures of the Port Authority and its wholly owned entities. Under its Certificate of Authority issued by the District of Columbia, PAICE is authorized to transact insurance business, in connection with workers compensation, general liability, builders risk, property and foreign terrorism insurance coverages for the Port Authority and its wholly owned entities on an annual basis. Prior to December 31, 2007, $250,000,000 of insurance coverage was provided by PAICE with respect to foreign terrorism coverage under the non-aviation portion of the Port Authority's public liability insurance program and $250,000,000 of insurance coverage was provided by PAICE with respect to foreign terrorism coverage under the Property Damage and Loss of Revenue Program. As of December 31, 2007, the federal government enacted the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), which extended the federal reinsurance provisions of the Terrorism Risk Insurance Act of 2002 (TRIA) through December 31, 2014 and increased the protection afforded by the Act to include reinsurance for acts of domestic terrorism in addition to acts of foreign terrorism. With the passage of TRIPRA, PAICE thereby assumed coverage for acts of domestic terrorism with respect to the Port Authority's Public Liability and Property Damage and Loss of Revenue insurance programs in addition to the previously provided coverage for acts of foreign terrorism. Under TRIPRA, the U.S. Government reinsures eighty-five percent (85%) of certified terrorism losses, subject to a $100 million deductible and a twenty percent (20%) insurance carrier/captive deductible, in an amount not to exceed an annual cap on all such losses payable under TRIPRA of $100 billion. No federal compensation will be paid unless the aggregate industry insured losses exceed $100 million. In addition, as of December 31, 2007, PAICE is providing the first $1,000,000 in coverage under the Workers' Compensation portion, and the first $500,000 in coverage under the General Liability aspect, of the Port Authority's Contractor's Insurance Program.

The financial results for PAICE for the year ended December 31, 2007 follow. Amounts associated with PAICE recorded on the Port Authority's consolidated financial statements have been adjusted to reflect intercompany transfers between the Port Authority and PAICE (See Schedule E).

	(In thousands)
Financial Position	
Total Assets	$128,092
Total Liabilities	111,928
Net Assets	$ 16,164
Operating Results	
Revenues	$ 32,104
Expenses	24,444
Net Income	$ 7,660
Changes in Net Assets	
Balance at January 1, 2007	$ 8,504
Net Income	7,660
Balance at December 31, 2007	$ 16,164

6. The 2007 balance of "Other amounts receivable, net" on the Consolidated Statements of Net Assets consists of the anticipated recovery of the approximately $588 million net book value of various assets which comprised components of the World Trade Center complex destroyed on September 11, 2001; approximately $54 million representing advance payments to Phoenix Constructors and Tishman Construction Corporation for work performed in connection with the WTC Transportation Hub and the Freedom Tower; approximately $54 million representing the balance due from the private full service vendor operating the plant at the Essex County Resource Recovery Facility under the conditional sale agreement through which the vendor financed a portion of the construction costs of the plant; approximately $39 million in long-term receivables from Port Authority tenants; approximately $2 million representing an advance to AirRail Transit Consortium for operating and maintenance work; and approximately $3 million representing the balance due from Howland Hook Container Terminal, Inc. for the purchase of seven cargo cranes.

7. In October 2002 and November 2003, the Port Authority and the Newark Legal and Communications Center Urban Renewal Corporation received tax bills for the calendar years 2001, 2002 and 2003 totaling approximately $200,000, based on the City of Newark's assessed value for the land upon which the Newark Legal and Communications Center is located. The Port Authority has been contesting the City of Newark's allegation that the land upon which the Newark Legal and Communications Center is located is subject to real property tax. Along with the execution of the amended agreement between the City of Newark and the Port Authority covering EWR and PN, the City of Newark and the Port Authority have entered into a settlement agreement whereby the City of Newark has agreed to restore the Newark Legal and Communications Center's tax-exempt status. It is presently anticipated that the City of Newark and the Port Authority will enter into further agreements with respect to continuing payments pertaining to the tax-exempt status of the facility.

8. For PATH employees who are not covered by collective bargaining agreements (PATH exempt employees), the Port Authority has recognized, as a matter of policy, an obligation to provide supplemental payments resulting in amounts generally comparable to benefits available to similarly situated Port Authority employees. Such payments for PATH exempt employees totaled approximately $3 million in each of years 2007 and 2006.

9. The 2007 balance of "Other noncurrent liabilities" consists of the following:

	Dec. 31, 2006	Additions	Deductions	Dec. 31, 2007
		(In thousands)		
Workers' compensation liability	$ 49,985	$ 52,444	$54,977	$ 47,452
PATH exempt employees supplemental	22,168	3,729	2,578	23,319
Asset forfeiture	9,145	1,494	2,353	8,286
Surety and security deposits	9,619	1,174	1,757	9,036
Claims liability	14,650	11,677	2,648	23,679
Contractors Insurance Program-WTC	19,639	38,595	7,880	50,354
Other	6,069	302	645	5,726
Gross other liabilities	$131,275	$109,415	$72,838	167,852
Less current portion:				
Workers' compensation liability				12,313
PATH exempt employees supplemental				2,576
Total other non-current liabilities				$152,963

10. During 2007, $5.7 million in capital expenditures previously included in Facilities, net were determined to represent costs for projects at various Port Authority facilities that will not proceed forward to completion, or for preliminary engineering and design work related to alternative analyses no longer considered viable for ongoing projects. As a result, these charges were transferred to operating expense.

11. During 2007, the Port Authority provided both voluntary and involuntary termination benefits, including severance payments based primarily on years of service and continued limited access to health, dental and life insurance, to 100 employees. Port Authority costs totaled approximately $4 million in 2007 for these severance programs. As of December 31, 2007, all severance amounts were recognized.

Note K – Information with Respect to the Events of September 11, 2001

The World Trade Center's components, which included two 110-story office towers (One and Two World Trade Center), two nine-story office buildings (Four and Five World Trade Center), an eight-story office building (Six World Trade Center), a 22-story hotel (Three World Trade Center), a 47-story office building (Seven World Trade Center), an electrical sub-station (Con Ed Substation) under Seven World Trade Center, a retail shopping mall, and a six level sub-grade area located below the World Trade Center complex, together with the PATH-World Trade Center rail station (PATH-WTC station) were destroyed as a result of the terrorist attacks of September 11, 2001.

On July 24, 2001, the Port Authority entered into net leases with respect to One, Two, Four and Five World Trade Center with single purpose entities established by Silverstein Properties, Inc. (the Silverstein net lessees), and with respect to the retail components of the World Trade Center, with a single purpose entity established by an affiliate of Westfield America, Inc. (Westfield). The terms of the 99-year net leases generally required the net lessees to pay in the aggregate $616 million upon commencement of the net leases, base rent starting at $102 million annually and, when applicable, a graduating percentage of gross revenues. The net leases do not provide for rent abatement before or during the restoration period. In connection with the implementation of the conceptual framework described below, these net leases, and various related agreements, were supplemented and amended, as of November 16, 2006.

The terms of the original net leases established both an obligation and concomitant right for the net lessees, at their sole cost and expense, to restore their net leased premises following a casualty whether or not the damage is covered by insurance proceeds in accordance, to the extent feasible, prudent and commercially reasonable, with the plans and specifications as they existed before the casualty or as otherwise agreed to with the Port Authority. The net lessees obtained property damage and business interruption insurance in a combined single limit of approximately $3.5 billion per occurrence. As a result of a settlement process involving certain of the insurance companies providing a portion of the net lessees' property damage and business interruption insurance coverage, the net lessees, the Port Authority, the Federal and state courts in which litigation pertaining to such insurance coverage was pending, as well as court-appointed mediators and the New York State Insurance Department, a global settlement of the net lessees' World Trade Center property damage and business interruption claim has been achieved. Such settlement provided for a total recovery of approximately $4.57 billion against available policy limits of approximately $4.68 billion. Approximately $2.3 billion of these funds has been used for the net lessees' business interruption expenses, including the payment of rent to the Port Authority, the prepayment of the mortgage loan entered into on July 24, 2001 by the Silverstein net lessees with GMAC Commercial Mortgage Corporation in the amount of approximately $562 million, and the purchase by the Port Authority on December 23, 2003 of the retail net lessee from Westfield for $140 million as well as certain of their World Trade Center redevelopment expenses. The Port Authority now owns 100% of the membership interest in and is the sole managing member of the retail net lessee, a single purpose entity, which is now known as WTC Retail LLC.

Conceptual Framework for the Redevelopment of the Office and Retail Components of the World Trade Center

On September 21, 2006, the Port Authority approved the conceptual framework for the redevelopment of the office and retail components of the World Trade Center site. In connection with the implementation of the conceptual framework, the Port Authority acquired, as of November 16, 2006, the office net lessee, 1 World Trade Center LLC, of the Freedom Tower and Tower 5, comprising, in the aggregate, approximately 3.8 million square feet of office space. The other office net lessees, the Silverstein net lessees, will develop Towers 2, 3 and 4, comprising, in the aggregate, approximately 6.2 million square feet of office space. The agreements also provide for a development schedule for Towers 2, 3 and 4, the allocation of certain insurance proceeds and common infrastructure costs, and certain adjustments to rent, as well as the use of New York Liberty Bond financing (allocations were made by the State of New York on July 14, 2006 and by the New York City Industrial Development Agency on July 11, 2006, totaling $2.593 billion for the development of Towers 2, 3 and 4 and $702 million for the development of the Freedom Tower and the retail components of the World Trade Center site).

Under the agreements, the Port Authority was obligated to turn over the sites for Towers 3 and 4 to the respective net lessees thereof by December 31, 2007, and is obligated to turn over the site for Tower 2 to its net lessee by June 30, 2008, in each case, except for certain retained parcels. The retained parcels will be turned over to the respective net lessees by the Port Authority, with respect to the site for Tower 4 on June 30, 2008 and with respect to sites for Towers 2 and 3 by December 31, 2008. In the event that the Port Authority fails to meet any of the turnover dates, as adjusted for "unavoidable delay" (generally, certain events outside the control of the Port Authority, including fault of other parties and breaches of the various agreements that have an impact on the construction schedule), the Port Authority will be obligated to pay liquidated damages in the total cumulative amount of $300,000 per day until all turnover failures are cured. The Port Authority failed to meet its obligation with regard to turning over the sites for Towers 3 and 4 to the respective net lessees by December 31, 2007. As of February 17, 2008, the date on which these sites were turned over to the respective net lessees, the Port Authority had incurred liquidated damages in the total amount of $14,400,000; under the applicable agreement between the Port Authority and the net lessees of Towers 2, 3 and 4, such amount is to be applied by the net lessees to their project costs for Towers 2, 3 and 4. The agreements also provide that Towers 2, 3 and 4 are to be constructed by the respective Silverstein net lessee thereof so that substantial completion is achieved on or before December 31, 2011 with respect to Towers 3 and 4, and June 30, 2012 with respect to Tower 2, in each case subject to a one-year extension at the option of the respective Silverstein net lessee. These completion dates are also subject to adjustment for "unavoidable delay," generally, certain events outside the control of a Silverstein net lessee, including Port Authority fault and breaches of the various agreements that have an impact on the construction schedule. Additionally, the Port Authority has the right to foreclose upon the membership interests and certain cash proceeds of the Silverstein net lessees of Towers 2, 3 and 4, in the event that any Silverstein net lessee fails to substantially complete its Tower by the applicable completion date, as extended by "unavoidable delay," subject to certain rights of the net lessees to cure any such default and other procedural requirements.

On June 21, 2007, the Port Authority authorized 1 WTC LLC to enter into a sub-net lease and development agreements with respect to the development, construction and occupancy by JPMorgan Chase & Co. (JPMorgan) of Tower 5, an office building of up to 1.3 million square feet. JPMorgan will be responsible for all development costs of Tower 5, including planning, design and construction, after 1 WTC LLC has met certain turnover conditions relating to the physical condition and ownership of the Tower 5 site and has turned the site over to JPMorgan. JPMorgan will also be responsible for all operating, capital and maintenance expenses of the Tower 5 site and the completed Tower. Upon substantial completion of the core and shell of Tower 5, 1 WTC LLC will reimburse JPMorgan for $250 million of its project costs and receive $618 million in rent over the seven years following completion of the shell.

On January 4, 2008, the Port Authority authorized WTC Retail LLC to enter into agreements with Westfield establishing a Joint Venture between WTC Retail LLC and Westfield for the development, leasing and management of approximately 488,000 square feet of retail space throughout the World Trade Center site. After the application of WTC Retail LLC's investment of $200 million in subordinated equity, WTC Retail LLC and Westfield are each responsible for fifty percent of the remaining $1.25 billion in total project costs.

Future minimum rentals (see Note G) include rentals of approximately $95.1 billion attributable to the World Trade Center net leases described above. The inclusion of this amount in future rentals is predicated upon the assumption that the net lessees of various components of the World Trade Center will continue to meet their contractual commitments pertaining to their net leased properties, including those with respect to the payment of rent and the restoration of their net leased properties. The net lessees' ability to meet these contractual commitments may be affected by the outcome of certain pending and future litigation involving insurance and other matters, the nature of the downtown Manhattan real estate market, and coordination among various public and private sector entities involved in the redevelopment of downtown Manhattan.

The Memorial

On July 6, 2006, the Board of Commissioners authorized the Port Authority to enter into an agreement with the Lower Manhattan Development Corporation (LMDC), the World Trade Center Memorial Foundation (the Memorial Foundation), the City of New York and the State of New York for the construction by the Port Authority of the World Trade Center Memorial. The agreement establishes the general areas of responsibility of the parties for the design, development, construction, financing and operation of the project, which will include the Memorial and Memorial Museum, the Visitor Orientation and Education Center (VOEC) and the related common and exclusive infrastructure.

In connection with the funding of the costs of the construction of the project, the Memorial Foundation and the LMDC are responsible for providing $260 million and $250 million, respectively, for the Memorial and Memorial Museum; the State of New York is responsible for providing $80 million for the VOEC; and the Port Authority is responsible for providing up to $150 million for the infrastructure. The Port Authority does not have any responsibility for the operation and maintenance of the Memorial, the Memorial Museum or the VOEC.

Accounting

In 2001, the Port Authority reclassified and recognized as an operating expense the $1.1 billion net book value of various assets consisting primarily of buildings, infrastructure and certain ancillary equipment that together comprised the components of the World Trade Center complex destroyed as a result of the September 11, 2001 terrorist attacks. A receivable in an amount equal to such net book value was recorded in 2001. In connection with the recovery for and redevelopment of certain assets comprising the World Trade Center, the receivable has been reduced to approximately $588 million on the Port Authority's financial statements for the year ended December 31, 2007.

As of December 31, 2007, recoverable amounts of approximately $1.37 billion comprising $953 million in proceeds from the Port Authority's insurance policies and $413 million from the Federal Emergency Management Agency (FEMA) have been recognized by the Port Authority. Of this amount, $854 million has been recognized as revenue net of $444 million of expenses related to the events of September 11, 2001, primarily the cost of office space necessary to replace the Port Authority's offices that were located at the World Trade Center, and the balance of approximately $68 million has been applied to a portion of the outstanding receivable representing the net book value of the properties destroyed. The Port Authority received the maximum amount allocated by FEMA for reimbursement of the Port Authority's costs related to the events of September 11, 2001.

Schedule A – Revenues and Reserves

(Pursuant to Port Authority bond resolutions)

	Year ended December 31, 2007			2006
	Operating Fund	**Reserve Funds**	**Combined Total**	Combined Total
		(In thousands)		
Gross operating revenues:				
Rentals	$ 986,663	$ —	**$ 986,663**	$ 952,431
Tolls and fares	800,244	—	**800,244**	798,682
Aviation fees	783,875	—	**783,875**	717,631
Parking and other	385,446	—	**385,446**	334,088
Utilities	149,537	—	**149,537**	146,822
Rentals - Special Project Bonds Projects	85,861	—	**85,861**	88,884
Total gross operating revenues	3,191,626	—	**3,191,626**	3,038,538
Operating expenses:				
Employee compensation, including benefits	922,671	—	**922,671**	840,640
Contract services	587,730	—	**587,730**	590,197
Rents and amounts in-lieu-of taxes	271,073	—	**271,073**	254,178
Materials, equipment and other	212,147	—	**212,147**	187,996
Utilities	167,912	—	**167,912**	150,729
Interest on Special Project Bonds	85,861	—	**85,861**	88,884
Total operating expenses	2,247,394	—	**2,247,394**	2,112,624
Amounts in connection with operating asset obligations	40,787	—	**40,787**	42,391
Expenses related to the events of September 11, 2001	4,563	—	**4,563**	2,069
Net operating revenues	898,882	—	**898,882**	881,454
Financial income:				
Interest income	54,372	62,447	**116,819**	87,597
Net increase in fair value of investments	34,912	56,543	**91,455**	47,209
Contributions in aid of construction	313,504	—	**313,504**	250,904
Application of Passenger Facility Charges	220,583	—	**220,583**	186,555
Application of 1WTC LLC/WTC Retail LLC Insurance Proceeds	305,532	—	**305,532**	—
Restricted Net Operating Revenues - PAICE	(1,354)	—	**(1,354)**	—
Grants	11,310	—	**11,310**	17,469
Pass-through grant program payments	(4,717)	—	**(4,717)**	(6,832)
Net revenues available for debt service and reserves	1,833,024	118,990	**1,952,014**	1,464,356
Debt service:				
Interest on bonds and other asset financing obligations	417,209	36,077	**453,286**	405,948
Debt maturities and retirements	177,160	—	**177,160**	254,210
Repayment of asset financing obligations	—	110,424	**110,424**	109,934
Total debt service	594,369	146,501	**740,870**	770,092
Transfers to reserves	$(1,238,655)	1,238,655	**—**	—
Revenues after debt service and transfers to reserves		1,211,144	**1,211,144**	694,264
Direct investment in facilities		(808,694)	**(808,694)**	(490,750)
Change in appropriations for self-insurance		(3,220)	**(3,220)**	(4,968)
Increase in reserves		399,230	**399,230**	198,546
Reserve balances, January 1		1,773,694	**1,773,694**	1,575,148
Reserve balances, December 31		$2,172,924	**$2,172,924**	$1,773,694

See Notes to Consolidated Financial Statements

Schedule B – Assets and Liabilities

(Pursuant to Port Authority bond resolutions)

	December 31, 2007				2006
	Operating Fund	**Capital Fund**	**Reserve Funds**	**Combined Total**	Combined Total
			(In thousands)		
ASSETS					
Current assets:					
Cash	$ 88,233	$ —	$ 1,000	**$ 89,233**	$ 58,705
Restricted cash:					
1 WTC LLC/WTC Retail LLC insurance proceeds	450,000	—	—	**450,000**	184,901
Passenger Facility Charges	358	—	—	**358**	—
Port Authority Insurance Captive Entity, LLC	43,319	—	—	**43,319**	—
Investments	570,092	500,951	1,486,815	**2,557,858**	2,870,257
Current receivables, net	256,240	142,028	—	**398,268**	303,347
Other current assets	61,574	97,757	—	**159,331**	203,993
Restricted receivables	24,310	—	—	**24,310**	23,870
Restricted receivable - PAICE	372	—	—	**372**	—
Total current assets	1,494,498	740,736	1,487,815	**3,723,049**	3,645,073
Noncurrent assets:					
Restricted cash	8,236	—	—	**8,236**	9,310
Restricted 1 WTC LLC/WTC LLC Retail insurance proceeds	207,077	—	—	**207,077**	—
Investments	164,442	—	685,109	**849,551**	823,479
Other amounts receivable, net	41,739	699,639	—	**741,378**	936,473
Deferred charges and other noncurrent assets	1,151,482	140,780	—	**1,292,262**	1,055,435
Restricted deferred/other noncurrent assets - PAICE	15,055	—	—	**15,055**	—
Amounts receivable - Special Project Bonds Projects	—	1,252,622	—	**1,252,622**	1,297,974
Invested in facilities	—	26,241,332	—	**26,241,332**	23,968,389
Total noncurrent assets	1,588,031	28,334,373	685,109	**30,607,513**	28,091,060
Total assets	3,082,529	29,075,109	2,172,924	**34,330,562**	31,736,133
LIABILITIES					
Current liabilities:					
Accounts payable	216,486	562,389	—	**778,875**	627,460
Accrued interest and other current liabilities	273,096	48,191	—	**321,287**	322,758
Restricted other liabilities - PAICE	382	—	—	**382**	—
Accrued payroll and other employee benefits	116,991	—	—	**116,991**	89,517
Deferred income:					
1 WTC LLC/WTC Retail LLC insurance proceeds	657,077	—	—	**657,077**	184,901
Passenger Facility Charges	24,668	—	—	**24,668**	23,870
Restricted Net Operating Revenues - PAICE	1,354	—	—	**1,354**	—
Current portion bonds and other asset financing obligations	486,671	1,487,815	—	**1,974,486**	1,894,531
Total current liabilities	1,776,725	2,098,395	—	**3,875,120**	3,143,037
Noncurrent liabilities:					
Accrued pension and other noncurrent employee benefits	632,059	—	—	**632,059**	639,376
Other noncurrent liabilities	100,204	52,759	—	**152,963**	117,008
Restricted other noncurrent liabilities - PAICE	—	20,803	—	**20,803**	—
Amounts payable - Special Project Bonds	—	1,264,735	—	**1,264,735**	1,311,100
Bonds and other asset financing obligations	440,916	9,118,144	—	**9,559,060**	9,198,518
Total noncurrent liabilities	1,173,179	10,456,441	—	**11,629,620**	11,266,002
Total liabilities	2,949,904	12,554,836	—	**15,504,740**	14,409,039
NET ASSETS	$ 132,625	$16,520,273	$2,172,924	**$18,825,822**	$17,327,094
Net assets are composed of:					
Facility infrastructure investment	$ 50,000	$16,520,273	$ —	**$16,570,273**	$15,473,995
Reserves	—	—	2,172,924	**2,172,924**	1,773,694
Appropriated reserves for self-insurance	82,625	—	—	**82,625**	79,405
Net assets	$ 132,625	$16,520,273	$2,172,924	**$18,825,822**	$17,327,094

See Notes to Consolidated Financial Statements

Schedule C – Analysis of Reserve Funds

(Pursuant to Port Authority bond resolutions)

	Year ended December 31, 2007			2006
	General Reserve Fund	**Consolidated Bond Reserve Fund**	**Combined Total**	Combined Total
		(In thousands)		
Balance, January 1	$1,198,499	$ 575,195	**$1,773,694**	$1,575,148
Increase in reserve funds*	40,416	1,317,229	**1,357,645**	830,785
	1,238,915	1,892,424	**3,131,339**	2,405,933
Applications:				
Repayment of asset financing obligations	—	110,424	**110,424**	109,934
Interest on asset financing obligations	—	36,077	**36,077**	26,587
Direct investment in facilities	—	808,694	**808,694**	490,750
Self-insurance	—	3,220	**3,220**	4,968
Total applications	—	958,415	**958,415**	632,239
Balance, December 31	$1,238,915	$ 934,009	**$2,172,924**	$1,773,694

* Consists of net transfers from operating fund and income on investments, including fair market valuation adjustments of $57 million and $8 million for 2007 and 2006, respectively.

See Notes to Consolidated Financial Statements

Statistical & Other Supplemental Information

For the Year Ended December 31, 2007

THE PORT AUTHORITY OF NY & NJ

Statistical Section

The Statistical Section presents additional information as a context for further understanding the information in the financial statements, note disclosures and schedules. The information contained in this section is unaudited.

Financial Trends – Schedule D-1

Trend information is provided to help the reader understand how the Port Authority's financial performance and fiscal health have changed over time.

Debt Capacity – Schedule D-2

The Port Authority has several forms of outstanding obligations (see Note D).

Information on Port Authority revenues, outstanding obligations, debt service, and reserves is included here for statistical purposes (more detailed information about the various kinds of debt instruments used by the Port Authority can be found in Note D, and the reserve funds are described in Note E). Debt limitations — including, in some cases, limits on total authorized amounts or requirements for the issuance of additional bonds — may be found in the various resolutions establishing and authorizing such obligations.

Demographic and Economic Information – Schedule D-3

This schedule offers demographic and economic indicators to provide a better understanding of the environment within which the Port Authority's financial activities take place.

Operating Information – Schedule D-4

Operating and service data are provided to help the reader understand how the information in the Port Authority's financial report relates to the services it provides and the activities it performs.

Schedule D-1 – Selected Statistical Financial Trends Data

	2007	2006	2005	2004
		(In thousands)		
Net Assets are composed of: (a)				
Invested in capital assets net of related debt	**$6,609,691**	$5,872,518	$5,725,929	$5,563,683
Restricted	**719,306**	208,771	17,916	14,651
Unrestricted	**1,608,284**	1,553,114	1,371,928	1,375,533
Net Assets	**$8,937,281**	$7,634,403	$ 7,115,773	$6,953,867
Revenues, Expenses and Changes in Net Assets:				
Gross operating revenues				
Rentals	**$ 986,663**	$ 952,431	$ 928,395	$ 877,306
Tolls and Fares	**800,244**	798,682	787,381	788,333
Aviation Fees	**783,875**	717,631	748,811	714,766
Parking and other fees	**385,446**	334,088	296,663	269,413
Utilities	**149,537**	146,822	147,795	121,436
Rentals associated with Special Project Bonds	**85,861**	88,884	91,648	93,570
Gross operating revenues	**3,191,626**	3,038,538	3,000,693	2,864,824
Operating expenses:				
Employee compensation, including benefits	**922,671**	840,640	870,784	806,890
Contract services	**587,730**	590,197	564,332	545,404
Rents and amounts in-lieu-of taxes	**271,073**	254,178	243,411	252,658
Materials, equipment and other	**212,147**	187,996	168,139	141,367
Utilities	**167,912**	150,729	149,604	141,476
Interest on Special Project Bonds	**85,861**	88,884	91,648	93,570
Operating expenses	**2,247,394**	2,112,624	2,087,918	1,981,365
Net (expenses) recoverables related to the events of September 11, 2001	**(4,563)**	(2,069)	(3,358)	(4,985)
Depreciation of facilities	**(632,553)**	(674,940)	(643,732)	(575,539)
Amortization of costs for regional programs	**(59,316)**	(49,319)	(42,996)	(38,677)
Income from operations	**247,800**	199,586	222,689	264,258
Income on investments (including fair value adjustment)	**229,812**	137,968	105,579	59,047
Interest expense on bonds and other asset financing	**(493,689)**	(454,134)	(422,334)	(391,870)
Gain (loss) on disposition of assets	**17,011**	(3,741)	(55)	–
Contributions in aid of construction	**313,504**	250,904	107,262	81,173
Passenger Facility Charges	**221,380**	192,509	134,429	125,532
1 WTC LLC/WTC Retail LLC insurance proceeds	**760,467**	184,901	–	–
Grants	**11,310**	17,469	14,336	13,396
Capital funding provided by others	**–**	–	–	–
Pass-through grant program payments	**(4,717)**	(6,832)	–	–
Increase in net assets December 31,	**$1,302,878**	$ 518,630	$ 161,906	$ 151,536

(a) Data not available for classifying net assets prior to the implementation of GASB Statement No. 34 for year 2001.

2003	2002	2001	2000	1999	1998
$5,397,959	$4,492,027	$3,814,967	$ —	$ —	$ —
15,153	16,505	245,319	—	—	—
1,389,219	1,410,763	1,119,047	—	—	—
$6,802,331	$5,919,295	$5,179,333	$4,963,571	$4,554,977	$4,185,183
$ 858,414	$ 832,527	$ 976,054	$1,218,093	$1,119,719	$1,335,837
758,326	774,337	750,782	616,722	595,691	585,264
705,302	672,175	560,951	382,604	363,015	62,995
234,261	197,912	202,864	219,985	247,695	226,832
112,555	97,184	126,956	113,054	123,356	52,109
95,193	96,448	97,195	97,870	98,036	98,165
2,764,051	2,670,583	2,714,802	2,648,328	2,547,512	2,361,202
769,711	777,146	654,074	648,171	630,752	616,405
543,927	622,781	600,686	619,462	560,425	505,775
237,014	140,614	96,401	131,431	133,556	50,764
150,961	135,321	157,004	133,166	122,778	167,355
122,445	113,880	140,436	142,261	131,717	130,794
95,193	96,448	97,195	97,870	98,036	98,165
1,919,251	1,886,190	1,745,796	1,772,361	1,677,264	1,569,258
664,211	474,663	(270,334)	—	—	—
(488,986)	(406,484)	(422,739)	(410,936)	(400,103)	(375,126)
(32,112)	(28,762)	(20,014)	(19,749)	(19,468)	(20,612)
987,913	823,810	255,919	445,282	450,677	396,206
66,148	97,812	144,618	167,028	117,584	143,139
(344,755)	(336,725)	(338,332)	(361,912)	(368,701)	(352,863)
787	—	—	1,620	(1,377)	(172)
57,568	36,258	40,070	—	—	—
109,111	110,471	113,487	120,404	115,837	113,020
—	—	—	—	—	—
34,501	19,892	—	—	—	—
—	—	—	36,173	55,773	36,990
(28,237)	(11,556)	—	—	—	—
$ 883,036	$ 739,962	$ 215,762	$ 408,595	$ 369,793	$ 336,320

Schedule D-2 – Selected Statistical Debt Capacity Data

	2007	2006	2005	2004
		(In thousands)		
Gross Operating Revenues	**$ 3,191,626**	$ 3,038,538	$ 3,000,693	$ 2,864,824
Operating expenses	**(2,247,394)**	(2,112,624)	(2,087,918)	(1,981,365)
Net (expenses) recoverables related to the events of September 11, 2001	**(4,563)**	(2,069)	(3,358)	(4,985)
Amounts in connection with operating asset obligations	**(40,787)**	(42,391)	(48,008)	(34,609)
Net operating revenues	**898,882**	881,454	861,409	843,865
Financial income (including gain on purchase of Port Authority bonds)	**208,274**	134,806	103,572	57,403
Grants and contributions in aid-of-construction, net	**320,097**	261,541	121,598	94,569
Application of Passenger Facility Charges	**220,583**	186,555	113,649	—
Application of 1WTC LLC/WTC LLC Retail Insurance Proceeds	**305,532**	—	—	—
Restricted Net Operating Revenues - PAICE	**(1,354)**	—	—	—
Net Revenues available for debt service and reserves	**1,952,014**	1,464,356	1,200,228	995,837
DEBT SERVICE - OPERATIONS				
Interest on bonds and other asset financing obligations	**(417,209)**	(379,361)	(355,068)	(345,129)
Times, interest earned (a)	**4.68**	3.86	3.38	2.89
Debt maturities and retirements	**(177,160)**	(254,210)	(205,220)	(211,870)
Times, debt service earned (a)	**3.28**	2.31	2.14	1.79
DEBT SERVICE - RESERVES				
Direct investment in facilities	**(808,694)**	(490,750)	(626,813)	(285,441)
Debt retirement acceleration	**—**	—	—	(110,075)
Change in appropriations for self-insurance	**(3,220)**	(4,968)	(5,325)	249
Interest on bonds and other asset financing obligations	**(36,077)**	(26,587)	(17,645)	(8,684)
Repayment of asset financing obligations	**(110,424)**	(109,934)	(12,205)	(10,737)
Net increase (decrease) in reserves	**399,230**	198,546	(22,048)	24,150
RESERVE BALANCES				
January 1	**1,773,694**	1,575,148	1,597,196	1,573,046
December 31	**$ 2,172,924**	$ 1,773,694	$ 1,575,148	$ 1,597,196
Reserve funds balances represented by:				
General Reserve	**1,238,915**	1,198,499	1,068,790	1,068,790
Consolidated Bond Reserve	**934,009**	575,195	506,358	528,406
Total	**$ 2,172,924**	$ 1,773,694	$ 1,575,148	$ 1,597,196
OBLIGATIONS AT DECEMBER 31				
Consolidated Bonds and Notes	**$ 9,495,419**	$ 9,659,104	$ 8,328,644	$ 8,273,573
Fund Buy-out obligation	**409,128**	419,155	420,660	422,050
Amounts payable - Special Project Bonds	**1,264,735**	1,311,100	1,354,425	1,393,920
Variable rate master notes	**90,990**	130,990	130,990	130,990
Commercial paper notes	**238,950**	270,740	282,095	280,315
Versatile structure obligations	**1,205,600**	519,600	532,100	544,000
Port Authority equipment notes	**93,460**	93,460	47,105	65,105
Total obligations	**$12,798,282**	$12,404,149	$11,096,019	$11,109,953
DEBT RETIRED THROUGH INCOME:				
Annual	**$ 287,584**	$ 364,144	$ 217,425	$ 332,682
Cumulative	**$ 6,724,456**	$ 6,436,872	$ 6,072,728	$ 5,855,303

(a) Debt service ratios excluding net (expenses) recoverables related to the events of September 11, 2001 and net amounts associated with the 1993 bombing are as follows:

Times, interest earned	**4.69**	3.87	3.39	2.90
Times, debt service earned	**3.29**	2.31	2.15	1.80

Note: This selected financial data is prepared primarily from information contained in Schedules A, B and C and is presented for general information only and is not intended to reflect the specific applications of the revenues and reserves of the Port Authority, which are governed by statutes and its bond resolutions.

2003	2002	2001	2000	1999	1998
$2,764,051	$2,670,583	$2,714,802	$2,648,328	$2,547,512	$2,361,202
(1,919,251)	(1,886,190)	(1,745,796)	(1,772,361)	(1,677,264)	(1,569,258)
664,211	474,663	(270,334)	—	—	—
(35,113)	(35,960)	(36,696)	(37,188)	(35,957)	(35,605)
1,473,898	1,223,096	661,976	838,779	834,291	756,339
61,765	95,962	143,381	162,811	104,657	118,362
63,832	44,594	40,070	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
1,599,495	1,363,652	845,427	1,001,590	938,948	874,701
(291,514)	(282,635)	(266,944)	(318,912)	(323,954)	(310,107)
5.49	4.82	3.17	3.14	2.90	2.82
(698,280)	(181,250)	(171,340)	(158,435)	(138,225)	(123,395)
1.62	2.94	1.93	2.10	2.03	2.02
(542,260)	(433,747)	(462,129)	(404,388)	(233,260)	(242,311)
(183,120)	(283,502)	(25,000)	(60,000)	—	—
(15,201)	(19,017)	14,270	(5,101)	(4,247)	(3,785)
(6,860)	(15,828)	(27,964)	—	—	—
(6,329)	(5,863)	(6,390)	(10)	(172)	(757)
(144,069)	141,810	(100,070)	54,744	239,090	194,346
1,717,115	1,575,305	1,675,375	1,620,631	1,381,541	1,187,195
$1,573,046	$ 1,717,115	$1,575,305	$1,675,375	$1,620,631	$1,381,541
948,902	907,075	880,041	848,095	839,671	823,581
624,144	810,040	695,264	827,280	780,960	557,960
$1,573,046	$ 1,717,115	$1,575,305	$1,675,375	$1,620,631	$1,381,541
$7,053,296	$6,630,205	$6,092,735	$5,889,613	$5,916,804	$5,747,387
423,330	424,513	425,606	419,696	414,246	409,219
1,420,240	1,442,450	1,457,705	1,468,965	1,477,275	1,479,975
149,990	149,990	214,990	214,990	215,990	215,990
249,200	180,408	356,880	251,885	123,595	124,910
554,500	560,600	566,000	571,300	575,900	580,400
61,800	107,100	112,100	84,200	87,150	87,150
$9,912,356	$9,495,266	$9,226,016	$8,900,649	$8,810,960	$8,645,031
$ 887,729	$ 470,615	$ 202,730	$ 218,445	$ 138,396	$ 124,153
$5,522,621	$4,634,892	$4,164,277	$3,961,547	$3,743,102	$3,604,706
3.21	3.15	4.18	3.14	2.90	2.82
0.94	1.92	2.55	2.10	2.03	2.02

Schedule D-3 – Selected Statistical Demographic and Economic Data

The New York-New Jersey Metropolitan Region, one of the largest and most diversified in the nation, consists of the five New York boroughs of Manhattan, Brooklyn, Queens, Staten Island and The Bronx; the four suburban counties of Nassau, Rockland, Suffolk and Westchester; and the eight northern New Jersey counties of Bergen, Essex, Hudson, Middlesex, Morris, Passaic, Somerset and Union. The following demographic information is provided for this 17-county region that comprises approximately 3,900 square miles.

	Population (1)	**Total Personal Income (2)**	**Per-capita Personal Income (1) (2)**	**Employment (3)**	**Unemployment Rate (4)**
	(In thousands)				
2007	**17,207**	**$896,518,140**	**$52.10**	**8,010.1**	**4.50%**
2006	17,178	$834,929,262	$48.60	7,894.2	4.70%
2005	17,181	$781,458,630	$45.48	7,796.8	5.00%
2004	17,143	$749,190,737	$43.70	7,739.5	5.80%
2003	17,089	$699,191,901	$40.91	7,714.4	6.70%
2002	17,021	$687,559,899	$40.39	7,748.1	6.60%
2001	16,941	$690,877,666	$40.79	7,891.9	5.00%
2000	16,789	$674,214,026	$40.16	7,954.1	4.60%
1999	16,674	$622,227,216	$37.32	7,755.7	5.30%
1998	16,510	$593,738,796	$35.96	7,544.5	5.70%

Leading employment by major industries (% of total) (4) (5)

	2007	1998
Education & Health Services	**16.8%**	14.9%
Professional & Business Services	**15.2%**	14.6%
Government	**15.1%**	14.9%
Retail Trade	**10.0%**	9.9%
Financial Activities	**9.3%**	10.0%
Leisure & Hospitality	**7.6%**	6.6%
Manufacturing	**5.3%**	8.4%
Wholesale Trade	**5.1%**	5.5%
Other Services	**4.3%**	3.9%
Construction	**4.2%**	3.5%
TWU*	**3.7%**	4.1%
Information	**3.4%**	3.7%

(1) Source - US Census Bureau, years 1997-2006, 2007 data estimate by Global Insight
(2) Source - US Bureau of Economic Analysis, years 1997-2005, 2006-2007 data estimate by Global Insight
(3) Source - New York and New Jersey Departments of Labor, years 1998-2007
(4) Source - US Bureau of Labor Statistics, years 1998-2007, 2003-2007 data subject to revision
(5) Employment by major industries are provided by the New York and New Jersey Departments of Labor by labor areas and include a limited number of locales immediately surrounding the 17-county New York-New Jersey region. These labor areas consist of 23 counties in the metropolitan area. The Port Authority's 17-county region comprises approximately 93% of the employment in the larger 23-county region. The inclusion of these areas is not expected to impact labor employment by industry. The presentation of the region's labor by industry for years 2007 and 1998 provides additional historical perspective on the Region's labor force that primarily comprises the Port Authority's customer base. Industry definitions can be found at the US Department of Labor Statistics website at www.bls.gov/bls/naics.htm.

* Transportation and Warehousing, and Utilities Industry

Schedule D-4 Selected Statistical Operating Data

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Authorized Port Authority staffing levels:										
Tunnels, Bridges and Terminals	**910**	938	1,010	1,039	1,023	1,034	1,058	1,030	1,056	1,070
PATH	**1,075**	1,080	1,089	1,092	1,093	1,095	1,072	1,000	1,016	1,054
Port Commerce facilities	**168**	175	183	187	191	192	193	173	181	184
Air Terminal facilities	**918**	953	989	999	999	997	998	934	959	952
Development(a)	**77**	—	—	—	—	—	—	—	—	—
Other operational and support activities(b)	**2,208**	2,259	2,382	2,403	2,409	2,418	2,447	2,402	2,436	2,513
Subtotal	**5,356**	5,405	5,653	5,720	5,715	5,736	5,768	5,539	5,648	5,773
Public Safety and Security	**1,772**	1,776	1,541	1,547	1,519	1,499	1,425	1,375	1,371	1,382
Total	**7,128**	7,181	7,194	7,267	7,234	7,235	7,193	6,914	7,019	7,155
Facility Traffic and Other Indicators:					(In thousands)					
INTERSTATE TRANSPORTATION NETWORK										
Tunnels and Bridges (Total Eastbound Traffic)										
George Washington Bridge	**53,956**	54,265	53,612	54,202	52,971	54,674	53,467	54,327	53,601	52,353
Lincoln Tunnel	**21,842**	21,933	21,794	21,733	21,078	20,931	20,987	22,005	21,610	21,162
Holland Tunnel	**17,349**	17,365	16,982	16,963	16,566	15,764	14,616	17,797	17,555	17,308
Staten Island Bridges	**33,857**	33,457	33,479	33,649	33,205	33,875	32,812	32,194	31,554	30,601
Total vehicles	**127,004**	127,020	125,867	126,547	123,820	125,244	121,882	126,323	124,320	121,424
Automobiles	**115,349**	115,506	114,481	115,219	112,869	114,005	110,753	115,149	113,479	110,981
Buses	**3,139**	3,140	3,137	3,123	3,041	3,121	2,842	2,571	2,626	2,510
Trucks	**8,516**	8,374	8,249	8,205	7,910	8,118	8,287	8,603	8,215	7,933
Total vehicles	**127,004**	127,020	125,867	126,547	123,820	125,244	121,882	126,323	124,320	121,424
Bus Facility Terminals										
Bus facilities passengers	**71,540**	72,731	69,060	69,871	69,428	69,236	71,560	71,360	71,464	68,895
Bus movements	**3,361**	3,394	3,346	3,426	3,447	3,561	3,515	3,532	3,312	3,533
PATH										
Total Passengers	**71,592**	66,966	60,787	57,725	47,920	51,920	69,791	74,087	67,332	64,992
Passenger weekday average	**242**	227	206	194	160	174	241	255	232	223
Total Interstate Transportation Network Net Capital Expenditures	**$660,620**	$491,269	$471,306	$463,652	$751,509	$474,978	$ 198,725	$209,567	$184,578	$163,074
PORT COMMERCE										
Containers in twenty foot equivalent units (TEU)	**5,298**	5,015	4,793	4,478	4,068	3,749	3,316	3,051	2,829	2,466
International waterborne vehicles	**790**	725	625	670	608	634	611	668	517	461
Waterborne bulk commodities (in metric tons) (in thousands)	**7**	6	5	5	3	2	4	3	3	3
Total Port Commerce Net Capital Expenditures	**$288,677**	$228,873	$220,545	$258,669	$298,162	$209,942	$ 97,151	$105,959	$ 65,164	$ 86,640
THREE MAJOR AIR TERMINALS										
John F. Kennedy International Airport total passengers	**47,717**	42,630	40,892	37,517	31,737	29,939	29,351	32,828	31,708	31,044
LaGuardia Airport total passengers	**24,985**	25,810	25,889	24,452	22,483	21,987	22,525	25,360	23,927	22,850
Newark Liberty International Airport total passengers	**36,367**	35,692	33,078	31,908	29,451	29,221	31,100	34,189	33,623	32,631
Total passengers	**109,069**	104,132	99,859	93,877	83,671	81,147	82,976	92,377	89,258	86,525
Domestic passengers	**75,546**	73,163	70,223	66,329	59,655	57,320	58,225	63,962	62,161	60,841
International passengers	**33,523**	30,969	29,636	27,548	24,016	23,827	24,751	28,415	27,097	25,684
Total passengers	**109,069**	104,132	99,859	93,877	83,671	81,147	82,976	92,377	89,258	86,525
Total Cargo-tons	**2,620**	2,697	2,695	2,799	2,723	2,583	2,451	2,955	2,859	2,731
Revenue Mail-tons	**227**	194	180	194	188	147	239	322	331	320
Total Plane Movements	**1,271**	1,222	1,191	1,156	1,020	1,056	1,101	1,179	1,164	1,157
Total Air Terminals Net Capital Expenditures	**$685,787**	$587,265	$501,476	$410,581	$560,695	$784,711	$1,043,477	$811,742	$644,893	$473,491

(a) Development Department was established in early 2007.

(b) Includes staff such as, engineering, finance, human resources, legal, technical services and other support activities in departments that provide assistance to the different Port Authority lines of business.

Schedule E – Information on Port Authority Operations

	Year ended December 31, 2007							2006
	Gross Operating Revenues	**Operating Expenses(a)**	**Depreciation & Amortization**	**Income (Loss) from Operations**	**Interest & Other Expenses(b)**	**PFCs, Grants & Other**	**Net Income (Loss)**	Net Income (Loss)
				(In thousands)				
INTERSTATE TRANSPORTATION NETWORK								
G.W. Bridge & Bus Station	$ 326,369	$ 113,085	$ 34,754	$178,530	$ 13,776	$ 506	**$ 165,260**	$175,726
Holland Tunnel	87,179	70,542	16,152	485	7,395	369	**(6,541)**	(7,950)
Lincoln Tunnel	117,846	93,648	33,503	(9,305)	(4,170)	799	**(4,336)**	(13,481)
Bayonne Bridge	22,182	18,565	5,772	(2,155)	3,827	106	**(5,876)**	(2,925)
Goethals Bridge	85,325	25,203	7,168	52,954	2,807	112	**50,259**	45,272
Outerbridge Crossing	79,911	21,300	11,002	47,609	2,846	107	**44,870**	48,220
P. A. Bus Terminal	31,822	93,492	16,709	(78,379)	8,403	11,216	**(75,566)**	(71,551)
Subtotal - Tunnels, Bridges & Terminals	750,634	435,835	125,060	189,739	34,884	13,215	**168,070**	173,311
PATH	96,953	258,621	88,423	(250,091)	34,820	211,804	**(73,107)**	(176,431)
Journal Square Transportation Center	2,447	8,265	5,215	(11,033)	1,849	–	**(12,882)**	(10,933)
Subtotal - PATH	99,400	266,886	93,638	(261,124)	36,669	211,804	**(85,989)**	(187,364)
Ferry Service	202	5,714	216	(5,728)	196	–	**(5,924)**	(10,094)
Total Interstate Transportation Network	850,236	708,435	218,914	(77,113)	71,749	225,019	**76,157**	(24,147)
AIR TERMINALS								
LaGuardia	295,229	227,919	28,799	38,511	16,071	23,205	**45,645**	33,744
JFK International	872,814	597,344	92,557	182,913	50,436	29,606	**162,083**	115,926
Newark Liberty International	711,774	398,173	104,900	208,701	50,651	23,665	**181,715**	163,317
Teterboro	33,141	15,770	6,479	10,892	1,352	6,134	**15,674**	21,394
Stewart International	1,822	2,631	–	(809)	–	–	**(809)**	–
Heliport	3,218	3,117	621	(520)	7	71	**(456)**	(1,161)
PFC Program	–	–	64,875	(64,875)	6,804	221,380	**149,701**	121,213
Total Air Terminals	1,917,998	1,244,954	298,231	374,813	125,321	304,061	**553,553**	454,433
PORT COMMERCE								
Port Newark	88,130	61,446	18,206	8,478	8,738	1,659	**1,399**	(12,357)
Elizabeth Marine Terminal	101,375	25,658	29,369	46,348	18,637	2,377	**30,088**	8,907
Brooklyn	4,898	10,125	19,092	(24,319)	1,062	(616)	**(25,997)**	(39,519)
Red Hook	3,413	2,181	18,470	(17,238)	–	–	**(17,238)**	(24,834)
Howland Hook	25,902	9,856	14,014	2,032	6,096	325	**(3,739)**	(18,560)
Greenville Yard	312	11	–	301	–	–	**301**	277
Auto Marine	11,972	3,330	2,092	6,550	1,219	–	**5,331**	2,034
Total Port Commerce	236,002	112,607	101,243	22,152	35,752	3,745	**(9,855)**	(84,052)
ECONOMIC & WATERFRONT DEVELOPMENT								
Essex County Resource Recovery	73,210	63,341	1,412	8,457	(1,871)	–	**10,328**	14,247
Industrial Park at Elizabeth	933	113	194	626	263	–	**363**	302
Bathgate	4,240	1,580	1,502	1,158	432	–	**726**	199
Teleport	13,911	12,004	2,202	(295)	696	–	**(991)**	(1,827)
Newark Legal & Communications Center	3,691	1,377	3,112	(798)	1,210	–	**(2,008)**	(2,536)
Queens West	1,126	10	936	180	1,381	–	**(1,201)**	(1,469)
Hoboken South	6,492	36	1,331	5,125	1,971	–	**3,154**	2,011
Total Economic & Waterfront Development	103,603	78,461	10,689	14,453	4,082	–	**10,371**	10,927
WORLD TRADE CENTER								
World Trade Center	83,122	15,003	–	68,119	(19,515)	–	**87,634**	131,987
WTC Freedom Tower	–	13,970	–	(13,970)	(10,547)	422,809	**419,386**	145,411
WTC Tower 5	–	6,512	–	(6,512)	(4,234)	185,666	**183,388**	–
WTC Site	616	43,746	2,033	(45,163)	–	8,652	**(36,511)**	(40,735)
WTC Retail LLC	–	9,416	1,443	(10,859)	(4,026)	151,992	**145,159**	39,465
Total World Trade Center	83,738	88,647	3,476	(8,385)	(38,322)	769,119	**799,056**	276,128
Port Authority Insurance Captive Entity, LLC	49	261	–	(212)	(1,566)	–	**1,354**	504
Regional Programs	–	14,029	59,316	(73,345)	49,850	–	**(123,195)**	(113,094)
Expenses related to the events of September 11, 2001	–	–	–	(4,563)	–	–	**(4,563)**	(2,069)
Total PA	$3,191,626	$2,247,394	$691,869	$247,800	$246,866	$1,301,944	**$1,302,878**	$518,630

(a) Amounts include all direct operating expenses and allocated expenses.

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

Schedule F – Information on Port Authority Capital Program Components

	Facilities, net Dec. 31, 2006	Net Capital Expenditures	Depreciation**	Facilities, net Dec. 31, 2007
		(In thousands)		
INTERSTATE TRANSPORTATION NETWORK				
G.W. Bridge & Bus Station	$ 740,976	$ 51,761	$ 34,753	$ 757,984
Holland Tunnel	357,486	20,705	16,152	362,039
Lincoln Tunnel	498,027	28,953	33,648	493,332
Bayonne Bridge	166,284	4,246	5,772	164,758
Goethals Bridge	220,905	14,606	7,168	228,343
Outerbridge Crossing	120,167	4,574	11,002	113,739
P. A. Bus Terminal	387,118	40,001	16,709	410,410
Subtotal - Tunnels, Bridges & Terminals	2,490,963	164,846	125,204	2,530,605
PATH	1,151,417	158,348	75,972	1,233,793
Downtown Restoration Program	352,023	7	12,451	339,579
Permanent WTC PATH Terminal	243,909	300,979	—	544,888
Journal Square Transportation Center	88,403	4,462	5,215	87,650
Subtotal - PATH	1,835,752	463,796	93,638	2,205,910
Ferry Service	58,487	31,978	216	90,249
Total Interstate Transportation Network	4,385,202	660,620	219,058	4,826,764
AIR TERMINALS				
LaGuardia	593,432	83,074	28,799	647,707
JFK International	2,191,894	366,925	92,557	2,466,262
Newark Liberty International	1,964,711	146,561	104,900	2,006,372
Teterboro	145,073	22,999	6,479	161,593
Stewart International	—	503	—	503
Heliport	854	(226)*	621	7
PFC Program	1,552,290	65,951	64,875	1,553,366
Total Air Terminals	6,448,254	685,787	298,231	6,835,810
PORT COMMERCE				
Port Newark	389,554	93,299	18,206	464,647
Elizabeth Marine Terminal	853,321	176,085	29,369	1,000,037
Brooklyn	45,953	856	19,092	27,717
Red Hook	17,761	845	18,470	136
Howland Hook	394,789	16,751	14,014	397,526
Auto Marine & Greenville Yard	42,668	841	2,092	41,417
Total Port Commerce	1,744,046	288,677	101,243	1,931,480
ECONOMIC & WATERFRONT DEVELOPMENT				
Essex County Resource Recovery	18,349	—	1,412	16,937
Industrial Park at Elizabeth	8,420	—	194	8,226
Bathgate	14,962	—	1,502	13,460
Teleport	25,129	165	2,202	23,092
Newark Legal & Communications Center	41,736	—	3,112	38,624
Queens West	123,998	9,398	936	132,460
Hoboken South	73,671	5,030	1,331	77,370
Total Economic & Waterfront Development	306,265	14,593	10,689	310,169
WORLD TRADE CENTER				
World Trade Center	80,242	19	—	80,261
WTC Site	151,140	327,764	2,033	476,871
WTC Retail LLC	142,983	16,981	1,443	158,521
WTC Freedom Tower	96,459	153,277	—	249,736
Total World Trade Center	470,824	498,041	3,476	965,389
FACILITIES, NET	$13,354,591	$2,147,718	$632,697	$14,869,612
REGIONAL PROGRAMS	$ 651,190	$ 173,454	$ 59,316	$ 765,328

* Includes adjustments for prior period costs.

** Depreciation includes the book value of assets disposed of in 2007 (see Note B).

*Schedule G – Facility Traffic**

TUNNELS AND BRIDGES

(Eastbound Traffic)	2007	2006
All Crossings		
Automobiles	**115,349,000**	115,506,000
Buses	**3,139,000**	3,140,000
Trucks	**8,516,000**	8,374,000
Total vehicles	**127,004,000**	127,020,000
George Washington Bridge		
Automobiles	**49,025,000**	49,342,000
Buses	**576,000**	588,000
Trucks	**4,355,000**	4,335,000
Total vehicles	**53,956,000**	54,265,000
Lincoln Tunnel		
Automobiles	**18,311,000**	18,481,000
Buses	**2,091,000**	2,069,000
Trucks	**1,440,000**	1,383,000
Total vehicles	**21,842,000**	21,933,000
Holland Tunnel		
Automobiles	**17,006,000**	17,026,000
Buses	**245,000**	244,000
Trucks	**98,000**	95,000
Total vehicles	**17,349,000**	17,365,000
Staten Island Bridges		
Automobiles	**31,007,000**	30,657,000
Buses	**227,000**	239,000
Trucks	**2,623,000**	2,561,000
Total vehicles	**33,857,000**	33,457,000

PATH

	2007	2006
Total passengers	**71,592,000**	66,966,000
Passenger weekday average	**242,000**	227,000

MARINE TERMINALS

	2007	2006
All Terminals		
Containers	**3,099,039**	2,991,084
General cargo (a) (Metric tons)	**32,732,000**	31,194,421
Containers in twenty foot equivalent units (TEU)	**5,298**	5,093
International waterborne vehicles	**790**	732
Waterborne bulk commodities (in metric tons) (in thousands)	**7**	6
New Jersey Marine Terminals		
Containers	**2,630,849**	2,611,608
New York Marine Terminals		
Containers	**468,190**	379,476

AIR TERMINALS

	2007	2006
Totals at the Three Major Airports		
Plane movements	**1,270,628**	1,222,392
Passengers	**109,069,405**	104,131,749
Cargo-tons	**2,619,582**	2,696,541
Revenue mail-tons	**226,512**	194,099
John F. Kennedy International Airport		
Plane movements	**443,750**	378,329
Passengers	**47,716,901**	42,629,410
Domestic	**26,173,650**	23,003,499
International	**21,543,251**	19,625,911
Cargo-tons	**1,656,431**	1,704,200
LaGuardia Airport		
Plane movements	**390,765**	399,821
Passengers	**24,985,264**	25,810,452
Domestic	**23,758,362**	24,496,831
International	**1,226,902**	1,313,621
Cargo-tons	**9,595**	13,998
Newark Liberty International Airport		
Plane movements	**436,113**	444,242
Passengers	**36,367,240**	35,691,887
Domestic	**25,614,140**	25,662,797
International	**10,753,100**	10,029,090
Cargo-tons	**953,556**	978,343

TERMINALS

	2007	2006
All Bus Facilities		
Passengers	**71,540,000**	72,731,000
Bus movements	**3,361,000**	3,394,000
Port Authority Bus Terminal		
Passengers	**57,346,000**	59,187,000
Bus movements	**2,169,000**	2,192,000
George Washington Bridge Bus Station		
Passengers	**5,144,000**	5,222,000
Bus movements	**305,000**	309,000
PATH Journal Square Transportation Center Bus Station		
Passengers	**9,050,000**	8,322,000
Bus movements	**887,000**	893,000

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

* Some 2006 and 2007 numbers reflect revised and estimated data, respectively.

Port Authority Staff

In accordance with governance reforms and Bylaws adopted by the Board of Commissioners of The Port Authority of New York and New Jersey, the following is a list of the compensation, educational background, and professional experience of the 20 highest paid executive staff members.

Anthony E. Shorris
Executive Director
$286,702
A.B. Harvard University;
MPA Princeton University
Over 25 years of experience in public and nonprofit management.

Susan Bass Levin
First Deputy Executive Director
$260,806
B.A. University of Rochester; J.D. George Washington University Law School
Over 30 years of experience in the public sector.

Ernesto L. Butcher
Deputy Executive Director/Operations
$232,882
B.A. Hunter College;
M.S. University of Pittsburgh
Over 35 years of public experience in transportation operations.

William H. Goldstein
Deputy Executive Director/Capital Programs
$232,882
B.S. in Economics, University of Pennsylvania's Wharton School; Masters in City Planning, University of Pennsylvania
Over 25 years of experience in construction and capital programs management.

Louis J. LaCapra
Chief Administrative Officer
$228,410
B.S. Rutgers; MBA New York University;
M.S. NJ Institute of Technology
Over 40 years of public experience in labor relations and human resources.

A. Paul Blanco
Chief Financial Officer
$223,574
B.A. Herbert H. Lehman College
Over 35 years of public experience in finance and development.

Francis J. Lombardi
Chief Engineer
$223,574
B.E. New York University; BA Queens College; M.S. Columbia University
Over 35 years of public experience in engineering.

William R. DeCota
Director, Aviation
$222,534
B.S. University of Mississippi;
MBA University of Georgia
Over 30 years of experience in operations and financial services.

Darrell B. Buchbinder
General Counsel
$216,554
B.A. New York University;
J.D. New York University
Over 35 years of experience in both private and public practice.

Samuel J. Plumeri Jr.
Director, Public Safety/
Superintendent of Police
$209,352
B.S. Rider University
Over 35 years of experience in law enforcement and public safety.

Diana E. Beecher
Chief Technology Officer
$207,012
B.S. Accounting, Shippensburg University
Over 30 years of experience in management and technology services.

John J. Drobny
Director, Project Management
$201,396
B.E. New York University;
MBA Fordham University
Over 35 years of public experience in engineering and business management.

Steven P. Plate
Director, WTC Construction
$200,902
B.S. Manhattan College
Over 30 years of experience in program management in private and public sectors.

Richard M. Larrabee
Director, Port Commerce
$200,486
B.S. U.S. Coast Guard Academy;
M.S. University of Rhode Island
Over 35 years of public experience in maritime operations.

Alan L. Reiss
Deputy Director, WTC Construction
$200,018
B.S. Electrical Engineering, Northeastern University, Boston, Massachusetts
Over 32 years of engineering, project management and executive management experience.

Michael P. DePallo
Director and General Manager, PATH
$198,562
M.S. University of Pennsylvania
Over 30 years of public experience in transportation.

Arthur J. Cifelli
Director, Port Authority
Bus Terminal Air Rights Development
$197,236
B.S. Arizona State University
Over 20 years of experience in the government sector.

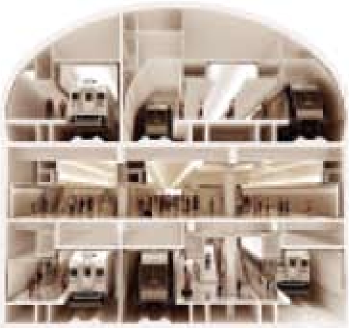
Michael G. Fabiano
Deputy Chief Financial Officer/Comptroller
$196,040
B.S. Accounting, St. Peter's College
Over 30 years of experience in financial services.

Peter J. Zipf
Deputy Chief Engineer/Director, Engineering
$196,040
B.E. in Civil Engineering, Manhattan College;
M.S. in Construction Management, Polytechnic Institute of New York
Over 29 years of experience in the field of engineering design and construction, in both the public and private sectors.

Robert E. Van Etten
Inspector General
$193,206
B.A. Manhattan College
Over 30 years of experience in public sector, including tenure in the U.S. Department of Treasury and U.S. Customs Service.

Managing Editor: Rae Ann Hoffmann
Public Affairs Staff: Caroline Conejero, David McGrath,
Maureen McManus, Connie Nardella
Financial Editor: Kahmali Brissett
Financial Section: Terence Landrigan, Daniel McCarron, Robert Sudman
Production Supervision: Flory Danish
Staff Photography: Mike Dombrowski, John Denise
Concept and Design: Korey Kay & Partners
Graphic on page 14 courtesy of NJ Transit; rendering of World Trade Center retail space on page 32 courtesy Silverstein Properties Inc.

The entirety of this year's Annual Report has been printed on recycled materials and certified by the Forest Stewardship Council, with the Financial Section printed on an alternative fiber consisting of 50 percent bamboo and 50 percent post-consumer fibers. The Port Authority of New York & New Jersey is committed to preserving the environment and reducing its environmental impact. The Port Authority's green initiatives include promotion of clean air, alternative fuel vehicles, mass transit and energy conservation efforts.



Access to the Region's Core.

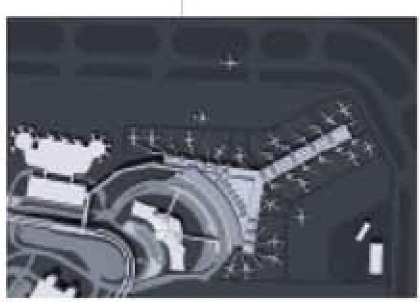
Terminal B at Newark Liberty.

One World
Trade Center/
Freedom Tower.

Proposed retail space at
The World Trade Center site.

World Trade Center
Transportation Hub.

World Financial Center Ferry Terminal.



JetBlue Terminal at JFK.

THE PORT AUTHORITY OF NY & NJ

225 Park Avenue South, New York, NY 10003
www.panynj.info