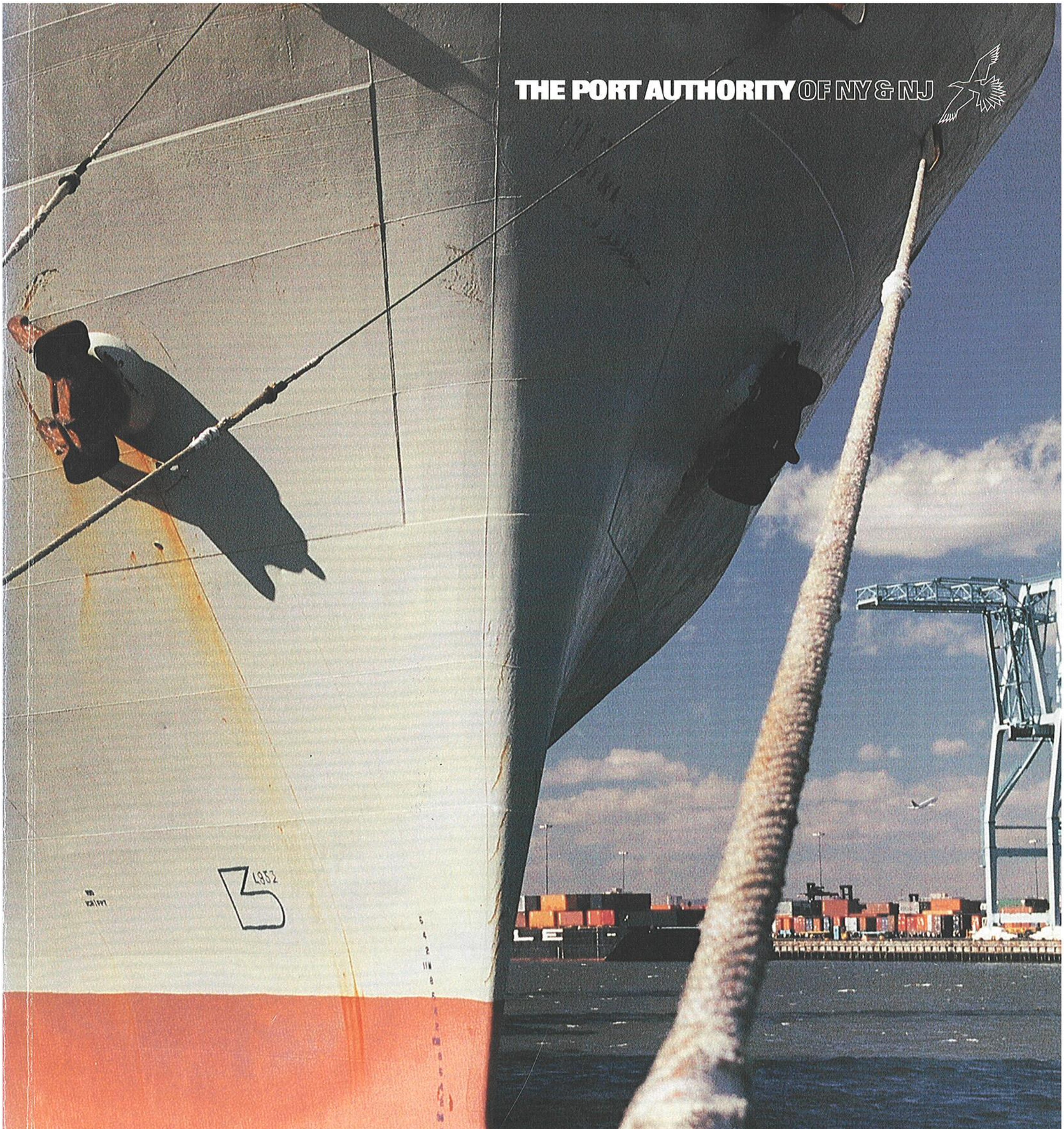
THE PORT AUTHORITY OF NY & NJ



1996 Annual Report

The Port Authority of New York and New Jersey

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1996

MISSION STATEMENT

To identify and meet the critical transportation infrastructure needs of the bistate region's businesses, residents and visitors: providing the highest quality, most efficient transportation and port commerce facilities and services that move people and goods within the region, provide access to the rest of the nation and to the world, and strengthen the economic competitiveness of the New York-New Jersey metropolitan region.

The Honorable
Christine Todd Whitman
Governor
State of New Jersey

The Honorable
George E. Pataki
Governor
State of New York

Dear Governors:

We are pleased to submit to you and to the legislatures of New Jersey and New York this 1996 Annual Report of The Port Authority of New York and New Jersey, pursuant to the bistate Port Compact of 1921.

The consuming focus of our activities in 1996 was to get projects moving, become more efficient and effective with substantially reduced staffing levels, and enhance customer service. All of this was in the context of concentrating on our core mission of transportation in our quest to keep the New York-New Jersey metropolitan region at the forefront of the competitive international economy.

Responsiveness and commitment to purpose was reflected in all of our endeavors. Extensive maintenance on our facilities was performed. Noticeable service improvements were instituted. And capital improvements proceeded apace at our facilities — most particularly at the airports. It should be well noted that several major construction projects are being undertaken by private enterprise. Through these public-private partnerships, the Port Authority has been able to greatly leverage its capital program. Projects being undertaken by our corporate partners are resulting in much needed facility improvements — and fostering economic activity. As an added benefit, the Port Authority's capital dollars are freed up for other vital projects.

The year also marked a milestone in the agency's operating budget. It was cut by $105 million, without any effect on the quality and level of our services. To a considerable extent, the budget reduction was accomplished by the elimination of over 1,000 staff positions. We also continued our concerted efforts to discontinue activities not central to our mission, and to divest of non-germane assets. Through these changes and redirection of purpose, the movement of people and goods throughout the bistate area was made more efficient and economical.

With your direction in 1996, we made great progress in improving the New York/New Jersey port's competitive position. Because of your leadership, a $130 million coordinated action plan was adopted by the Board to begin the daunting job of making shipping channels in New York Harbor ready for the new, much larger vessels now being deployed by shipping lines.

It is your support and vision, as well as the advice of the region's governmental and community leaders, that made our accomplishments possible in 1996. On behalf of the Board of Commissioners, Executive Director Robert E. Boyle, and all our employees, we thank you for your guidance and commitment to our mission of providing a sound and modern transportation infrastructure for our bistate region.

Very truly yours,

Lewis M. Eisenberg
Chairman

Charles A. Gargano
Vice Chairman

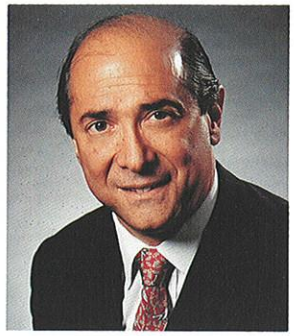
April 24, 1997

Board of Commissioners

Origins of the Port Authority

The Port Authority of New York and New Jersey was established on April 30, 1921. It was the first interstate agency ever created under a clause of the Constitution permitting compacts between states with Congressional consent.

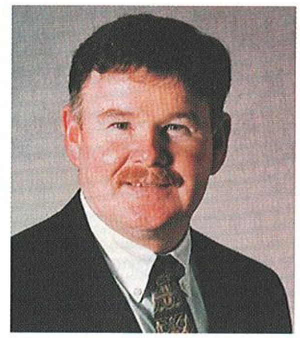
The new agency's area of jurisdiction was called the "Port District," a bistate region generally within a 25-mile radius of the Statue of Liberty. The mandate of the agency was to promote and protect the commerce of the bistate port and to undertake port and regional improvements not likely to be financed by private enterprise nor to be attempted by either state alone: a modern wharfage for the harbor shared by the two states, tunnel and bridge connections between the states and, in general, trade and transportation projects to promote the region's economic well-being.



Lewis M. Eisenberg
Co-Chairman
Granite Capital International Group

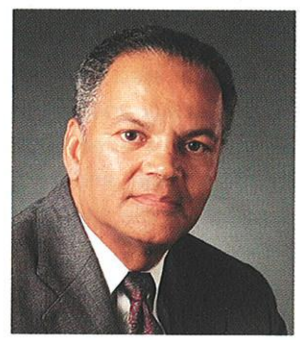
Charles A. Gargano
Chairman & CEO
Empire State Development Corp.

Kathleen A. Donovan
County Clerk
Bergen County, New Jersey

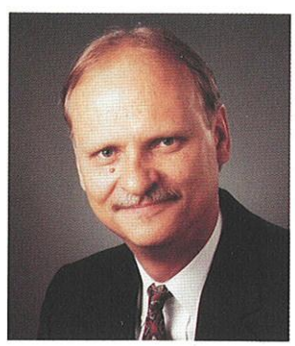


John J. Haley, Jr.
Commissioner
Department of Transportation of the State of New Jersey

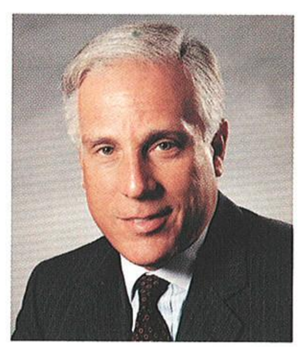
James G. Hellmuth
Consultant



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

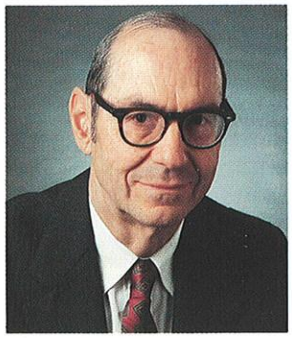


Robert C. Janiszewski
County Executive
Hudson County, New Jersey



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

Aubrey C. Lewis
Consultant

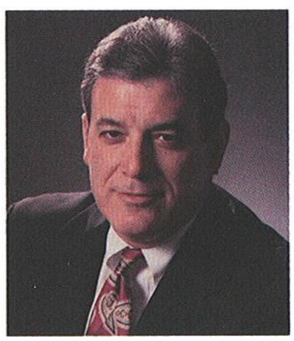


George D. O'Neill
Chairman
Meriwether Capital Corporation

Alan G. Philibosian
Partner
Profita and Philibosian

Melvin L. Schweitzer
Partner
Rogers & Wells

Madelon DeVoe Talley
Consultant



Frank J. Wilson
Corporate Vice President
Daniel, Mann, Johnson & Mendenhall

Robert E. Boyle
Executive Director

Governance of the Port Authority

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

The twelve Commissioners serve as public officials without remuneration.

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

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

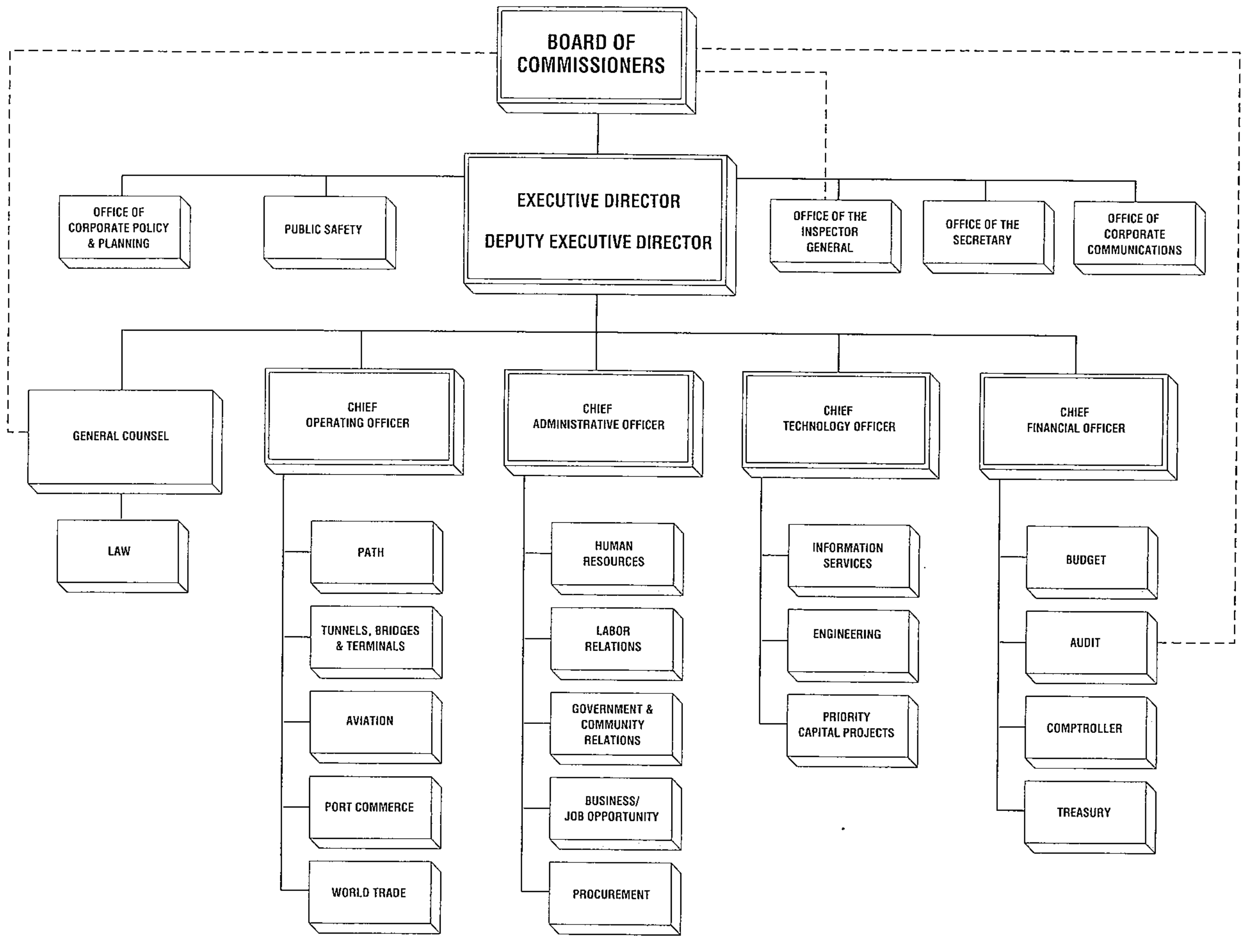
Board of Commissioners

Lewis M. Eisenberg, Chairman
Charles A. Gargano, Vice Chairman
Kathleen A. Donovan
John J. Haley, Jr. [1]
James G. Hellmuth
Henry F. Henderson, Jr. [2]
Robert C. Janiszewski
Peter S. Kalikow
Aubrey C. Lewis [2]
George D. O'Neill
Alan G. Philibosian
Melvin L. Schweitzer
Madelon DeVoe Talley
Frank J. Wilson [1]

1 Commissioner Haley joined the Board on February 3, 1997, succeeding Commissioner Wilson.

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

ORGANIZATION CHART



CURRENT OFFICERS AND DIRECTORS

Robert E. Boyle .... Executive Director
Richard J. Lobron .... Deputy Executive Director

Karen A. Antion .... Chief Technology Officer
A. Paul Blanco .... Chief Administrative Officer
David F. Feeley .... Chief Operating Officer
Charles F. McClafferty .... Chief Financial Officer
Jeffrey S. Green .... General Counsel
Daniel D. Bergstein .... Secretary
Mark O. Hatfield, Jr. .... Corporate Communications
Cruz C. Russell .... Corporate Policy & Planning

Bruce D. Bohlen .... Treasurer
Lillian C. Borrone .... Port Commerce
John D. Brill .... Audit
Ernesto L. Butcher .... Tunnels, Bridges & Terminals

Robert E. Catlin, Jr. .... World Trade (Acting)
Richard Codd .... Government & Community Relations
Michael P. DePallo .... PATH
Robert J. Kelly .... Aviation
Louis J. LaCapra .... Human Resources
Francis J. Lombardi .... Engineering
Raymond P. Mannion .... Comptroller
Michael G. Massiah .... Business/Job Opportunity
Fred V. Morrone .... Public Safety
Roy S. Pleasant .... Information Services
Michael J. Rienzi .... Procurement
Carmen S. Suardy .... Labor Relations
Robert E. Van Etten .... Inspector General
Margaret R. Zoch .... Budget

I am pleased to have this first opportunity as Executive Director to report on the year's activities of The Port Authority of New York and New Jersey.

Under my predecessor, George J. Marlin, 1996 was a year of significant accomplishment at the Port Authority. In a sense, the agency took a new direction by returning to its original mission. A renewed emphasis was placed on delivering transportation service and infrastructure needs as the best way we could contribute to a robust economy for the New York-New Jersey metropolitan region.

At the direction of Governors Pataki and Whitman and the Board of Commissioners, it is my intention to give definition to this new emphasis. We will advance our capital budget priorities. Each of our airports will continue to undergo thorough modernization. Our marine terminals and harbor will be maintained so that we remain the major hub port on the East Coast. And ever-improving customer service will be the creed at all our air and sea facilities, our Hudson River vehicular crossings, and the PATH rapid transit system. The region's infrastructure takes many shapes, and in every form it must be strong.

I am honored to serve as Executive Director of the Port Authority — a position I assumed on March 1, 1997. For I believe that, at its heart, the transportation mission of the agency can provide opportunity and strength for the people of the metropolitan region.

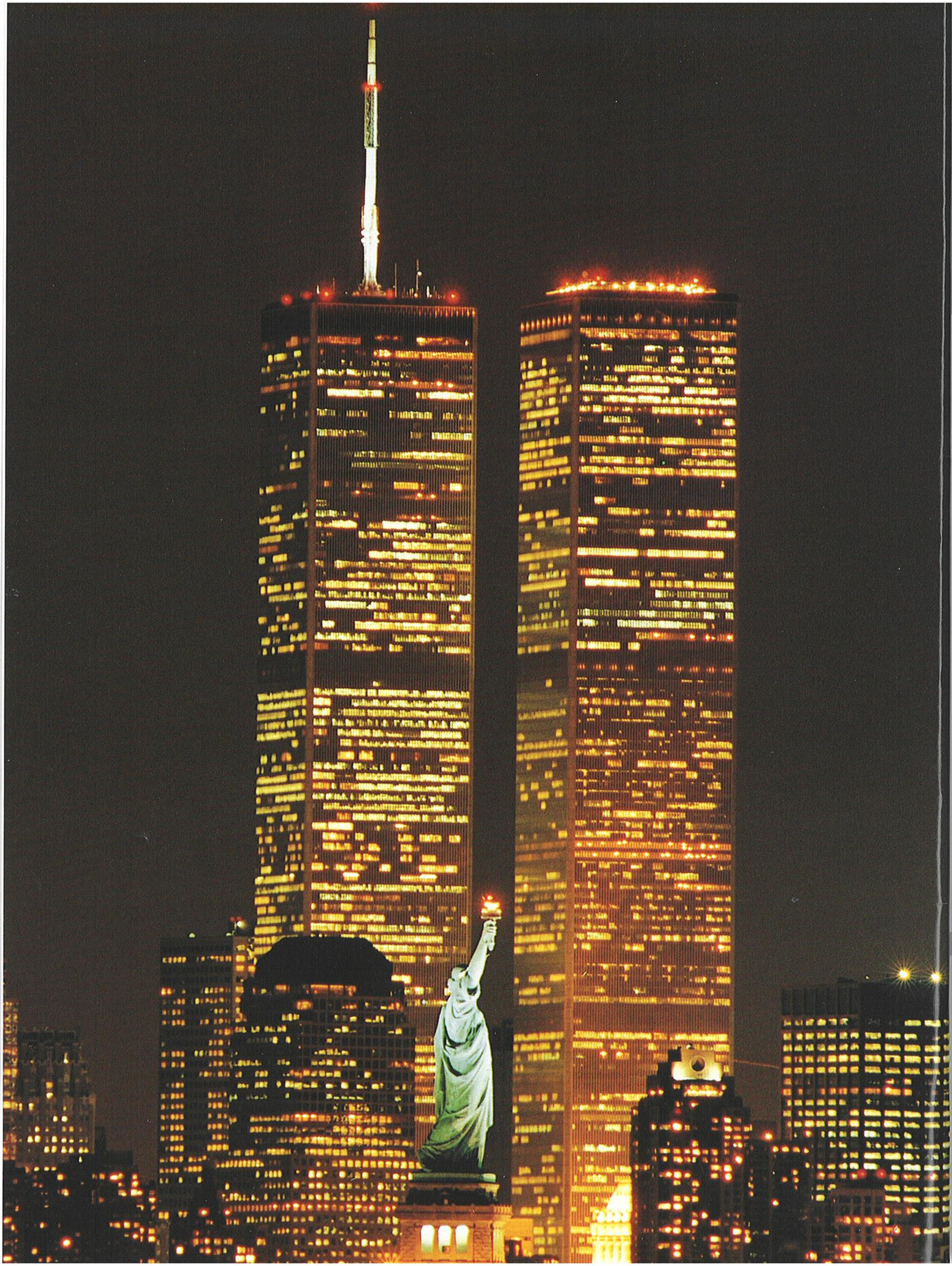
This 1996 Port Authority Annual Report reveals an entity that is fiscally sound. The Port Authority began 1996 with the first operating budget reduction since 1943, at a total savings of $105 million. At the same time, we avoided toll and fare hikes, delivered our customers high quality services, and maintained our multi-billion dollar capital improvement program.

From my short tenure here, I know that it is also an agency with a wealth of human resource. All of us are dedicated to serving the needs of our customers, and the governmental jurisdictions and community interests within the bistate Port District. We are likewise committed to performance accountability and fiscal prudence to fulfill our fiduciary responsibilities to our bondholders.

With the direct involvement and keen insights of our two Governors, I am delighted to have the challenge of helping to maintain and improve a world class transportation system for this, the world's premier metropolitan region.

Sincerely,

Robert E. Boyle
Executive Director



On April 30, 1996, the Port Authority marked its 75th anniversary. This milestone gave people both inside and outside the agency an opportunity to remember and rekindle the heart of our reason for being — to serve the people of the New York-New Jersey region as an integrated transportation agency that delivers unmatched services.

The dynamics of change continued to transform The Port Authority of New York and New Jersey in 1996. It was a year of continued review and evaluation of agency programs, policies and structure. It was also a year of recommitment to the goal set in 1995 to concentrate Port Authority efforts on our core mission of transportation and trade and return our non-related assets to the private sector. As a result, we made further strides in consolidating agency activities under four principal divisions: Finance, Administration, Operations, and Technology.

Finance

Port Authority gross operating revenues totaled $2.2 billion in 1996, an increase of $72 million from 1995. Operating expenses remained unchanged from the previous year, totaling $1.5 billion. Net income rose to $89 million, or $21 million higher than 1995. Record traffic at our tunnels and bridges and increased ridership on the PATH rapid transit system contributed to the revenue increase.

During the year, we employed sound fiscal management to finance new projects, protect existing assets and maximize net revenues. Significant financial achievements included:

- issuance of $700 million in debt obligations to finance the capital plan and to refund outstanding high-coupon debt, generating present value savings of $64 million.
- efficient portfolio management, contributing $94 million of combined earnings on long-term and short-term investments.
- negotiation of a 10-year agreement with the New York Power Authority to lock-in the cost of power at attractive rates with an opportunity to share in future savings.
- completion of internal audits producing definitive dollar findings of $14 million.

Administration

The agency continued an aggressive approach to productivity improvements. Flexible management and streamlined procedures resulted in increased efficiencies and multi-million dollar savings to the bottom line. Highlights included:

- a savings of $28 million through the competitive bidding of restructured performance-based service contracts at various facilities.
- Port Authority participation in the New York State Retirement System's 1996 Incentive, generating a recurring annual cost saving of $16 million.
- introduction of expanded health benefit options with pre-tax employee contributions, resulting in approximately $4 million in savings.
- implementation of aggressive case management strategies to reduce employee absences.
- establishment of Business Resource Centers at the World Trade Center and Newark International Airport to help small contractors improve performance and gain access to new business opportunities.

Operations

Through the efficient movement of people and goods, Port Authority operations are key to the New York-New Jersey region's economic strength. In 1996, traffic volume and business activity posted notable growth in almost every operation:

- a record 81 million air travelers used our three major airports, surpassing the previous all-time high of 79 million set in 1986.


CONDUCTOR
NJ
NY
path

• interstate traffic at our four bridges and two tunnels totaled an all-time high of 113.6 million vehicles, an increase of over one million from 1995.

• the Port Authority Bus Terminal handled a record 52.7 million customers, a 4.2 percent increase over 1995.

• ridership on the PATH rapid transit system totaled 61 million passengers, the highest volume in nearly 50 years.

• ridership on the Hoboken-lower Manhattan ferry service totaled 2.4 million passengers, reflecting the popularity of this alternative for commuting across the Hudson.

• total oceanborne cargo at the New York-New Jersey port amounted to 51.3 million long tons, a 14 percent rise, reflecting growth fueled by an overall 21 percent rise in imports.

• the World Trade Center transacted leases for more than 850,000 square feet of space, more than any other building in New York City.

• the reopened Howland Hook Marine Terminal on Staten Island became fully operational for the first time in 10 years, giving our port the capacity for handling an additional 450,000 containers annually.

Customer Service

In 1996, the Port Authority placed renewed emphasis on the level and quality of our customer service. This was manifest in expanded courtesy training for front-line operations staff at our bridges, tunnels, bus terminals, airports and PATH system. We continued the PATHursday program that gives riders a direct communication line to system managers every week.

In another area of enhanced customer communication, the Port Authority went on line with a Home Page on the World Wide Web in December (http://www.panynj.gov). The site presents a comprehensive view of agency businesses and allows visitors to access information about most of our facilities and services through a rapid, user-friendly internal navigation and search system.

Among service improvements, PATH customers enjoyed new express connections from Newark to the World Trade Center during morning rush hours, and direct weekend service between Hoboken and the World Trade Center. We expanded the number of exact toll lanes from 15 to 21 during morning and evening rush hours at the George Washington Bridge, Holland Tunnel, Bayonne Bridge and Outerbridge Crossing to improve traffic flow. Additionally, we established an exact toll lane for trucks at the George Washington Bridge.

Customers at the Port Authority Bus Terminal and George Washington Bridge Bus Station benefited from a broader offering of shops and services, including food, video rentals and banking.

At the World Trade Center, new dining and retail choices opened at the Mall, including Borders Books and Music — the store's first entry in the New York market. The world-renowned Windows on the World restaurant reopened under private management.

In our largest and most visible signage improvement project, numbers were in and names were out at Kennedy International Airport. Beginning in mid-June, the passenger terminals' traditional names were dropped in favor of a more internationally recognizable color-coded, numbering designation. This comprehensive customer service effort makes it easier and less confusing for travelers to find their airline terminal.

Technology

The Port Authority also continued an aggressive approach to provide better customer service through technology, and to improve delivery of capital projects. And in many cases, technological innovations are allowing us to expand beyond the physical limits of the facilities. Electronic toll collection is one example. The system, known as E-ZPass, will make paying tolls faster, easier and more convenient at all Port Authority interstate crossings by the end of 1997.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Capital Plan

Agency-wide, capital investment totaled over $600 million, including $253 million for Aviation; $117 million for Tunnels, Bridges and Terminals; $78 million for Port Commerce; $73 million for World Trade; $31 million for PATH; and $74 million for regional development projects requested by the Governors.

Airport projects accounted for some of the most visible undertakings by the Port Authority — and our private sector partners. At Kennedy International, we made substantial advances in a massive multi-year redevelopment plan, in which nearly $5 billion in Port Authority, airline and other private sector funds will be invested over the next five years. A private developer, LCOR/Schiphol USA, was selected to design, build, operate and maintain Kennedy's new $1 billion international terminal. The 1.4 million-square-foot facility is to be constructed on the site of the existing building. Terminal functions will remain operational throughout construction, which begins in 1997 and is slated for completion in 2001.

Plans moved ahead on another vital element of Kennedy's redevelopment program — a $1 billion Light Rail System designed to provide fast, reliable and economical airport access by 2002. A plan was approved that will link the airport's nine terminals, then connect to New York subways, trains and buses. The system, to be funded primarily by federally authorized passenger facility charges, will create more than 4,000 construction jobs during the five-year building period. Conservative estimates project initial ridership levels will make this the second most heavily used airport system in the country — and that's just the beginning.

In June, passengers began enjoying fast, frequent and free monorail service between Newark International Airport's terminals, parking lots and car rental stations. Work will begin in the spring of 1997 to link the monorail with the Northeast Corridor rail line, thereby connecting the airport to New Jersey Transit and Amtrak trains.

Multimillion dollar runway improvements were among airport safety initiatives. At Kennedy, a 500-foot cellular cement foam arrestor bed can bring an aircraft to a safe stop should it overrun the runway; at LaGuardia Airport, a 460-foot-long safety overrun at the end of Runway 13 provides an extra margin of safety should overrun incidents occur; and at Newark, plans advanced for a major runway extension that will provide added safety and operational flexibility. Other airport redevelopment projects included:

- the opening of a dazzling new International Arrivals Facility at Newark, providing enhanced terminal services, better baggage claim and speedier immigration and customs processing.
- roadway improvements in and around Kennedy Airport and the opening of a new domestic baggage handling facility.
- a new food and retail mall in the west wing of LaGuardia Airport.

At the World Trade Center, we continued multiple building enhancements, including elevator and escalator upgrades, increased electrical capacity, HVAC (heating, ventilation and air conditioning) system rehabilitation, and a new operations control center.

Interstate transportation network projects were wide ranging. On PATH, newly painted, repaired and scoured handrails, ceilings, floors and walls as well as brighter lighting welcomed riders at six stations overhauled during the year as part of an ongoing improvement program. The Port Authority Bus Terminal received a dramatic and protective color change to its external structural steel. We also began restoration of roadway surfaces and strengthening ramps to accommodate larger, wider and heavier buses.

A $28 million project to repaint the George Washington Bridge and Outerbridge Crossing was launched mid-year. At the George Washington Bridge, the half million square feet of paint removal and repainting of the New York

PORT AUTHORITY BUS TERMINAL

Tower from the base up to the level of the bridge's lower roadway will be completed by the end of 1997. At the Outerbridge Crossing, the project involves painting the entire span of 900,000 square feet of steel.

These two projects represent the first steps in a 20-year, $500 million program to restore and protect the surfaces of every Port Authority bridge — over 16 million square feet of steel.

Partnerships

With the united support of both states, we advanced dredging initiatives to prepare the New York-New Jersey port for the competitive challenges of the future. At the request of New Jersey Governor Christine Todd Whitman and New York Governor George E. Pataki, the Port Authority Board of Commissioners authorized up to $130 million to support dredging in our harbor. This represents a critical milestone in the development of a comprehensive plan by federal, state, local and Port Authority officials to solve New York Harbor's mounting dredging crisis.

Additional rail capacity also bolstered the New York-New Jersey port's competitive position with the completion of a new ExpressRail Intermodal Facility at the Elizabeth Marine Terminal. The expanded facility opened in January and by year-end had surpassed all performance projections by moving 103,000 containers, more than a 20 percent increase over 1995. The additional capacity helps the port capture increased cargo volume to and from inland markets.

The Port Authority's commitment to waterfront revitalization saw progress on two mixed-use development projects: Queens West in Long Island City, NY, and The South Waterfront at Hoboken, NJ, a cooperative venture with that city. Our Queens West partners are the New York City Economic Development Corporation and New York's Empire State Development Corporation.

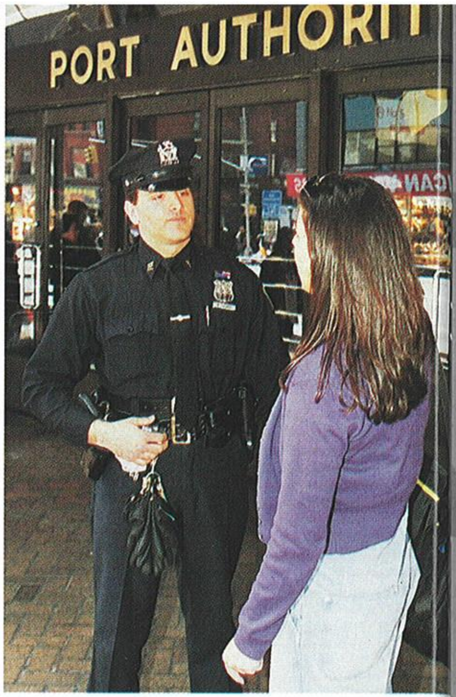
Core Strength

The year was also marked by tremendous challenge. Early in 1996, our employees worked around the clock to keep vital facilities and services operating during a record-breaking blizzard. In July, staff responded with strength and compassion to an international tragedy — the crash of TWA Flight 800.

Recognizing increased airport security concerns, the Port Authority developed and implemented a comprehensive plan to redouble security at Kennedy, Newark and LaGuardia airports. A new 10-point security initiative included security auditing, explosives detecting teams with bomb-sniffing dogs, and installation of new physical security measures.

The period covered in this 1996 Port Authority Annual Report reflects a year of challenge, a year of adjustment and a year of undaunted progress. The return to our core mission was a return to our core strength. That strength — today and as we look to the future — is evidenced in the faith of our bondholders and financial markets, the dedication and commitment of our employees and the indomitable resources of this great region.


BUSES
PLEASE
DEPART
SLOWLY
Port Authority
NY & NJ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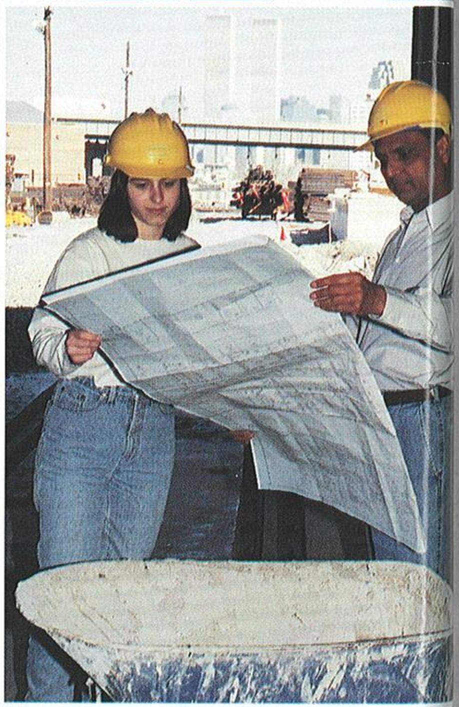

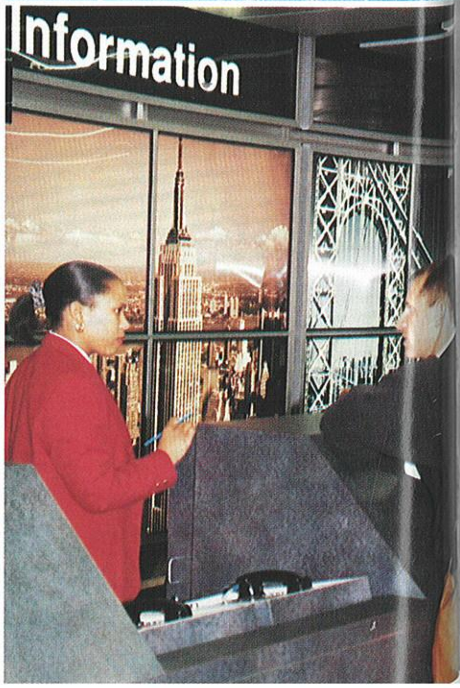
Information

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, 1995

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Arthur R. Lynch
President

Jeffrey L. Esser
Executive Director

For the twelfth 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 1995 Comprehensive Annual Financial Report.

THE PORT AUTHORITY OF NY & NJ

ONE WORLD TRADE CENTER
NEW YORK, NY 10048

(212) 435-7000
(201) 961-6600

To The Board of Commissioners of
The Port Authority of New York and New Jersey
The Comprehensive Annual Financial Report of The Port Authority of New York and New Jersey, including its wholly-owned subsidiaries, for the year ended December 31, 1996, is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Port Authority. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the Port Authority's financial results of operations, financial position, and cash flows in accordance with the requirements of generally accepted accounting principles and Port Authority bond resolutions.

Reporting Entity and its Services
The Port Authority of New York and New Jersey is a municipal corporate instrumentality and political subdivision of the States of New York and New Jersey, created in 1921 by Compact between the two States and thereafter consented to by the Congress of the United States, which undertakes only those projects authorized by the two States. The Port Authority presently has two wholly-owned subsidiaries, Port Authority Trans-Hudson Corporation and Newark Legal and Communications Center Urban Renewal Corporation. The Governor of each State appoints six of the twelve members of the governing Board of Commissioners. Actions taken by the Commissioners at Port Authority meetings are subject to a gubernatorial review period. From time to time Governors have exercised their power to veto the actions of Commissioners from their respective State. The Compact envisions the Port Authority as being financially self-sustaining and, as such, it must raise the funds necessary for the improvement, construction or acquisition of facilities upon the basis of its own credit. The agency has neither the power to pledge the credit of either State or any municipality nor to levy taxes or assessments. It is authorized and directed to plan, develop, and operate terminals and other facilities of transportation and commerce, and to advance projects in the general fields of transportation, economic development, and world trade that contribute to promoting and protecting the commerce and economy of the Port District, which comprises an area of about 1,500 square miles in both States centering about New York Harbor.

Non-Financial Information
Information concerning current and future economic conditions and how they may impact on operations and the future commitment of Port Authority resources, as well as highlights of current and future initiatives and programs of the Port Authority are presented in the Introductory Section.

Financial Systems, Structure and Control:
Accounting Systems - The Port Authority's Combined Financial Statements include the accounts of the Port Authority and those of its wholly-owned subsidiaries, Port Authority Trans-Hudson Corporation (PATH) and Newark Legal and Communications Center Urban Renewal Corporation. The Combined Financial Statements are prepared in accordance with generally accepted accounting principles, and include information on Port Authority operations by operating segment. Where appropriate, statements and schedules reflect amounts, including provisions for claims made against the Port Authority, based on estimates and judgments which the Port Authority believes to be sound. These financial statement presentations do not in any way change the net revenues or reserves of the Port Authority or their application as they are defined and governed by requirements of law and the Port Authority's bond resolutions and as they are reflected in Schedules A, B and C. The Port Authority conducts its operations in accordance with such resolutions and legal requirements. Reconciliations of the Combined Statements of Income to Schedule A, Revenues and Reserves, and the Combined Statements of Financial Position to Schedule B, Assets and Liabilities, are included in Note A of the Combined Financial Statements.

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

Financial Planning Structure - The Port Authority's annual budget provides an outline of estimated expenditures for the year. Approval of the budget by the Board of Commissioners, based upon financial projections developed as a part of the Port Authority business planning process, does not in itself authorize any specific expenditures, which are authorized by other actions of the Board of Commissioners consistent with statutory, contractual and other commitments of the Port Authority, including agreements with the holders of its obligations. The budget, upon approval, becomes a mechanism which facilitates the systematic review of program expenditures to ensure they are made consistent with statutory, contractual and other commitments of the Port Authority, the policies and financial decisions of the Board of Commissioners and the requirements of the By-Laws of the Port Authority.

Results of Operations:

Gross operating revenues totalled $2.2 billion in 1996, an increase of $71.5 million or 3.5% from 1995. This increase was primarily attributable to increased activities and services at LaGuardia (LGA), John F. Kennedy International (JFK) and Newark International (EWR) Airports, higher toll revenues due to record vehicular activity at the Port Authority tunnel and bridge facilities, and increased revenues related to a new ExpressRail facility at Port Elizabeth, which were partially offset by decreased World Trade Center revenues due to the sale of the Vista Hotel at year-end 1995.

Operating expenses totalled $1.5 billion in 1996, approximately the same as 1995. A decline in operating expenses at the World Trade Center due to the sale of the Vista Hotel and the privatization of the Observation Deck combined with lower expenses throughout the agency as a result of reductions in workforce were largely offset by higher costs for municipal rent payments related to improved operating results at the three major airports, increased maintenance and service programs, and higher snow and ice removal costs due to severe winter weather.

Portfolio Management

The Port Authority's long-term investments are maintained in securities of or guaranteed by the United States Government and in Port Authority bonds. During 1996 earnings on long-term investments totalled $54.6 million.,

Short-term investments primarily consisted of United States Government securities (including such securities held pursuant to repurchase agreements and reverse repurchase agreements), securities of United States government agencies, commercial paper, interest rate exchange contracts and interest rate options contracts. These investments include derivatives that are employed in hedging strategies to minimize interest rate risk. Earnings on short-term investments totalled $39.5 million, which included earnings allocated to capital and to the Passenger Facility Charge Program.

The increase in combined earnings on such long-term and short-term investments in 1996 was primarily due to higher short-term interest rates and higher average invested balances.

Invested In Facilities

Invested in facilities, pursuant to Port Authority bond resolutions, totalled $12.4 billion at year-end 1996, which reflects a net increased investment of $552 million for the operating segments and $74 million for Regional and Other Programs. The additional investment in Port Authority operating segments, and the major projects of each segment, is primarily comprised of:

Air Terminals – $253 million

- Roadways, runways and taxiways;
- Improvements and modernization of terminal buildings;
- On and off airport transportation improvements.

Interstate Transportation Network – $148 million

- Roadway improvements;
- Electrical and mechanical improvements;
- Bridge painting program;
- PATH tunnel, station and track improvements.

Port Commerce Facilities – $78 million

- Dredging;
- Roadway, utility and rail improvements;
- Berth and wharf rehabilitation.

World Trade Center – $73 million

- Fire and security system enhancements;
- Electrical capacity upgrade;
- Elevator/escalator modernization.

Passenger Facility Charges

The Federal Aviation Administration (FAA) granted the Port Authority the right, effective October 1, 1992, to impose a $3 Passenger Facility Charge (PFC) per enplaned passenger at LGA, JFK and EWR to be collected by the airlines on behalf of the Port Authority. As of July 1995, the Port Authority was authorized to collect up to an aggregate amount (including interest thereon) of $846 million, net of air carrier handling charges. As of November 1996, the FAA also approved expenditures of $421 million attributable to amounts received from collection of PFCs to fund the EWR Airport monorail, northeast corridor connection, landside access program, and studies associated with ground access projects pertaining to each airport. Future applications are to be submitted to the FAA for approval to continue the collection of PFCs at the airports and to spend PFCs on airport-related capital construction projects.

As of December 31, 1996, total cumulative gross investment provided by PFCs in connection with the ground access projects amounted to $163 million and the amount of PFCs available for and restricted to future PFC project payments was $266 million.

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

Risk Management

As of December 31, 1996, the Port Authority maintained property damage and loss of revenue insurance with policy limits of $600 million for bridge and tunnel facilities and $600 million for "non-bridge and tunnel" facilities. The Port Authority also presently maintains public liability insurance totalling $1 billion for aviation facilities and $425 million for "non-aviation" facilities. In providing for uninsured potential losses, the Port Authority administers its self-insurance program by applications from the Consolidated Bond Reserve Fund and provides for losses by charging operating expenses as incurred.

Debt Management

As of December 31, 1996, outstanding obligations of the Port Authority pursuant to Port Authority bond resolutions totalled $6.6 billion. Components of these outstanding obligations include:

Consolidated Bonds and Notes

- The total amount outstanding of Consolidated Bonds and Notes as of December 31, 1996 was $4.7 billion.
- In 1996, the Port Authority issued Consolidated Bonds, one hundred fourth through one hundred seventh series in the aggregate principal amount of $500 million.
- Due to the suspension of negotiations to extend the lease agreement with the City of New York for JFK and LGA (which expires in 2015), in 1994 the Port Authority initiated a program to accelerate the retirement of certain Consolidated Bonds that were outstanding as of December 31, 1994 and which had maturities extending beyond 2015, and to limit to 20 years the maturity on its future private activity Consolidated Bonds (the proceeds of which are used primarily at the airports).
- During 1996, the Port Authority refunded $387 million in Consolidated Bonds which generated approximately $64 million in present value savings to the Port Authority.
- At December 31, 1996, outstanding Port Authority Consolidated Bonds were rated AA- by Standard & Poor's Rating Group and Fitch Investors Service, L.P., and A1 by Moody's Investors Service.

Commercial Paper Program

- The total amount outstanding of Port Authority Commercial Paper Obligations at December 31, 1996 was $164 million.
- Commercial Paper Obligations may be issued in two separate series, in an aggregate principal amount outstanding at any one time not in excess of $300 million.
- Each of such series includes commercial paper notes and a bank stand-by revolving credit facility in the principal amount of up to $150 million outstanding at any one time to provide program liquidity in the event commercial paper notes cannot be refunded at their maturity due to market conditions.

- At December 31, 1996, outstanding Commercial Paper Notes were rated A-1+ by Standard & Poor's, F-1+ by Fitch, and P-1 by Moody's, the highest short-term ratings given by each of the rating agencies.

Variable Rate Master Notes

- The total principal amount outstanding of Variable Rate Master Notes as of December 31, 1996 was $233 million.
- Variable Rate Master Notes may be issued in an aggregate principal amount outstanding at any one time not in excess of $400 million.
- In 1996, no additional Variable Rate Master Notes were issued and $75 million of Variable Rate Master Notes were refunded.
- Credit ratings are not assigned to Variable Rate Master Notes.

Versatile Structure Obligations

- The total amount outstanding of Versatile Structure Obligations at December 31, 1996 was $485 million.
- In 1996, the Port Authority issued Versatile Structure Obligations, Series 4 & 5, in the amount of $200 million.
- The Port Authority has entered into stand-by certificate purchase agreements with certain banks for each series providing for the purchase of unremarketed certificates.
- Because Versatile Structure Obligations were issued on a "multi-modal" basis, initially paying interest on a daily rate, they received short-term credit ratings from each agency. Since these obligations may be converted to a longer term at the option of the Port Authority, the rating agencies also issued long-term ratings. As of year-end 1996, the obligations were rated A-1+ by Standard & Poor's, F-1+ by Fitch, and VMIG1 by Moody's, the highest short-term variable debt rating given by each of the rating agencies. Long-term ratings for these obligations were A-, A+ and A respectively.

Equipment Notes

- The total principal amount outstanding as of December 31, 1996 of Equipment Notes was $36.1 million of which $22.5 million was issued in 1996.
- Equipment Notes are authorized to be issued in an aggregate principal amount not to exceed $100 million.
- Credit ratings are not assigned to Equipment Notes.

Fund Buy-out Obligation

- As of December 31, 1996, the Port Authority had an outstanding obligation to pay $400 million to the States of New York and New Jersey as a result of termination of the Fund for Regional Development.

Special Project Bonds

- As of December 31, 1996, the total outstanding obligation in connection with three separate series of Special Project Bonds, excluding unamortized discount and premium, was $549 million.
- The principal of and interest on Special Project Bonds are special obligations of the Port Authority, payable from the sources of payment and to the extent provided in the resolutions establishing and authorizing the issuance of each series of such bonds.

During 1996, total debt service including amounts charged to net revenues and reserves was $481 million exclusive of interest expense relating to the Equipment Notes, Special Project Bonds and the Fund Buy-out Obligation. Capitalized interest for the year ended December 31, 1996 totalled $47 million.

Reserve Funds

At December 31, 1996, the General Reserve Fund balance was approximately $619 million and met the amount prescribed by the General Reserve Fund statutes. The Consolidated Bond Reserve Fund had a balance of approximately $373 million. The sum of the reserve fund balances exceeded the next two years' mandatory debt service on bonds secured by a pledge of the General Reserve Fund, and they were invested in certain government securities or maintained as cash.

Independent Audit

A firm of independent certified public accountants is retained each year to conduct an audit of the financial statements of the Port Authority, including an evaluation of the system of internal accounting control, in accordance with generally accepted auditing standards. The firm meets directly with the Audit Committee of the Board of Commissioners. The audit report is included in the Comprehensive Annual Financial Report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Port Authority of New York and New Jersey for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 1995. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. The Port Authority of New York and New Jersey has received a Certificate of Achievement for the last twelve consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

February 28, 1997

C. F. M. Clifford

Chief Financial Officer

Deloitte &
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Opinion of Independent Auditors

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

We have audited the accompanying combined statements of financial position of The Port Authority of New York and New Jersey (which includes its wholly-owned subsidiaries) as of December 31, 1996 and 1995, and the related combined statements of income and cash flows for the years then ended. We also audited the financial information included in Schedules A, B, C and D. These financial statements and schedules are the responsibility of the Port Authority's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Port Authority of New York and New Jersey (Port Authority) as of December 31, 1996 and 1995, and the combined results of its operations and its combined cash flows for the years then ended in conformity with generally accepted accounting principles. The accompanying Schedules A, B and C have been prepared pursuant to the requirements of law and Port Authority bond resolutions. The accounting principles followed in the preparation of these schedules differ in some respects from generally accepted accounting principles as described in Note A-2. 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, 1996 and the revenues and reserves for the year then ended in conformity with the accounting principles described in Note A-2. Also in our opinion, Schedule D presents fairly, in all material respects, the assets and liabilities of the New York State Commuter Car Program at December 31, 1996 and 1995, in conformity with the basis of accounting described therein.

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

Deloitte & Touche LLP

February 28, 1997

Deloitte Touche
Tohmatsu
International

Combined Statements of Income

	Year ended December 31, 1996			1995
	Port Authority Operations	PFC Program	Combined	Combined
		(In thousands)		
Gross operating revenues	$2,154,120	$ —	**$2,154,120**	$2,082,624
Operating expenses:				
Employee compensation, including benefits	636,637	—	**636,637**	654,106
Contract and consultant services	415,852	—	**415,852**	401,996
Heat, light and power	111,431	—	**111,431**	114,082
Rents and amounts in-lieu-of taxes	104,439	—	**104,439**	69,049
Materials, equipment and supplies	68,759	—	**68,759**	67,265
Other (Note J-2)	132,191	—	**132,191**	163,383
Total operating expenses	1,469,309	—	**1,469,309**	1,469,881
Amortization of facilities	338,672	2,979	**341,651**	300,262
Amortization of costs for Regional and Other Programs (Note H-2)	23,508	—	**23,508**	26,879
Income from operations	322,631	(2,979)	**319,652**	285,602
Net PFC revenue	—	101,872	**101,872**	97,346
Financial income and expense:				
Income on investments	98,674	10,894	**109,568**	82,543
Gain on purchase of Port Authority bonds in connection with sinking fund requirements	—	—	**—**	439
Interest expense in connection with bonds, notes and other capital asset financing, net of capitalized interest	(294,180)	—	**(294,180)**	(264,705)
Interest expense in connection with operating asset financing	(33,126)	—	**(33,126)**	(32,254)
(Loss) gain on disposition of assets (Note J-5)	(4,875)	—	**(4,875)**	8,453
Net income	89,124	109,787	**198,911**	177,424
Add: amortization of assets acquired with government contributions in aid of construction (Note F)	28,985	—	**28,985**	26,856
Increase in net income invested in Port Authority facilities, operations and reserves	118,109	109,787	**227,896**	204,280
Balance, January 1	2,614,918	316,437	**2,931,355**	2,727,075
Net income invested in Port Authority facilities, operations and reserves, December 31	$2,733,027	$426,224	**$3,159,251**	$2,931,355

See Notes to Combined Financial Statements.

Combined Statements of Financial Position

	December 31, 1996			December 31, 1995
	Port Authority Operations	PFC Program	Combined	Combined
	(In thousands)			
Assets				
Facilities	$10,781,851	$163,379	**$10,945,230**	$10,431,741
Less accumulated amortization of facilities	3,972,326	2,979	**3,975,305**	3,641,887
Facilities, net (Note B-1)	6,809,525	160,400	**6,969,925**	6,789,854
Cash (Note C)	42,851	—	**42,851**	39,820
Investments (Note C)	1,294,970	255,748	**1,550,718**	1,365,131
Accounts receivable (net of allowance for doubtful accounts of $22,961 in 1996 and $20,718 in 1995)	70,178	—	**70,178**	79,291
Other amounts receivable (net of allowance for doubtful accounts of $6,788 in 1996 and $9,321 in 1995)	415,403	10,076	**425,479**	457,145
Amounts receivable in connection with Special Project Bonds	535,018	—	**535,018**	463,019
Unamortized costs for Regional and Other Programs (Note H-2)	469,437	—	**469,437**	418,096
Unamortized costs for Fund buy-out (Note H-1)	414,645	—	**414,645**	416,904
Deferred compensation plan assets (Note I-3)	183,063	—	**183,063**	156,391
Other assets	295,532	—	**295,532**	272,113
Total assets	10,530,622	426,224	**10,956,846**	10,457,764
Liabilities				
Consolidated Bonds and Notes (Note D-1)	4,585,095	—	**4,585,095**	4,584,355
Obligations in connection with other capital asset financing (Note D-2)	881,550	—	**881,550**	770,155
Obligations in connection with operating asset financing (Note D-3)	436,443	—	**436,443**	409,998
Amounts payable in connection with Special Project Bonds (Note D-4)	535,018	—	**535,018**	463,019
Accounts payable	269,035	—	**269,035**	295,827
Accrued pension, retirement and other employee benefits (Note I)	280,729	—	**280,729**	244,219
Deferred compensation plan obligation (Note I-3)	183,063	—	**183,063**	156,391
Accrued interest and other liabilities	247,391	—	**247,391**	232,706
Total liabilities	7,418,324	—	**7,418,324**	7,156,670
Net assets	$ 3,112,298	$426,224	**$ 3,538,522**	$ 3,301,094
Net assets are composed of:				
Net income invested in Port Authority facilities, operations and reserves	$ 2,733,027	$426,224	**$ 3,159,251**	$ 2,931,355
Government contributions in aid of construction (Note F)	379,271	—	**379,271**	369,739
Net assets	$ 3,112,298	$426,224	**$ 3,538,522**	$ 3,301,094

See Notes to Combined Financial Statements.

Combined Statements of Cash Flows

	Year ended December 31, 1996			1995
	Port Authority Operations	**PFC Program**	**Combined**	Combined
	(In thousands)			
1. Cash flows from operating activities:				
Cash received from operations	$2,188,927	$ —	**$2,188,927**	$2,060,474
Cash paid to suppliers	(737,348)	—	**(737,348)**	(783,983)
Cash paid to or on behalf of employees	(600,128)	—	**(600,128)**	(601,558)
Cash paid to municipalities	(100,045)	—	**(100,045)**	(71,233)
Cash received from insurance	—	—	**—**	34,540
Net cash provided by operating activities	751,406	—	**751,406**	638,240
Cash flows from capital and related financing activities:				
Proceeds from sales of capital obligations	359,363	—	**359,363**	346,795
Proceeds from capital obligations issued for refunding purposes	1,680,785	—	**1,680,785**	2,161,631
Principal paid on capital obligations	(187,260)	—	**(187,260)**	(200,537)
Principal paid through capital obligations refundings	(1,680,785)	—	**(1,680,785)**	(2,161,631)
Interest paid on capital obligations	(327,332)	—	**(327,332)**	(323,780)
Investment in facilities and construction of capital assets	(568,263)	(29,437)	**(597,700)**	(596,183)
Investment in Regional and Other Programs	(72,397)	—	**(72,397)**	(75,399)
Proceeds from disposition of facilities	3,629	—	**3,629**	50,943
Proceeds from financing the sale of assets	1,056	—	**1,056**	646
Proceeds from passenger facility charges	—	107,395	**107,395**	95,945
Financial income allocated to capital projects	10,919	—	**10,919**	13,362
Proceeds from sale of equipment notes	22,500	—	**22,500**	13,638
Principal paid on operating equipment-lease financing obligations	—	—	**—**	(13,563)
Interest paid on operating equipment-lease/note financing obligations	(1,006)	—	**(1,006)**	(652)
Payments for Fund buy-out obligation	(28,063)	—	**(28,063)**	(28,063)
Government contributions in aid of construction	37,610	—	**37,610**	39,813
Net cash (used for) provided by capital and related financing activities	(749,244)	77,958	**(671,286)**	(677,035)
Cash flows from investing activities:				
Purchase of investment securities	(3,719,292)	(107,395)	**(3,826,687)**	(2,837,909)
Proceeds from maturity and sale of investment securities	3,651,885	18,503	**3,670,388**	2,817,718
Interest received on investment securities	46,624	10,934	**57,558**	44,664
Miscellaneous financial income	21,652	—	**21,652**	19,142
Net cash provided by (used for) investing activities	869	(77,958)	**(77,089)**	43,615
Net increase in cash	3,031	—	**3,031**	4,820
Cash at beginning of year	39,820	—	**39,820**	35,000
Cash at end of year	$ 42,851	$ —	**$ 42,851**	$ 39,820

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

See Notes to Combined Financial Statements.

Combined Statements of Cash Flows (continued)

	Year ended December 31, 1996			1995
	Port Authority Operations	PFC Program	Combined	Combined
	(In thousands)			
2. Reconciliation of income from operations to net cash provided by operating activities:				
Income from operations	$ 322,631	($2,979)	**$319,652**	$285,602
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Amortization of facilities	338,672	2,979	**341,651**	300,262
Amortization of costs for Regional and Other Programs	23,508	—	**23,508**	26,879
Amortization of other assets	45,722	—	**45,722**	44,710
Change in operating assets and operating liabilities:				
Decrease in receivables	37,762	—	**37,762**	10,599
(Increase) in prepaid expenses	(56,793)	—	**(56,793)**	(33,370)
Decrease in deferred costs	2,259	—	**2,259**	2,008
(Decrease) in payables	(11,176)	—	**(11,176)**	(8,795)
Increase in employee benefits	36,509	—	**36,509**	52,549
Increase (decrease) in other liabilities	13,373	—	**13,373**	(40,605)
(Decrease) in deferred income	(1,061)	—	**(1,061)**	(1,599)
Total adjustments	428,775	2,979	**431,754**	352,638
Net cash provided by operating activities	$751,406	$ —	**$751,406**	$638,240

3. Capital obligations:

Consolidated Bonds and Notes, commercial paper, variable rate master notes, versatile structure obligations and amounts payable in connection with Special Project Bonds.

4. Noncash capital financing activity:

Noncash activity of $12,030,000 in 1996 and $8,892,000 in 1995 includes amortization of discount and premium on consolidated bonds and notes, accretion associated with capital appreciation bonds and the gain on the purchase of Port Authority bonds for sinking fund purposes.

See Notes to Combined Financial Statements.

Notes to Combined Financial Statements

Note A - Summary of Significant Accounting Policies

1. Accounting Policies

a. The Port Authority of New York and New Jersey was created in 1921 by Compact between the two States and thereafter consented to by the Congress of the United States. Cash derived from Port Authority operations and other cash received may be disbursed only for specific purposes in accordance with provisions of various statutes and agreements with holders of its obligations and others. The costs of providing facilities and services to the general public on a continuing basis are recovered primarily in the form of tolls, fares, fees, rentals and other user charges.

b. The financial statements and schedules include the accounts of the Port Authority and its wholly-owned subsidiaries, Port Authority Trans-Hudson Corporation (PATH) and the Newark Legal and Communications Center Urban Renewal Corporation, consistent with the criteria set forth in the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, "Defining the Financial Reporting Entity". In accordance with the provisions of law, Port Authority resolutions and agreements with others, the nature of the legal and financial relationship between the New York State Commuter Car Program and the Port Authority was such that, in accordance with the Codification and Governmental Accounting Standards Board (GASB) Statement No. 14, the assets and liabilities of the New York State Commuter Car Program were not included in the Port Authority's financial statements. As of December 31, 1996, all New York State Guaranteed Commuter Car Bonds have been fully retired and title to all commuter cars acquired under the program has been transferred (see Note E-2 and Schedule D).

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

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

d. "Facilities" are carried at cost and include the expenditure of Federal and State grants to acquire, construct, place in operation and improve the facilities of the Port Authority (see Note F). "Facilities" do not include Regional and Other Programs, undertaken at the request of the Governor of the State of New Jersey or the Governor of the State of New York (see Note H-2). Capital costs for "Facilities" include net interest expense incurred from the date of issuance of debt for purposes of a capital project until such project is completed and ready for its intended use (see Note B-2).

e. "Amortization of facilities" is computed on the straight-line method based on estimated useful lives of the related assets including those paid for by government contributions. In distributing net income to net assets, a charge representing amortization of assets acquired with government contributions is made against the related contribution accounts. Costs of Regional and Other Programs are amortized on a straight-line basis; the buy-out of the Fund for Regional Development is amortized in proportion to its future expected revenue flow (see Note H). Certain operating expenditures which provide benefits for periods exceeding one year are deferred and amortized over the period benefited. These unamortized deferred operating expenditures are included in "Other assets".

f. Investments in long-term securities, other than the Port Authority's Consolidated Bonds, are valued at amortized cost. Investments in short-term securities, other than Port Authority bonds, are valued at the lower of their aggregate amortized cost or market value.

Port Authority Consolidated Bonds purchased by the Port Authority serve to reduce debt on Consolidated Bonds and

Notes and are not included in investments (see Note C). Interest expense and interest earnings relating to such Port Authority bonds so purchased are not included in "Interest expense in connection with bonds, notes and other capital asset financing, net of capitalized interest" and "Income on investments".

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

g. When issuing new debt, the proceeds of which are used to repay previously issued debt, the difference between the acquisition price of the new debt and the net carrying amount of the refunded debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter (see Note D-1).

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

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

j. Environmental contamination treatment costs are generally charged as an operating expense. However, such costs, when they result in an improvement of the asset compared with its condition when it was constructed or acquired, are capitalized. Improved asset conditions include the extension of the useful life, increased capacity, or improvement of safety or efficiency.

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

l. The 1995 financial statements contain certain reclassifications which have been made in order to conform to the classifications used in 1996.

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

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

The revenues and expenses of facilities are accounted for in the operating fund. The financial resources expended for the construction or acquisition of major facilities or improvements thereto are accounted for in the capital fund. Transactions involving the application of net revenues are accounted for in the reserve funds.

The Port Authority's bond resolutions provide that net operating revenues shall not include an allowance for depreciation on (amortization of) facilities other than of ancillary equipment. Thus, depreciation (amortization) is not a significant factor in determining the net revenues and the reserves of the Port Authority or their application as provided in the Port Authority's bond resolutions. Instead, facility capital costs are provided for through deductions from net revenues and reserves of amounts equal to principal payments on debt or through direct investment in facilities. These amounts are credited at par to "Debt retired through income" and to "Appropriated reserves invested in facilities", respectively.

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

Expenditures for Regional and Other Programs are included in "Invested in facilities" in accordance with Port Authority bond resolutions.

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

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

Furthermore, to reflect the cumulative amount invested by the Port Authority since 1921 in connection with its facilities, the cost of assets removed from service is not deducted from "Invested in facilities". However, in the event of the sale of assets removed from service, the amount of proceeds received from such sale is deducted from "Invested in facilities".

A reconciliation of Combined Statements to Schedules A and B follows:

Combined Statements of Income to Schedule A, Revenues and Reserves

	Year Ended December 31, 1996	1995
	(In thousands)	
Net income reported on Combined Statements of Income	$198,911	$177,424
Add: Amortization of facilities	341,651	300,262
Amortization of costs for Regional and Other Programs	23,508	26,879
Appropriations for self-insurance	5,057	(3,444)
Amortization of discount and premium	8,966	6,576
Loss (gain) on disposition of assets	4,875	(8,453)
	582,968	499,244
Less: Debt maturities and retirements	87,443	86,865
Repayment of commercial paper obligations	780	878
Debt retirement acceleration	100,000	112,680
Direct investment in facilities	162,471	268,711
Application from PFC program	—	(105,000)
Net PFC revenue	101,872	97,346
PFC income on investments	10,894	11,781
Call premium on refunded bonds	7,740	8,706
	471,200	481,967
Increase in reserves reported on Schedule A, Revenues and Reserves (pursuant to Port Authority bond resolutions)	$111,768	$ 17,277

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

	December 31, 1996	1995
	(In thousands)	
Net assets reported on Combined Statements of Financial Position	$3,538,522	$3,301,094
Add: Accumulated amortization of facilities	3,975,305	3,641,887
Accumulated retirements and gains and losses on disposal of invested in facilities	647,899	591,775
Cumulative amortization of costs for Regional and Other Programs	158,301	177,809
Amortized discount and premium	11,698	10,472
Deferred income in connection with PFCs	(265,824)	(182,495)
Net assets reported on Schedule B, Assets and Liabilities (pursuant to Port Authority bond resolutions)	$8,065,901	$7,540,542

Passenger Facility Charges are deferred until spent on approved project costs consistent with Port Authority bond resolutions. Unspent PFC program amounts are a Port Authority liability, which are reflected as "Deferred income in connection with PFCs". A reconciliation of net income, PFC program to net income from sources other than operations attributable to PFCs (pursuant to Port Authority bond resolutions) follows:

	Year Ended December 31, 1996	1995
	(In thousands)	
Net income, PFC program	$109,787	$109,127
Add: Amortization of PFC facilities	2,979	—
Less: Direct PFC project payments	(29,437)	(113,642)
Transfer (to) from deferred income in connection with PFCs	(83,329)	4,515
Net income from sources other than operations attributable to PFCs (pursuant to Port Authority bond resolutions)	$ 0	$ 0

Note B - Facilities

1. Facilities, net is comprised of the following:

	December 31, 1996	1995
	(In thousands)	
Completed construction:		
Interstate Transportation Network	$ 2,935,049	$ 2,742,788
Air Terminals	4,145,308	3,675,886
Port Commerce	1,460,664	1,374,081
World Trade	1,313,178	1,275,813
	9,854,199	9,068,568
Construction in progress	1,091,031	1,363,173
Facilities	10,945,230	10,431,741
Less accumulated amortization	3,975,305	3,641,887
Facilities, net	$ 6,969,925	$ 6,789,854

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

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

2. Net interest expense added to cost of facilities was $36,772,000 in 1996 and $48,935,000 in 1995.

3. The Board of Commissioners and the PATH Board of Directors authorized the sale of land at the Industrial Park at Elizabeth and land associated with PATH, respectively, on the basis of determinations that such land was no longer required for the purpose for which it was originally acquired. The sales are expected to occur during 1997 at estimated contract amounts that have resulted in 1996 adjustments of $13,000,000 to the assets' book value.

Note C - Combined Cash and Investments

1. The components of cash and investments are:

CASH	December 31, 1996	1995
	(In thousands)	
Cash on hand	$ 1,295	$ 1,512
Demand deposits	41,556	38,308
Total cash	$42,851	$39,820

INVESTMENTS	December 31, 1996 Principal Amount	Quoted Market	Book Value	1995 Book Value
	(In thousands)			
Short-term				
United States Treasury Bills and Notes	$ 486,279	$ 476,552	$ 476,552	$ 357,343
United States Treasury obligations held pursuant to repurchase agreements	164,110	164,110	164,110	252,636
Total short-term	$ 650,389	$ 640,662	640,662	609,979
Long-term				
United States Treasury Bonds and Notes	$ 931,721	$ 892,736	899,679	744,238
Total long-term	$ 931,721	$ 892,736	899,679	744,238
Bonds of The Port Authority of New York and New Jersey			—	962
Accrued interest receivable			10,377	10,914
Investments (pursuant to Port Authority bond resolutions)			1,550,718	1,366,093
Less: Bonds of The Port Authority of New York and New Jersey			—	962
Total investments			$1,550,718	$1,365,131

2. Port Authority policy provides for funds of the Port Authority to be deposited in banks or banking institutions with offices located in the Port District, provided that the total funds on deposit in any bank do not exceed 50 percent of the bank's combined capital and permanent surplus. Also, funds of the Port Authority must be fully secured by deposit of collateral having a minimum market value of 110 percent of targeted average daily balances in excess of that part of the deposits secured through the Federal Deposit Insurance Corporation (FDIC). Actual daily balances may differ from the targeted daily balance. The collateral must consist of obligations of the United States of America, the Port Authority, the State of New York or the State of New Jersey held in custodial bank accounts in banks or banking institutions in the Port District having combined capital and surplus in excess of $1,000,000.

Total actual bank balances were $37,895,000 as of December 31, 1996. In accordance with the aforementioned policy, $27,707,000 was either secured through the FDIC or was fully collateralized by collateral held by a third party financial institution acting as the Port Authority's agent and held by such institution in the Port Authority's name, and $9,373,000 was fully collateralized by collateral held by a financial institution's trust department or the financial institution's agent in the Port Authority's name. The balance of $815,000 was not collateralized.

3. The investment policies of the Port Authority are established in conformity with its agreements with the holders of its obligations, generally through resolutions of the Board of Commissioners or its Committee on Finance. The Treasurer, consistent with authorizations of the Board or the Committee and established guidelines, executes individual investment transactions and reports on a periodic basis to the Committee. These investment transactions are executed with recognized and established securities dealers and commercial banks. Securities transactions, generally on a book-entry basis, are conducted in the open market at competitive prices. Transactions (including repurchase and reverse repurchase agreement transactions) are completed when the Port Authority's custodian, in the Port Authority's name, makes or receives payment upon receipt of confirmation that the securities have been transferred at the Federal Reserve Bank of New York or other repository in accordance with Port Authority instructions.

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

The Port Authority has entered into reverse repurchase agreements whereby the Port Authority contracted to sell a security to a counterparty and simultaneously agreed to purchase it back from that party at a predetermined price and future date. All reverse repurchase agreements sold are matched to repurchase agreements bought, thereby minimizing market risk. The credit risk is managed by a daily evaluation of the market value of the underlying securities and periodic cash adjustments, as necessary, in accordance with the terms of the repurchase agreements. During 1996, repurchase agreements in effect at any one time ranged as high as $486,503,000. Although there were no investments in reverse repurchase agreements at December 31, 1996, during 1996 reverse repurchase (yield maintenance) agreements in effect at any one time ranged as high as $190,151,000.

Although no investments in obligations of United States government agencies or commercial paper were held at December 31, 1996, during the year balances of United States government agency obligations and commercial paper investments ranged as high as $50,000,000 each. During 1996, premiums on interest rate option contracts, written on underlying United States Treasury securities of $25,000,000, ranged as high as $120,000. (See Note A-1.)

Note D - Outstanding Obligations and Financing

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

1. Consolidated Bonds and Notes

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

		Dec. 31, 1995	Issued/ Accreted	Refunded/ Retired	Dec. 31, 1996
			(In thousands)		
A. Consolidated Bonds:					
Twenty-ninth series	3 1/2% due 1996	$ 1,625	$ —	$ 1,625	$ —
Thirtieth series	3 5/8% due 1998	3,578	—	828	2,750
Thirty-first series	4% due 2002	30,950	—	950	30,000
Thirty-second series	5% due 2003	40,000	—	5,000	35,000
Thirty-third series	4 3/4% due 2003	31,705	—	—	31,705
Thirty-ninth series	5.8% due 2007	112,500	—	7,500	105,000
Forty-first series	5 1/2% due 2008	79,000	—	4,000	75,000
Forty-sixth series	6% due 2013	69,750	—	1,500	68,250
Series fifty-one E	7% due 2014	14,240	—	—	14,240
Fifty-second series	(a) due 2014	100,000	—	—	100,000
Sixty-second series*	7 3/4% -8% due 2004-2023	100,000	—	100,000	—
Sixty-third series*	7 5/8%-7 7/8% due 2004-2024	100,000	—	100,000	—
Sixty-fourth series	7%-7 3/8% due 1996-2014	87,000	—	87,000	—
Sixty-fifth series	7%-7 1/8% due 2004-2024	100,000	—	100,000	—
Sixty-sixth series*	7%-7 1/4% due 2004-2024	100,000	—	100,000	—
Sixty-seventh series	6.8%-6.9% due 2005-2025	100,000	—	—	100,000
Sixty-eighth series*	7 1/8%-7 1/4% due 2005-2025	100,000	—	—	100,000
Sixty-ninth series	(b) 6.4%-7 1/8% due 1996-2025	100,087	1,298	1,105	100,280
Seventieth series*	7%-7 1/4% due 2005-2025	100,000	—	—	100,000
Seventy-first series	6%-7% due 1996-2026	82,400	—	4,400	78,000
Seventy-second series	7.4% due 2012, 7.35% due 2027	100,000	—	—	100,000
Seventy-third series*	6 1/2%- 6 3/4% due 2006-2026	100,000	—	—	100,000
Seventy-fourth series	(c) 5.6%-6 3/4% due 1996-2026	103,917	1,273	1,260	103,930
Seventy-sixth series*	6.3%-6 1/2% due 2006-2026	100,000	—	—	100,000
Seventy-seventh series*	6 1/8%-6 1/4% due 2007-2027	100,000	—	—	100,000
Seventy-eighth series	5.2%-6 1/2% due 1996-2011	93,900	—	1,800	92,100
Seventy-ninth series	4.7%-6% due 1996-2005	66,725	—	6,495	60,230
Eightieth series	4.7%-6% due 1996-2005	33,495	—	3,230	30,265
Eighty-first series	4.2%-5.8% due 1996-2014	114,690	—	3,160	111,530
Eighty-second series	4.2%-5.8% due 1996-2014	91,525	—	2,600	88,925
Eighty-third series	4 3/4%-6 3/8% due 1996-2017	94,785	—	2,080	92,705
Eighty-fourth series*	5 3/4%-6% due 2008-2028	97,250	—	—	97,250
Eighty-fifth series	5%-5 3/8% due 2008-2028	98,000	—	—	98,000
Eighty-sixth series	3.6%-5.2% due 1996-2012	135,680	—	7,550	128,130
Eighty-seventh series	4%-7 1/2% due 1996-2021	100,000	—	1,705	98,295
Eighty-eighth series	3 1/2%-4 3/4% due 1996-2008	205,980	—	16,490	189,490
Eighty-ninth series	4 1/4%-5 1/8% due 2001-2021	94,000	—	—	94,000
Ninetieth series**	4.6%-6 1/8% due 1996-2005	65,330	—	5,125	60,205
Ninety-first series	3.6%-5.2% due 1996-2020	288,415	—	3,620	284,795
Ninety-second series	4 3/4%-5 5/8% due 2009-2029	90,680	—	—	90,680
Ninety-third series	6 1/8% due 2094	100,000	—	—	100,000
Ninety-fourth series	5.1%-6% due 2003-2017	100,000	—	—	100,000
Ninety-fifth series*	5 1/2%-6 1/8% due 2005-2029	95,000	—	—	95,000
Ninety-sixth series*	5.6%-6.6% due 2003-2023	100,000	—	—	100,000
Ninety-seventh series	6%-7.1% due 2003-2023	100,000	—	—	100,000
Ninety-eighth series*	5.7%-6.2% due 2005-2015	100,000	—	—	100,000
Ninety-ninth series*	5 1/4%-7% due 2004-2015	86,000	—	—	86,000
One hundredth series	5 5/8%-5 3/4% due 2010-2030	135,000	—	—	135,000
One hundred first series*	5%-6% due 1996-2015	100,000	—	2,920	97,080
One hundred second series (d)	5.1%-5 7/8% due 2007-2027	120,000	—	—	120,000
One hundred third series (e)	3 1/2%-5 1/4% due 1996-2014	87,000	—	2,500	84,500
One hundred fourth series	4 3/4%-5.2% due 2011-2026	—	150,000	—	150,000
One hundred fifth series*	5%-6 1/4% due 1997-2016	—	150,000	—	150,000
One hundred sixth series*	4%-6% due 1997-2016	—	100,000	—	100,000
One hundred seventh series*	4.9%-6% due 2004-2016	—	100,000	—	100,000
Total Consolidated Bonds pursuant to Port Authority bond resolutions		4,750,207	502,571	574,443	4,678,335

1. Consolidated Bonds and Notes (continued)

		Dec. 31, 1995	Issued/ Accreted	Refunded/ Retired	Dec. 31, 1996
			(In thousands)		
B. Consolidated Notes:					
Series SS*	4.9% due September 1, 1997	45,000	—	—	45,000
Total Consolidated Notes pursuant to Port Authority bond resolutions		45,000	—	—	45,000
Total Consolidated Bonds and Notes pursuant to Port Authority bond resolutions		4,795,207	$502,571	$574,443	4,723,335
Less: Amortized cost of Port Authority bonds purchased by the Port Authority		962			—
One hundred third series (e)		87,000			—
Unamortized discount and premium (f)		122,890			138,240
Consolidated Bonds and Notes (g)		$4,584,355			$4,585,095

(a) Interest rate, 9% per annum, subject to an annual option, commencing on November 1, 1994, and on each November 1 thereafter, of the registered holder to exercise a one-time election to convert to a variable interest rate, set on each semi-annual interest payment date for the ensuing six months, ranging form 8% to 12% per annum. As of December 31, 1996, $970,000 of this series was so converted.

(b) Includes $12,388,000 (initial amounts) serial bonds issued on a capital appreciation basis; the only payments with respect to these bonds will be made at their respective maturities, ranging from years 2000 to 2011, in total aggregate maturity amounts of $38,270,000.

(c) Includes $14,204,000 (initial amounts) serial bonds issued on a capital appreciation basis; the only payments with respect to these bonds will be made at their respective maturities, ranging from years 2002 to 2014, in total aggregate maturity amounts of $44,555,000.

(d) Approximately $110,000,000 of the proceeds of the Consolidated Bonds, one hundred second series was allocated to the purchase of U.S. Treasury securities which are expected to provide for the payment of interest on Consolidated Bonds, seventy-second series until October 1, 2002 and to permit the Port Authority to refund the Consolidated Bonds, seventy-second series at their first call date on October 1, 2002.

(e) Pursuant to a contract of purchase pertaining to such bonds, Consolidated Bonds, one hundred third series were sold on December 20, 1995, on the basis that the principal amount of such bonds would be delivered by the Port Authority and paid for by the purchaser on January 10, 1996. The bonds were delivered and paid for according to the contact.

(f) Gain or loss on futures contracts transactions have been classified as premium or discount, respectively. Amount also includes the unamortized difference between acquisition price and carrying amount on refunded debt.

(g) Debt service on Consolidated Bonds and Notes outstanding on December 31, 1996 is:

Year Ending December 31:	Principal	Interest	Debt Service
		(In thousands)	
1997	$ 148,950	$ 272,502	$ 421,452
1998	113,010	266,042	379,052
1999	118,550	260,548	379,098
2000	128,610	254,523	383,133
2001	135,920	247,643	383,563
2002-2094	4,121,490	3,562,392	7,683,882
Total	$4,766,530	$4,863,650	$9,630,180

Total principal of $4,766,530,000 shown above differs from the total Consolidated Bonds and Notes pursuant to Port Authority bond resolutions of $4,723,335,000 because of differences in the par value at maturity of the capital appreciation bonds of $43,195,000.

Consolidated Bonds and Notes outstanding as of February 28, 1997 (pursuant to Port Authority bond resolutions) totalled $5,023,782,000.

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

1. Consolidated Bonds and Notes (continued)

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

During 1996, the Port Authority refunded $387,000,000 of outstanding consolidated bonds and notes. Although the refundings resulted in an additional cash outlay (for expenses consisting primarily of call premiums and underwriting fees) of $12,065,000, the Port Authority in effect reduced its aggregate debt service payments by approximately $151,401,000 over the life of the refunded issues. The 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), including the gain on interest rate futures contracts, is worth approximately $64,337,000 in present value savings to the Port Authority.

2. Obligations in Connection with Other Capital Asset Financing

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

	Dec. 31, 1995		Dec. 31, 1996
		(In thousands)	
Commercial paper notes	$176,955		$163,850
Variable rate master notes	308,000		233,000
Versatile structure obligations	285,200		484,700
	$770,155		$881,550

A. Commercial paper notes

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

	Dec. 31, 1995	Issued	Refunded/ Repaid	Dec. 31, 1996
			(In thousands)	
Series A*	$ 82,545	$ 531,545	$ 526,175	$ 87,915
Series B	94,410	492,575	511,050	75,935
Total commercial paper obligations	$176,955	$1,024,120	$1,037,225	$163,850

Interest rates for all commercial paper obligations ranged in 1996 from 2.65% to 4.15%.

As of February 28, 1997, commercial paper obligations outstanding totalled $128,640,000.

2. Obligations in Connection with Other Capital Asset Financing (continued)

B. Variable rate master notes

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

	Dec. 31, 1995	Issued	Refunded/ Retired	Dec. 31, 1996
		(In thousands)		
Agreements 1989-1995*	$125,000	$ —	$ —	$125,000
Agreements 1989-1994	183,000	—	75,000	108,000
	$308,000	$ —	$ 75,000	$233,000

Interest rates, variable, ranged in 1996 from 3.24% to 5.0%

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

C. Versatile structure obligations

	Dec. 31, 1995	Issued	Refunded/ Retired	Dec. 31, 1996
		(In thousands)		
Series 1*, 4*	$100,000	$ 100,000	$ —	$200,000
Series 2, 3, 5	185,200	100,000	500	284,700
	$285,200	$ 200,000	$ 500	$484,700

Interest rates, variable based upon contractual agreements, ranged in 1996 from 1.45% to 6.15%.

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

The Port Authority has entered into standby certificate purchase agreements pertaining to the versatile structure obligations with certain banks, which provide that during the term of the banks' commitment, if the remarketing agent fails to remarket any obligations that are tendered by the holders, the banks may be required, subject to certain conditions, to purchase such unremarketed portion of the obligations. If not purchased prior thereto at the Port Authority's option, the Port Authority has agreed to purchase such portion of the Series 1 obligations within five business days, and such portion of the Series 2, 3, 4 and 5 obligations within 90 business days after the purchase thereof by the banks. Under the Series 1 agreement, neither the holder of the obligations, the tender agent, the paying agent nor the remarketing agent has any right to require the banks to make such purchase. Under the Series 2, 3, 4 and 5 agreements, however, the tender agent may deliver a notice of purchase to the bank, requesting such a purchase be made. The purchase periods under the Series 1, 2, 3, 4 and 5 agreements expire on August 6, 1997, May 19, 1997, June 7, 1998, April 24, 1999 and August 24, 1999, respectively. Bank commitment fees during 1996 in connection with the agreements were $545,000. The banks were not required to purchase any of the obligations under the agreements in 1996.

3. Obligations in Connection with Operating Asset Financing

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

	Dec. 31, 1995	Dec. 31, 1996
	(In thousands)	
Port Authority equipment notes	$ 13,638	$ 36,138
Fund buy-out obligation	396,360	400,305
	$409,998	$436,443

A. Port Authority equipment notes

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

	Dec. 31, 1995	Issued	Refunded/ Retired	Dec. 31, 1996
		(In thousands)		
Notes 1995-1, 2 1996-1, 3-5	$ 10,688	$ 19,000	$ —	$ 29,688
Notes 1995-3*, 1996-2*	2,950	3,500	—	6,450
	$ 13,638	$ 22,500	$ —	$ 36,138

Interest rates, variable, ranged in 1996 from 2.4% to 5.75%.

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

3. Obligations in Connection with Operating Asset Financing (continued)

B. Fund buy-out obligation

Dec. 31, 1995	Accretion (a)	Payments	Dec. 31, 1996
	(In thousands)		
$396,360	$ 32,008	$ 28,063	$400,305

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

Payment requirements of the Fund buy-out obligation outstanding on December 31, 1996 are:

Year Ending December 31:	Payments
	(In thousands)
1997	$ 28,063
1998	28,063
1999	28,063
2000	28,063
2001	28,063
2002-2021	914,639
	$1,054,954

As of February 28, 1997, the Fund buy-out obligation outstanding totalled $405,662,000

4. Amounts Payable in Connection with Special Project Bonds

Neither the full faith and credit of the Port Authority, nor the General Reserve Fund, nor the Consolidated Bond Reserve Fund are pledged to the payment of the principal and interest on Special Project Bonds. Principal and interest on each series of Special Project Bonds are secured solely by a mortgage by the Port Authority of facility rental (to the extent received by the Port Authority from a lessee) as set forth in a lease with respect to a project to be financed with the proceeds of the bonds of such series, by a mortgage by the lessee of its leasehold interest under the lease and by a security interest granted by the lessee to the Port Authority and mortgaged by the Port Authority in certain items of the lessee's personal property to be located at the project, and such other security in addition to the foregoing as may be required by the Port Authority from time to time as appropriate to the particular project.

	Dec. 31, 1995	Issued	Refunded/ Retired	Dec. 31, 1996
		(In thousands)		
Series 1R, Delta Air Lines, Inc. Project (a)				
6.95% term bonds, due 2008	$ 96,500	$ —	$ —	$ 96,500
Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project (b)*				
9%-9 1/8%, due 2006-2015	202,075	$ —	$ —	202,075
Less: unamortized discount and premium	9,656			9,273
Total - Series 2	192,419			192,802
Series 3, KIAC Partners Project (c)*				
Due 2014	174,100	$ —	$ 174,100	—
Interest rates, variable, ranged in 1996 from 2.85% to 5.1%.				
Series 4, KIAC Partners Project (d)*				
6 1/4%-7%, due 1999-2019	—	$250,000	$ —	250,000
Less: unamortized discount and premium		4,395		4,284
Total - Series 4		$245,605		245,716
Grand total	$463,019			$535,018

(a) Special Project Bonds, Series 1R Delta Air Lines, Inc. Project, were issued in connection with a project including the construction of a passenger terminal building at LaGuardia Airport to be leased to Delta Air Lines, Inc.

(b) Special Project Bonds, Series 2, Continental Airlines, Inc. and Eastern Air Lines, Inc. Project, were issued in connection with a project including the construction of a passenger terminal at LaGuardia Airport leased to and to be occupied by Continental Airlines, Inc., and Eastern Air Lines, Inc. The leasehold interest of Eastern Air Lines, Inc. was assigned to Continental Airlines, Inc. Continental's leasehold interest in such passenger terminal, including the previously acquired leasehold interest of Eastern, was subsequently assigned to USAir, Inc. (with Continental to remain liable under both underlying leases).

(c) Special Project Bonds, Series 3, KIAC Partners Project, were issued in connection with a project, at John F. Kennedy International Airport, which includes the construction of a cogeneration facility, the renovation and expansion of the central heating and refrigeration plant, and the renovation and expansion of the thermal distribution system.

(d) Special Project Bonds, Series 4 KIAC Partners Project, were issued to refund the Series 3 Bonds, and in connection with the project described in 4(c) above.

5. Interest Rate Exchange Contracts ("Swaps")

The Port Authority records interest exchange contracts pursuant to the settlement method of accounting whereby cash paid or received under the terms of the swap is charged or credited to the related interest expense account for the purpose of managing interest rate exposure. Each swap transaction involves the exchange of fixed and variable rate interest payment obligations calculated with respect to an agreed upon nominal principal amount called a "notional amount". As of December 31, 1996, eleven interest rate exchange contracts were in place with notional amounts aggregating $780,160,000, including offsetting swap agreements with aggregate notional amounts of $220,000,000 (see Note A-1).

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

Note E - Reserves

1. The General Reserve Fund is pledged in support of all outstanding Consolidated Bonds and Notes and all Consolidated Bonds and Notes now or hereafter issued and is not pledged in support of any other obligation of the Port Authority. Statutes which require the Port Authority to create the General Reserve Fund also established the principle of pooling revenues from facilities with established earning power to aid the development of new projects. The statutes also require that the Port Authority apply surplus revenues from all of its existing facilities to maintain the General Reserve Fund in an amount at least equal to 10 percent of the par value of outstanding bonds legal for investment. (Under the legislation pertaining to the New York State Commuter Car Program neither the principal amount of New York State Guaranteed Commuter Car Bonds nor any revenues derived from the New York State Commuter Car Program were attributable to the General Reserve Fund.) At December 31, 1996, the General Reserve Fund balance was $618,960,000 and met the prescribed statutory amount.

The balance remaining of all net revenues of the Port Authority's existing facilities after deducting payments for debt service upon all Consolidated Bonds and Notes and such amounts as may be required to maintain the General Reserve Fund at its statutory amount, are to be paid into the Consolidated Bond Reserve Fund. Consolidated Bonds have a first lien upon the net revenues (as defined in the Consolidated Bond Resolution) of all existing facilities of the Port Authority and any additional facility financed by Consolidated Bonds.

The payment of the principal of, and interest on, other capital asset financing obligations (versatile structure obligations, commercial paper obligations, variable rate master notes) of the Port Authority is payable solely from the proceeds of obligations issued for such purposes or from net revenues deposited to the Consolidated Bond Reserve Fund and, in the event such proceeds or net revenues are insufficient therefor, from other moneys of the Port Authority legally available for such payments. Payment of the principal of, and interest on, other capital asset financing obligations is subject in all respects to the payment of debt service on Consolidated Bonds and Notes and to the payment into the General Reserve Fund of the amount necessary to maintain the fund at the amount specified in the General Reserve Fund statutes. Other capital asset financing obligations, and the interest thereon, are not secured by or payable from the General Reserve Fund. Payment of principal of, and interest on, operating asset financing obligations is payable out of the same revenues as operating expenses. Other expenses associated with operating asset financing obligations are payable in the same manner and out of the same revenues as operating expenses.

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

At December 31, 1996, the Port Authority met the requirements of the Consolidated Bond Resolution to maintain total reserve funds in cash and specified marketable securities (see Note C).

2. New York State Guaranteed Commuter Car Bonds were fully retired in 1996 (see Schedule D). These bonds were secured by the net revenues of the Port Authority arising out of the lease of commuter railroad cars by the Port Authority to railroads in New York. Commuter Car Bonds were not secured by any other revenues, reserves or assets of the Port Authority, were not general obligations of the Port Authority and were not secured by the full faith and credit of the Port Authority (see Note A-1). The punctual payment of debt service on Commuter Car Bonds was fully and unconditionally guaranteed by the State of New York.

The New York State constitutional amendment providing for the State guarantee of Commuter Car Bonds required that all such bonds mature no later than December 31, 1996. In effect, the legislation authorizing this program precludes future issuance of Commuter Car Bonds.

Note F - Government Contributions in Aid of Construction

The Port Authority receives contributions in aid of construction for capital purposes from government agencies. Federal funding (including amounts receivable) from the Airport Improvement and the Airport Development Aid Programs was $38,517,000 in 1996 and $40,011,000 in 1995.

Charges representing amortization of assets relating to government contributions were $28,985,000 in 1996 and $26,856,000 in 1995.

	December 31, 1996	December 31, 1995
	(In thousands)	
Cumulative government contributions	$671,312	$632,795
Less: Accumulated amortization of assets acquired with government contributions	292,041	263,056
Government contributions in aid of construction	$379,271	$369,739

Note G - Lease Commitments

1. Operating lease revenues

Gross operating revenues attributable to fixed rentals associated with operating leases amounted to $677,912,000 in 1996 and $635,823,000 in 1995.

2. Property held for lease

The Port Authority, or one of its subsidiaries, has entered into operating leases with tenants for the use of space at various Port Authority facilities including buildings, terminals, offices and consumer service areas at air terminals, marine terminals, bus terminals, rail facilities, industrial parks, the Newark Legal and Communications Center, the Teleport and the World Trade Center.

Minimum future rentals scheduled to be received on operating leases in effect on December 31, 1996 are:

Year ending December 31:	(In thousands)
1997	$ 570,712
1998	537,174
1999	490,486
2000	461,718
2001	450,543
Later years	4,564,643
Total minimum future rentals	$7,075,276

Investments in such facilities as of December 31, 1996 include property associated with minimum rentals derived from operating leases. It is not reasonably practicable to segregate the value of assets associated with producing minimum rental revenue from the value of assets associated with an entire facility.

3. Property leased from others

Rental expenses under leases, including payments to the cities of New York and Newark for various air terminals, marine terminals and other facilities, aggregated $80,549,000 in 1996 and $47,738,000 in 1995. The terms of such leases expire at various times from 1996 to 2031 and may be renewed for additional periods. Minimum future rentals scheduled to be paid on operating leases in effect on December 31, 1996 are detailed below and additional rentals may be payable based on earnings of specified facilities under some of these leases.

Year ending December 31:	(In thousands)
1997	$ 35,684
1998	35,607
1999	35,399
2000	35,373
2001	35,894
Later years	841,053
Total minimum future rentals	$1,019,010

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

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

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

On November 20, 1996, the Federal Aviation Administration, in an advisory opinion, stated that Congress intended the passenger facility charge to represent a separate revenue stream distinct from other airport revenue and beyond the control of the airlines and state and local governments. Additionally, the opinion stated that the passenger facility charge revenues collected by a public agency should not be used either to increase or decrease the amount of rent owed under a lease; rather the passenger facility charge revenues collected should be excluded from any calculation of airport revenue used to determine rental payments owed to the City of New York. Additionally, the Chief Counsel of the Federal Aviation Administration has stated that an advisory opinion, by its nature, is not binding, but it puts the parties on clear notice of the agency's view of the law.

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

Note H - Deferred Costs

1. Buy-out of Fund for Regional Development

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

	Dec. 31, 1995	Amortiz-ation	Dec. 31, 1996
		(In thousands)	
Unamortized costs for Fund buy-out	$416,904	$ 2,259	$414,645

2. Regional and Other Programs

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

Regional Programs

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

Regional Economic Development Program. This facility was established in conjunction with a centralized program of up to $400,000,000 for transportation, economic development and infrastructure renewal projects authorized pursuant to gubernatorial request. As of December 31, 1996, $394,000,000 had been authorized of which $325,650,000 was associated with the Regional Economic Development Program facility and the balance has been associated with other existing Port Authority facilities.

Other Programs

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

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

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

As of December 31, 1996, $1,149,750,000 was authorized for regional and other programs of which $1,070,403,000 has been expended. Costs for regional and other programs (as well as costs associated with existing Port Authority facilities) are deferred and amortized over the period benefited. As of December 31, 1996, the unamortized costs of the regional and other programs are as follows:

	Dec. 31, 1995	Additional Project Expenditures	Amortiz-ation	Dec. 31, 1996
		(In thousands)		
Unamortized cost of regional programs	$344,235	$74,191	$14,082	$404,344
Unamortized cost of Oak Point Freight Link	32,096	—	1,275	30,821
Unamoritzed cost of New Jersey Marine Development	14,333	658	562	14,429
Unamortized cost of Bus Programs	27,432	—	7,589	19,843
Unamortized cost of Regional and Other Programs	$418,096	$74,849	$23,508	$469,437

Note I - Pension and Retirement Plans and Other Employee Benefits

1. Employees of the Port Authority are covered by the Social Security Act administered by the Social Security Administration and by one of two cost-sharing multiple-employer defined benefit pension plans, the New York State and Local Employees' Retirement System (ERS) or the New York State and Local Police and Fire Retirement System (PFRS), collectively referred to as the "Retirement Systems". The ERS was established in 1921 while the PFRS was established as a separate entity in 1967. The systems are governed by the New York Retirement and Social Security Law. The New York State Constitution provides that membership in a pension or retirement system of the State or of a civil division thereof is a contractual relationship, the benefits of which may not be diminished or impaired. As a general rule, all full-time Port Authority employees (except those individuals who are currently receiving a pension on the basis of employment with New York State or public entities in the State) join one of these two public employees' retirement systems.

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

Contributions are not required from police personnel or from those non-police employees who joined the ERS prior to July 27, 1976. Non-police personnel who became members of the ERS on July 27, 1976 and thereafter are presently required to contribute three percent of their annual gross wages. The Port Authority's payroll expense for 1996 was $450,516,000 of which $331,384,000 and $107,219,000 represent the cost for employees covered by ERS and PFRS, respectively. Participating employers are required to pay for funding the Retirement Systems on a current basis. In November of each year, the ERS and PFRS bill participating employers for their share of total estimated contributions due for the Retirement Systems' fiscal year ending March 31 of the succeeding year. The prepayment of $5,851,000 for the first three months of 1997 is included in "Other assets" in the Combined Statements of Financial Position.

Effective April 1, 1990, the funding policy for the Retirement Systems changed from the aggregated cost method to the modified projected unit credit method. As a result of this legislated change, employer contributions were lower than would have been the case under the aggregate cost funding method. The New York Court of Appeals subsequently held that the change to the unit credit actuarial method was unconstitutional. Consequently, the Retirement Systems returned to the aggregate method on April 1, 1994, using a four year phase-in for ERS and full aggregate for PFRS. Employer contributions to ERS will be capped at a percentage of payroll that increases each year during the phase-in. The percentages, which apply to the ERS fiscal year, are as follows:

Fiscal Year Ending March 31	
1995	.0%
1996	1.5%
1997	3.0%
1998	4.5%
1999	Full Aggregate

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

Year Ended	ERS	% of Covered Payroll	PFRS	% of Covered Payroll
		(In thousands)		
1996	$8,488	1.9%	$14,362	3.3%
1995	4,979	1.1%	17,438	3.7%
1994	882	0.2%	18,252	3.9%

Employee contributions of $6,878,000 to the ERS represented 1.6% of the total Port Authority covered payroll in 1996.

During 1995 and 1996, the Port Authority participated in retirement incentive programs authorized by the New York State Legislature and administered by the ERS. Under the 1995 program, approximately 300 employees chose to retire and an equivalent number of positions were abolished as required by law. In 1996, 312 employees retired resulting in position abolition or compensation savings as required by law. Without regard to the resulting savings, based upon an ERS formula, the cost for the Port Authority's participation has been estimated to be $16,461,000 in 1996. The payment to the ERS for the 1995 program was $10,704,000. These amounts are included in "Employee compensation, including benefits" on the Combined Statements of Income.

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

Employees of Port Authority Trans-Hudson Corporation (PATH), a wholly-owned subsidiary of the Port Authority, are covered by the provisions of the Railroad Retirement Act administered by the United States Railroad Retirement Board and by a single-employer supplemental pension plan established by PATH.

In order to make pension benefits provided for PATH exempt employees (those not covered by collective bargaining agreements) generally comparable to those available to Port Authority employees, a non-contributory, supplemental pension plan was authorized by PATH on August 6, 1964, and has been amended from time to time thereafter. The PATH Exempt Employees' Supplemental Pension Plan (Plan) currently provides, as a matter of policy, an annual pension (for covered exempt employees) related to years of credited service and final average salary, death benefits, vesting of the service retirement benefit after a set period of credited service (generally 10 years), and optional methods of benefit payment. The PATH payroll expense for 1996 was $60,703,000 of which $8,351,000 represented the cost for exempt employees.

There are a total of 109 active and 42 retired employees covered under the Plan. The actuarially determined valuation of this unfunded pension benefit obligation was reviewed in 1996 for the purpose of adjusting the annual accruals and updating the valuation of the accrued pension obligation. At December 31, 1996 the pension benefit obligation, based on the projected unit credit cost method, was estimated to be $19,712,000 of which $11,431,000 and $8,281,000 represent the cost for active and retired employees, respectively. Actuarial assumptions utilized in the calculation of this liability include a salary scale adjustment of 4% per annum (based on 3.5% cost of living and 0.5% for merit) and interest at the rate of 7% per annum. In 1996, PATH recognized $2,211,000 of expense, $1,473,000 for annual pension costs and $738,000 for interest in connection with the unfunded pension benefit obligation. A liability account has been established by the Port Authority with respect to the payment of future pension benefits for the PATH Exempt Employees' Supplemental Pension Plan. Since this is an unfunded, pay-as-you-go, pension plan there are no available plan assets to be reported. As of December 31, 1996, the amount of the liability accrued was $12,295,000 and is included in "Accrued pension, retirement and other employee benefits" on the Combined Statements of Financial Position.

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

Year Ended	(A) Pension benefit obligation	(B) Amount of liability pension accrued	(C) Annual covered payroll	Percentage (B)/(C)
		(In thousands)		
1994	$14,392	$ 9,709	$8,343	116.4
1995	16,595	11,008	8,490	129.7
1996	19,712	12,295	8,351	147.2

PATH has also entered into collective bargaining agreements with various unions under which PATH funds non-contributory supplemental pension plans for union employees. Trustees, appointed by the various unions, are responsible for the administration of these pension plans. PATH payroll expense in 1996 for these employees was $52,352,000. For the year 1996, contributions made by PATH in accordance with the terms of various collective bargaining agreements totalled $2,303,000, which represented approximately 3.8% of the total PATH covered payroll for 1996. PATH employees active on or after March 1, 1982, who are members of a recognized collective bargaining unit are automatically plan members of these defined contribution plans. Newly hired employees become plan participants after a 60 day probationary period. Eligibility for all benefits prior to normal retirement requires the completion of at least ten years of vested service. The pension amount depends on the employee's years of credited service (up to a maximum of 30) and the monthly benefit rate in effect at the time of retirement.

2. The Port Authority and PATH provide certain health care, dental and life insurance benefits for active employees and for employees who have retired from the Port Authority or PATH (and for eligible dependents and survivors of active and retired employees). Contributions towards the costs of some of these benefits are required of certain active and/or retired employees. Benefits are provided through insurance companies whose premiums are based on the benefits paid during the year, or through plans under which benefits are paid directly by the Port Authority or PATH. Prior to 1985, the cost of these benefits was recognized as an expense of the period in which such premiums or benefit claims were paid. Beginning in 1985, the cost of these benefits also includes an annual accrual for prior service costs of these benefits for retired and active employees and their dependents. These accruals are to be made each year, on a consistent basis, until this prior service cost is fully recognized. The actuarially determined valuation, last completed in 1989, is reviewed periodically for the purpose of adjusting the annual accruals. That study estimated the actuarial present value of future benefits for prior service by active and retired employees and their dependents, to be paid after retirement, to be $336,900,000 as of December 31, 1996, consisting of the following:

	Port Authority	PATH	Total
		(In millions)	
Retirees	$173.5	$ 7.2	$180.7
Active	148.0	8.2	156.2
Total	$321.5	$15.4	$336.9

The obligation accrued as of December 31, 1996 is $188,913,000.

The cost of providing health care, dental and life insurance benefits, not including the accrual for prior service costs, totalled approximately $82,484,000 in 1996 and $83,938,000 in 1995. Retired employees constitute 40 percent of the total of employees and retired employees of the Port Authority and PATH covered by one or more of these plans. The cost of providing these benefits for such retired employees (and their eligible dependents) is not separable from the cost of providing similar benefits for active employees (and their eligible dependents).

3. The Port Authority and PATH offer eligible employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code of 1986, as amended. The plan permits participants to defer a portion of their salary until future years. Amounts deferred are generally not available to employees until termination of employment, retirement, death or unforeseeable emergency.

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

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

Note J - Commitments and Certain Charges to Operations

1. The proposed annual budget for 1997 is under review by the Board of Commissioners and the States of New York and New Jersey. Pending completion of such review and adoption of a budget for 1997, the Port Authority will continue to make expenditures, undertake commitments and authorize projects and other activities, consistent with appropriate existing authorizations. Approval of the budget by the Board of Commissioners of the Port Authority, based on financial projections developed as part of the Port Authority business planning process, does not in itself authorize any specific expenditures, which are authorized form time to time by or as contemplated by other actions of the Board of Commissioners of the Port Authority consistent with statutory, contractual and other commitments of the Port Authority, including agreements with the holders of its obligations.

At December 31, 1996, pursuant to various contracts entered into by the Port Authority, approximately $717,137,000 of construction was expected to be completed within the next three years.

It is expected that costs with respect to individual Port Authority facilities will continue to increase and that there will be an increasing need for capital investment for renovation or rehabilitation of existing and additional facilities in order for the Port Authority to continue to maintain appropriate levels of service. Construction costs in connection with Port Authority facilities are subject to, among other things, the effects of national and regional economic conditions and the nature of governmental regulations with respect to transportation, commerce, energy and environmental permits and approvals and environmental impact analyses. Additionally, resolution of environmental matters and associated proceedings which may arise during the course of construction of Port Authority facilities, including those pertaining to channel improvements and dredging, may result in substantial delays in such construction and may give rise to substantially increased costs to the Port Authority. It is also expected that increases from time to time will continue to be necessary in the Port Authority's tolls, fares, landing and dockage fees, rentals and other charges, or that either planned capital expenditures will be curtailed or reductions in services and associated expenditures will occur.

2. Other operating expenses of $132,191,000 in 1996 and $163,383,000 in 1995 include amounts for insurance, telephone, payment of interest on Special Project Bonds, the expensing of certain capital costs that no longer provide future economic benefit, and certain other operating, development and administrative expenses.

3. The Port Authority's Essex County Resource Recovery Facility is being operated by a private full service vendor that provides municipal solid waste disposal services. As of December 31, 1996, the Port Authority had provided a net amount of $172,579,000 to such private full service vendor under a conditional sale agreement through which such vendor is financing a portion of the construction costs of the plant. This amount provided by the Port Authority is included in "Other amounts receivable" on the Combined Statements of Financial Position and is to be repaid by the vendor with interest through October 1, 2010.

4. On May 9, 1996, the Port Authority authorized the development of a comprehensive dredging and disposal plan extending through the year 2025. The development of the plan is to be a top priority of the Port Authority and the States of New York and New Jersey, and towards that end the Port Authority and the States have indicated that they would work with the Federal government, the City of New York, affected community groups, and the environmental community to develop an economically sound and environmentally responsible plan. The Port Authority also authorized provision of up to $130 million for dredging projects pertaining to this plan.

5. During 1995, on the basis of determinations that land at the Industrial Park at Elizabeth and the Lincoln Tunnel was no longer required for the purposes for which it was originally acquired was sold at a gain of $7,258,000.

In December 1995 HMHWTC, Inc., a single purpose affiliate of Host Marriott Corporation (Host), agreed to pay $141,500,000 as part of a transaction involving the Vista International Hotel lease, which had been recorded as a capitalized lease, and the acquisition of certain property used in connection with the operation of the Hotel. Host paid the Port Authority $76,500,000 when the transaction closed, with the balance of $65,000,000, payable in 2002. Interest on the amount receivable will be paid quarterly by Host at an annual rate of 6.6%. The transaction resulted in a gain to the Port Authority of $1,195,000.

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

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

6. In 1996, the Port Authority received approximately $20 million (for its own account and for the account of certain tenants) as a result of settlements in litigation against former manufacturers of products containing asbestos and an insurer providing first party property damage insurance for Port Authority facilities.

7. To provide for uninsured potential losses, the Port Authority administers its self-insurance program through applications from the Consolidated Bond Reserve Fund and provides for losses by charging expenses as liabilities are incurred.

A liability is recognized when it is probable that the Port Authority has incurred a loss and the amount of the loss can be reasonable estimated. The liability for unpaid claims is based upon the estimated ultimate cost of settling the claims, which includes a review of estimated claims expenses and estimated recoveries. Changes in the liability amounts in 1995 and 1996 were:

	Beginning Balance	Additions and Changes	Payments	Year-end Balance
		(In thousands)		
1995	$32,324	$10,660	($11,404)	$31,580
1996	31,580	16,601	(14,900)	33,281

Note K–Information on Port Authority Operations by Operating Segment

1. Operating Results (a)

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

1996	Interstate Transportation Network	Air Terminals	Port Commerce	World Trade	Combined Total
	(In thousands)				
Gross operating revenues	$ 594,824	$1,094,956	$ 194,106	$270,234	$2,154,120
Interdepartmental revenues	4,439	—	1,580	46,497	
Revenues from operations	$ 599,263	$1,094,956	$ 195,686	$316,731	
Gross operating income (loss)	$ 76,909	$ 309,933	($ 15,903)	$ 84,326	$ 455,265
General administrative and development expenses	(64,957)	(52,198)	(7,044)	(8,435)	(132,634)
Income (loss) from operations	$ 11,952	$ 257,735	($ 22,947)	$ 75,891	$ 322,631
Net income (loss) Port Authority operations	($ 67,113)	$ 188,816	($ 45,969)	$ 13,390	$ 89,124
Net income PFC program					109,787
Combined net income					$ 198,911
1995					
Gross operating revenues	$ 590,233	$1,004,766	$ 188,766	$298,859	$2,082,624
Interdepartmental revenues	4,582	—	1,645	60,331	
Revenues from operations	$ 594,815	$1,004,766	$ 190,411	$359,190	
Gross operating income (loss)	$ 75,096	$ 288,683	($ 13,608)	$ 72,403	$ 422,574
General administrative and development expenses	(64,258)	(54,505)	(8,766)	(9,443)	(136,972)
Income (loss) from operations	$ 10,838	$ 234,178	($ 22,374)	$ 62,960	$ 285,602
Net income (loss) Port Authority operations	($ 67,913)	$ 171,767	($ 36,564)	$ 1,007	$ 68,297
Net income PFC program					109,127
Combined net income					$ 177,424

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

2. Asset Information

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

1996 Assets	Interstate Transportation Network	Air Terminals	Port Commerce	World Trade	PFC Program	Combined Total
	(In thousands)					
Facilities, net-beginning of year	$2,286,955	$2,431,509	$ 988,071	$ 949,377	$133,942	$ 6,789,854
Net capital expenditures	139,743	214,904	77,705	72,537	29,437	534,326
Disposition of assets	(56)	(31)	(12,517)	—	—	(12,604)
Amortization	(84,568)	(164,832)	(58,089)	(31,183)	(2,979)	(341,651)
Facilities, net-end of year	2,342,074	2,481,550	995,170	990,731	160,400	6,969,925
Unamortized costs for Regional and Other Programs	424,187	—	45,250	—	—	469,437
Total	$2,766,261	$2,481,550	$1,040,420	$ 990,731	$160,400	7,439,362
Cash, investments, accounts receivable, other amounts receivable, amounts receivable in connection with Special Project Bonds, unamortized costs for Fund buy-out, deferred compensation plan assets and other assets						3,517,484
Total assets						$10,956,846
1995 Assets						
Facilities, net-beginning of year	$2,215,882	$2,353,484	$ 939,721	$1,006,618	$ 20,653	$ 6,536,358
Net capital expenditures	142,140	229,552	95,841	80,428	113,289	661,250
Disposition of assets	(13)	—	(2,779)	(104,700)	—	(107,492)
Amortization	(71,054)	(151,527)	(44,712)	(32,969)	—	(300,262)
Facilities, net-end of year	2,286,955	2,431,509	988,071	949,377	133,942	6,789,854
Unamortized costs for Regional and Other Programs	371,667	—	46,429	—	—	418,096
Total	$2,658,622	$2,431,509	$1,034,500	$ 949,377	$133,942	7,207,950
Cash, investments, accounts receivable, other amounts receivable, amounts receivable in connection with Special Project Bonds, unamortized costs for Fund buy-out, deferred compensation plan assets and other assets						3,249,814
Total assets						$10,457,764

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

	Year Ended December 31, 1996 Operating Fund	Reserve Funds	Combined Total	1995 Combined Total
	(In thousands)			
Gross operating revenues	$2,154,120	$ —	**$2,154,120**	$2,082,624
Operating expenses:				
Employee compensation, including benefits	636,637	—	**636,637**	654,106
Contract and consultant services	415,852	—	**415,852**	401,996
Heat, light and power	111,431	—	**111,431**	114,082
Rents and amounts in-lieu-of taxes	104,439	—	**104,439**	69,049
Materials, equipment and supplies	68,759	—	**68,759**	67,265
Other (Note J-2)	132,191	—	**132,191**	163,383
Total operating expenses	1,469,309	—	**1,469,309**	1,469,881
Amounts in connection with operating asset financings	33,126	—	**33,126**	32,254
Net operating revenues	651,685	—	**651,685**	580,489
Financial income				
Income on investments (includes gain of $439 in 1995 on purchase of Port Authority bonds)	44,099	54,608	**98,707**	71,269
Net revenues available for debt service and reserves	695,784	54,608	**750,392**	651,758
Debt service				
Interest on bonds, notes and other capital obligations	292,987	—	**292,987**	266,903
Debt maturities and retirements	87,443	—	**87,443**	86,865
Repayment of commercial paper obligations	—	780	**780**	878
Debt retirement acceleration	—	100,000	**100,000**	112,680
Total debt service	380,430	100,780	**481,210**	467,326
Application from PFC program	—	—	**—**	105,000
Transfers to reserves	($315,354)	315,354	**—**	—
Revenues after debt service and transfers to reserves		269,182	**269,182**	289,432
Direct investment in facilities		(162,471)	**(162,471)**	(268,711)
Appropriations for self-insurance		5,057	**5,057**	(3,444)
Increase in reserves		111,768	**111,768**	17,277
Reserve balances, January 1		879,976	**879,976**	862,699
Reserve balances, December 31 (Schedule C)		$991,744	**$ 991,744**	$ 879,976

See Notes to Combined Financial Statements.

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

	December 31, 1996 Operating Fund	Capital Fund	Reserve Funds	Combined Total	1995 Combined Total
			(In thousands)		
Assets					
Invested in facilities	$ —	$12,370,806	$ —	**$12,370,806**	$11,752,783
Cash (Note C)	41,217	634	1,000	**42,851**	39,820
Investments (Note C)	421,341	138,633	990,744	**1,550,718**	1,366,093
Accounts receivable (net of allowance for doubtful accounts of $22,961 in 1996 and $20,718 in 1995)	69,178	1,000	—	**70,178**	79,291
Other amounts receivable (net of allowance for doubtful accounts of $6,788 in 1996 and $9,321 in 1995)	172,003	253,476	—	**425,479**	544,145
Amounts receivable in connection with Special Project Bonds	—	535,018	—	**535,018**	463,019
Unamortized costs for Fund buy-out (Note H-1)	414,645	—	—	**414,645**	416,904
Deferred compensation plan assets (Note I-3)	183,063	—	—	**183,063**	156,391
Other assets	267,153	41,935	—	**309,088**	281,769
Total assets	1,568,600	13,341,502	991,744	**15,901,846**	15,100,215
Liabilities					
Consolidated Bonds and Notes (Note D-1)	—	4,723,335	—	**4,723,335**	4,795,207
Obligations in connection with other capital asset financing (Note D-2)	—	881,550	—	**881,550**	770,155
Obligations in connection with operating asset financing (Note D-3)	436,443	—	—	**436,443**	409,998
Amounts payable in connection with Special Project Bonds (Note D-4)	—	548,575	—	**548,575**	472,675
Accounts payable	127,923	141,112	—	**269,035**	295,827
Accrued pension, retirement and other employee benefits (Note I)	280,729	—	—	**280,729**	244,219
Deferred compensation plan obligation (Note I-3)	183,063	—	—	**183,063**	156,391
Accrued interest and other liabilities	242,090	5,301	—	**247,391**	232,706
Deferred income in connection with PFCs	265,824	—	—	**265,824**	182,495
Total liabilities	1,536,072	6,299,873	—	**7,835,945**	7,559,673
Net assets	$ 32,528	$ 7,041,629	$991,744	**$ 8,065,901**	$7,540,542
Net assets are composed of:					
Debt retired through income	$ —	$ 3,374,708	$ —	**$ 3,374,708**	$3,186,485
Reserves (Schedule C)	—	—	991,744	**991,744**	879,976
Government contributions in aid of construction (Note F)	—	671,312	—	**671,312**	632,795
PFCs invested in facilities	—	163,379	—	**163,379**	133,942
Appropriated reserves invested in facilities	—	2,832,230	—	**2,832,230**	2,669,759
Appropriated reserves for self-insurance	32,528	—	—	**32,528**	37,585
Net assets	$ 32,528	$ 7,041,629	$991,744	**$ 8,065,901**	$7,540,542

See Notes to Combined Financial Statements.

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

	Year Ended December 31, 1996			1995
	General Reserve Fund	**Consolidated Bond Reserve Fund**	**Combined Total**	Combined Total
		(In thousands)		
Balance, January 1	$605,167	$274,809	**$ 879,976**	$ 862,699
Income on investments (includes gain on purchase of Port Authority bonds)	41,215	13,393	**54,608**	42,941
Transfers from operating fund	—	315,354	**315,354**	255,049
Reserve fund transfers	(27,422)	27,422	**—**	—
	618,960	630,978	**1,249,938**	1,160,689
Applications:				
Repayment of commercial paper obligations	—	780	**780**	878
Debt retirement acceleration	—	100,000	**100,000**	112,680
Application from PFC program	—	—	**—**	(105,000)
Direct investment in facilities	—	162,471	**162,471**	268,711
Self-insurance	—	(5,057)	**(5,057)**	3,444
Total applications	—	258,194	**258,194**	280,713
Balance, December 31 (Note E)	$618,960	$372,784	**$ 991,744**	$ 879,976

NOTE: The above schedule reflects the valuation of securities in accordance with the accounting principles stated in Note A-1. Had the market value of securities at December 31, 1996 been used, the respective reserve fund balances at December 31, 1996 would be:

General Reserve Fund	Consolidated Bond Reserve Fund
$618,960	$365,841

See Notes to Combined Financial Statements.

Schedule D

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

	December 31, 1996	1995
	(In thousands)	
Assets		
Invested in commuter cars, at cost (a)	—	$156,430
Cash	—	1,029
Other assets	—	84
Total assets	—	157,543
Liabilities		
State Guaranteed Commuter Car Bonds (due 1996)	—	11,300
Other liabilities	—	8,383
Total liabilities	—	19,683
Debt retired (a)	—	$137,860

(a) Does not include New York State Guaranteed Commuter Bonds, first series or second series or the commuter cars associated with these series.

As of December 31, 1996, all New York State Guaranteed Commuter Car Bonds were fully retired. The bond series, due dates and principal amounts were as follows:

	(In thousands)
First series, due 1963-1966	$ 5,475
Second series, due 1963-1987	8,250
Third series, due 1965-1989	6,000
Fourth series, due 1970-1996	32,500
Fifth series, due 1970-1996	30,500
Sixth series, due 1971-1996	23,500
Seventh series, due 1984-1996	40,635
Eighth series, due 1986-1996	16,025

The New York State constitutional amendment providing for the State guarantee of Commuter Car Bonds required that all such bonds mature no later than December 31, 1996. In effect, the legislation authorizing this program precludes future issuance of Commuter Car Bonds.

NOTE: Pursuant to legislation of the States of New York and New Jersey, the Port Authority was authorized and empowered, upon the election of either state, to purchase and lease railroad cars to commuter railroads of the electing state, and to borrow money for such purpose or for the repayment of advances from the electing state if such state has made itself liable for the repayment of the money so borrowed. By resolution dated April 12, 1962, the Port Authority established an issue of New York State Guaranteed Commuter Car Bonds. The information contained in this schedule has been prepared pursuant to such bond resolution and legislation. Such car bonds were secured by the net revenues of the Port Authority arising out of the lease of commuter railroad cars. Car bonds were not secured by any other revenues, reserves or assets of the Port Authority, were not general obligations of the Port Authority and were not secured by the full faith and credit of the Port Authority. In the event that lease revenues were not sufficient to provide for scheduled payment of principal and interest, the punctual payment of such debt service was fully and unconditionally guaranteed by New York State. Title to the cars has been relinquished by the Port Authority after retirement of all obligations issued in connection with such cars. (See Note E-2.)

See Notes to Combined Financial Statements.

Schedule E **Selected Statistical Financial Data**

	Year Ended December 31,									
	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
					(In thousands)					
REVENUES AND EXPENSES										
Gross operating revenues (a)	**$ 2,154,120**	$ 2,082,624	$1,979,674	$ 1,920,904	$1,933,512	$1,856,895	$1,690,730	$1,526,780	$1,436,940	$ 1,331,438
Operating expenses	**1,469,309**	1,469,881	1,407,938	1,340,283	1,348,392	1,337,406	1,282,298	1,124,218	1,092,502	993,256
Amounts in connection with operating asset financings	**33,126**	32,254	32,103	32,774	31,745	30,669	29,052	1,533	—	—
Net operating revenues	**651,685**	580,489	539,633	547,847	553,375	488,820	379,380	401,029	344,438	338,182
Income on investments	**98,707**	70,830	73,723	76,404	88,054	84,054	86,014	92,094	76,858	59,613
Gain on purchase of Port Authority bonds	**—**	439	4,797	146	724	4,788	2,131	4,871	3,221	5,235
Net loss on WTC explosion	**—**	—	—	(32,500)	—	—	—	—	—	—
Net revenues available for debt service and reserves	**750,392**	651,758	618,153	591,897	642,153	577,662	467,525	497,994	424,517	403,030
DEBT SERVICE-OPERATIONS										
Interest on bonds, notes and other capital obligations	**(292,987)**	(266,903)	(259,400)	(258,458)	(254,435)	(227,619)	(195,176)	(174,673)	(155,143)	(135,678)
Times, interest earned (b)	**2.56**	2.44	2.38	2.29	2.52	2.54	2.40	2.85	2.74	2.97
Debt maturities and retirements	**(87,443)**	(86,865)	(75,745)	(67,675)	(59,925)	(66,537)	(59,675)	(52,425)	(49,125)	(54,475)
Times, debt service earned (b)	**1.95**	1.84	1.83	1.81	2.04	1.96	1.83	2.19	2.08	2.12
DEBT SERVICE-RESERVES										
Direct investment in facilities–reserves	**(162,471)**	(268,711)	(224,622)	(185,071)	(370,497)	(187,305)	(235,984)	(262,844)	(215,854)	(176,656)
Payments in connection with leasehold acquisition	**—**	—	—	(35,687)	(4,015)	(4,005)	(4,097)	(1,941)	—	—
Debt retirement acceleration	**(100,000)**	(112,680)	(27,062)	(3,458)	—	—	—	—	(2,750)	(2,800)
Application from PFC program	**—**	105,000	—	—	—	—	—	—	—	—
Appropriations for self-insurance–reserves	**5,057**	(3,444)	710	7,081	865	(1,218)	351	(2,272)	2,139	(2,929)
Repayment of commercial paper obligations	**(780)**	(878)	(343)	(178)	(126)	(520)	(1,734)	(1,068)	(522)	—
Net increase (decrease) in reserves	**111,768**	17,277	31,691	48,451	(45,980)	90,458	(28,790)	2,771	3,262	30,492
RESERVE BALANCES										
January 1	**879,976**	862,699	831,008	782,557	828,537	738,079	766,869	764,098	760,836	730,344
December 31	**$ 991,744**	$ 879,976	$ 862,699	$ 831,008	$ 782,557	$ 828,537	$ 738,079	$ 766,869	$ 764,098	$ 760,836
Reserve fund balances represented by:										
General Reserve	**$ 618,960**	$ 605,167	$ 579,329	$ 534,011	$ 494,486	$ 471,281	$ 441,614	$ 373,129	$ 335,886	$ 293,294
Consolidated Bond Reserve	**372,784**	274,809	283,370	296,997	288,071	357,256	296,465	393,740	428,212	467,542
Total	**$ 991,744**	$ 879,976	$ 862,699	$ 831,008	$ 782,557	$ 828,537	$ 738,079	$ 766,869	$ 764,098	$ 760,836
OBLIGATIONS AT DECEMBER 31										
Consolidated Bonds and Notes	**$ 4,723,335**	$ 4,795,207	$ 4,650,350	$ 4,286,668	$ 4,198,785	$ 4,056,744	$3,739,020	$ 3,338,250	$3,105,675	$2,718,550
Fund buy-out obligation	**400,305**	396,360	392,722	389,366	386,290	383,433	357,067	—	—	—
Amounts payable in connection with Special Project Bonds	**548,575**	472,675	473,575	473,575	298,575	298,575	298,575	96,500	96,500	96,500
Variable rate master notes	**233,000**	308,000	283,000	270,000	250,000	217,000	182,000	135,000	25,000	—
Commercial paper obligations	**163,850**	176,955	187,106	189,963	170,492	116,430	172,140	161,537	131,684	117,883
Versatile structure obligations	**484,700**	285,200	185,700	100,000	—	—	—	—	—	—
Leasehold acquisition obligation	**—**	—	—	—	33,213	33,809	34,349	34,839	—	—
Operating equipment-lease financing obligations	**—**	—	13,563	19,903	27,008	24,060	24,060	26,476	25,726	24,608
Port Authority equipment notes	**36,138**	13,638	—	—	—	—	—	—	—	—
Total obligations	**$ 6,589,903**	$ 6,448,035	$ 6,186,016	$ 5,729,475	$ 5,364,363	$ 5,130,051	$ 4,807,211	$ 3,792,602	$3,384,585	$2,957,541
INVESTED IN FACILITIES AT DECEMBER 31	**$ 12,370,806**	$11,752,783	$11,118,503	$10,432,103	$ 9,848,280	$ 9,161,865	$8,532,632	$7,825,014	$ 7,050,152	$6,547,044
DEBT RETIRED THROUGH INCOME:										
Annual	**$ 188,223**	$ 95,423	$ 103,150	$ 104,523	$ 60,647	$ 67,599	$ 61,897	$ 53,719	$ 52,399	$ 57,275
Cumulative	**$ 3,374,708**	$ 3,186,485	$ 3,091,062	$ 2,987,912	$ 2,883,389	$2,822,742	$2,755,143	$2,693,246	$2,639,527	$2,587,128

(a) Gross operating revenues reflect increased tolls adopted in 1991 and 1987 and increased PATH fares adopted in 1987.

(b) In computing "times, interest earned" and "times, debt service earned", insignificant amounts of interest income and interest expense on debt previously accelerated have been included in "net revenues available for debt service and reserves" and "interest on bonds, notes and commercial paper obligations", respectively. In addition, "debt maturities and retirements" has been adjusted to exclude the retirement of Consolidated Notes and debt retirement accelerations from operations, and to include scheduled retirement of debt previously accelerated as follows:

1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
($3,774)	($1,250)	($3,250)	—	—	$3,352	—	($2,750)	($2,800)	—

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

Schedule F **Information on Port Authority Operations**

	Year Ended December 31, 1996							1995
	Gross Operating Revenues	Operating & Maintenance Expenses	Allocated Expenses	Amortiz-ation	Income (Loss) from Operations	Net Interest & Other Expense (a)	Net Income (Loss)	Net Income (Loss)
				(In thousands)				
INTERSTATE TRANSPORTATION NETWORK								
G.W. Bridge & Bus Station	$ 226,033	$ 59,690	$ 12,531	$ 9,210	$144,602	$ 10,570	**$134,032**	$142,270
Holland Tunnel	71,007	40,439	5,992	7,018	17,558	6,275	**11,283**	9,300
Lincoln Tunnel	83,949	52,723	7,401	8,215	15,610	8,296	**7,314**	7,987
Bayonne Bridge	10,269	7,313	970	2,720	(734)	2,035	**(2,769)**	(4,298)
Goethals Bridge	52,619	16,178	3,122	1,193	32,126	616	**31,510**	34,708
Outerbridge Crossing	56,183	12,865	3,183	3,044	37,091	1,401	**35,690**	38,811
P.A. Bus Terminal	25,335	62,015	7,256	7,778	(51,714)	8,514	**(60,228)**	(59,538)
Bus Programs	—	—	—	7,589	(7,589)	933	**(8,522)**	(14,491)
Regional & Other Programs	—	—	—	14,081	(14,081)	7,110	**(21,191)**	(21,593)
Subtotal - Tunnels, Bridges & Terminals	525,395	251,223	40,455	60,848	172,869	45,750	**127,119**	133,156
PATH	67,767	152,901	23,654	42,760	(151,548)	31,019	**(182,567)**	(189,882)
Journal Square Transportation Center	1,662	6,669	710	2,467	(8,184)	2,100	**(10,284)**	(10,437)
Subtotal - PATH	69,429	159,570	24,364	45,227	(159,732)	33,119	**(192,851)**	(200,319)
Ferry Service	—	885	138	162	(1,185)	196	**(1,381)**	(750)
Total Interstate Transportation Network	594,824	411,678	64,957	106,237	11,952	79,065	**(67,113)**	(67,913)
AIR TERMINALS								
LaGuardia	210,014	138,249	10,585	28,726	32,454	10,719	**21,735**	25,593
JFK International	536,106	294,462	24,879	82,602	134,163	33,680	**100,483**	95,785
Newark International	347,269	183,249	16,523	52,288	95,209	23,750	**71,459**	53,052
Teterboro	878	68	21	515	274	443	**(169)**	(481)
Heliports	689	4,162	190	702	(4,365)	327	**(4,692)**	(2,182)
Total Air Terminals	1,094,956	620,190	52,198	164,833	257,735	68,919	**188,816**	171,767
PORT COMMERCE								
Columbia Street	—	207	11	(15)	(203)	31	**(234)**	(281)
Port Newark	38,297	28,789	2,585	10,788	(3,865)	7,276	**(11,141)**	(11,451)
Elizabeth Marine Terminal	43,389	10,626	1,727	9,236	21,800	8,413	**13,387**	11,126
Brooklyn	2,654	8,301	785	1,969	(8,401)	1,922	**(10,323)**	(10,819)
Red Hook	2,536	6,874	172	1,796	(6,306)	1,184	**(7,490)**	(6,349)
N.Y.C. Passenger Ship Terminal	13,150	9,692	463	9,670	(6,675)	127	**(6,802)**	(6,582)
Howland Hook	1,574	3,670	140	1,992	(4,228)	1,078	**(5,306)**	(11,221)
Greenville Yard	187	1	—	—	186	—	**186**	224
Auto Marine	7,195	1,735	133	2,143	3,184	2,176	**1,008**	798
Oak Point	—	—	—	1,274	(1,274)	1,159	**(2,433)**	(2,442)
N.J. Fisheries	—	—	—	563	(563)	533	**(1,096)**	(1,064)
Essex County Resource Recovery	53,334	55,890	167	1,429	(4,152)	(12,041)	**7,889**	6,045
Industrial Park at Elizabeth	1,207	4,145	63	9,369	(12,370)	4,305	**(16,675)**	5,069
Bathgate	3,181	1,458	110	1,878	(265)	1,047	**(1,312)**	(1,403)
Yonkers	2,970	3,187	131	1,373	(1,721)	2,572	**(4,293)**	(5,031)
Teleport	17,539	10,006	331	2,718	4,484	1,790	**2,694**	595
Newark Legal & Communications Center	6,893	5,500	226	3,745	(2,578)	1,450	**(4,028)**	(3,778)
Total Port Commerce	194,106	150,081	7,044	59,928	(22,947)	23,022	**(45,969)**	(36,564)
WORLD TRADE								
World Trade Center	270,234	154,726	8,435	31,182	75,891	62,501	**13,390**	11,701
Vista Hotel (b)	—	—	—	—	—	—	—	(10,694)
Total World Trade	270,234	154,726	8,435	31,182	75,891	62,501	**13,390**	1,007
Total Port Authority Operations	$2,154,120	$1,336,675	$132,634	$362,180	$322,631	$233,507	**89,124**	68,297
PFC Program							**109,787**	109,127
Combined Total							**$198,911**	$177,424

(a) Amounts include net interest (interest expense less financial income) expense and gain or loss generated by the disposition of assets.
(b) The Host Marriott Corporation commenced operation of the hotel on December 21, 1995.

Facility Traffic

TUNNELS AND BRIDGES (Eastbound Traffic Only)	1996	1995
All Crossings		
Automobiles	**104,056,000**	103,213,000
Buses	**2,306,000**	2,253,000
Trucks	**7,211,000**	7,079,000
Total vehicles	**113,573,000**	112,545,000
George Washington Bridge		
Automobiles	**44,687,000**	44,159,000
Buses	**268,000**	265,000
Trucks	**3,603,000**	3,579,000
Total vehicles	**48,558,000**	48,003,000
Lincoln Tunnel		
Automobiles	**17,677,000**	17,669,000
Buses	**1,723,000**	1,680,000
Trucks	**863,000**	847,000
Total vehicles	**20,263,000**	20,196,000
Holland Tunnel		
Automobiles	**15,260,000**	15,010,000
Buses	**123,000**	121,000
Trucks	**965,000**	927,000
Total vehicles	**16,348,000**	16,058,000
Staten Island Bridges		
Automobiles	**26,432,000**	26,375,000
Buses	**192,000**	187,000
Trucks	**1,780,000**	1,726,000
Total vehicles	**28,404,000**	28,288,000
Cumulative PA Investment in Tunnels and Bridges (In thousands)	**$1,565,800**	$1,463,800

AIR TERMINALS	1996	1995
Totals at the Three Major Airports		
Plane movements	**1,151,800**	1,106,100
Passenger traffic	**80,962,000**	77,598,400
Cargo-tons	**2,671,100**	2,626,600
Revenue mail-tons	**285,300**	274,300
Kennedy International Airport		
Plane movements	**355,200**	340,100
Passenger traffic		
Total	**31,155,400**	30,375,400
Domestic	**13,702,200**	13,312,400
Overseas	**17,453,200**	17,063,000
Cargo-tons	**1,667,500**	1,637,700
LaGuardia Airport		
Plane movements	**345,700**	345,500
Passenger traffic	**20,699,100**	20,599,200
Cargo-tons	**27,700**	30,500
Newark International Airport		
Plane movements	**450,900**	420,500
Passenger traffic	**29,107,500**	26,623,800
Cargo-tons	**975,900**	958,400
Cumulative PA Investment in Air Terminals (In thousands)	**$4,803,100**	$4,550,800

TERMINALS	1996	1995
All Bus Facilities		
Passengers	**66,337,800**	65,790,900
Bus movements	**3,226,400**	3,197,100
Port Authority Bus Terminal		
Passengers	**52,705,000**	52,533,000
Bus movements	**2,142,500**	2,135,500
George Washington Bridge Bus Station		
Passengers	**4,248,000**	4,109,000
Bus movements	**198,500**	198,500
PATH Journal Square Transportation Center Bus Station		
Passengers	**9,384,800**	9,148,900
Bus movements	**885,400**	863,100
Cumulative PA Investment in Bus Facilities (In thousands)	**$516,100**	$498,100

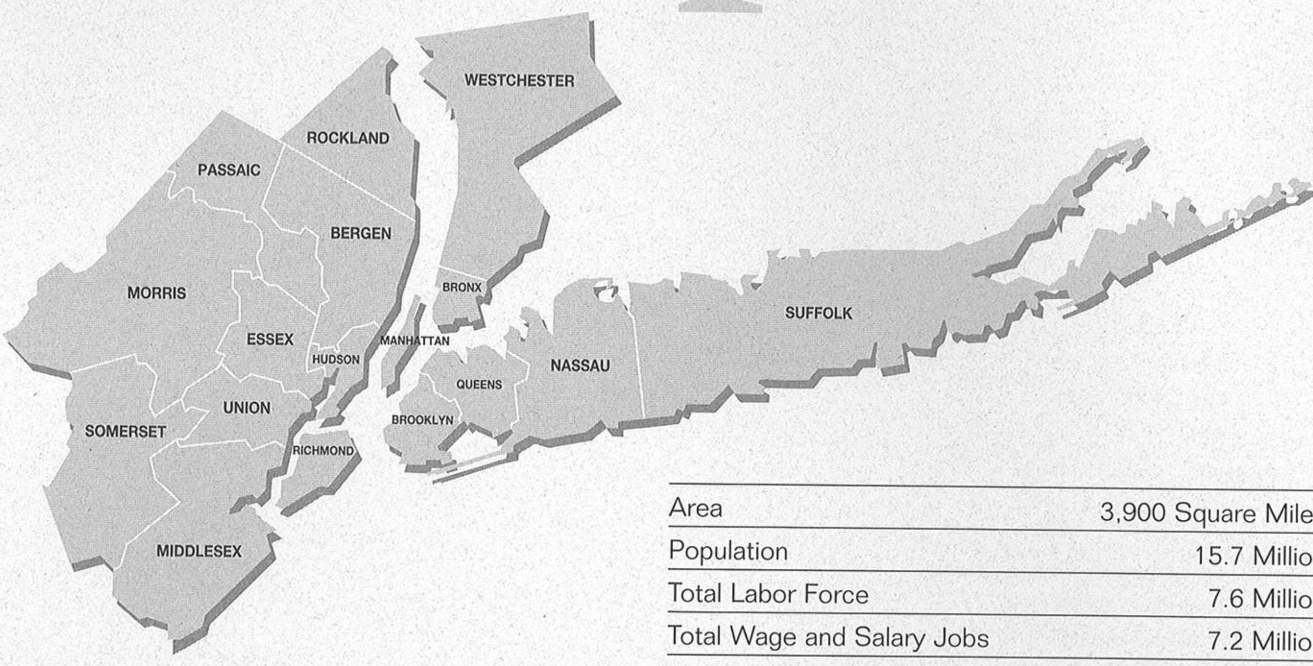
MARINE TERMINALS	1996	1995
All Terminals		
Ship arrivals	**3,014**	3,125
General cargo (a) (Long tons)	**14,331,107**	14,583,014
New Jersey Marine Terminals		
Ship arrivals	**2,470**	2,684
New York Marine Terminals		
Ship arrivals	**312**	246
Passenger Ship Terminal		
Ship arrivals	**232**	195
Passengers	**459,186**	397,340
Cumulative PA Investment in Marine Terminals (In thousands)	**$1,327,700**	$1,254,800

PATH	1996	1995
Total passengers	**60,651,000**	59,317,000
Passenger weekday average	**210,100**	207,200
Cumulative PA Investment in PATH (In thousands)	**$1,298,500**	$1,271,600

	1996	1995
Total Port Authority Cumulative Invested in Facilities, including the above (In thousands)	**$12,370,800**	$11,752,800

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

NY-NJ Metropolitan Region



Area	3,900 Square Miles
Population	15.7 Million
Total Labor Force	7.6 Million
Total Wage and Salary Jobs	7.2 Million
Total Personal Income (est)	$499 Billion

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

Port Authority Facilities and Services

TUNNELS, BRIDGES & TERMINALS
- Bayonne Bridge
- George Washington Bridge and Bus Station
- Goethals Bridge
- Holland Tunnel
- Lincoln Tunnel
- Outerbridge Crossing
- Port Authority Bus Terminal

PORT AUTHORITY TRANS-HUDSON
- PATH Rapid Transit System
- Journal Square Transportation Center

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

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

WORLD TRADE DEPARTMENT
- World Trade Center

OTHER PROGRAMS
- Ferry Transportation
- Port Authority Bus Programs

1996 Annual Report

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