

The Port Authority of New York and New Jersey

Condensed Consolidated Financial Statements as of and for the
Three-Month Period Ended March 31, 2017 (Unaudited)

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (UNAUDITED)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

The following is an overview of the financial activities of the Port Authority of New York and New Jersey (The Port Authority) and its component units as of and for the three-month period ended March 31, 2017. This overview is intended to serve as an introduction to the unaudited condensed consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and should be read in conjunction with the Port Authority's audited financial statements and appended note disclosures for the Year ended December 31, 2016.

The unaudited financial results for the three-month period ended March 31, 2017 contained in these schedules are not necessarily indicative of the results for the annual period ending December 31, 2017.

Management's Discussion and Analysis

Management's Discussion and Analysis provides an assessment of how the Port Authority's financial position has changed and identifies the factors that, in management's view, significantly affected the Port Authority's overall financial position.

The Condensed Consolidated Financial Statements

The Statements of Net Position provide information about the nature and amounts of investments in resources (assets) and the obligations to the Port Authority's (liabilities), with the difference between the two reported as Net Position (equity).

The Statements of Revenues, Expenses and Changes in Net Position show how the Port Authority's overall net position changed during the three-month period ended March 31, 2017 and March 31, 2016.

The Statements of Cash Flows provide information about the Port Authority's cash receipts, cash payments, and net changes in cash resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities for the three-month period ended March 31, 2017 and March 31, 2016.

2. FINANCIAL REPORTING ENTITY

The Port Authority of New York and New Jersey was created in 1921 by Compact between the States of New York and New Jersey with the consent of the United States Congress. The Compact envisions the Port Authority as being financially self-sustaining. As such, the agency must raise the funds necessary for the improvement, construction or acquisition of its facilities and their operation primarily upon the basis of its own credit. Cash derived from Port Authority operations and other cash received may be disbursed only for specific purposes in accordance with provisions of various statutes and agreements with holders of its obligations and others. The costs of providing facilities and services to the general public on a continuing basis are recovered primarily from operating revenue sources, including rentals, tolls, fares, aviation and port fees, and other charges for the use of, and privileges at certain of the Port Authority's facilities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (UNAUDITED)

3. BASIS OF ACCOUNTING

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

The Port Authority follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management, where necessary, to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Such estimates and assumptions are subject to various uncertainties, the occurrence of which may cause differences between those estimates and assumptions and actual results.

4. FINANCIAL STATEMENT COMPARISON FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017

Net Position (Equity)

The Port Authority's overall net position (equity) totaled \$16.7 billion at March 31, 2017, an increase of \$132 million from December 31, 2016. This increase is comprised of Income from operations of \$177 million, partially offset by non-operating expenses of \$45 million.

	March 31, 2017	March 31, 2016	Variance
		(In thousands)	
Gross operating revenues	\$ 1,223,761	\$ 1,212,710	\$ 11,051
Operating expenses	(734,671)	(690,478)	(44,193)
Depreciation and Amortization	(312,253)	(295,034)	(17,219)
Income from operations	176,837	227,198	(50,361)
Financial income*	19,899	19,124	775
Interest expense, net**	(214,425)	(217,870)	3,445
Grants and other non-operating revenues/ (expenses)***	4,656	16,585	(11,929)
Capital contributions and Passenger Facility Charges (PFCs)	144,895	255,043	(110,148)
Non-operating (expenses)/revenues	(44,975)	72,882	(117,857)
Increase in net position	\$ 131,862	\$ 300,080	\$ (168,218)

* Includes changes to the fair market value of investments of \$(417) thousand in 2017 and \$14.6 million in 2016, respectively.

** Includes reimbursements received by the Port Authority related to Tower 4 Liberty Bond debt service payments.

***Includes pass-through grant payments to sub-recipients of \$16.6 million in 2017 and \$223 thousand in 2016, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (UNAUDITED)

Income from Operations:

The Port Authority generated \$177 million in income from operations in the first three months of 2017, comprised of gross operating revenues of \$1.2 billion offset by operating expenses and depreciation of \$1.0 billion.

Gross operating revenues of \$1.2 billion increased \$11 million or 1.0% from the same three-month period in 2016. Rental revenue increased \$10 million primarily due to increases in fixed rentals at One World Trade Center (WTC) due to higher occupancy, as well as scheduled commercial and terminal rent increases at Port and Aviation facilities. Partially offsetting these increases was a decrease in certain fixed and percentage rentals at LaGuardia Airport due to the execution of a lease agreement with LaGuardia Gateway Partners (LGP) for the operation of the existing Terminal B pursuant to the 2016 public private partnership that is replacing the terminal. Parking fees increased \$3 million primarily due to an increase in tenant parking rates at Aviation facilities. Aviation fees, which provide for the recovery of certain Port Authority capital investments and operating expenses at its three major airports increased \$2 million, primarily due to the recovery of additional aeronautical related capital investment. PATH fares revenue increased \$0.6 million primarily due to a 2.6% increase in passenger activity. Tolls revenue at the Port Authority's six (6) vehicular crossings decreased by \$4.2 million primarily due to a 0.7% decrease in overall vehicular traffic due to one less work day in February 2017 when compared to February 2016, which was a leap year.

Operating expenses of \$735 million increased \$44 million or 6.4% from the same three-month period in 2016. Contract services increased \$19 million primarily due to increased ground transportation at Aviation facilities to mitigate traffic and parking issues in support of scheduled construction activities, increased taxi dispatch services at the three major airports, increased AirTrain maintenance at John F. Kennedy Airport and increased property management services at the WTC site resulting from an increase in operational assets under management. Total employee compensation increased approximately \$14 million or 4.6% primarily due to increases in employer sponsored pension and healthcare benefit costs and compensation resulting from the hiring of additional police officers and heightened security initiatives at Aviation facilities. Rents and amounts in-lieu-of taxes increased \$11 million primarily due to scheduled rent escalations related to certain Port Authority facilities.

Depreciation and amortization of \$312 million increased \$17 million or 5.8% from the same three-month period of 2016, resulting from the scheduled completion of \$2.9 billion of capital construction in 2016. These capital infrastructure assets, primarily located at Aviation Facilities, the World Trade Center (WTC), PATH and Bayonne Bridge are now ready for their intended use and are being depreciated over their estimated useful lives. In addition, LaGuardia Airport depreciation expense increased due to the 2016 change in estimated useful lives of certain LaGuardia Terminal B capital infrastructure assets which are expected to be taken out of service in 2021 when the new terminal is substantially complete. Partially offsetting these increases was a \$5 million decrease in amortization related to certain Regional facilities that became fully amortized during the first quarter of 2017.

Income from Non-Operating Activities:

Income from non-operating activities decreased \$118 million from the same three-month period of 2016 due to a \$116 million decrease in Contributions in aid of construction from third parties, primarily related to lower Federal Transportation Administration (FTA) funding for the construction of the WTC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (UNAUDITED)

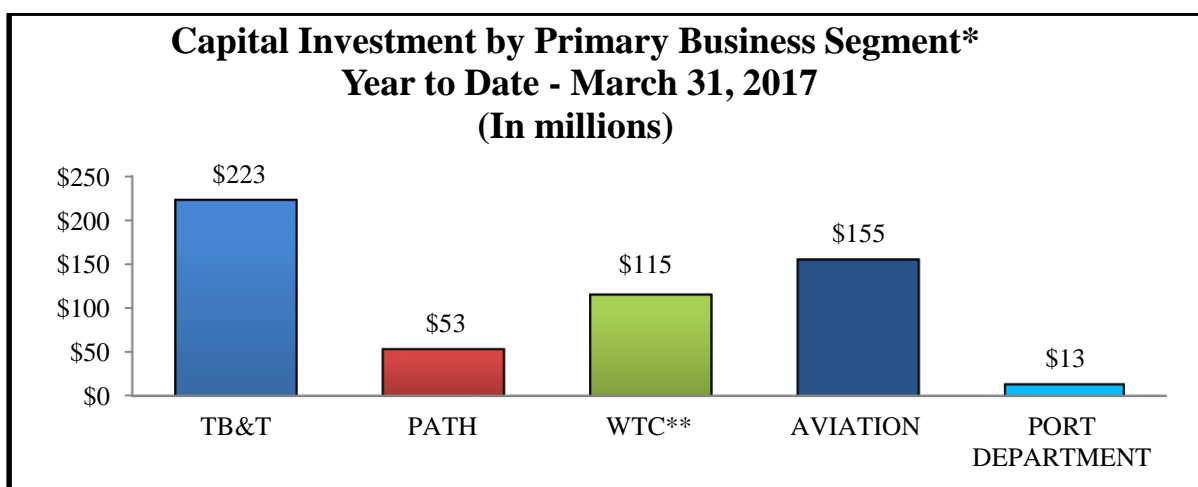
Transportation Hub which opened to the public in March 2016. Partially offsetting this decrease was a \$6 million increase in Passenger Facility Charges (PFCs) at Aviation facilities due to a 1.8% increase in passenger activity and a \$3.4 million decrease in interest expense related to the economic defeasance of certain Port Authority financing obligations in 2016, lower net interest expense related to 4 WTC Liberty Bonds due to increased reimbursements of debt service from the 4 WTC net lessee; partially offset by lower capitalized interest. Grants in connection with operating activities, including pass-through grant payments decreased \$12 million primarily due to lower federal funding related to Urban Area Security Initiatives (UASI) and baggage screening projects at Aviation facilities.

Assets:

Port Authority assets totaled \$45.6 billion at March 31, 2017, an increase of \$373 million from December 31, 2016. This overall increase is primarily due to:

Facilities, net, including contributed capital amounts totaled \$35 billion at March 31, 2017, an increase of approximately \$258 million from December 2016. This net increase was primarily due to the Port Authority's continued capital investment in its operating facilities as outlined in the 2017-2026 ten-year capital plan, less year-to-date depreciation. For additional information related to the Port Authority's current ten-year capital plan, please refer to Port Authority's website at: http://corpinfo.panynj.gov/files/uploads/documents/financial-information/budget-capital-plan/Capital_Plan_2017-2026.pdf

The following chart depicts capital investment in Port Authority facilities of \$559 million, including contributed capital amounts from third parties for the first three months of 2017, summarized by primary business segment.



* Excludes Regional Facilities and Programs, Development Facilities and Ferry Transportation.

**Capital Investment includes capital investment related to the WTC Transportation Hub.

Cash (including restricted amounts) balances of \$479 million decreased \$259 million when compared to December 2016. Cash flows from operations of \$446 million were primarily used to pay interest expense on outstanding financing obligations and fund capital construction. Cash flows from investing activities decreased approximately \$228 million due to the investment of unspent PFCs in securities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (UNAUDITED)

Cash flows from operations of \$446 million decreased \$105 million from the same three-month period of 2016. The overall decrease in operating cash flows is primarily due to increases in payments to employees, contractors providing services at Port Authority facilities and rents and amounts in-lieu-of taxes.

Port Authority Investments of \$4.8 billion increased \$229 million from December 31, 2016 primarily due to the investment of available PFCs in short term United States Treasuries and Repurchase Agreements.

Port Authority Investments, at fair value

Investment Type*	Fair Value Hierarchy Levels***	at March 31, 2017 (In thousands)	Weighted Average Maturity (In days)
United States Treasury Notes	Level 1	\$ 3,312,769	443
United States Treasury Bills	Level 1	315,331	51
United States Government Agency Obligations	Level 2	79,054	16
JFK International Air Terminal LLC Obligations****	-	71,746	3,183
Repurchase Agreements****	-	966,047	5
Other Governmental Obligations	Level 2	23,598	129
Total Investments**		\$ 4,768,545	
Portfolio Weighted Average Maturity (in days)			361

* Excludes \$313 million of Collateralized Bank Accounts that are classified as cash equivalents and approximately \$1.2 billion in investments that are on deposit in a restricted trust dedicated to Other Postemployment Employee Benefits (OPEB).

** Excludes accrued interest receivable amounts of \$9.8 million.

*** Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets, and principle-to-principle markets.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These inputs are derived from or corroborated by observable market data through correlation.

Level 3 inputs are unobservable inputs for the asset; they should be used only when relevant Level 1 and Level 2 inputs are unavailable.

Port Authority investments are valued at the closing price or last trade reported on the major market exchange on which the individual securities are traded.

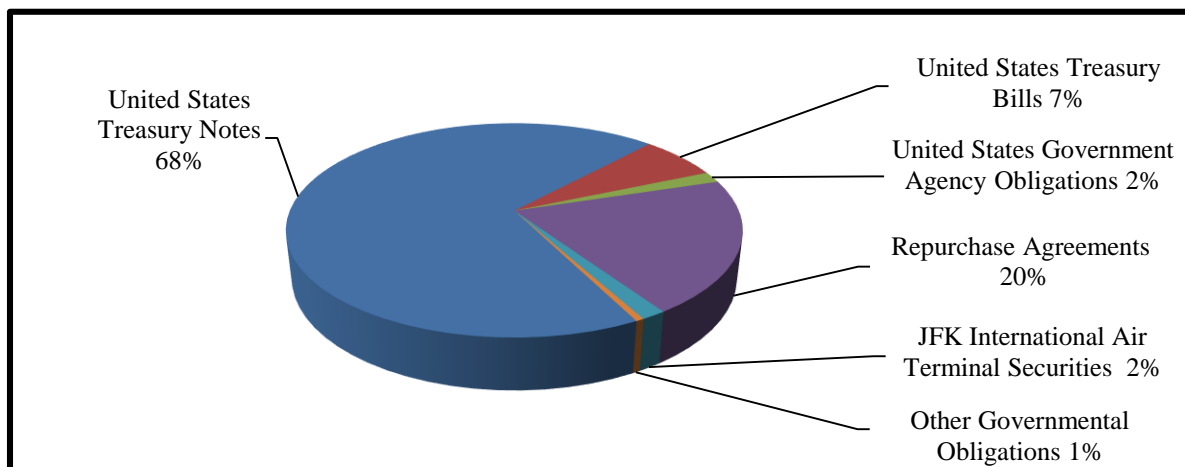
****Investments are valued at unamortized cost.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (UNAUDITED)

Port Authority Investments Asset Allocation:



Port Authority Insurance Captive Entity restricted investments of \$232 million, increased \$11 million from December 31, 2016 primarily due to the reallocation of money market funds to United States Government securities.

PAICE Investments, at fair value

Investment Type	Fair Value Hierarchy Levels**	at March 31, 2017 (In thousands)	Weighted Average Maturity (In Days)
United States Treasury Notes	Level 1	\$ 54,365	1,192
United States Government Agency Obligations	Level 2	25,140	537
Corporate Bonds	Level 2	151,425	1,044
Total Investments*		\$ 230,930	
Portfolio weighted average maturity (In days)			1,024

* Excludes accrued interest receivable of \$1.0 million.

** Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets, and principle-to-principle markets.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These inputs are derived from or corroborated by observable market data through correlation.

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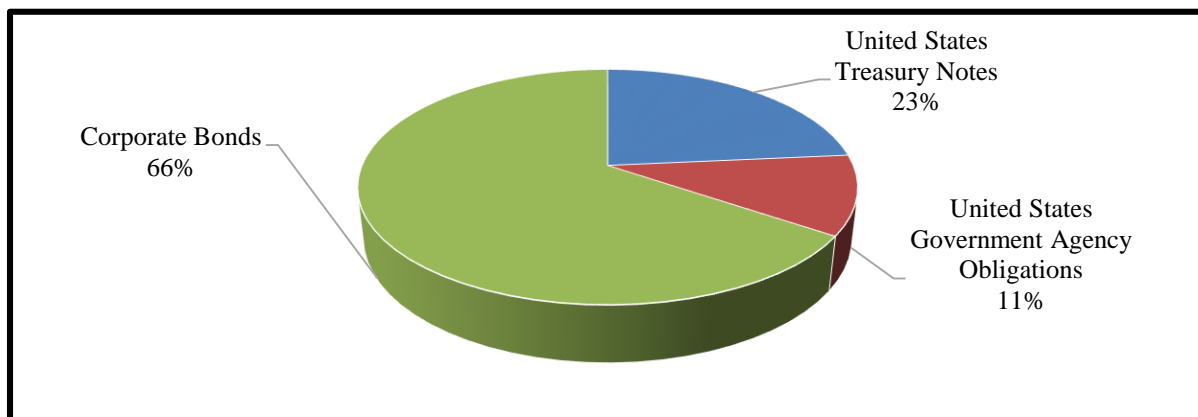
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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (UNAUDITED)

PAICE Investments Asset Allocation:



Accounts receivable increased \$147 million from December 31, 2016, primarily due to the timing of the receipt of federal grant proceeds.

Liabilities:

Port Authority liabilities totaled \$29.5 billion at March 31, 2017, an increase of \$239 million from December 31, 2016.

Accrued interest related to outstanding debt obligations increased \$151 million primarily due to the timing of scheduled debt service payments.

Bonds and other asset financing obligations, excluding Tower 4 Liberty Bonds totaled \$22.8 billion at March 31, 2017, an increase of \$30 million from December 31, 2016. This increase was primarily due to a \$27 million increase in Commercial paper notes and an increase of \$34 million related to the Goethals Bridge Replacement Project (GBRP) Developer Financing Arrangement (DFA). These amounts were partially offset by payments relating to The Fund for Regional Development Buy-Out Obligation.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (UNAUDITED)

Bonds and Other Financing Obligations*

	Opening Balance Dec. 31, 2016	Issued/ Accrued	Refunded/ Retired	Ending Balance Mar. 31, 2017
	(In millions)			
Consolidated Bonds and Notes	\$ 20,430	\$ -	\$ -	\$ 20,430
Commercial Paper Notes	388	496	469	415
Variable Rate Master Notes	78	-	-	78
Fund for Regional				
Development Buy-Out Obligation	222	-	23	199
MOTBY Obligation	55	-	-	55
Goethals Bridge Replacement				
DFA	744	34	-	778
Subtotal-Principal	\$ 21,917	\$ 530	\$ 492	\$ 21,955
Add: Unamortized premium/(discount)	856	-	8	848
Total	\$ 22,773	\$ 530	\$ 500	\$ 22,803

*Excludes amounts payable associated with Special Project Bond projects of \$1.4 billion and Tower 4 Liberty Bonds of \$1.2 billion

Listed below is a summary of credit ratings assigned to outstanding debt obligations of the Port Authority as of December 31, 2016.

Obligation	S&P	Fitch Ratings	Moody's Investors Service
Consolidated Bonds	AA-	AA-	Aa3
Commercial Paper	A-1+	F1+	P-1

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

CONDENSED CONSOLIDATED STATEMENTS OF NET POSITION – UNAUDITED*

	MARCH 31, 2017	DECEMBER 31, 2016
	(In thousands)	
Assets		
Facilities, net	\$ 34,951,684	\$ 34,693,691
Cash, including restricted amounts	479,225	738,035
Port Authority investments, including PFCs	4,778,311	4,548,866
PAICE restricted investments	231,931	220,462
Receivables, including restricted amounts	697,205	549,656
Amounts receivable - Special Project Bonds projects	1,377,118	1,376,882
Amounts receivable - Tower 4 Liberty Bonds	1,246,708	1,246,861
Unamortized costs for regional programs	205,185	216,109
Other assets	1,667,295	1,671,110
Total assets	<u>45,634,662</u>	<u>45,261,672</u>
Deferred outflows of resources		
Loss on debt refunding's	76,503	79,046
Pension related amounts	555,794	555,794
Total deferred outflows of resources	<u>632,297</u>	<u>634,840</u>
Liabilities		
Bonds and other asset financing obligations	22,803,052	22,773,213
Amounts payable - Special Project Bonds projects	1,377,118	1,376,882
Amounts payable - Tower 4 Liberty Bonds	1,246,708	1,246,861
Accounts payable	1,087,824	1,072,412
Accrued payroll, pension and other employee benefits	1,099,060	1,061,732
Unearned income related to WTC Retail	771,683	773,998
Accrued interest and other liabilities	1,068,058	909,271
Total liabilities	<u>29,453,503</u>	<u>29,214,369</u>
Deferred inflows of resources		
Gain on debt refunding's	29,858	30,407
Pension related amounts	76,842	76,842
Total deferred inflows of resources	<u>106,700</u>	<u>107,249</u>
Net position	<u>\$ 16,706,756</u>	<u>\$ 16,574,894</u>

**CONDENSED CONSOLIDATED STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION – UNAUDITED***

	THREE-MONTHS ENDED MARCH 31, 2017	2016
	(In thousands)	
Gross operating revenues	\$ 1,223,761	\$ 1,212,710
Operating expenses	(734,671)	(690,478)
Depreciation and amortization	(312,253)	(295,034)
Income from operations	<u>176,837</u>	<u>227,198</u>
Non-operating expenses, net	(189,870)	(182,161)
Capital contributions and PFC's	144,895	255,043
Non-operating revenues/(expenses)	<u>(44,975)</u>	<u>72,882</u>
Increase in net position	<u>\$ 131,862</u>	<u>\$ 300,080</u>
Net position, January 1	<u>16,574,894</u>	<u>15,529,563</u>
Net position, March 31	<u>\$ 16,706,756</u>	<u>\$ 15,829,643</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED*

	THREE-MONTHS ENDED MARCH 31,	
	2017	2016
	(In thousands)	
Net cash provided by operating activities	\$ 446,145	\$ 550,716
Net cash (used for) noncapital financing activities	(38,146)	(10,700)
Net cash (used for) capital construction and related financing activities	(438,584)	(808,749)
Net cash (used for)/provided for investing activities	(228,225)	164,716
Net (decrease)/increase in cash	(258,810)	(104,017)
Cash at beginning of year	738,035	1,347,698
Cash at three-months ended	\$ 479,225	\$ 1,243,681

* The unaudited Condensed Consolidated Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows have been prepared, subject to audit, adjustment and reconciliation, solely for general information purposes, in accordance with accounting principles generally accepted in the United States of America. This unaudited condensed financial information should be read in conjunction with the Consolidated Financial Statements of The Port Authority of New York and New Jersey, and its component units (collectively the Port Authority) and the accompanying note disclosures and schedules for the year ended December 31, 2016.

CONDENSED CONSOLIDATED FINANCIAL INFORMATION ON PORT AUTHORITY FACILITIES - UNAUDITED

(In thousands)

Three-month period ended March 31, 2017

	Gross Operating Revenues	Operating Expenses	Depreciation and Amortization	Income/(Loss) from Operations	Interest, Grants & Other Expenses *	Capital Contributions and PFC's	Increase/ (Decrease) in Net Position
Tunnels, Bridges, and Terminals	\$ 397,638	\$119,499	\$ 49,011	\$229,128	\$ 29,718	\$ 944	\$200,354
PATH	45,790	101,140	51,022	(106,372)	48,107	53,904**	(100,575)
Aviation	638,618	404,404	112,880	121,334	47,597	78,076	151,813
Port Commerce	70,041	34,141	23,108	12,792	22,411	2,733	(6,886)
World Trade Center	65,313	72,165	59,671	(66,523)	34,201	9,238	(91,486)
Other***	6,361	3,322	16,561	(13,522)	7,836	-	(21,358)
Net Revenue related to Superstorm Sandy	-	-	-	-	-	-	-
Increase in net position	\$1,223,761	\$734,671	\$312,253	\$176,837	\$189,870	\$ 144,895	\$131,862

Three-month period ended March 31, 2016

	Gross Operating Revenues	Operating Expenses	Depreciation and Amortization	Income/(Loss) from Operations	Interest, Grants & Other Expenses *	Capital Contributions and PFC's	Increase/ (Decrease) in Net Position
Tunnels, Bridges, and Terminals	\$ 401,447	\$118,357	\$ 46,524	\$236,566	\$ 22,312	\$ 497	\$214,751
PATH	44,941	99,244	44,559	(98,862)	37,511	80,020**	(56,353)
Aviation	634,719	371,158	109,293	154,268	39,272	78,025	193,021
Port Commerce	66,869	34,326	23,002	9,541	19,820	3,867	(6,412)
World Trade Center	58,232	64,810	49,858	(56,436)	54,390	92,634	(18,192)
Other***	6,502	2,583	21,798	(17,879)	8,856	-	(26,735)
Net Revenue related to Superstorm Sandy	-	-	-	-	-	-	-
Increase in net position	\$1,212,710	\$690,478	\$295,034	\$227,198	\$182,161	\$255,043	\$300,080

* Amounts include allocated net interest expense (interest expense less financial income), 4 WTC Liberty Bond debt service reimbursements, Grants in connection with operating activities, Pass-through grant program payments; and gains or losses generated by the disposition of assets, if any.

** PATH Capital Contributions include Federal Transit Administration (FTA) funding related to the construction of the WTC Transportation Hub.

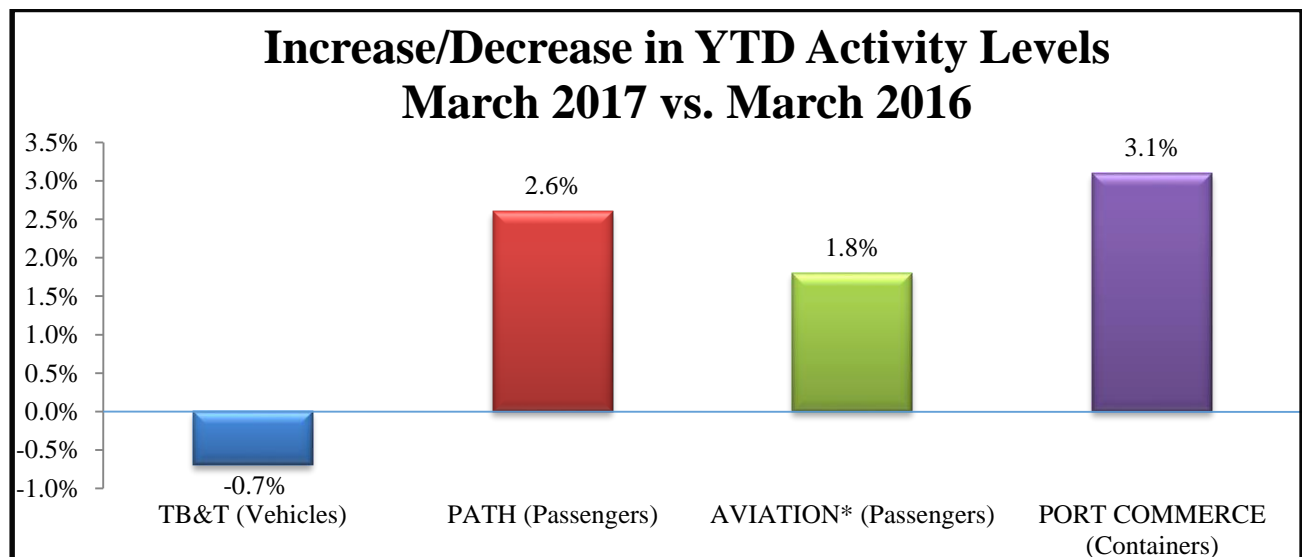
*** Other includes Development Facilities, Regional Facilities and Programs, Ferry Transportation, Access to the Regions Core and PAICE.

Note: These unaudited schedules related to Port Authority Facilities have been prepared, subject to audit, adjustment and reconciliation, solely for general information purpose, in accordance with accounting principles generally accepted in the United States of America. This unaudited financial information should be read in conjunction with the Consolidated Financial Statements of The Port Authority of New York and New Jersey, and its component units (collectively the Port Authority) and the accompanying note disclosures and schedules for the year ended December 31, 2016.

REVENUES AND RESERVES (pursuant to Port Authority bond resolutions) – UNAUDITED

	March 31, 2017	March 31, 2016	Variance
	(In millions)		
Gross operating revenues	\$ 1,221	\$ 1,211	\$ 10
Total operating expenses	(739)	(696)	(43)
Net operating revenue	482	515	(33)
Grants and contributions in aid of construction	64	111	(47)
Application of Passenger Facility Charges	14	15	(1)
Other	27	20	7
Net revenues available for debt service	587	661	(74)
Debt service	(224)	(219)	(5)
Transfers to Reserves	\$ 363	\$ 442	\$ (79)

FACILITY TRAFFIC – UNAUDITED



*Excludes Atlantic City International Airport passenger activity.